

AXCELIS TECHNOLOGIES INC  
Form 10-K  
March 04, 2016

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2015

**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) (zip code)

**(978) 787-4000**  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$.001 par value	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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subject to such filing requirements for the past 90 days. Yes  No

Indicate by checkmark 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Act). Yes  No

Aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2015: \$285,790,269

Number of shares outstanding of the registrant's Common Stock, \$0.001 par value, as of March 1, 2016: 116,152,261.

### Documents incorporated by reference:

Portions of the definitive Proxy Statement for Axcelis Technologies, Inc.'s Annual Meeting of Stockholders to be held on May 4, 2016 are incorporated by reference into Part III of this Form 10-K.

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**PART I**

**Item 1. Business.**

**Overview of Our Business**

Axcelis Technologies, Inc. ("Axcelis," the "Company," "we," "us," or "our") designs, manufactures and services ion implantation and other processing equipment used in the fabrication of semiconductor chips. We believe that our Purion family of products are the most innovative implanters available on the market today. We sell to leading semiconductor chip manufacturers worldwide. The ion implantation business represents 93.7% of our revenue in 2015 with the remaining 6.3% of revenue derived from other legacy processing systems. In addition to equipment, we provide extensive aftermarket lifecycle products and services, including used tools, spare parts, equipment upgrades, maintenance services and customer training.

Axcelis' business commenced in 1978 and its current corporate entity was incorporated in Delaware in 1995, headquartered in Beverly, Massachusetts. We maintain an internet site at [www.axcelis.com](http://www.axcelis.com). On or through our website, investors may access, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. Our website and the information contained therein or connected thereto shall not be deemed to be incorporated into this Form 10-K.

**Industry Overview**

Semiconductor chips, also known as integrated circuits, are used in personal computers, telecommunication equipment, digital consumer electronics, wireless communication products and other applications. Types of semiconductor chips include memory chips (which store and retrieve information), microprocessors (logic devices which process information) and "system on chip" devices (which have both logic and memory features). Most semiconductor chips are built on a wafer of silicon of either 200mm (8 inches) or 300mm (12 inches) in diameter. Each semiconductor chip is made up of millions of tiny transistors or "switches" to control the functions of the device. Transistors are created in the silicon wafer by introducing various precisely placed impurities into the silicon in specific patterns. The process steps in the formation of transistors are traditionally referred to as "front-end-of-line." The "back-end-of-line" process steps connect the transistors and other components together through several overlapping layers of metal wires, known as interconnect, creating a complete circuit. Each layer of metal interconnect must be separated by a non-conductive or insulating material called inter-level dielectric. Each layer that is added is selectively patterned to all previous layers through a process called photolithography.

Semiconductor chip manufacturers utilize many different types of equipment in the making of integrated circuits. Over 300 process steps utilizing over 50 different types of process tools are required to make a single device like a microprocessor. Semiconductor chip manufacturers seek device performance benefits through new products and technology enhancements and productivity improvements through increased throughput, equipment utilization and higher manufacturing yields.

Capacity is added by increasing the amount of manufacturing equipment in existing fabrication facilities and by constructing new fabrication facilities. Periodically the semiconductor device industry adopts a larger silicon wafer size to achieve lower manufacturing costs. Semiconductor manufacturers can produce more chips on a larger wafer, thus reducing the overall manufacturing cost per chip. For example, the use of 200mm wafers in production began at the end of the 1980s. The migration from 200mm to 300mm began at the end of the 1990s. The majority of wafer fabrication facilities today are using wafers with a diameter of 300mm. In 2015, Axcelis derived 87.0% of total systems revenue (a component of product revenue) from sales of 300mm equipment. In 2011, industry participants began

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planning for the next wafer size transition, to 450mm diameter wafers. The schedule for this future transition will vary by customer, but is not anticipated before 2020.

The customer base is also changing. Given the magnitude of the investment needed to build a new wafer fabrication facility (often referred to as a "fab"), which can be over \$4.0 billion for a new 300mm fab, many customers are entering into partnerships to offset the cost of technology development and manufacturing. In addition, many chip developers outsource all or part of their chip manufacturing requirements to contract manufacturers, known as foundries. Foundries are significant purchasers of semiconductor manufacturing equipment.

The semiconductor capital equipment industry is highly cyclical, as global chip production capacities successively exceed, then lag behind, global chip demand. When chip demand is high, and inventories low, chip manufacturers add capacity through capital equipment purchases. Given the difficulties of forecasting and calibrating chip demand and production capacity, the industry periodically experiences excess chip inventories and softening chip prices. Device manufacturers react with muted capital spending, lowering the demand for capital equipment. Changes in consumer and business demand for products in which chips are used also affect the industry. A successful semiconductor equipment manufacturer must not only provide some of the most technically complex products manufactured in the world but also must design its business to thrive during the inevitable low points in the cycle.

Our financial results in 2015 reflect our continued investment of a significant portion of our resources in research and development programs related to our leading edge Purion ion implantation platform and the market introduction and sales of Purion H systems. These results also reflect our efforts to maintain tight control of discretionary spending. We expect customer demand for our Purion products to continue to grow.

### Axcelis' Strategy

Axcelis' 2016 strategic initiatives are:

Achieve implant market share goals by further expansion of our Purion customer base across all segments:

Capitalize on strength in memory

Grow in non-leading edge foundry/logic

Leverage technical differentiators in leading edge foundry/logic

Increase aftermarket revenues by delivering differentiated high value products in each business segment, including upgrades, spares, consumables, service and used tools

Enhance profitability and cash generation

Improve gross margins

We have continued to invest in research and development through the industry cycles to assure our products meet the needs of our customers. We take pride in our scientists and engineers who continue to add to our portfolio of patents and unpatented proprietary technology to ensure that our investment in technology leadership is translated into unique product advantages. We strive for operational excellence by focusing on ways to lower our product, manufacturing and design costs and to improve our delivery times to our customers. We will continue to use our Global Customer Teams and a focused account management structure to maintain and strengthen our customer relationships and increase customer satisfaction. Finally, we will maintain a strong cash balance to insure that we have enough capital to fund a potential ramp in our business.

## Ion Implantation Systems

Ion implantation is a principal step in the transistor formation cycle of the semiconductor manufacturing process. An ion implanter is a large, technically advanced system that injects dopants such as arsenic, boron or phosphorus into a wafer. These dopants are ionized and therefore have electric charges. With an electric charge they can be manipulated, moved and accelerated with electric and magnetic fields. Ion implanters use these fields to create a beam of ions with a precisely defined amount of energy (ranging between several hundred and three million electron-volts) and with a precisely defined amount of beam current (ranging from microamps to milliamps). Certain areas of the silicon wafer are blocked off by a polymer material known as photoresist, which acts as a "stencil" to pattern devices so that the dopants will only enter the wafer where needed. The dopants change the electrical properties of the silicon wafer to create the active components of a chip, called the transistors. Typical process flows require twenty implant steps, with the most advanced processes requiring thirty or more. Each implant step is characterized by four key parameters: dopant type, dose (amount of dopant), energy (depth into the silicon) and tilt (angle of wafer relative to the ion beam).

In order to cover the wide range of implant steps, three different types of implanters have been developed, each designed to cover a specific range of applications, primarily defined by dose and energy. The three traditional implanter types are referred to as medium current, high current and high energy:

Medium current implanters are the original model of ion implanter, with mid to low-range energy and dose capability.

High current implanters were the second type of implanter to emerge, having low energy capability and high dose range.

High energy implanters emerged to address the need for deeper implants with a high energy range and low dose.

## The Purion Platform and Family of Ion Implanters

Axcelis offers a complete line of high energy, high current and medium current implanters for all application requirements. Our flagship systems are all based on a common Purion platform which offers purity, precision and productivity by combining a high-speed, state-of-the-art single wafer end station, enabling unmatched throughput (500 wafers per hour), and an advanced spot beam that ensures that all points across the wafer see the same beam at the same beam angle, resulting in exceptional process control and maximum yield.

**High Energy Implant.** Our Purion XE high energy system, combines Axcelis' production-proven RF Linac high energy, spot beam technology with the Purion platform. Axcelis is a market leader in high energy ion implanters, and we expect to maintain our leadership in the high energy segment through sales of both our multi-wafer legacy high energy systems and the Purion XE. In 2015, we secured three new customers for the Purion XE in six different fabrication facilities. We also introduced the Purion VXE, which offers a higher energy range.

**Medium Current Implant.** Our Purion M medium current system offers higher productivity and lower cost of ownership than competitive offerings, in addition to other advantages. Four customers, in both the memory and leading edge foundry segments, have the Purion M in production in 2015. We received follow-on orders from existing customers and obtained a new customer Purion M design-win. We also invested in technology that facilitates the manufacture of specialty devices on the Purion M, such as silicon carbide.

**High Current Implant.** Our Purion H high current system fulfills all traditional high current requirements while extending beyond traditional high current energy and dose ranges. In order to maximize utilization and flexibility, the Purion H can process some traditional mid-current

implants. In addition, the Purion H is extendable into ultra-low energy applications to satisfy future process requirements, including leakage current performance. We currently have four customers using the Purion H in production, and in 2015 we received multiple orders from one leading edge memory customer.

We believe our ion implant products will continue to meet customer demand for advantages in productivity, process performance and technical extendibility. Our goal is to recapture ion implant market share leadership by the end of 2017.

### **Dry Strip**

In December 2012, Lam Research Corporation ("Lam") purchased the intellectual property rights relating to our dry strip systems business. As a result of this transaction, we ceased the sale of 300mm dry strip wafer processing equipment in September 2013. In 2015, we and Lam agreed to extend the period of time in which we could sell dry strip systems for smaller wafers. Under the original agreement, our right to sell these systems ended in December 2015. As amended, we may continue to sell dry strip systems for 200mm and 150mm wafers through December 2017, provided royalties will be due to Lam on sales of 16 or more systems during the two year extension period. We will continue to service and support our dry strip installed base indefinitely.

### **Aftermarket Support and Services**

Through our Global Service Solutions business, we offer our customers extensive aftermarket service and support throughout the lifecycle of the equipment we manufacture as well as equipment we previously manufactured. We believe that approximately 3,000 of our products are in use in 33 countries worldwide. The service and support that we provide includes used tools, spare parts, equipment upgrades, and maintenance services. We provide varying levels of sales, service and applications support out of our field offices to customers located in 33 countries. Revenue generated through our service and support business represented 43.0%, 59.8% and 61.6% of revenue in 2015, 2014 and 2013, respectively.

To support our aftermarket business, we have approximately 200 staff members, including sales and marketing personnel, field service engineers, and spare parts and applications engineers, as well as employees located at our manufacturing facilities who work with our customers to provide customer training and documentation, product, process and applications support. In 2012, Ulvac Techno, an unrelated Japanese company, began providing aftermarket services and support services for our non-implant products in Japan. In September 2015, we elected to terminate this agreement with Ulvac Techno, effective March 31, 2016. After that date, we will offer aftermarket support in Japan directly to customers.

Most of our customers maintain spare parts inventories for our machines. In addition to our web-based spare parts management and replenishment tracking program, we offer a number of Business-to-Business options to support our customers' parts management requirements. Our Axcelis Managed Inventory service offering, a parts consignment arrangement, provides the customer with full spares support, with Axcelis retaining responsibility for the complete supply chain. The expansion of these services provides ease of use alternatives that help us reduce order fulfillment costs and improve cycle time, resulting in an expanded customer base for this service offering.

### **Sales and Marketing**

We primarily sell our equipment and services through our direct sales force. We conduct sales and marketing activities from our sales offices located in the United States, Taiwan, South Korea, China, Germany, Singapore and Italy.

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SEN Corporation, or "SEN" (our former Japanese joint venture, which was divested in March 2009), holds a non-exclusive license to use certain patented and unpatented technology associated with legacy products owned by the Company. Axcelis holds a reciprocal license of implant technology from SEN. These royalty-free, perpetual cross licenses do not restrict our ability to sell any of our products in Japan or elsewhere in the world.

Concurrently with the sale of assets to Lam in December 2012, the Company and Lam entered into a Transition Agreement pursuant to which Lam granted us a worldwide, non-exclusive, non-transferable, royalty-free license to use the dry strip intellectual property rights sold by the Company. The license allowed us to make and sell dry strip wafer processing equipment for semiconductor applications for a limited transition period after the closing and to support our installed base of dry strip equipment on a perpetual basis.

International revenue, including export sales from our U.S. manufacturing facilities to foreign customers and sales by foreign subsidiaries and branches, accounted for 85.1%, 80.0% and 76.4% of total revenue in 2015, 2014 and 2013, respectively. Substantially all of our sales are denominated in U.S. dollars. See Note 18 to our Consolidated Financial Statements contained in Item 15 of this Form 10-K for a breakdown of our revenue and long-lived assets in the United States, Europe and Asia.

### Customers

In 2015, the top 20 semiconductor manufacturers accounted for approximately 87.7% of total semiconductor industry capital spending, up slightly from 87.5% in 2014. These manufacturers are from the largest semiconductor manufacturing regions in the world: the United States, Asia Pacific (Taiwan, South Korea, Singapore and China), Japan and Europe. The Company serves leading semiconductor manufacturers.

Revenue from our ten largest customers accounted for 76.8%, 68.1% and 69.1%, of revenue in 2015, 2014 and 2013, respectively. We expect that sales of our products to relatively few customers will continue to account for a high percentage of revenue for the foreseeable future. In 2015, two customers accounted for 29.3% and 10.5% of revenue, respectively. In 2014, two customers accounted for 17.4% and 12.3% of revenue, respectively. In 2013, one customer accounted for 15.5% of revenue.

Our Beverly, Massachusetts Advanced Technology Center houses a process development laboratory with 12,500 sq. ft. of class 10/100/1000 clean room for product demonstrations and process development and a 34,000 sq. ft. customer training center. The Advanced Technology Center provides infrastructure and process capabilities that allow customers to test their unique process steps on our systems under conditions that substantially replicate the customers' production environment. This facility also provides significant capability for our research and development efforts.

### Research and Development

Our industry continues to experience rapid technological change, requiring us to frequently introduce new products and enhancements. Our ability to remain competitive in this market will depend in part upon our ability to develop new and enhanced systems and to introduce these systems at competitive prices on a timely and cost effective basis.

We devote a significant portion of our personnel and financial resources to research and development programs and seek to maintain close relationships with our customers to remain responsive to their product needs. We have also sought to reduce the development cycle for new products through a collaborative process whereby our engineering, manufacturing and marketing personnel work closely together with one another and with our customers at an earlier stage in the process. We also use 3D, computer-aided design, finite element analysis and other computer-based modeling methods to test new designs.

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Our expenses for research and development were \$32.6 million, \$33.5 million and \$34.8 million in 2015, 2014 and 2013, respectively, or 10.8%, 16.5% and 17.8% of revenue, respectively. We expect that research and development expenditures will continue to represent a similar level of investment in future years.

### **Manufacturing**

We manufacture products at our 417,000 sq. ft. ISO 9001:2008, ISO 14001:2004 certified plant in Beverly, Massachusetts. Our facility employs best in class manufacturing techniques, including lean manufacturing, six sigma controls and advanced inventory management, purchasing and quality systems.

Our clean manufacturing process uses class 1,000/10,000 space to facilitate most of our manufacturing requirements.

The Company's core manufacturing competency is built around system assembly and testing which remains an in-house capability due to the high degree of expertise and intellectual property associated with the process and design. Non-core work is sourced to one of several global partners and includes items such as power distribution, vacuum systems, wafer handling and commodity-level components. We continuously pursue outsourcing opportunities where the economics are justified, with a goal of enabling quality and margin improvement. Our supply chain team is globally focused and is located in Beverly and Singapore. Customized and commercially available software solutions drive our planning, purchasing and inventory tracking process.

Our products are designed to be assembled and tested in a modular fashion, which facilitates our industry-recognized "ship-from-cell" process. Specially developed test stands, software and tooling provide the framework for this accelerated delivery process. Customers that choose ship-from-cell substantially improve their delivery times while receiving the same high level of quality provided by more traditional longer cycle integration techniques. Product margins and inventory turns also improve as a result of shorter factory cycle times and increased labor productivity.

Installation of our equipment is provided by factory and field teams. The process includes assembling the equipment at its installation site and after it has been connected, recalibrating it to factory specifications.

### **Competition**

The semiconductor wafer fabrication equipment industry is highly competitive and is characterized by a small number of participants ranging in size. Significant competitive factors in the semiconductor equipment market include price, cost of ownership, equipment performance, customer support, capabilities and breadth of product line.

In ion implantation, we mainly compete against Applied Materials, Inc. The Company and Applied Materials are the only ion implant manufacturers with a full range of implant products, and service and support infrastructures able to service our customers globally. Three other niche players we compete with from time to time include Advanced Ion Beam Technology, Inc., Nissin Ion Implantation Co., Ltd. and SEN.

### **Intellectual Property**

We rely on patent, copyright, trademark and trade secret protection in the United States and in other countries, as well as contractual restrictions, to protect our proprietary rights in our products and our business. As of December 31, 2015, we had 320 active patents issued in the United States and 427 active patents granted in other countries, as well as 205 patent applications (48 in the United States and 157 in other countries) on file with various patent agencies worldwide. Patents are generally in effect for up to 20 years from the filing of the application.



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We intend to file additional patent applications and grow our intellectual property portfolio as appropriate. Although patents are important to our business, we do not believe that we are substantially dependent on any single patent or any group of patents.

We have trademarks, both registered and unregistered, that are maintained to provide customer recognition for our products in the marketplace. Trademark registrations generally remain in effect as long as the trademarks are in use. From time to time, we enter into license agreements with third parties under which we obtain or grant rights to patented or proprietary technology. Except for our license agreement with SEN and our license from Lam (described above under "Sales and Marketing"), we do not believe that any of our licenses are currently material to us. We can give no assurance that we, our licensors, licensees, customers or suppliers will not be subject to claims of patent infringement or claims to invalidate our patents, or that any such claims will not be successful, requiring us to pay substantial damages or remove certain features from our products or both.

### **Backlog**

Systems backlog, including deferred systems revenue, was \$22.5 million and \$37.9 million as of December 31, 2015 and 2014, respectively. We believe it is meaningful to investors to include deferred systems revenue as part of our backlog. Deferred systems revenue represents revenue that will be recognized in future periods based on prior shipments. Our policy is to include in backlog only those system orders for which we have accepted purchase orders and typically are due to ship within six months. All orders are subject to cancellations or rescheduling by customers with limited or no penalties.

Backlog does not include orders received and fulfilled within a quarter. Our backlog at the beginning of a quarter typically does not include all orders required to achieve our sales objectives for that quarter. Backlog is not necessarily an indicator of future business trends because orders for services or parts received during the quarter are generally performed or shipped within the same quarter.

Bookings in the quarter ended December 31, 2015 were \$26.1 million compared to \$56.1 million in the quarter ended December 31, 2014.

### **Employees**

As of December 31, 2015, we had 774 employees and 34 temporary staff worldwide, of which 585 work in North America, 174 in Asia and 49 in Europe. We consider our relationship with our employees to be good. Our employees are not represented by a labor union and are not subject to a collective bargaining agreement. One of our European locations has formed a work council, which has certain information and discussion rights under applicable law.

### **Environmental**

We are subject to environmental laws and regulations in the countries in which we operate that regulate, among other things: air emissions; water discharges; and the generation, use, storage, transportation, handling and disposal of solid and hazardous wastes produced by our manufacturing, research and development and sales activities. As with other companies engaged in like businesses, the nature of our operations exposes us to the risk of environmental liabilities, claims, penalties and orders.

We are proud of our commitment to improving our environment. We believe that our operations are in substantial compliance with applicable environmental laws and regulations and that there are no pending environmental matters that would have a material impact on our business. We are ISO-14001 certified at our Beverly, MA facility.

**Executive Officers of the Registrant**

**Mary G. Puma**, 58, has been our President and Chief Executive Officer since January 2002, having served as Chairman from 2005 to 2015. From May 2000 until January 2002, Ms. Puma was our President and Chief Operating Officer. In 1998, she became General Manager and Vice President of the Implant Systems Division of Eaton Corporation, a global diversified industrial manufacturer. In May 1996, she joined Eaton as General Manager of the Commercial Controls Division. Prior to joining Eaton, Ms. Puma spent 15 years in various marketing and general management positions for General Electric Company. Ms. Puma is a director of Nordson Corporation, North Shore Medical Center and Semiconductor Equipment and Materials International (SEMI).

**Kevin J. Brewer**, 57, became our Executive Vice President and Chief Financial Officer in September 2013, having served as interim Chief Financial Officer beginning in June 2013. Mr. Brewer also manages our Global Operations. Mr. Brewer had been our Executive Vice President, Global Operations since 2008 and our Senior Vice President, Manufacturing Operations since May 2005, prior to which he had been Vice President of Manufacturing Operations since October 2002 and Director of Operations from 1999 to 2002. Prior to joining Axcelis in 1999, Mr. Brewer was Director of Operations, Business Jets at Raytheon Aircraft Company, a leading manufacturer of business and special mission aircraft owned by Raytheon Company, a manufacturer of defense, government and commercial electronics, as well as aircraft. Prior to that, Mr. Brewer held various management positions in operations and strategic planning in Raytheon Company's Electronic Systems and Missile Systems groups.

**Lynnette C. Fallon**, 56, is our Executive Vice President, Human Resources/Legal and General Counsel, a position she has held since May 2005. Prior to that, Ms. Fallon was Senior Vice President HR/Legal and General Counsel since 2002, and Senior Vice President and General Counsel since 2001. Ms. Fallon has also been our corporate Secretary since 2001. Before joining Axcelis, Ms. Fallon was a partner in the Boston law firm of Palmer & Dodge LLP since 1992, where she was head of the Business Law Department from 1997 to 2001.

**William Bintz**, 59, has been our Executive Vice President, Product Development, Engineering and Marketing since 2011. Prior to that, he was our Senior Vice President, Marketing since September 2007, after joining Axcelis in early 2006 as Director of Marketing for curing and cleaning products and shortly thereafter becoming Vice President of Product Marketing. Prior to joining Axcelis, from 2002 Mr. Bintz was Product Director for Medium Current and High Energy Ion Implant System at Varian Semiconductor Equipment Associates, Inc. Before that, he was General Manager of the Materials Delivery Products Group at MKS Instruments, beginning in 1999, and General Manager of the Thermal Processing Systems Division at Eaton Corporation (now Axcelis) beginning in 1995.

**John E. Aldeborgh**, 59, has been our Executive Vice President, Customer Operations since February 2013, having joined Axcelis in January 2013 as our Senior Vice President, Customer Operations. Prior to joining Axcelis, Mr. Aldeborgh served as the Chief Executive Officer and President, and as a Director, of innoPad, Inc., a privately held manufacturer of Chemical Mechanical Planarization pads, since 2006. Mr. Aldeborgh served in various marketing and sales position at Varian Semiconductor Equipment Associates Inc. from 2002 to 2005, including Vice President of Sales and Marketing. Prior to Varian, Mr. Aldeborgh served as President and Chief Operating Officer of Ebara Technologies, Inc., from 1998 to 2002. Mr. Aldeborgh also held various positions, at Genus, Inc. from 1989 to 1998, including Executive Vice President and Chief Operating Officer.

**Douglas A. Lawson**, 55, has been our Executive Vice President, Corporate Marketing and Strategy since November 2013, having joined Axcelis as Vice President Business Development in 2010, and holding the position of Senior Vice President of Strategic Initiatives beginning in 2011. Mr. Lawson also manages our Information Technology function. Prior to joining the company in 2010, he held the position of General Manager of Luminus Devices from 2009 to 2010. He has over 30 years of

experience in the technology industry, and has held numerous executive and technical positions at BTU International, PRI Automation, Digital Equipment and Intel.

**Item 1A. Risk Factors.**

***Risks Related to Our Business and Industry***

Set forth below and elsewhere in this Form 10-K and in other documents we file with the SEC are risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements contained in this Form 10-K. We note that factors set forth below, individually or in the aggregate, may cause our actual results to differ materially from expected and historical results. We note these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider the following to be a complete discussion of all potential risks or uncertainties.

***If semiconductor manufacturers do not make sufficient capital expenditures, our sales and profitability will be harmed.***

New systems orders will depend upon demand from semiconductor manufacturers who build or expand fabrication facilities. When the rate of construction or expansion of fabrication facilities declines, demand for our systems will decline, reducing our revenue. Revenue decline also hurts our profitability because our established cost structure and our continued investments in engineering, research and development and marketing necessary to develop new products and to maintain extensive customer service and support capabilities limit our ability to reduce expenses in proportion to declining sales.

***If we fail to develop and introduce reliable new or enhanced products and services that meet the needs of semiconductor manufacturers, our results will suffer.***

Rapid technological changes in semiconductor manufacturing processes require us to respond quickly to changing customer requirements. Our future success will depend in part upon our ability to develop, manufacture and successfully introduce new systems and product lines with improved capabilities and to continue to enhance existing products. This will depend upon a variety of factors, including new product selection, timely and efficient completion of product design and development and of manufacturing and assembly processes, product performance in the field and effective sales and marketing. In particular:

We must continue to develop competitive technical specifications of new systems, or enhancements to our existing systems, and manufacture and ship these systems or enhancements in volume in a timely manner.

We will need to accurately predict the schedule on which our customers will be ready to transition to new products, in order to accurately forecast demand for new products while managing the transition from older products.

We will need to effectively manage product reliability or quality problems that often exist with new systems, in order to avoid reduced orders, higher manufacturing costs, delays in acceptance and payment and additional service and warranty expenses.

Our new products must be accepted in the marketplace.

Our failure to meet any of these requirements will have a material adverse effect on our operating results and profitability.

*A significant portion of our revenue depends on customers electing to buy aftermarket products and services from Axcelis*

Historically, a significant portion of our product revenue and all of our service revenue relates to our sale of "aftermarket" products and services, which include parts, consumables, upgrades, service contracts, and time and materials billings. Some of our customers purchase less aftermarket products and services, often training their own staff to maintain and service semiconductor equipment rather than relying on the equipment manufacturer for these services. In addition, we compete against third party parts suppliers for the sale of parts and consumables that are not protected by patents or otherwise proprietary. To the extent our customers purchase parts and services from other vendors or provide their own system maintenance labor, our revenue will be less.

*Our financial results may fluctuate significantly.*

We derive our new systems revenue from the sale of a relatively small number of expensive products to a small number of customers. The list prices on our ion implant systems range from \$1.8 million to \$5.5 million. We also sell used equipment in our aftermarket business. At our current sales level, each sale, or failure to make a sale, has a significant effect on us in a particular quarter. In a given quarter, a number of factors can adversely affect our revenue and results, including changes in our product mix, increased fixed expenses per unit due to reductions in the number of products manufactured, and higher fixed costs due to increased levels of research and development and expansion of our worldwide sales and marketing organization. Our financial results also fluctuate based on gross profit realized on sales. A variety of factors may cause gross profit as a percentage of revenue to vary, including the mix and average selling prices of products sold, costs to manufacture and customize systems, warranty costs and impact of changes to inventory reserves. New product introductions may also affect our gross margins. Fluctuations in our financial results may have an adverse effect on the price of our common stock.

*Our financial results may fall short of anticipated levels because forecasting revenue and profitability is complex and may be inaccurate.*

Management may from time to time provide financial forecasts. These forecasts are based on assumptions which are believed to be reasonable when made, of fab utilization, shipment timing and system acceptance timing. Any of these assumptions can prove erroneous and the level of revenue recognizable in a particular quarter may vary from the forecast. Our lengthy sales cycle, coupled with customers' competing capital budget considerations, make the timing of customer orders difficult to predict. In addition, our backlog at the beginning of a quarter typically does not include all orders required to achieve our sales objectives for that quarter and is not a reliable indicator of our future sales. As a result, our revenue and operating results for a quarter depend on our shipping orders as scheduled during that quarter, receiving customer acceptance of previously shipped products, and obtaining new orders for products to be shipped in that same quarter. Any delay in, or cancellation of, scheduled shipments and customer acceptances or in shipments from new orders could materially affect our financial results.

New accounting rules addressing revenue recognition have added more complexity in forecasting quarterly revenue and profitability. Orders for our products usually contain multiple delivery elements that result in revenue deferral under generally accepted accounting principles. Due to the foregoing factors, investors should understand that our actual financial results for a quarter may vary significantly from our forecasts of financial performance for that quarter. Failure to meet forecasted financial performance may have an adverse effect on the price of our common stock.

*We may be unable to obtain needed additional capital to finance our operations.*

Our capital requirements may vary widely from quarter to quarter, depending on, among other things, capital expenditures, fluctuations in our operating results, financing activities, acquisitions and investments and inventory and receivables management. We believe that our existing cash and cash equivalents will be sufficient to satisfy our anticipated cash requirements. A number of factors, including those described in these "Risk Factors," could prove our assumptions wrong and cause us to require additional capital from external sources. Depending on market conditions, future debt or equity financings may not be possible on attractive terms or at all. In addition, future debt or equity financings could be dilutive to the existing holders of our common stock.

*The semiconductor industry is highly cyclical and we expect that demand for our products will regularly increase and decrease, making it difficult to manage the business and potentially causing harm to our sales and profitability.*

The semiconductor business is highly cyclical, experiencing upturns when the demand for our products is high and downturns when our customers are not investing in new or expanded fabrication facilities. From time to time, inventory buildups in the semiconductor industry, resulting in part from periodic downturns, produce an oversupply of semiconductors. This can cause semiconductor manufacturers to revise capital spending plans, resulting in reduced demand for capital equipment such as our products. If an oversupply is not reduced by increasing demand from the various industries that use semiconductors, which we cannot accurately predict, our sales and profitability will be harmed. Our revenue can vary significantly from one point in the cycle to another, making it difficult to manage the business, both when revenue is increasing and when it is decreasing. In addition, a substantial portion of our operating expenses do not fluctuate with changes in volume. Significant decreases in revenue can therefore have a disproportionate effect on profitability.

*If we fail to compete successfully in the highly competitive semiconductor equipment industry, our sales and profitability will decline.*

The market for semiconductor manufacturing equipment is highly competitive and includes some companies with substantially greater financial, engineering, manufacturing, marketing and customer service and support resources than we have that may be better positioned to compete successfully in the industry. In addition, there are smaller, emerging semiconductor equipment companies that could provide innovative systems with technology that may have performance advantages over our systems. We expect our competitors to continue to improve the design and performance of their existing products and processes and to introduce new products and processes with improved price and performance characteristics. If we are unable to improve or introduce competing products when demanded by the markets, our business will be harmed. Finally, if we must lower prices to remain competitive without commensurate cost of goods savings, our gross margins and profitability will be adversely affected.

*We are dependent on sales to a limited number of large customers; the loss of a significant customer or any reduction in orders from them could materially affect our sales.*

Historically, we have sold a significant portion of our products and services to a limited number of fabricators of semiconductor products. For example, in 2015, our top ten customers accounted for 76.8% of our net sales, in comparison to 68.1% and 89.1% in 2014 and 2013, respectively. None of our customers has entered into a long-term agreement requiring it to purchase our products. Although the composition of the group comprising our largest customers has varied from year to year, the loss of a significant customer or any reduction or delays in orders from any significant customer could adversely affect us. The ongoing consolidation of semiconductor manufacturers may also increase the harmful effect of losing one or more significant customers.

*Axcelis is subject to the risks of operating internationally and we derive a substantial portion of our revenue from outside the United States, especially from Asia.*

We are substantially dependent on sales of our products and services to customers outside the United States. International sales, including export sales from our U.S. manufacturing facilities to non-U.S. customers and sales by our non-U.S. subsidiaries and branches, accounted for 84.8% of total revenue in 2015 in comparison to 80.0% of total revenue in 2014 and 76.4% in 2013. Ion Implanter system shipments to Asian customers represented 78.9% of total shipment dollars in 2015 in comparison to 78.3% in 2014 and 77.8% in 2013. We anticipate that international sales will continue to account for a significant portion of our revenue. Because of our dependence upon international sales, our results and prospects may be adversely affected by a number of factors, including:

unexpected changes in laws or regulations resulting in more burdensome governmental controls, tariffs, restrictions, embargoes or export license requirements;

volatility in currency exchange rates;

political and economic instability;

difficulties in accounts receivable collections;

extended payment terms beyond those customarily offered in the United States;

difficulties in managing suppliers, service providers or representatives outside the United States;

difficulties in staffing and managing foreign subsidiary and branch operations; and

potentially adverse tax consequences.

*We may not be able to maintain and expand our business if we are not able to hire, retain and integrate qualified personnel.*

Our business depends on our ability to attract and retain qualified, experienced employees. There is substantial competition for experienced engineering, technical, financial, sales and marketing personnel in our industry. In particular, we must attract and retain highly skilled design and process engineers. Competition for such personnel is intense, particularly in the Boston metropolitan area, as well as in other locations around the world. If we are unable to retain our existing key personnel, or attract and retain additional qualified personnel, we may from time to time experience insufficient levels of staffing to fully develop, manufacture and market our products and perform services for our customers. As a result, our growth could be limited or we could fail to meet our delivery commitments or experience deterioration in service levels or decreased customer satisfaction, all of which could adversely affect our financial results.

*Our dependence upon a limited number of suppliers for many components and sub-assemblies could result in increased costs or delays in the manufacture and sale of our products.*

We rely to a substantial extent on outside vendors to manufacture many of the components and sub-assemblies of our products. We obtain many of these components and sub-assemblies from a limited group of suppliers. Accordingly, we may be unable to obtain an adequate supply of required components on a timely basis, on price and other terms acceptable to us, or at all. In addition, we often quote prices to our customers and accept customer orders for our products before purchasing components and sub-assemblies from our suppliers. If our suppliers increase the cost of components or sub-assemblies, we may not have alternative sources of supply and may not be able to raise the price of our products to cover all or part of the increased cost of components, negatively impacting our gross margins.

The manufacture of some of these components and sub-assemblies is an extremely complex process and requires long lead times. As a result, we have in the past, and may in the future, experience delays or shortages. If we are unable to obtain adequate and timely deliveries of our required components or sub-assemblies, we may have to seek alternative sources of supply or manufacture these components internally. This could delay our ability to manufacture or to ship our systems on a timely basis, causing us to lose sales, incur additional costs, delay new product introductions and suffer harm to our reputation.

***Our international operations involve currency risk.***

Substantially all of our sales are billed in U.S. dollars, thereby reducing the impact of fluctuations in foreign exchange rates on our results. Operating margins of our foreign operations can fluctuate with changes in foreign exchange rates to the extent revenue is billed in U.S. dollars and operating expenses are incurred in the local functional currency. During the year ended December 31, 2015, approximately 24.7% of our revenue was derived from foreign operations with this inherent risk. In addition, at December 31, 2015, our operations outside of the United States accounted for approximately 20.7% of our total assets, the majority of which was denominated in currencies other than the U.S. dollar.

***We are subject to cyber security risks, which could adversely affect our business.***

We and certain of our third-party vendors receive and store personal information in connection with our human resources operations and other aspects of our business. Despite our implementation of security measures, our IT systems, like any system, are vulnerable to damages from computer viruses, natural disasters, unauthorized access, cyber-attack and other similar disruptions. Any system failure, accident or security breach could result in disruptions to our operations. A material network breach in the security of our IT systems could include the theft of our intellectual property or trade secrets. To the extent that any disruptions or security breach results in a loss or damage to our data, or in inappropriate disclosure of confidential information, it could cause significant damage to our reputation, affect our relationships with our customers, lead to claims against us and ultimately harm our business. In addition, we may be required to incur significant costs to protect against damage caused by these disruptions or security breaches in the future.

***Our proprietary technology may be vulnerable to efforts by competitors to challenge or design around, potentially reducing our market share.***

We rely on a combination of patents, copyrights, trademark and trade secret laws, non-disclosure agreements and other intellectual property protection methods to protect our proprietary technology. Despite our efforts to protect our intellectual property, our competitors may be able to legitimately ascertain the non-patented proprietary technology embedded in our systems. If this occurs, we may not be able to prevent their use of this technology. Our means of protecting our proprietary rights may not be adequate and our patents may not be sufficiently broad to prevent others from using technology that is similar to or the same as our technology. In addition, patents issued to us have been, or might be challenged, and might be invalidated or circumvented and any rights granted under our patents may not provide adequate protection to us. Our competitors may independently develop similar technology, duplicate features of our products or design around patents that may be issued to us. As a result of these threats to our proprietary technology, we may have to resort to costly litigation to enforce or defend our intellectual property rights. Finally, all patents expire after a period of time (in the U.S., patents expire 20 years from the date of filing of the patent application). Our market share could be negatively impacted by the expiration of a patent which had created a barrier for our competitors.

Axcelis also has agreements with third parties for licensing of patented or proprietary technology with Axcelis as the licensor or the licensee. Termination of license agreements could have an adverse impact on our financial performance or ability to ship products with existing configurations.

*We (or customers that we indemnify) might face intellectual property infringement claims or patent disputes that may be costly to resolve and, if resolved against us, could be very costly to us and prevent us from making and selling our systems.*

From time to time, claims and proceedings have been or may be asserted against us relative to patent validity or infringement matters. We typically agree to indemnify our customers from liability to third parties for intellectual property infringement arising from the use of our products in their intended manner. Therefore, we occasionally receive notification from customers who believe that we owe them indemnification or other obligations related to infringement claims made against the customers by third parties. Our involvement in any patent dispute or other intellectual property dispute or action to protect trade secrets, even if the claims are without merit, could be very expensive to defend and could divert the attention of our management. Adverse determinations in any litigation could subject us to significant liabilities to third parties, require us to seek costly licenses from third parties and prevent us from manufacturing and selling our systems. In addition, infringement indemnification clauses in system sale agreements may require us to take other actions or require us to provide certain remedies to customers who are exposed to indemnified liabilities. Any of these situations could have a material adverse effect on our business results.

*If operations were disrupted at Axcelis' primary manufacturing facility and warehouse it would have a negative impact on our business.*

We have one primary manufacturing facility and warehouse, located in Massachusetts. Its operations could be subject to disruption for a variety of reasons, including, but not limited to natural disasters, work stoppages, operational facility constraints and terrorism. Such disruption could cause delays in shipments of products to our customers and could result in cancellation of orders or loss of customers, which could seriously harm our business.

**Item 1B. Unresolved Staff Comments.**

None.

**Item 2. Properties.**

We lease our principal facility in Beverly, Massachusetts, which comprises 417,000 square feet. The facility is principally used for manufacturing, research and development, sales/marketing, customer support, advanced process development, product demonstration, customer-training center and corporate headquarters. We believe that our manufacturing facilities and equipment generally are well maintained, in good operating condition, suitable for our purposes, and adequate for our present operations. See the discussion of the sale and leaseback of our principal facility in Note 3 to the financial statements included in Part IV of this Form 10-K.

We own 23 acres of undeveloped property in Beverly, Massachusetts, adjacent to our headquarters.

As of December 31, 2015, the Company also leased 36 other properties, of which 11 are located in the United States and the remainder are located in Asia and Europe, including offices in Taiwan, Singapore, South Korea, China, Malaysia, Italy and Germany. These properties are used for sales and service offices and warehousing.

Our Beverly, Massachusetts facility is ISO 9001:2008 and ISO 14001:2004 and our European office is ISO 9001:2008 certified.



**Item 3. Legal Proceedings.**

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

**Item 4. Mine Safety Disclosures.**

Not applicable.

**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

Our common stock trades on the Nasdaq Global Select Market under the symbol ACLS. The following table sets forth the high and low closing sale prices as reported on the Nasdaq Global Select Market during each of the quarters for the two most recent years. As of March 4, 2016, we had approximately 4,000 stockholders of record. We have never paid any cash dividends to our shareholders and do not anticipate paying cash dividends in the foreseeable future.

	Common Stock Price	
	High	Low
<i>2014</i>		
First Quarter	\$ 2.51	\$ 2.11
Second Quarter	\$ 2.25	\$ 1.54
Third Quarter	\$ 2.12	\$ 1.71
Fourth Quarter	\$ 2.56	\$ 1.80
<i>2015</i>		
First Quarter	\$ 2.88	\$ 2.35
Second Quarter	\$ 3.24	\$ 2.49
Third Quarter	\$ 3.41	\$ 2.39
Fourth Quarter	\$ 3.06	\$ 2.34

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**Item 6. Selected Financial Data.**

The following selected consolidated statements of operations data for each of the three years ended December 31, 2015, 2014 and 2013 and the consolidated balance sheets data as of December 31, 2015 and 2014 have been derived from the audited consolidated financial statements contained in Item 15 of Part IV of this Form 10-K. The selected consolidated balance sheets data as of December 31, 2013 and 2012, and the statements of operations data for the years ended December 31, 2012 and 2011, have been derived from the audited financial statements contained in our Form 10-K filed on March 11, 2014. The consolidated balance sheets data as of December 31, 2011 has been derived from the audited financial statements contained in our Form 10-K filed on March 1, 2013.

The historical financial information set forth below may not be indicative of our future performance and should be read together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our historical consolidated financial statements and notes to those statements included in Item 7 of Part II and Item 15 of Part IV, respectively, of this Form 10-K.

	Years ended December 31,				
	2015	2014	2013	2012	2011
	(In thousands, except per share amounts)				
<b>Consolidated statements of operations data:</b>					
Revenue	\$ 301,495	\$ 203,051	\$ 195,632	\$ 203,385	\$ 319,416
Gross profit	101,706	70,164	67,935	58,171	114,737
Income (loss) from operations	20,718	(10,661)	(14,618)	(30,938)	7,132
Income (loss) before income taxes	15,205	(10,167)	(16,104)	(32,388)	7,471
Net income (loss)	14,678	(11,266)	(17,144)	(34,034)	5,077
Net income (loss) per share:					
Basic	\$ 0.13	\$ (0.10)	\$ (0.16)	\$ (0.32)	\$ 0.05
Diluted	\$ 0.12	\$ (0.10)	\$ (0.16)	\$ (0.32)	\$ 0.05
Shares used in computing basic and diluted per share amounts:					
Basic	114,378	111,450	108,869	107,619	106,234
Diluted	120,916	111,450	108,869	107,619	109,098
<b>Consolidated balance sheets data:</b>					
Cash and cash equivalents	\$ 78,889	\$ 30,753	\$ 46,290	\$ 44,986	\$ 46,877
Working capital	192,085	133,037	149,448	145,443	164,561
Total assets	288,280	227,654	233,549	222,158	269,245
Long-term liabilities	53,652	7,204	22,087	6,300	7,218
Stockholders' equity	190,260	168,352	176,002	186,076	214,555

**Item 7. 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-K. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. We assume no obligation to update these forward-looking statements to reflect actual results or changes in factors or assumptions affecting forward-looking statements, except as may be required by law.*

**Overview**

The semiconductor capital equipment industry is subject to significant cyclical swings in capital spending by semiconductor manufacturers. Capital spending is influenced by demand for semiconductors and the products using them, the utilization rate and capacity of existing semiconductor manufacturing facilities and changes in semiconductor technology, all of which are outside of our control. As a result, our revenue and gross margins fluctuate from year to year and period to period. Our 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.

A successful semiconductor equipment manufacturer must not only provide some of the most technically complex products manufactured in the world but also must design its business to thrive during the inevitable low points in the cycle. Our financial results in 2015 reflect our investment of a significant portion of our resources in research and development programs related to our Purion ion implantation platform and the market introduction and initial sales of Purion systems. These results also reflect our efforts to maintain control of discretionary spending.

In 2014, we introduced the Purion H high current system. This system is critically important to the Company since it addresses the largest segment of the ion implant market, which represents 60% of the total \$800 million to \$1 billion ion implant market. We shipped seventeen Purion H high current ion implanters in 2015. We expect customer demands for our products to increase through 2016. Throughout 2016, we expect to continue to grow Purion system sales and improve gross margins while maintaining tight control of our cost structure, which we expect will yield improved financial results throughout 2016.

Consolidation and partnering within the semiconductor manufacturing industry has resulted in a smaller number of customers representing a substantial portion of our business. Our net revenue from our ten largest customers accounted for 76.8% of total revenue for the year ended December 31, 2015 compared to 68.1% and 69.1% of revenue for the years ended December 31, 2014 and 2013, respectively. For the year ended December 31, 2015, the Company had two customers representing 29.3% and 10.5% of total revenue, respectively.

Operating results for the years 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.

We believe the following accounting policies are critical in the portrayal of our financial condition and results of operations and require management's most significant judgments and estimates in the preparation of our consolidated financial statements. For additional accounting policies see Notes to Consolidated Financial Statements Note 2. Summary of Significant Accounting Policies.

#### *Revenue Recognition*

Our revenue recognition policy involves significant judgment by management. As described below, we consider a broad array of facts and circumstances in determining when to recognize revenue, including contractual service obligations to the customer, the complexity of the customer's post-delivery acceptance provisions, payment history, customer creditworthiness and the installation process. In the future, if the post-delivery acceptance provisions and installation process become more complex or result in a materially lower rate of acceptance, we may have to revise our revenue recognition policy, which could delay the timing of revenue recognition.

Our system sales transactions are made up of multiple elements, including the system itself and elements that are not delivered simultaneously with the system. These undelivered elements might include a combination of installation services, extended warranty and support and spare parts, all of which are generally covered by a single sales price.

Our system revenue arrangements with multiple elements are divided into separate units of accounting if specified criteria are met, including whether the delivered element has stand-alone value to the customer. If the criteria are met, then the consideration received is allocated among the separate units based on their relative selling price, and the revenue is recognized separately for each of the separate units.

We determine selling price for each unit of accounting (element) using vendor specific objective evidence ("VSOE") or third-party evidence ("TPE"), if they exist, otherwise, we use best estimated selling price ("BESP"). We generally expect that we will not be able to establish TPE due to the nature of our products, and, as such, we typically will determine selling price using VSOE or BESP.

Where required, we determine BESP for an individual element based on consideration of both market and Company-specific factors, including the selling price and profit margin for similar products, the cost to produce the deliverable and the anticipated margin on that deliverable and the characteristics of the varying markets in which the deliverable is sold.

Systems are not sold separately and VSOE or TPE is not available for the systems element. Therefore the selling price associated with systems is based on BESP. The allocated value for installation in the arrangement includes the greater of (i) the relative selling price of the installation or (ii) the portion of the sales price that will not be received until the installation is completed (the "retention"). The selling price of elements such as extended warranty for support, spare parts and support labor is also based on BESP. For the majority of regions, the selling price of installation is based upon the fair value of the service performed, including labor, which is based upon the estimated time to complete the installation at hourly rates, and material components, both of which are sold separately, or VSOE. In regions where VSOE does not exist the Company uses BESP.

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Product revenue for products which have demonstrated market acceptance, is generally recognized upon shipment provided title and risk of loss has passed to the customer, evidence of an arrangement exists, prices are contractually fixed or determinable, collection is reasonably assured through historical collection results and regular credit evaluations, and there are no uncertainties regarding customer acceptance. Revenue from installation services is recognized at the time acceptance has occurred, as defined in the sales documentation, or, for certain customers, when both the acceptance has occurred and retention payment has been received. Revenue for other elements is recognized at the time products are shipped or the related services are performed.

We generally recognize product revenue for systems which have demonstrated market acceptance at the time of shipment because the customer's post-delivery acceptance provisions and installation process have been established to be routine, commercially inconsequential and perfunctory. We believe the risk of failure to complete a system installation is remote.

For initial shipments of systems with new technologies or in the small number of instances where we are unsure of meeting the customer's specifications or obtaining customer acceptance upon shipment of the system, we will defer the recognition of systems revenue and related costs until written customer acceptance of the system is obtained. This deferral period is generally within twelve months of shipment.

### *Impairment of Long-Lived Assets*

We record impairment losses on long-lived assets when events and circumstances indicate that these assets might not be recoverable. Recoverability is measured by a comparison of the assets' carrying amount to their expected future undiscounted net cash flows. If such assets are considered to be impaired, the impairment is measured based on the amount by which the carrying value exceeds its fair value.

Future actual performance could be materially different from our current forecasts, which could impact future estimates of undiscounted cash flows and may result in the impairment of the carrying amount of the long-lived assets in the future. This could be caused by strategic decisions made in response to economic and competitive conditions, the impact of the economic environment on our customer base or a material adverse change in our relationships with significant customers.

We did not record an impairment charge for the years ended December 31, 2015, 2014 or 2013.

### *Accounts Receivable Allowance for Doubtful Accounts*

We record an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. Our allowance for doubtful accounts is established based on a specific assessment of collectability of our customer accounts. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be necessary.

### *Inventory Allowance for Excess and Obsolescence and Lower of Cost or Market*

We record an allowance for estimated excess and obsolete inventory and lower of cost or market. The allowance is determined using management's assumptions of materials usage, based on estimates of forecasted and historical demand and market conditions. If actual market conditions become less favorable than those projected by management, additional inventory write-downs may be required.

Although we make every effort to ensure the accuracy of our forecasts or product demand and pricing assumptions, any significant unanticipated changes in demand, pricing, or technical developments would significantly impact the value of our inventory and our reported operating results. In the future, if we determine that inventory needs to be written down, the Company will recognize

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such costs in our cost of revenue at the time of such determination. If we subsequently sell product that has previously been written down, our gross margin in that period will be favorably impacted.

### *Product Warranty*

We generally offer a one year warranty for all of our systems, the terms and conditions of which vary depending upon the product sold. For all systems sold, we accrue a liability for the estimated cost of standard warranty at the time of system shipment and defer the portion of systems revenue attributable to the relative fair value of non-standard warranty. Costs for non-standard warranty are expensed as incurred. Factors that affect our warranty liability include the number of installed units, historical and anticipated product failure rates, material usage and service labor costs. We periodically assess the adequacy of our recorded liability and adjust the amount as necessary.

### *Share-Based Compensation*

Stock-based compensation expense with time-based conditions is estimated as of the grant date based on the fair value of the award and is recognized as expense over the requisite service period, which generally equals the vesting period, based on the number of awards that are expected to vest. Estimating the fair value for stock options requires judgment, including the expected term of our stock options, volatility of our stock, expected dividends, risk-free interest rates over the expected term of the options and the expected forfeiture rate.

We are responsible for estimating volatility and have considered a number of factors when estimating volatility. Our method of estimating expected volatility for all stock options granted relies on a combination of historical and implied volatility. We believe that this blended volatility results in a more accurate estimate of the grant-date fair value of employee stock options because it more appropriately reflects the market's current expectations of future volatility.

In limited circumstances, we also issue stock option grants with vesting based on performance or market conditions, such as the price of our common stock, or, a combination of time or market conditions. The fair values and derived service periods for all grants that have vesting based on market conditions are estimated using the Monte Carlo valuation method. For each stock option grant with vesting based on a combination of time or market conditions, where vesting will occur if either condition is met, the related compensation costs are recognized over the shorter of the explicit service period or the derived service period.

We use the straight-line attribution method to recognize expense for stock-based awards such that the expense associated with awards is evenly recognized throughout the period.

The amount of stock-based compensation recognized is based on the value of the portion of the awards that are ultimately expected to vest. We estimate forfeitures at the time of grant and revise them, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The term "forfeitures" is distinct from "cancellations" or "expirations" and represents only the unvested portion of the surrendered stock-based award.

The benefits of tax deductions in excess of recognized compensation cost is reported as a financing cash flow, rather than as an operating cash flow. Because the Company does not recognize the benefit of tax deductions in excess of recognized compensation cost due to its cumulative net operating loss position, this had no impact on the Company's consolidated statement of cash flows for the years ended December 31, 2015, 2014 and 2013.

### *Income Taxes*

We record income taxes using the asset and liability method. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the

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financial statement carrying amounts of existing assets and liabilities and their respective income tax basis, and net operating loss and tax credit carryforwards.

Our consolidated financial statements contain certain deferred tax assets which have arisen primarily as a result of operating losses, as well as other temporary differences between financial and income tax accounting.

We establish a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Significant management judgment is required in determining our provision for income taxes, the deferred tax assets and liabilities and any valuation allowance recorded against those net deferred tax assets.

We evaluate the weight of all available evidence such as historical losses, projected future taxable income and the expected timing of the reversals of existing temporary differences to determine whether it is more likely than not that some portion or all of the net deferred income tax assets will not be realized.

Based on our level of deferred tax assets as of December 31, 2015 and our level of historical U.S. losses, we have determined that the current uncertainty regarding the realization of these assets is sufficient to warrant the need for a full valuation allowance against our U.S. net deferred tax assets. We have also determined that a valuation allowance is required on a portion of our foreign deferred tax assets.

Our income tax expense includes the largest amount of tax benefit for an uncertain tax position that is more likely than not to be sustained upon audit based on the technical merits of the tax position. Settlements with tax authorities, the expiration of statutes of limitations for particular tax positions, or obtaining new information on particular tax positions may cause a change to the effective tax rate. The Company recognizes accrued interest related to unrecognized tax benefits as interest expense and penalties as operating expense.



**Results of Operations**

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

	Years Ended December 31,		
	2015	2014	2013
<b>Revenue:</b>			
Product	92.5%	88.3%	86.7%
Services	7.5	11.7	13.3
<b>Total revenue</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Cost of revenue:</b>			
Product	60.1	55.8	54.5
Services	6.2	9.7	10.8
<b>Total cost of revenue</b>	<b>66.3</b>	<b>65.5</b>	<b>65.3</b>
<b>Gross profit</b>	<b>33.7</b>	<b>34.5</b>	<b>34.7</b>
<b>Operating expenses:</b>			
Research and development	10.8	16.5	17.8
Sales and marketing	7.7	10.2	10.8
General and administrative	8.3	11.8	13.0
Gain on sale of dry strip systems assets and intellectual property			(0.6)
Restructuring charges		1.3	1.2
<b>Total operating expenses</b>	<b>26.8</b>	<b>39.8</b>	<b>42.2</b>
<b>Income (loss) from operations:</b>	<b>6.9</b>	<b>(5.3)</b>	<b>(7.5)</b>
<b>Other income (expense):</b>			
Interest income			
Interest expense	(1.7)	(0.5)	(0.3)
Other, net	(0.2)	0.8	(0.5)
<b>Total other income (expense)</b>	<b>(1.9)</b>	<b>0.3</b>	<b>(0.8)</b>
<b>Income (loss) before income taxes</b>	<b>5.0</b>	<b>(5.0)</b>	<b>(8.3)</b>
Income tax provision	0.1	0.5	0.5
<b>Net income (loss)</b>	<b>4.9%</b>	<b>(5.5)%</b>	<b>(8.8)%</b>

**Revenue**

The following table sets forth our revenue:

	Years ended December 31,		Period-to-Period Change		Years ended December 31,		Period-to-Period Change	
	2015	2014	\$	%	2014	2013	\$	%
(dollars in thousands)								
<b>Revenue:</b>								
Product	\$ 278,875	\$ 179,246	\$ 99,629	55.6%	\$ 179,246	\$ 169,587	\$ 9,659	5.7%
<i>Percentage of revenue</i>	<i>92.5%</i>	<i>88.3%</i>			<i>88.3%</i>	<i>86.7%</i>		
Services	22,620	23,805	(1,185)	(5.0)%	23,805	26,045	(2,240)	(8.6)%
<i>Percentage of revenue</i>	<i>7.5%</i>	<i>11.7%</i>			<i>11.7%</i>	<i>13.3%</i>		

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Total revenue \$ 301,495 \$ 203,051 \$ 98,444 48.5% \$ 203,051 \$ 195,632 \$ 7,419 3.8%

2015 Compared with 2014

*Product*

Product revenue which includes new system sales, sales of spare parts, product upgrades and used system sales was \$278.9 million or 92.5% of revenue in 2015, compared with \$179.2 million, or 88.3% of revenue in 2014. The increase in product revenue in 2015 was primarily driven by an increase in the number of Purion systems sold.

Approximately 13.0% of systems revenue in 2015 was from sales of 200mm products and 87.0% was from sales of 300mm products, compared with 18.1% and 81.9% for sales of 200mm products and 300mm products in 2014, respectively.

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 December 31, 2015 and 2014 was \$8.5 million and \$7.2 million, respectively. The increase was mainly due to the increase in systems sales in 2015 and the timing of acceptance of deferred system sales.

*Services*

Services revenue, which includes the labor component of maintenance and service contracts and fees for service hours provided by on-site service personnel, was \$22.6 million, or 7.5% of revenue for 2015, compared with \$23.8 million, or 11.7% of revenue for 2014. Although services 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.

2014 Compared with 2013

*Product*

Product revenue was \$179.2 million or 88.3% of revenue in 2014, compared with \$169.6 million, or 86.7% of revenue in 2013. The increase in product revenue in 2014 is attributable to increased spending by semiconductor manufacturers in 2014 compared to 2013.

Approximately 18.1% of systems revenue in 2014 was from sales of 200mm products and 81.9% was from sales of 300mm products, compared with 23.1% and 76.9% for sales of 200mm products and 300mm products in 2013, respectively.

The total amount of deferred revenue at December 31, 2014 and 2013 was \$7.2 million and \$4.7 million, respectively. The increase was mainly due to the increase in systems sales in 2014 and the timing of acceptance of deferred system sales.

*Services*

Services revenue was \$23.8 million, or 11.7% of revenue for 2014, compared with \$26.0 million, or 13.3% of revenue for 2013. The decrease during 2014 was primarily due to a decrease in fabrication utilization in the semiconductor industry during a portion of 2014.

**Revenue Categories used by Management**

In addition 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.

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### 2015 Compared with 2014

#### *Ion Implant*

Included in total revenue of \$301.5 million in 2015 is revenue from sales of ion implantation products and related service of \$282.6 million, or 93.7% of total revenue, compared with \$183.1 million, or 90.2%, of total revenue of \$203.1 million in 2014. The increase in ion implant's share of total revenue for 2015 reflects a continuing reduction in dry strip revenue following the sale of assets relating to the dry strip product line in December 2012. Total revenue in ion implant increased as our market share increased in 2015 due to our Purion products.

#### *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 \$301.5 million in 2015 is revenue from our aftermarket business of \$129.6 million, which increased moderately compared to \$121.4 million for 2014. Aftermarket revenue generally increases with the expansion of the installed base of systems but can fluctuate from period to period based on capacity utilization at customers' manufacturing facilities which affects the sale of spare parts and demand for equipment service.

### 2014 Compared with 2013

#### *Ion Implant*

Included in total revenue of \$203.1 million in 2014 is revenue from sales of ion implantation products and related service of \$183.1 million, or 90.2% of total revenue, compared with \$164.0 million, or 83.8%, of total revenue in 2013. The increase in ion implant's share of total revenue for 2014 reflects a reduction in dry strip revenue following the sale of assets relating to the dry strip product line in December 2012. Total revenue in ion implant increased as the market for our new Purion products improved in 2014.

#### *Aftermarket*

Included in total revenue of \$203.1 million in 2014 is revenue from our aftermarket business of \$121.4 million, which was relatively stable compared to \$120.6 million for 2013.

### **Gross Profit / Gross Margin**

The following table sets forth our gross profit:

	Years ended December 31,		Period-to-Period Change		Years ended December 31,		Period-to-Period Change	
	2015	2014	\$	%	2014	2013	\$	%
(dollars in thousands)								
<b>Gross Profit:</b>								
Product	\$ 97,815	\$ 65,961	\$ 31,854	48.3%	\$ 65,961	\$ 62,909	\$ 3,052	4.9%
<i>Product gross margin</i>	<i>35.1%</i>	<i>36.8%</i>			<i>36.8%</i>	<i>37.1%</i>		
Services	3,891	4,203	(312)	(7.4)%	4,203	\$ 5,026	(823)	(16.4)%
<i>Services gross margin</i>	<i>17.2%</i>	<i>17.7%</i>			<i>17.7%</i>	<i>19.3%</i>		
 Total gross profit	 \$ 101,706	 \$ 70,164	 \$ 31,542	 45.0%	 \$ 70,164	 \$ 67,935	 \$ 2,229	 3.3%
  Gross margin	  33.7%	  34.5%			  34.5%	  34.7%		

2015 Compared with 2014

*Product*

Gross margin from product revenue was 35.1% for the twelve months ended December 31, 2015, compared to 36.8% for the twelve months ended December 31, 2014. The decrease in gross profit resulted from the net effect of significantly higher systems sales volume of new Purion systems at lower margins and a decreased mix of parts and upgrade revenue, partially offset by sale of previously written down systems.

*Services*

Gross profit from services revenue was 17.2% for the twelve months ended December 31, 2015, compared to 17.7% for the twelve months ended December 31, 2014. The decrease in gross profit is due to lower volumes and changes in the mix and timing of service contracts.

2014 Compared with 2013

*Product*

Gross margin from product revenue was 36.8% for the year ended December 31, 2014, compared to 37.1% for the year ended December 31, 2013. The slight decrease in the gross margin percentage is due to an increased mix of lower margin systems sales along with lower than normal margins associated with new product systems, partially offset by a decrease in the provision for excess inventory and higher gross margin associated with parts and upgrade revenue.

*Services*

Gross margin from services revenue was 17.7% for the year ended December 31, 2014, compared to 19.3% for the year ended December 31, 2013. The decrease in gross margin is due to lower volumes and changes in the mix and timing of service contracts.

**Operating Expenses**

The following table sets forth our operating expenses:

	Years ended December 31,		Period-to-Period Change		Years ended December 31,		Period-to-Period Change	
	2015	2014	\$	%	2014	2013	\$	%
(dollars in thousands)								
Research and development	\$ 32,586	\$ 33,533	\$ (947)	(2.8)%	\$ 33,533	\$ 34,756	\$ (1,223)	(3.5)%
<i>Percentage of revenue</i>	10.8%	16.5%			16.5%	17.8%		
Sales and marketing	23,325	20,713	2,612	12.6%	20,713	21,159	(446)	(2.1)%
<i>Percentage of revenue</i>	7.7%	10.2%			10.2%	10.8%		
General and administrative	25,059	23,958	1,101	4.6%	23,958	25,471	(1,513)	(5.9)%
<i>Percentage of revenue</i>	8.3%	11.8%			11.8%	13.0%		
Gain on sale of dry strip assets and intellectual property				%		(1,167)	1,167	(100.0)%
<i>Percentage of revenue</i>	%	%			%	(0.6)%		
Restructuring charges	18	2,621	(2,603)	(99.3)%	2,621	2,334	287	12.3%
<i>Percentage of revenue</i>	%	1.3%			1.3%	1.2%		
<b>Total operating expenses</b>	<b>\$ 80,988</b>	<b>\$ 80,825</b>	<b>\$ 163</b>	<b>0.2%</b>	<b>\$ 80,825</b>	<b>\$ 82,553</b>	<b>\$ (1,728)</b>	<b>(2.1)%</b>
 <i>Percentage of revenue</i>	 26.8%	 39.8%			 39.8%	 42.2%		

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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 \$47.9 million, or 59.1% of our total operating expenses, for the year ended December 31, 2015; \$45.3 million, or 57.9%, of our total operating expenses, excluding the restructuring charge of \$2.6 million for the year ended December 31, 2014; and \$47.3 million, or 58.1%, of our total operating expenses, excluding the gain on the sale of the dry strip assets and intellectual property of \$1.2 million and a restructuring charge of \$2.3 million for the year ended December 31, 2013.

### Research and Development

	Years ended December 31,		Period-to-Period Change		Years ended December 31,		Period-to-Period Change	
	2015	2014	\$	%	2014	2013	\$	%
	(dollars in thousands)							
Research and development	\$ 32,586	\$ 33,533	\$ (947)	(2.8)%	\$ 33,533	\$ 34,756	\$ (1,223)	(3.5)%
Percentage of revenue	10.8%	16.5%			16.5%	17.8%		

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.

#### 2015 Compared with 2014

Research and development expense was \$32.6 million in 2015, a decrease of approximately \$0.9 million, or 2.8%, compared with \$33.5 million in 2014. The decrease was primarily due to lower personnel costs driven by reduced headcount from reduction in force in 2014 and a spike in labor and material costs in the prior year related to the rollout of our Purion platform. This was partially offset by higher variable incentive plan expense in 2015.

#### 2014 Compared with 2013

Research and development expense was \$33.5 million in 2014, a decrease of approximately \$1.2 million, or 3.5%, compared with \$34.8 million in 2013. The decrease was primarily due to the reduction in payroll costs of \$0.7 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 \$0.3 million.

### Sales and Marketing

	Years ended December 31,		Period-to-Period Change		Years ended December 31,		Period-to-Period Change	
	2015	2014	\$	%	2014	2013	\$	%
	(dollars in thousands)							
Sales and marketing	\$ 23,325	\$ 20,713	\$ 2,612	12.6%	\$ 20,713	\$ 21,159	\$ (446)	(2.1)%
Percentage of revenue	7.7%	10.2%			10.2%	10.8%		

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

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### 2015 Compared with 2014

Sales and marketing expense was \$23.3 million in 2015, an increase of \$2.6 million, or 12.6%, compared with \$20.7 million in 2014. The increase was primarily due to variable incentive plan expense and other compensation expense as well as higher new tool evaluation costs.

### 2014 Compared with 2013

Sales and marketing expense was \$20.7 million in 2014, a decrease of \$0.4 million, or 2.1%, compared with \$21.2 million in 2013. The decrease was primarily due to the reduction in consulting and new tool evaluation costs which decreased by \$0.5 million.

### **General and Administrative**

	Years ended December 31,		Period-to-Period Change		Years ended December 31,		Period-to-Period Change	
	2015	2014	\$	%	2014	2013	\$	%
	(dollars in thousands)							
General and administrative	\$ 25,059	\$ 23,958	\$ 1,101	4.6%	\$ 23,958	\$ 25,471	\$ (1,513)	(5.9)%
Percentage of revenue	8.3%	11.8%			11.8%	13.0%		

### 2015 Compared with 2014

General and administrative expense was \$25.1 million in 2015, an increase of \$1.1 million, or 4.6% compared with \$24.0 million in 2014. The increase was primarily due to variable incentive plan expense.

### 2014 Compared with 2013

General and administrative expense was \$24.0 million in 2014, a decrease of \$1.5 million, or 5.9% compared with \$25.5 million in 2013. The decrease was due to the reduction in payroll costs of \$1.5 million as a result of lowering our headcount through reductions in force.

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

On December 3, 2012, we sold our dry strip system assets and intellectual property to Lam.

### 2015 Compared with 2014

The Company did not record any amounts related to the achievement of any milestones related to the Lam transaction in 2015 or 2014.

### 2014 Compared with 2013

The \$1.2 million gain on sale of dry strip assets and intellectual property in 2013 was related to the achievement of reaching certain milestones with Lam in 2013.

### **Restructuring**

During 2014 and 2013 we implemented reductions in force to improve the focus of our operations, control costs, achieve future profitability and conserve cash.

### 2015 Compared with 2014

During the year ended December 31, 2015 we recorded an immaterial charge to restructuring expense. During the year ended December 31, 2014 we recorded \$2.6 million in restructuring expense for severance and other related costs.

2014 Compared with 2013

During the year ended December 31, 2014 and 2013, we recorded \$2.6 million and \$2.3 million, respectively, in restructuring expense for severance and other related costs.

**Other (Expense) Income**

Other (expense) income consists primarily of interest relating to our sales leaseback obligation and other financing obligations, 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, as well as interest earned on our invested cash balances.

2015 Compared with 2014

Other expense for the year ended December 31, 2015 of \$5.5 million consists primarily of \$4.8 million of interest related to our sales leaseback obligation. Other income for the year ended December 31, 2014 of \$0.5 million consists primarily of foreign exchange gain of \$1.8 million offset partially by interest expense of \$1.1 million associated with the business loan agreement with Northern Bank & Trust Company ("Term Loan").

2014 Compared with 2013

Other income was \$0.5 million for the year ended December 31, 2014 compared to other expense of \$1.5 million for the year ended December 31, 2013. 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, as well as interest earned on our invested cash balances, net of bank fees associated with our financing arrangements and interest expense related to our business loan agreement with Northern Bank & Trust Company.

**Income Taxes**

Income tax expense was \$0.5 million, \$1.1 million and \$1.0 million for the year ended December 31, 2015, 2014 and 2013, respectively. Our income tax expense is primarily due to operating results of foreign entities in jurisdictions in Europe and Asia, where we earn taxable income. We have significant net operating loss carryforwards in the United States and certain European 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 such losses in the United States and certain European taxing jurisdictions until it is determinable that there will be sufficient income such that the tax benefits can be recognized.

**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. We have reduced operating expense to achieve profitability towards the lower end of our quarterly revenue swings. We experience fluctuations in operating results and cash flows depending on our revenue as driven by the level of capital expenditures by semiconductor manufacturers.

In 2015, \$18.3 million of cash was provided by operating activities. This compares to cash used to support operations of \$16.0 million in 2014. The \$34.4 million increase in cash from operations in 2015 as compared to 2014 was predominately driven by net income from our increased system sales in 2015 which reflects an increase in market demand for our Purion platform. Cash and cash equivalents at



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December 31, 2015 was \$78.9 million, compared to \$30.8 million at December 31, 2014. Approximately \$12.7 million of cash was located in foreign jurisdictions as of December 31, 2015. In addition to the cash and cash equivalent balance at December 31, 2015, the Company had \$6.9 million in restricted cash which relates to a \$5.9 million letter of credit associated with the security deposit for the sale leaseback transaction and a \$1.0 million letter of credit relating to workers' compensation insurance. Working capital at December 31, 2015 was \$192.1 million. At December 31, 2015, the Company had no bank debt.

Capital expenditures were \$1.8 million and \$0.9 million for the years ended December 31, 2015 and 2014, respectively. Total capital expenditures for 2016 are projected to be approximately \$3.0 million. Future capital expenditures beyond 2016 will depend on a number of factors, including the timing and rate of expansion of our business and our ability to generate cash to fund them.

Cash provided by financing activities was \$31.4 million and \$2.8 million for the years ended December 31, 2015 and 2014, respectively. This increase in cash provided by financing activities from the prior year resulted largely from the first quarter 2015 sale of our corporate headquarters building in Beverly, Massachusetts, which provided \$48.9 million of gross proceeds, less \$0.4 million for prepaid rent, for a net amount of \$48.5 million. At the time of this sale, the Company discharged an outstanding term loan of \$14.4 million, with related accrued interest, and paid a pre-payment penalty to Northern Bank and Trust Company for a total payment of \$14.8 million. The Company incurred \$0.8 million of related financing expenses associated with this transaction.

The Company had a revolving credit facility with Silicon Valley Bank, dated October 31, 2013, which the Company terminated in October 2015. Under this revolving credit facility, the Company had the ability to borrow up to \$10.0 million on a revolving basis during its two year term. As of the termination date of this facility, the Company had not drawn down on the line of credit, although a portion of the availability was being used to support outstanding letters of credit in the amount of \$6.9 million, which included the \$5.9 million associated with the security deposit for the sale leaseback transaction. Concurrent to the credit facility expiration, these letters of credit were cash collateralized and classified as restricted cash.

In 2015, the Company received proceeds of \$4.4 million relating to the exercise of stock options and purchases of Company stock through the Employee Stock Purchase Plan.

In comparison, in 2014, cash provided by financing activities was \$2.8 million, mainly due to proceeds of \$3.3 million related to stock option exercises and the employee stock purchase plan. These amounts were partially offset by principal payments of \$0.5 million relating to the Term Loan.

We have outstanding letters of credit and surety bonds in the amount of \$8.6 million to support our sale leaseback, workers' compensation insurance program and certain value added tax claims in Europe.

The following represents our commercial commitments as of December 31, 2015 (in thousands):

Other Commercial Commitments	Total	Amount of Commitment	
		Expiration by Period	
		2016	2017 - 2018
Surety bonds	\$ 1,732	\$ 595	\$ 1,137
Standby letters of credit	6,875	6,875	
	\$ 8,607	\$ 7,470	\$ 1,137

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The following represents our contractual obligations as of December 31, 2015 (in thousands):

Contractual Obligations	Total	Payments Due by Period			
		2016	2017 - 2018	2019 - 2020	2021 - Beyond
Sale leaseback obligation	\$ 130,761	\$ 4,815	\$ 10,786	\$ 11,313	\$ 103,847
Purchase order commitments	35,750	35,750			
Operating leases	4,014	2,319	1,524	171	
	\$ 170,525	\$ 42,884	\$ 12,310	\$ 11,484	\$ 103,847

We have no off-balance sheet arrangements at December 31, 2015, exclusive of operating leases.

We have net operating loss and tax credit carryforwards, the tax effect of which aggregate \$124.2 million at December 31, 2015. These carryforwards, which expire principally between 2016 and 2034, are available to reduce future income tax liabilities in the United States and certain foreign jurisdictions.

It is Company policy to provide taxes for the total anticipated tax impact of the undistributed earnings of our wholly-owned foreign subsidiaries, as such earnings are not expected to be reinvested indefinitely. The Company anticipates that U.S. tax resulting from remitting such earnings will be off-set by net operating loss or credit carryforwards to the extent available. In addition, the Company does not anticipate incurring a foreign withholding tax on remitting such earnings since it does not intend to remit the earnings as dividends.

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. We believe that maintaining a strong cash balance is appropriate to fund a potential ramp in business. Should demand for our products decline in future periods, we believe we can align spending levels to provide sufficient liquidity to support operations.

### Related-Party Transactions

There are no significant related-party transactions that require disclosure in the consolidated financial statements for the year ended December 31, 2015, or in this Annual Report on Form 10-K.

### Recent Accounting Pronouncements

A discussion of recent accounting pronouncements is included in Note 2 to the consolidated financial statements for the year ended December 31, 2015 included in this Annual Report on Form 10-K.

### Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

#### Interest Rate Sensitivity

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio, which consists entirely of cash-equivalents at December 31, 2015. The primary objective of our investment activities is to preserve principal while maximizing yields without significantly increasing risk. This is accomplished by investing in marketable high investment grade securities. We do not use derivative financial instruments in managing our investment portfolio. Due to the nature of our investments, we do not expect our operating results or cash flows to be affected to any significant degree by any change in market interest rates.

**Foreign Currency Exchange Risk**

Substantially all of our sales are billed in U.S. dollars, thereby reducing the impact of fluctuations in foreign exchange rates on our results. Operating margins of certain foreign operations can fluctuate with changes in foreign exchange rates to the extent revenue is billed in U.S. dollars and operating expenses are incurred in the local functional currency. During the years ended December 31, 2015 and 2014, approximately 24.7% and 37.8% of our revenue were derived from foreign operations with this inherent risk. In addition, at both December 31, 2015 and 2014, our operations outside of the United States accounted for approximately 20.7% and 26.8% of our total assets, respectively, the majority of which was denominated in currencies other than the U.S. dollar. We do not use derivative financial instruments in managing our foreign currency exchange risk.

**Item 8. Financial Statements and Supplementary Data.**

Response to this Item is submitted as a separate section of this report immediately following Item 15.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. 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 annual 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.

**Internal Control over Financial Reporting**

**Management's Annual Report on Internal Control over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. A control system, no matter how well designed and operated, can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2015. In making this assessment, management used the criteria set forth in the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control 2013 Integrated Framework.

Based on this assessment, management has concluded that, as of December 31, 2015, our internal control over financial reporting is effective based on those criteria.

The independent registered public accounting firm of Ernst & Young LLP, as auditors of our consolidated financial statements, has issued an attestation report on its assessment of our internal control over financial reporting.

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders of Axcelis Technologies, Inc.

We have audited Axcelis Technologies, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Axcelis Technologies, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Axcelis Technologies, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Axcelis Technologies, Inc. as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2015 of Axcelis Technologies, Inc. and our report dated March 4, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP  
Boston, Massachusetts  
March 4, 2016

**Changes in Internal Control over Financial Reporting**

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

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance.**

A portion of the information required by Item 10 of Form 10-K is incorporated by reference from the information responsive thereto contained in the sections in Axcelis Proxy Statement for the Annual Meeting of Stockholders to be held May 4, 2016 (the "Proxy Statement") captioned:

"Proposal 1: Election of Directors,"

"Board of Directors,"

"Board Committees," and

"Corporate Governance,"

The remainder of such information is set forth under the heading "Executive Officers of the Registrant" at the end of Item 1 in Part I of this report and is incorporated herein by reference.

**Item 11. Executive Compensation.**

The information required by Item 11 of Form 10-K is incorporated by reference from the information responsive thereto contained in the sections in the Proxy Statement captioned:

"Executive Compensation," and

"Board Committees Compensation Committee Interlocks and Insider Participation."

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The information required by Item 12 of Form 10-K is incorporated by reference from the information responsive thereto contained in the sections in the Proxy Statement captioned:

"Share Ownership of 5% Stockholders," and

"Share Ownership of Directors and Executive Officers,"

**Item 13. Certain Relationships and Related Transactions and Director Independence.**

The information required by Item 13 of Form 10-K is incorporated by reference from the information responsive thereto contained in the sections in the Proxy Statement captioned:

"Executive Compensation,"

"Board of Directors," and

"Corporate Governance - Certain Relationships and Related Transactions."

**Item 14. Principal Accounting Fees and Services**

The information required by Item 14 of Form 10-K is incorporated by reference from the information responsive thereto contained in the section captioned "Proposal 2: Ratification of the Appointment of our Independent Registered Public Accounting Firm" in the Proxy Statement.

PART IV

**Item 15. Exhibits, Financial Statement Schedules.**

(a)

The following documents are filed as part of this Report:

1)  
Financial Statements:

<u>Report of Independent Registered Public Accounting Firm</u>	<u>38</u>
<u>Consolidated Statements of Operations For the years ended December 31, 2015, 2014 and 2013</u>	<u>39</u>
<u>Consolidated Statements of Comprehensive Income (Loss) For the years ended December 31, 2015, 2014 and 2013</u>	<u>40</u>
<u>Consolidated Balance Sheets December 31, 2015 and 2014</u>	<u>41</u>
<u>Consolidated Statements of Stockholders' Equity For the years ended December 31, 2015, 2014 and 2013</u>	<u>42</u>
<u>Consolidated Statements of Cash Flows For the years ended December 31, 2015, 2014 and 2013</u>	<u>43</u>
<u>Notes to Consolidated Financial Statements</u>	<u>44</u>

2)  
Financial Statement Schedules:

Schedule II Valuation and Qualifying Accounts for the years ended December 31, 2015, 2014 and 2013.

All other schedules for which provision is made in the applicable regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

3)  
Exhibits

The exhibits filed as part of this Form 10-K are listed on the Exhibit Index immediately preceding such Exhibits, which Exhibit Index is incorporated herein by reference.



**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders of Axcelis Technologies, Inc.

We have audited the accompanying consolidated balance sheets of Axcelis Technologies, Inc. as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2015. Our audits also include the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Axcelis Technologies, Inc. at December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects to the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Axcelis Technologies, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 4, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP  
Boston, Massachusetts  
March 4, 2016

## Axcelis Technologies, Inc.

## Consolidated Statements of Operations

(In thousands, except per share amounts)

	Twelve months ended December 31,		
	2015	2014	2013
Revenue			
Product	\$ 278,875	\$ 179,246	\$ 169,587
Services	22,620	23,805	26,045
Total revenue	301,495	203,051	195,632
Cost of revenue			
Product	181,060	113,285	106,678
Services	18,729	19,602	21,019
Total cost of revenue	199,789	132,887	127,697
Gross profit	101,706	70,164	67,935
Operating expenses			
Research and development	32,586	33,533	34,756
Sales and marketing	23,325	20,713	21,159
General and administrative	25,059	23,958	25,471
Gain on sale of dry strip assets and intellectual property			(1,167)
Restructuring charges	18	2,621	2,334
Total operating expenses	80,988	80,825	82,553
Income (loss) from operations	20,718	(10,661)	(14,618)
Other (expense) income			
Interest income	64	32	44
Interest expense	(4,976)	(1,069)	(457)
Other, net	(601)	1,531	(1,073)
Total other (expense) income	(5,513)	494	(1,486)
Income (loss) before income taxes	15,205	(10,167)	(16,104)
Income tax provision	527	1,099	1,040
Net income (loss)	\$ 14,678	\$ (11,266)	\$ (17,144)
Net income (loss) per share			
Basic	\$ 0.13	\$ (0.10)	\$ (0.16)

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Diluted \$ 0.12 \$ (0.10) \$ (0.16)

Shares used in computing net income (loss) per share			
Basic weighted average common shares	114,378	111,450	108,869
Diluted weighted average common shares	120,916	111,450	108,869

See accompanying Notes to these Consolidated Financial Statements

**Axcelis Technologies, Inc.**

**Consolidated Statements of Comprehensive Income (Loss)**

**(In thousands)**

	<b>Twelve months ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Net income (loss)	\$ 14,678	\$ (11,266)	\$ (17,144)
Other comprehensive (loss) income:			
Foreign currency translation adjustments	(2,664)	(4,150)	695
Actuarial (loss) gain from pension plan, net of benefit (taxes) of \$19, \$140 and \$(15)	(43)	(313)	24
Total other comprehensive (loss) income:	(2,707)	(4,463)	719
Comprehensive income (loss)	\$ 11,971	\$ (15,729)	\$ (16,425)

See accompanying Notes to these Consolidated Financial Statements

## Axcelis Technologies, Inc.

## Consolidated Balance Sheets

(In thousands, except per share amounts)

	December 31, 2015	December 31, 2014
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 78,889	\$ 30,753
Restricted cash		825
Accounts receivable, net	36,868	42,794
Inventories, net	115,904	104,063
Prepaid expenses and other current assets	4,792	6,700
Total current assets	236,453	185,135
Property, plant and equipment, net	30,031	30,464
Long-term restricted cash	6,936	
Other assets	14,860	12,055
Total assets	\$ 288,280	\$ 227,654
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 19,849	\$ 21,605
Accrued compensation	9,059	4,232
Warranty	3,363	1,352
Income taxes	143	196
Deferred revenue	7,863	6,782
Current portion of long-term debt		14,530
Other current liabilities	4,091	3,401
Total current liabilities	44,368	52,098
Sale leaseback obligation	47,586	
Long-term deferred revenue	679	449
Other long-term liabilities	5,387	6,755
Total liabilities	98,020	59,302
Commitments and contingencies (Note 17)		
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; 116,101 shares issued and 115,981 shares outstanding at December 31, 2015; 112,849 shares issued and 112,729 shares outstanding at December 31, 2014	116	113
Additional paid-in capital	529,002	519,068
Treasury stock, at cost, 120 shares at December 31, 2015 and 2014	(1,218)	(1,218)
Accumulated deficit	(336,209)	(350,887)
Accumulated other comprehensive income	(1,431)	1,276
Total stockholders' equity	190,260	168,352
Total liabilities and stockholders' equity	\$ 288,280	\$ 227,654

See accompanying Notes to these Consolidated Financial Statements

## Axcelis Technologies, Inc.

## Consolidated Statements of Stockholders' Equity

(In thousands)

	Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive	Total Stockholders' Equity
	Shares	Amount				Income (Loss)	
Balance at December 31, 2012	108,293	\$ 108	\$ 504,643	\$ (1,218)	\$ (322,477)	\$ 5,020	\$ 186,076
Net loss					(17,144)		(17,144)
Foreign currency translation adjustments						695	695
Change in pension obligation						24	24
Exercise of stock options	1,511	2	1,667				1,669
Issuance of shares under Employee Stock Purchase Plan	206		436				436
Issuance of restricted common shares	215		(26)				(26)
Stock-based compensation expense			4,272				4,272
Balance at December 31, 2013	110,225	110	510,992	(1,218)	(339,621)	5,739	176,002
Net loss					(11,266)		(11,266)
Foreign currency translation adjustments						(4,150)	(4,150)
Change in pension obligation						(313)	(313)
Exercise of stock options	2,418	3	2,892				2,895
Issuance of shares under Employee Stock Purchase Plan	199		446				446
Issuance of restricted common shares	7		(7)				(7)
Stock-based compensation expense			4,745				4,745
Balance at December 31, 2014	112,849	113	519,068	(1,218)	(350,887)	1,276	168,352
Net income					14,678		14,678
Foreign currency translation adjustments						(2,664)	(2,664)
Change in pension obligation						(43)	(43)
Exercise of stock options	3,036	3	3,918				3,921
Issuance of shares under Employee Stock Purchase Plan	188		441				441
Issuance of restricted common shares	28		(7)				(7)
Stock-based compensation expense			5,582				5,582
Balance at December 31, 2015	116,101	\$ 116	\$ 529,002	\$ (1,218)	\$ (336,209)	\$ (1,431)	\$ 190,260

See accompanying Notes to these Consolidated Financial Statements



## Axcelis Technologies, Inc.

## Consolidated Statements of Cash Flow

(In thousands)

	Twelve months ended December 31,		
	2015	2014	2013
<b>Cash flows from operating activities</b>			
Net income (loss)	\$ 14,678	\$ (11,266)	\$ (17,144)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:			
Depreciation and amortization	4,869	4,589	5,075
Gain on sale of dry strip assets and intellectual property			(1,167)
Deferred taxes	779	1,266	(1,465)
Stock-based compensation expense	5,575	4,812	4,337
Provision for inventory reserves	1,721	1,817	2,562
Changes in operating assets & liabilities			
Accounts receivable	5,171	(7,069)	(11,528)
Inventories	(15,938)	(12,280)	2,209
Prepaid expenses and other current assets	640	(1,384)	125
Accounts payable and other current liabilities	5,997	772	7,308
Deferred revenue	1,360	2,577	(2,181)
Income taxes	(46)	(212)	133
Other assets and liabilities	(6,547)	333	(3,306)
Net cash provided by (used for) operating activities	18,259	(16,045)	(15,042)
<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	(1,830)	(896)	(821)
Decrease in restricted cash			106
Net cash (used for) provided by investing activities	(1,830)	(896)	485
<b>Cash flows from financing activities</b>			
Increase in restricted cash	(6,111)		(825)
Financing fees and other expenses	(847)	(115)	(560)
Proceeds from exercise of stock options	3,921	2,895	1,669
Proceeds from Employee Stock Purchase Plan	441	446	436
Principal payments on sale leaseback obligation	(392)		
Proceeds from financing obligations	48,940		15,000
Principal payments on Term Loan	(14,530)	(470)	
Net cash provided by financing activities	31,422	2,756	15,720
Effect of exchange rate changes on cash	285	(1,352)	141
Net increase (decrease) in cash and cash equivalents	48,136	(15,537)	1,304
Cash and cash equivalents at beginning of period	30,753	46,290	44,986
Cash and cash equivalents at end of period	\$ 78,889	\$ 30,753	\$ 46,290
Supplemental disclosure of cash flow information Cash paid for:			
Income taxes	\$ 669	\$ 931	\$ 737

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Interest paid	\$	3,985	\$	832	\$	409
Supplemental disclosure of total cash, cash equivalents, short-term and long-term restricted cash at end of year:						
Cash and cash equivalents at end of year	\$	78,889	\$	30,753	\$	46,290
Short-term and long-term restricted cash at end of year		6,936		825		825
Total cash, cash equivalents and restricted cash at end of year	\$	85,825	\$	31,578	\$	47,115

See accompanying Notes to these Consolidated Financial Statements

**Axcelis Technologies, Inc.**

**Notes to Consolidated Financial Statements**

**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, used equipment and maintenance services to the semiconductor industry.

**Note 2. Summary of Significant Accounting Policies**

The accompanying consolidated financial statements reflect the application of certain significant accounting policies as described in this note and elsewhere in the footnotes.

**(a) Basis of Presentation**

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned, controlled subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Events occurring subsequent to December 31, 2015 have been evaluated for potential recognition or disclosure in the consolidated financial statements.

**(b) Use of Estimates**

The preparation of these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. On an ongoing basis, the Company evaluates its estimates and judgments, including those related to revenue recognition, the realizable value of inventories, valuing share-based compensation instruments and valuation allowances for deferred tax assets. Actual amounts could differ from these estimates. Changes in estimates are recorded in the period in which they become known.

**(c) Foreign Currency**

The Company has determined the functional currency for substantially all operations outside the United States is the local currency. Financial statements for these operations are translated into United States dollars at year-end rates as to assets and liabilities and average exchange rates during the year as to revenue and expenses. The resulting translation adjustments are recorded in stockholders' equity as an element of accumulated other comprehensive income (loss). Foreign currency transaction gains and losses are included in other income (expense) in the Consolidated Statements of Operations.

For the year ended December 31, 2015 the Company had no material foreign exchange gains or losses. For the year ended December 31, 2014 the Company realized \$1.8 million of foreign exchange gains. For the year ended December 31, 2013 the Company realized \$0.3 million of foreign exchange loss.

## Axcelis Technologies, Inc.

## Notes to Consolidated Financial Statements (Continued)

**Note 2. Summary of Significant Accounting Policies (Continued)****(d) Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on hand and highly liquid investments with original maturities of ninety days or less. Cash equivalents consist primarily of money market securities and certificates of deposit. Cash equivalents are carried on the balance sheet at fair market value.

**(e) Inventories**

Inventories are carried at lower of cost, determined using the first-in, first-out ("FIFO") method, or market. The Company periodically reviews its inventories and makes provisions as necessary for estimated obsolescence or damaged goods to ensure values approximate lower of cost or market. The amount of such markdowns is equal to the difference between cost of inventory and the estimated market value based upon assumptions about future demands, selling prices, and market conditions.

The Company records an allowance for estimated excess inventory. The allowance is determined using management's assumptions of materials usage, based on estimates of demand and market conditions. If actual market conditions become less favorable than those projected by management, additional inventory write-downs may be required.

**(f) Property, Plant and Equipment**

Property, plant and equipment are stated at cost, less accumulated depreciation and amortization.

Depreciation and amortization are recorded using the straight-line method over the estimated useful lives of the related assets as follows:

Asset Classification	Estimated Useful Life
Land and buildings (under lease)	Lesser of the lease term or estimated useful life of the asset
Machinery and equipment	3 to 10 years

On January 30, 2015, the Company sold its corporate headquarters facility. As part of this sale, the Company also entered into a 22-year lease agreement. The Company accounted for the sale leaseback transaction as a financing arrangement for financial reporting purposes. The Company retained the historical costs of the property and the related accumulated depreciation on its financial books within property, plant and equipment and will continue to depreciate the property for financial reporting purposes over the lesser of its remaining useful life or its initial lease term of 22 years. See Note 3 for additional discussion regarding the sale of corporate headquarters and related sale leaseback.

Repairs and maintenance costs are expensed as incurred. Expenditures for renewals and betterments are capitalized.

**(g) Impairment of Long-Lived Assets**

The Company records impairment losses on long-lived assets when events and circumstances indicate that these assets might not be recoverable. Recoverability is measured by a comparison of the assets' carrying amount to their expected future undiscounted net cash flows. If such assets are considered to be impaired, the impairment is measured based on the amount by which the carrying value exceeds its fair value.

**Axcelis Technologies, Inc.**

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

**Note 2. Summary of Significant Accounting Policies (Continued)**

The Company did not have any indicators of impairment during the period ending December 31, 2015. The Company did not record an impairment charge for the years ended December 31, 2015, 2014, or 2013.

Future actual performance could be materially different from our current forecasts, which could impact future estimates of undiscounted cash flows and may result in the impairment of the carrying amount of the long-lived assets in the future. This could be caused by strategic decisions made in response to economic and competitive conditions, the impact of the economic environment on our customer base, or a material adverse change in the Company's relationships with significant customers. The Company performs an impairment analysis when circumstances or events warrant.

**(h) Concentration of Risk and Off-Balance Sheet Risk**

Financial instruments that potentially subject the Company to concentrations of credit risk are principally cash equivalents and accounts receivable. The Company's cash equivalents are principally maintained in an investment grade money-market fund or certificates of deposit.

The Company has no significant off-balance-sheet risk such as exchange contracts, option contracts or other hedging arrangements.

The Company's exposure to market risk for changes in interest rates relates primarily to cash equivalents. The primary objective of the Company's investment activities is to preserve principal while maximizing yields without significantly increasing risk. This is accomplished by investing in marketable high investment grade securities. The Company does not use derivative financial instruments to manage its investment portfolio and does not expect operating results or cash flows to be affected to any significant degree by any change in market interest rates.

The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral to secure accounts receivable. For selected overseas sales, the Company requires customers to obtain letters of credit before product is shipped. The Company maintains an allowance for doubtful accounts based on its assessment of the collectability of accounts receivable. The Company reviews the allowance for doubtful accounts monthly. The Company does not have any off-balance sheet credit exposure related to its customers.

The Company's customers consist of semiconductor manufacturers located throughout the world and net sales to its ten largest customers accounted for 76.8%, 68.1% and 69.1% of revenue in 2015, 2014 and 2013, respectively.

For the year ended December 31, 2015, the Company had two customers representing 29.3% and 10.5% of total revenue, respectively. For the year ended December 31, 2014, the Company had two customers representing 17.4% and 12.3% of total revenue, respectively. For the year ended December 2013 the Company had one customer representing 15.5% of total revenue.

As of December 31, 2015, the Company had three customers account for 22.9%, 12.7% and 11.6% of consolidated accounts receivable, respectively. As of December 31, 2014, the Company had two customers account for 21.7% and 20.4% of consolidated accounts receivable, respectively.

Some of the components and sub-assemblies included in the Company's products are obtained either from a sole source or a limited group of suppliers. Disruption to the Company's supply source,

**Axcelis Technologies, Inc.**

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

**Note 2. Summary of Significant Accounting Policies (Continued)**

resulting either from depressed economic conditions or other factors, could affect its ability to deliver products to its customers.

**(i) Revenue Recognition**

The Company's revenue recognition policy involves significant judgment by management. As described below, the Company considers a broad array of facts and circumstances in determining when to recognize revenue, including contractual obligations to the customer, the complexity of the customer's post-delivery acceptance provisions, payment history, customer creditworthiness and the installation process. In the future, if the post-delivery acceptance provisions and installation process become more complex or result in a materially lower rate of acceptance, the Company may have to revise its revenue recognition policy, which could delay the timing of revenue recognition.

The Company's system sales transactions are made up of multiple elements, including the system itself and elements that are not delivered simultaneously with the system. These undelivered elements might include a combination of installation services, extended warranty and support and spare parts, all of which are covered generally by a single sales price.

The Company's system revenue arrangements with multiple elements are divided into separate units of accounting if specified criteria are met, including whether the delivered element has stand-alone value to the customer. If the criteria are met, then the consideration received is allocated among the separate units based on their relative selling price, and the revenue is recognized separately for each of the separate units.

The Company determines selling price for each unit of accounting (element) using vendor specific objective evidence (VSOE) or third-party evidence (TPE), if they exist, otherwise, the Company uses best estimated selling price (BESP). The Company generally expects that it will not be able to establish TPE due to the nature of its products, and, as such, the Company typically will determine selling price using VSOE or BESP.

Where required, the Company determines BESP for an individual element based on consideration of both market and Company-specific factors, including the selling price and profit margin for similar products, the cost to produce the deliverable and the anticipated margin on that deliverable and the characteristics of the varying markets in which the deliverable is sold.

Systems are not sold separately and VSOE or TPE is not available for the systems element. Therefore the selling price associated with systems is based on BESP. The allocated value for installation in the arrangement includes the greater of (i) the relative selling price of the installation or (ii) the portion of the sales price that will not be received until the installation is completed (the "retention"). The selling price of elements such as extended warranty for support, spare parts and support labor is also based on BESP. For the majority of regions, the selling price of installation is based upon the fair value of the service performed, including labor, which is based upon the estimated time to complete the installation at hourly rates, and material components, both of which are sold separately, or VSOE. In regions where VSOE does not exist the Company uses BESP.

Product revenue for products which have demonstrated market acceptance, is generally recognized upon shipment provided title and risk of loss has passed to the customer, evidence of an arrangement exists, prices are contractually fixed or determinable, collectability is reasonably assured through historical collection results and regular credit evaluations, and there are no uncertainties regarding

**Axcelis Technologies, Inc.**

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

**Note 2. Summary of Significant Accounting Policies (Continued)**

customer acceptance. Revenue from installation services is recognized at the time acceptance has occurred, as defined in the sales documentation or, for certain customers, when both acceptance has occurred and retention payment has been received. Revenue for other elements is recognized at the time products are shipped or the related services are performed.

The Company generally recognizes revenue for systems which have demonstrated market acceptance at the time of shipment because the customer's post-delivery acceptance provisions and installation process have been established to be routine, commercially inconsequential and perfunctory. The Company believes the risk of failure to complete a system installation is remote.

For initial shipments of systems with new technologies or in the small number of instances where the Company is unsure of meeting the customer's specifications or obtaining customer acceptance upon shipment of the system, it will defer the recognition of systems revenue and related costs until written customer acceptance of the system is obtained. This deferral period is generally within twelve months of shipment.

Revenue related to maintenance and service contracts is recognized ratably over the duration of the contracts, or based on parts usage, where appropriate. Revenue related to service hours is recognized when the services are performed.

Product revenue includes revenue from system sales, sales of spare parts, the spare parts component of maintenance and service contracts and product upgrades. Services revenue includes the labor component of maintenance and service contract amounts charged for on-site service personnel.

Axcelis reports revenue net of any taxes collected from customers and remitted to governmental authorities, with the collected taxes recorded as current liabilities until remitted to the relevant government authority.

**(j) Shipping and Handling Costs**

Shipping and handling costs are included in cost of revenue.

**(k) Stock-Based Compensation**

The Company generally recognizes compensation expense for all share-based payments to employees and directors, including grants of employee stock options, based on the grant-date fair value of those share-based payments using the Black-Scholes option pricing model, adjusted for expected forfeitures. Other valuation models may be utilized in the limited circumstances where awards with market-based vesting considerations, such as the price of the Company's common stock, are granted. Stock-based compensation expense is recognized ratably over the requisite service period. For each stock option grant with vesting based on a combination of time or market conditions, where vesting will occur if either condition is met, the related compensation costs are recognized over the shorter of the explicit service period or the derived service period.

See Note 14 for additional information relating to stock-based compensation.

**(l) Income Taxes**

The Company records income taxes using the asset and liability method. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between

**Axcelis Technologies, Inc.**

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

**Note 2. Summary of Significant Accounting Policies (Continued)**

the financial statement carrying amounts of existing assets and liabilities and their respective income tax basis, and operating loss and tax credit carryforwards.

The Company's consolidated financial statements contain certain deferred tax assets which have arisen primarily as a result of operating losses, as well as other temporary differences between financial and tax accounting. The Company establishes a valuation allowance if the likelihood of realization of the deferred tax assets is reduced based on an evaluation of objective verifiable evidence. Significant management judgment is required in determining the Company's provision for income taxes, the Company's deferred tax assets and liabilities and any valuation allowance recorded against those net deferred tax assets. The Company evaluates the weight of all available evidence to determine whether it is more likely than not that some portion or all of the net deferred income tax assets will not be realized.

Income taxes include the largest amount of tax benefit for an uncertain tax position that is more likely than not to be sustained upon audit based on the technical merits of the tax position. Settlements with tax authorities, the expiration of statutes of limitations for particular tax positions, or obtaining new information on particular tax positions may cause a change to the effective tax rate. The Company recognizes accrued interest related to unrecognized tax benefits as interest expense and penalties as operating expense in the consolidated statements of operations.

**(m) Computation of Net Income (Loss) per Share**

Basic earnings per share is computed by dividing income available to common stockholders (the numerator) by the weighted-average number of common shares outstanding (the denominator) for the period. The computation of diluted earnings per share is similar to basic earnings per share, except that the denominator is increased to include 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 Company incurred net losses for the years ended December 31, 2014 and 2013, and has excluded 4,663,421 and 3,547,578 of incremental shares, respectively, 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.



## Axcelis Technologies, Inc.

## Notes to Consolidated Financial Statements (Continued)

## Note 2. Summary of Significant Accounting Policies (Continued)

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

	Years Ended December 31,		
	2015	2014	2013
	(in thousands, except per share data)		
Net income (loss) available to common stockholders	\$ 14,678	\$ (11,266)	\$ (17,144)
Weighted average common shares outstanding used in computing basic net income (loss) per share	114,378	111,450	108,869
Incremental shares	6,538		
Weighted average common shares outstanding used in computing diluted net income (loss) per share	120,916	111,450	108,869
Net income (loss) per share			
Basic	\$ 0.13	\$ (0.10)	\$ (0.16)
Diluted	\$ 0.12	\$ (0.10)	\$ (0.16)

**(n) Accumulated Other Comprehensive Income**

The following table presents the changes in accumulated other comprehensive income, net of tax, by component for the year ended December 31, 2015:

	Foreign currency	Defined benefit pension plan (in thousands)	Total
Balance at December 31, 2014	\$ 1,920	\$ (644)	\$ 1,276
Other comprehensive loss	(2,664)	(43)	(2,707)
Balance at December 31, 2015	\$ (744)	\$ (687)	\$ (1,431)

**(o) Recent Accounting Guidance**Accounting Standards or Updates Recently Adopted

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-03, *Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. The amendments in this Update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. For public business entities, the amendments in this Update are effective for the financial statements issued for fiscal years beginning after December 15, 2015, and the interim periods within those fiscal years. Early adoption of the amendments in this Update is permitted for financial statements that have not been previously issued and shall be applied on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. The Company adopted ASU No. 2015-03, effective on January 1, 2015. Our balance sheet at December 31, 2014 was not retrospectively adjusted, due to the immateriality of the effect of the adoption of this ASU. The Company's balance sheet presentation as of December 31, 2015 netted all capitalized costs



**Axcelis Technologies, Inc.**

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

**Note 2. Summary of Significant Accounting Policies (Continued)**

associated with our lease obligation. See Note 3 below regarding the amounts recognized relating to the lease obligation.

Accounting Standards or Updates Not Yet Effective

In May 2014, the 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. On July 9, 2015, the FASB voted to defer for one year the effective date, which is now for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period with early adoption permitted as of January 1, 2017. We are currently assessing the potential impact the adoption of this standard will have on our financial statements.

In July 2015, the FASB issued ASU No. 2015-11, "*Simplifying the Measurement of Inventory*," which changes the inventory measurement principles for entities using the first-in, first-out (FIFO) or average cost methods. For entities utilizing one of these methods, the inventory measurement principle will change from lower of cost or market to the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the reasonably predictable costs of completion, disposal and transportation. The amendments are effective for annual and interim periods beginning after December 15, 2016. We are currently assessing the potential impact the adoption of this standard will have on our financial statements.

In November 2015, the FASB issued ASU No. 2015-17, "*Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*." The amendments in this update require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments in this Update apply to all entities that present a classified statement of financial position. For public business entities, the amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. We are currently assessing the potential impact the adoption of this standard will have on our financial statements.

In February 2016, the FASB issued ASU No. 2016-02 Leases. The ASU requires lessees to recognize the assets and liabilities on their balance sheet for the rights and obligations created by most leases and continue to recognize expenses on their income statements over the lease term. It will also require disclosures designed to give financial statement users information on the amount, timing, and uncertainty of cash flows arising from leases. The guidance is effective for annual reporting periods beginning after December 15, 2018, and interim periods within those years. Early adoption is permitted for all entities. The Company is currently evaluating the impact of ASU 2016-02 on the consolidated financial statements and disclosures.

**Note 3. Sale of Corporate Headquarters and Related Leaseback**

On January 30, 2015, the Company sold its corporate headquarters facility to Beverly Property Owner LLC ("Beverly Properties"), an affiliate of Middleton Partners, based in Northbrook, Illinois, for the purchase price of \$48.9 million. As part of this sale, the Company also entered into a 22-year lease agreement with Beverly Properties, with the right to extend the term of the lease for five successive periods of five years each. The Company holds a right of first offer under the lease which requires the landlord to negotiate with the Company for a 45 day period if the landlord desires to sell

**Axcelis Technologies, Inc.**

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

**Note 3. Sale of Corporate Headquarters and Related Leaseback (Continued)**

the leased property and the Company is willing to meet a price requested by the landlord. If a sale is not consummated as a result of that negotiation, the landlord may not sell the property to another purchaser for a price less than 95% of the price initially requested from the Company, or on terms materially less favorable than those requested. The Company will pay rent of \$4.7 million for the first year of the lease, with increased annual rent payments thereafter that will increase to \$7.3 million in year twenty-two. At the time of this sale, the Company discharged an outstanding term loan (the "Term Loan") of \$14.4 million, with related accrued interest, and paid a pre-payment penalty to Northern Bank and Trust Company for a total payment of \$14.8 million.

The Company accounted for the sale leaseback transaction as a financing arrangement for financial reporting purposes, as required by applicable accounting standards in light of the Company's continuing involvement with the property, given the \$5.9 million collateralized letter of credit requirement. See Note 11 for further discussion. As such, at the time of sale, the Company recorded a financing obligation in the amount of \$48.9 million, less a pre-paid rent amount of \$0.4 million, for a net liability of \$48.5 million. Upon the adoption of Accounting Standards Update 2015-03, the Company reduced the carrying value of the financing obligation for debt issuance costs related to this transaction by \$0.9 million, for a net liability of \$47.6 million. The Company classified the liability as long-term due to initial rent payments relating only to interest with future principal payments occurring outside of one year. The Company retained the historical costs of the property and the related accumulated depreciation on its financial books within property, plant and equipment. The property will continue to be depreciated over the shorter of its useful life or the initial lease term of 22 years. The associated lease payments, less the portion considered to decrease the financing liability, will be recorded as interest expense using the effective interest method. The implicit interest rate on the associated cash flows during the initial 22 year lease term is 10.65%. The Company paid \$4.3 million in rent to Middleton Partners in 2015 in relation to this lease. See Note 17 for the schedule of contractual lease payments relating to the sale leaseback obligation.

The Company does not anticipate any federal or state tax liability associated with the taxable gain on the sale of the building due to its ability to use net operating loss carry forwards and tax credits, currently fully offset with valuation allowance, and has not provided for any federal or state tax expense.

**Note 4. Gain on Sale of Dry Strip Assets and Intellectual Property**

On December 3, 2012, the Company sold its dry strip system assets and intellectual property to Lam Research Corporation ("Lam"). The purchase price was \$10.7 million, of which \$2.0 million was contingent upon reaching certain milestones.

Lam granted the Company a worldwide, non-exclusive, non-transferable, royalty free license to use the intellectual property rights sold by the Company under the Asset Purchase Agreement. The perpetual license allowed the Company to make and sell 300mm dry strip wafer processing equipment for semiconductor applications through September 2013, make and sell 200mm products through December 2015 and to support the Company's installed base of all dry strip equipment on a perpetual basis. As a result of this continuing involvement, the transaction has been recorded in continuing operations.

## Axcelis Technologies, Inc.

## Notes to Consolidated Financial Statements (Continued)

**Note 4. Gain on Sale of Dry Strip Assets and Intellectual Property (Continued)**

The \$1.2 million gain on sale of dry strip assets and intellectual property for the year ended December 31, 2013 relates to the achievement of certain milestones met during 2013. No further milestones were met.

**Note 5. Restricted Cash**

The restricted cash of \$6.9 million at December 31, 2015 relates to a \$5.9 million letter of credit associated to the security deposit for the sale leaseback transaction and a \$1.0 million letter of credit relating to workers' compensation insurance. The restricted cash of \$0.8 million at December 31, 2014 was established in connection with the Company's then outstanding Term Loan. At December 31, 2014, this interest reserve amount was reclassified as a current asset due to the reclassification of the related debt to a current liability in relation to the Company's non-compliance with certain covenant requirements. The interest reserve escrow amount was released upon the payment in full of the outstanding balance of the Term Loan (See Note 12). The change in restricted cash is classified in the statement of cash flows as a financing activity.

**Note 6. Accounts Receivable, net**

The components of accounts receivable are as follows:

	December 31,	
	2015	2014
	(in thousands)	
Trade receivables	\$ 36,868	\$ 43,184
Allowance for doubtful accounts		(390)
	\$ 36,868	\$ 42,794

**Note 7. Inventories, net**

The components of inventories are as follows:

	December 31,	
	2015	2014
	(in thousands)	
Raw materials	\$ 78,566	\$ 65,723
Work in process	29,219	22,358
Finished goods	8,119	15,982
	\$ 115,904	\$ 104,063

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. In 2015, the Company recorded an overall decrease of \$13.1 million in the inventory reserves, which consisted of disposals due to obsolescence and excess inventory of \$10.4 million and a



## Axcelis Technologies, Inc.

## Notes to Consolidated Financial Statements (Continued)

**Note 7. Inventories, net (Continued)**

\$3.8 million reduction in reserve for sales of previously fully reserved inventory, partially offset by a provision charge to the reserve of \$1.1 million. As of December 31, 2015 and 2014, inventories are stated net of inventory reserves of \$10.5 million and \$23.6 million respectively.

During 2015, the Company recorded a charge to cost of sales of \$0.5 million to reflect the lower of cost or market value. During 2014, the Company recorded a charge to cost of sales of \$1.0 million due to production levels below normal capacity and \$0.8 million to reflect the lower of cost or market value associated with evaluation units in the field. During 2013, the Company recorded charges to cost of sales of \$0.6 million and \$0.7 million due to production levels below normal capacity and lower of cost or market, respectively.

**Note 8. Property, Plant and Equipment, net**

The components of property, plant and equipment are as follows:

	December 31,	
	2015	2014
	(in thousands)	
Land and buildings	\$ 80,491	\$ 78,757
Machinery and equipment	11,080	8,370
Construction in process	1,451	370
Total cost	93,022	87,497
Accumulated depreciation	(62,991)	(57,033)
Property, plant and equipment, net	\$ 30,031	\$ 30,464

Depreciation expense was \$2.4 million, \$2.4 million and \$3.2 million, for the years ended December 31, 2015, 2014 and 2013, respectively. See Note 3 for additional discussion regarding the sale of corporate headquarters and related sale leaseback.

**Note 9. Assets Manufactured for Internal Use, net**

The components of assets manufactured for internal use, included in amounts reported as other assets, are as follows:

	December 31,	
	2015	2014
	(in thousands)	
Internal use assets	\$ 31,759	\$ 24,309
Construction in process	470	3,465
Total cost	32,229	27,774
Accumulated depreciation	(20,193)	(17,927)
Assets manufactured for internal use, net	\$ 12,036	\$ 9,847

These products are used in-house for research and development, training, and customer demonstration purposes.





## Axcelis Technologies, Inc.

## Notes to Consolidated Financial Statements (Continued)

**Note 9. Assets Manufactured for Internal Use, net (Continued)**

Effective October 1, 2013, the Company changed its estimate of the useful life of its assets manufactured for internal use (which are amortized on a straight-line basis) from five years to ten years. This change in estimate resulted from the evaluation of the life cycle of assets manufactured for internal use and the conclusion, that based on recent experience these products consistently have a longer life than previously estimated. The change in useful life has been accounted for as a change in accounting estimate, and was effective on new assets manufactured for internal use, on a prospective basis beginning October 1, 2013.

As a result of the change in the estimated life of assets manufactured for internal use, profit before tax and net profit were approximately \$0.3 million and \$0.1 million higher for the full year ended December 31, 2014 and 2013, respectively. The change in estimated useful life of assets did not have an impact on the earnings per share disclosed in the Consolidated Statements of Operations.

Depreciation expense was \$2.5 million, \$2.2 million and \$1.8 million, for the years ended December 31, 2015, 2014 and 2013, respectively.

**Note 10. Restructuring Charges**

In 2014, the Company had severance and other costs related to a reduction in force 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. All related liabilities were extinguished in 2015.

The Company's restructuring liability for the years ended December 31, 2015, 2014 and 2013 are as follows:

	<b>Severance</b>
	<b>(In thousands)</b>
Balance at December 31, 2012	\$ 659
Severance and related costs	2,334
Cash payments	(2,950)
Balance at December 31, 2013	\$ 43
Severance and related costs	2,565
Cash payments	(2,127)
Balance at December 31, 2014	\$ 481
Severance, related costs and other adjustments	(2)
Cash payments	(479)
Balance at December 31, 2015	\$

**Note 11. 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.

## Axcelis Technologies, Inc.

## Notes to Consolidated Financial Statements (Continued)

**Note 12. Financing Arrangements**

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

	Years Ended December 31,		
	2015	2014	2013
	(in thousands)		
Balance at January 1 (beginning of year)	\$ 1,526	\$ 1,428	\$ 1,801
Warranties issued during the period	4,305	1,743	2,240
Settlements made during the period	(2,672)	(2,096)	(1,515)
Changes in estimate of liability for pre-existing warranties during the period	396	451	(1,098)
<b>Balance at December 31 (end of year)</b>	<b>\$ 3,555</b>	<b>\$ 1,526</b>	<b>\$ 1,428</b>
Amount classified as current	\$ 3,363	\$ 1,352	\$ 1,316
Amount classified within other long-term liabilities	192	174	112
<b>Total warranty liability</b>	<b>\$ 3,555</b>	<b>\$ 1,526</b>	<b>\$ 1,428</b>

**Term Loan**

On February 2, 2015, in connection with the sale of our headquarters facility, the Company repaid the outstanding balance on the Term Loan from Northern Bank and Trust Company of \$14.4 million and related accrued interest of \$0.1 million as well as a 2.0% prepayment penalty of \$0.3 million for a total payment of \$14.8 million. See Note 3 above for further discussion.

**Sale Leaseback Obligation**

On January 30, 2015, the Company sold its corporate headquarters facility to Beverly Property Owner LLC, an affiliate of Middleton Partners, based in Northbrook, Illinois, for the purchase price of \$48.9 million. As part of the sale, the Company also entered into a 22-year lease agreement with Beverly Properties. The sale leaseback is accounted for as a financing arrangement for financial reporting and, as such, the Company has recorded a financing obligation of \$47.6 million as of December 31, 2015. The associated lease payments include both an interest component and payment of principal, with the underlying liability being extinguished at the end of the original lease term. The Company posted a collateralized security deposit of \$5.9 million in the form of an irrevocable letter of credit at the time of the closing. Upon the termination of our credit facility with Silicon Valley Bank in October 2015, this letter of credit was cash collateralized. See Note 3 above and Credit Facility below for further discussion.

**Credit Facility**

The Company had a revolving credit facility with Silicon Valley Bank, dated October 31, 2013, which the Company terminated in October 2015. Under this revolving credit facility, the Company had 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 was limited to 80% of the then current amount of qualified accounts receivable. The Company had not drawn down on the line of credit, although a portion of the availability was being used to support outstanding letters of credit in the amount of \$6.9 million, which included the \$5.9 million associated with the security deposit for the sale leaseback transaction.

## Axcelis Technologies, Inc.

## Notes to Consolidated Financial Statements (Continued)

**Note 12. Financing Arrangements (Continued)**

Concurrent to the credit facility termination, these letters of credit were cash collateralized and are classified as restricted cash as of December 31, 2015.

**Note 13. Employee Benefit Plans****(a) Defined Contribution Plan**

The Company maintains the Axcelis Long-Term Investment Plan, a defined contribution plan. All regular employees are eligible to participate and may contribute up to 35% of their compensation on a before-tax basis subject to Internal Revenue Service ("IRS") limitations. Highly compensated employees may contribute up to 16% of their compensation on a before-tax basis subject to IRS limitations. In 2015, the Company implemented a matching contribution of up to one thousand U.S. dollars for eligible participants. Total related expense for 2015 was \$0.4 million.

**(b) Other Compensation Plans**

The Company operates in foreign jurisdictions that require lump sum benefits, payable based on statutory regulations, for voluntary or involuntary termination. Where required, an annual actuarial valuation of the benefit plans is obtained.

The Company has recorded an unfunded liability of \$3.9 and \$4.2 million at both December 31, 2015 and 2014, respectively, for costs associated with these compensation plans in foreign jurisdictions. The following table presents the classification of these liabilities in the Consolidated Balance Sheets:

	Year Ended December 31,	
	2015	2014
	(in thousands)	
<b>Current:</b>		
Accrued compensation	\$ 857	\$ 837
<b>Total current liabilities</b>	<b>\$ 857</b>	<b>\$ 837</b>
<b>Long-term:</b>		
Other long-term liabilities	3,052	3,323
<b>Total liabilities</b>	<b>\$ 3,909</b>	<b>\$ 4,160</b>

The expense recorded in connection with these plans was \$0.7 million, \$0.7 million and \$0.6 million during the years ended December 31, 2015, 2014 and 2013, respectively.

**Note 14. Stock Award Plans and Stock Based Compensation****(a) Equity Incentive Plans**

The Company maintains the Axcelis Technologies, Inc. 2012 Equity Incentive Plan (the "2012 Equity Plan"), which became effective on May 2, 2012. Our 2000 Stock Plan (the "2000 Stock Plan") expired on May 1, 2012 and no new grants may be made under that plan after that 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.



**Axcelis Technologies, Inc.**

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

**Note 14. Stock Award Plans and Stock Based Compensation (Continued)**

The 2012 Equity Plan, as amended, reserves 11.1 million shares of common stock, \$0.001 par value, for grant and permits the issuance of options, stock appreciation rights, restricted stock, restricted stock units, stock equivalents and awards of shares of common stock that are not subject to restrictions or forfeiture to selected employees, directors and consultants of the Company. Shares that are not issued under an award (because such award expires, is terminated unexercised or is forfeited) that were outstanding under the 2000 Stock Plan as of the May 2, 2012, increase the reserve of shares available for grant under the 2012 Equity Plan.

The term of stock options granted under these plans is specified in the award agreements. Unless a lesser term is otherwise specified by the Company's Compensation Committee of the Board of Directors, awards under the 2012 Equity Plan will expire seven years from the date of grant. In general, all awards issued under the 2000 Stock Plan expire ten years from the date of grant. Under the terms of these stock plans, the exercise price of a stock option may not be less than the fair market value of a share of the Company's common stock on the date of grant. Under the 2012 Equity Plan, fair market value is defined as the last reported sale price of a share of the common stock on a national securities exchange as of any applicable date, as long as the Company's shares are traded on such exchange.

Stock options granted to employees generally vest over a period of four years, while stock options granted to non-employee members of the Company's Board of Directors generally vest over a period of 6 months and, once vested, are not affected by the director's termination of service to the Company. In limited circumstances, the Company may grant stock option awards with market-based vesting conditions, such as the Company's common stock price, or other performance conditions. Termination of service by an employee will cause options to cease vesting as of the date of termination, and in most cases, employees will have 90 days after termination to exercise options that were vested as of the termination of employment. In general, retiring employees will have one year after termination of employment to exercise vested options. The Company settles stock option exercises with newly issued common shares.

Restricted stock units granted to employees during 2015 had time-based vesting provisions, but market-based vesting provisions or other performance vesting conditions may be used. Generally, unvested restricted stock unit awards expire upon termination of service to the Company. The Company settles restricted stock units upon vesting with newly issued common shares. No restricted stock was granted under either stock plan during the three year period ended December 31, 2015.

As of December 31, 2015, there were 1.8 million shares available for grant under the 2012 Equity Plan. No shares are available for grant under the 2000 Stock Plan.

As of December 31, 2015, there were 21.7 million options outstanding under the 2012 Equity Plan and the 2000 Stock Plan, collectively, and 0.4 million unvested restricted stock units outstanding under the 2012 Stock Plan.

**(b) Employee Stock Purchase Plan**

The Employee Stock Purchase Plan (the "Purchase Plan") provides effectively all of the Company's employees the opportunity to purchase common stock of the Company at less than market prices. Purchases are made through payroll deductions of up to 10% of the employee's salary as elected by the participant, subject to certain caps set forth in the Purchase Plan. Employees may purchase its

## Axcelis Technologies, Inc.

## Notes to Consolidated Financial Statements (Continued)

## Note 14. Stock Award Plans and Stock Based Compensation (Continued)

common stock at 85% of the market value of the Company's common stock on the day the stock is purchased.

The Purchase Plan is considered compensatory and as such, compensation expense has been recognized based on the benefit of the discounted stock price, amortized to compensation expense over each offering period of six months. Compensation expense relating to the Purchase Plan was \$0.1 million for each of the years ended December 31, 2015, 2014 and 2013.

As of December 31, 2015, there were a total of 1.4 million shares reserved for issuance and available for purchase under the Purchase Plan. There were 0.2 million shares purchased under the Purchase Plan for each of the years ended December 31, 2015, 2014 and 2013.

## (c) Valuation of Stock Options

For the purpose of valuing stock options with service conditions, the Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of an award.

The fair values of options granted were calculated using the following estimated weighted-average assumptions:

	Years ended December 31,		
	2015	2014	2013
Weighted-average expected volatility	56.22% - 64.70%	60.59% - 98.40%	98.10%
Weighted-average expected term	4.61 - 4.71 years	3.75 - 4.71 years	4.7 years
Risk-free interest rate	1.27% - 1.58%	1.19% - 1.67%	0.70% - 1.40%
Expected dividend yield	0.00%	0.00%	0.00%

**Expected volatility** The Company is responsible for estimating volatility and has considered a number of factors when estimating volatility. The Company's method of estimating expected volatility for all stock options granted relies on a combination of historical and implied volatility. The Company believes that this blended volatility results in a more accurate estimate of the grant-date fair value of employee stock options because it more appropriately reflects the market's current expectations of future volatility.

**Expected term** The Company calculated the weighted average expected term for stock options granted prior to July 1, 2012, using a forward looking lattice model of the Company's stock price incorporating a suboptimal exercise factor and a projected post-vest forfeiture rate. For stock options granted after July 1, 2012 to employees and to non-employee members of the Company's Board of Directors, the Company used the simplified method for estimating the expected life of "plain vanilla" options because it did not have sufficient exercise history. The Company expects that it will use a lattice model once sufficient exercise history has been established. The change in the contractual life from 10 years to 7 years reflects the fact that options granted after May 1, 2012 were granted under the 2012 Equity Incentive Plan, which limits option terms to seven years.

**Risk-free interest rate** The yield on zero-coupon U.S. Treasury securities for a period that is commensurate with the expected term assumption is used as the risk-free interest rate.

**Expected dividend yield** Expected dividend yield was not considered in the option pricing formula since the Company does not pay dividends and has no current plans to do so in the future.

**Axcelis Technologies, Inc.**

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

**Note 14. Stock Award Plans and Stock Based Compensation (Continued)**

In limited circumstances, the Company also issues stock option grants with vesting based on market conditions, such as the Company's common stock price, or a combination of time or market conditions. The fair values and derived service periods for all grants that have vesting based on market conditions are estimated using the Monte Carlo valuation method. For each stock option grant with vesting based on a combination of time or market conditions, where vesting will occur if either condition is met, the related compensation costs are recognized over the shorter of the explicit service period or the derived service period.

**(d) Summary of Share-Based Compensation Expense**

The Company estimates the fair value of stock options with time-based conditions using the Black-Scholes valuation model and estimates the fair value of stock options with market-based vesting conditions, such as the price of the Company's common stock, using the Monte Carlo valuation model. The fair value of the Company's restricted stock and restricted stock units is calculated based upon the fair market value of the Company's stock at the date of grant.

The Company uses the straight-line attribution method to recognize expense for stock-based awards such that the expense associated with awards is evenly recognized throughout the period.

The amount of stock-based compensation recognized is based on the value of the portion of the awards that are ultimately expected to vest. The Company estimates forfeitures at the time of grant and revises them, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The term "forfeitures" is distinct from "cancellations" or "expirations" and represents only the unvested portion of the surrendered stock-based award. Based on a historical analysis, a forfeiture rate of 5% per year, including executive officer awards, was applied to stock-based awards for the years ended December 31, 2015, 2014 and 2013.

The Company recognized stock-based compensation expense of \$5.6 million, which included \$1.1 million of expense due to accelerated vesting, for the year ended December 31, 2015. Stock-based compensation expense was \$4.8 million and \$4.3 million for the years ended December 31, 2014 and 2013, respectively. The Company presents the expenses related to stock-based compensation in the same expense line items as cash compensation paid to each of its employees. For the years ended 2015, 2014 and 2013, the Company primarily used stock options in its annual equity compensation program.

The benefits of tax deductions in excess of recognized compensation cost is reported as a financing cash flow, rather than as an operating cash flow. Because the Company does not recognize the benefit of tax deductions in excess of recognized compensation cost due to its cumulative net operating loss position, this had no impact on the Company's consolidated statement of cash flows as of and for the years ended December 31, 2015, 2014 or 2013.

## Axcelis Technologies, Inc.

## Notes to Consolidated Financial Statements (Continued)

## Note 14. Stock Award Plans and Stock Based Compensation (Continued)

## (e) Stock Option Awards

The following table summarizes the stock option activity for the year ended December 31, 2015:

	Options (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2014	21,704	\$ 1.62		
Granted	3,358	3.01		
Exercised	(3,036)	1.29		
Canceled	(101)	1.80		
Expired	(256)	6.17		
Outstanding at December 31, 2015	21,669	\$ 1.82	4.83	\$ 18,761
Exercisable at December 31, 2015	13,462	\$ 1.56	4.38	\$ 14,570
Options Vested or Expected to Vest at December 31, 2015 <sup>(1)</sup>	21,098	\$ 1.81	4.87	\$ 18,535

(1)

In addition to the vested options, the Company expects a portion of the unvested options to vest at some point in the future. Options expected to vest is calculated by applying an estimated forfeiture rate to the unvested options.

The total intrinsic value, which is defined as the difference between the market price at exercise and the price paid by the employee to exercise the options, for options exercised during the years ended December 31, 2015, 2014 and 2013 was \$5.3 million, \$2.4 million and \$1.4 million, respectively.

The total fair value of stock options vested during the years ended December 31, 2015, 2014 and 2013 were \$5.4 million, \$4.7 million and \$3.8 million respectively. As of December 31, 2015, there was \$8.5 million of total forfeiture-adjusted unrecognized compensation cost related to non-vested stock options granted under the 2012 Equity Incentive Plan and the 2000 Stock Plan. That cost is expected to be recognized over a weighted-average period of 2.73 years.

## (f) Restricted Stock and Restricted Stock Units

Restricted stock units ("RSUs") represent the Company's unfunded and unsecured promise to issue shares of the common stock at a future date, subject to the terms of the RSU Award Agreement in either the 2012 Equity Incentive Plan or the 2000 Stock Plan. The purpose of these awards is to assist in attracting and retaining highly competent employees and directors and to act as an incentive in motivating selected employees and directors to achieve long-term corporate objectives. RSU awards granted in 2015 included time vested share awards, but market-based vesting provisions or other performance vesting conditions may be used. No restricted stock awards were granted, or vested, during the years ended December 31, 2015, 2014 and 2013. The fair value of a restricted stock unit and restricted stock award is charged to



expense ratably over the applicable service period.

## Axcelis Technologies, Inc.

## Notes to Consolidated Financial Statements (Continued)

## Note 14. Stock Award Plans and Stock Based Compensation (Continued)

Changes in the Company's non-vested restricted stock units for the year ended December 31, 2015 is as follows:

	Shares/units (in thousands)	Weighted-Average Grant Date Fair Value per Share
Outstanding at December 31, 2014	103	\$ 2.07
Granted	293	3.03
Vested	(30)	1.97
Forfeited		
Outstanding at December 31, 2015	366	\$ 2.85

Some restricted stock units provide for a net share settlement program to offset the personal income tax obligations of the employee's restricted stock unit vesting. Vesting activity above reflects shares vested before net share settlement.

## Note 15. Stockholders' Equity

## Preferred Stock

The Company may issue up to 30 million shares of preferred stock in one or more series. The Board of Directors is authorized to fix the rights and terms for any series of preferred stock without additional shareholder approval. As of December 31, 2015 and 2014, there were no outstanding shares of preferred stock.

## Note 16. 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

## Axcelis Technologies, Inc.

## Notes to Consolidated Financial Statements (Continued)

## Note 16. Fair Value Measurements (Continued)

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 sale leaseback obligation relating to the sale of our corporate headquarters is carried at amortized cost, which approximates fair value based on an implied borrowing rate of 10.65%. The underlying cash flow associated with our lease payments is being applied to both an interest and principal component using the effective interest method over the associated lease term. The liability is categorized as level 3 within the fair value hierarchy. The Company's term loan as of December 31, 2014 was carried at amortized cost, which approximated fair value, based on market pricing of similar debt instruments and was categorized as level 2 within the fair value hierarchy.

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

December 31, 2015				
Fair Value Measurements				
	Level 1	Level 2	Level 3	Total
(in thousands)				
Assets				
Cash equivalents:				
Money market funds	\$ 65,327	\$	\$	\$ 65,327
Liabilities				
Sale leaseback obligation	\$	\$	\$ 47,586	\$ 47,586

December 31, 2014				
Fair Value Measurements				
	Level 1	Level 2	Level 3	Total
(in thousands)				
Assets				
Cash equivalents:				
Money market funds	\$ 7,004	\$	\$	\$ 7,004
Liabilities				
Term Loan	\$	\$ 14,530	\$	\$ 14,530

## (c) Other Financial Instruments

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

## Axcelis Technologies, Inc.

## Notes to Consolidated Financial Statements (Continued)

## Note 17. Commitments and Contingencies

## (a) Lease Commitments

The Company leases manufacturing and office facilities and certain equipment under operating leases that expire through 2037. Rental expense was \$2.8 million, \$3.7 million and \$4.0 million under operating leases for the years ended December 31, 2015, 2014 and 2013, respectively. Future minimum lease commitments on non-cancelable operating leases for the year ended December 31, 2015 are as follows:

	<b>Operating Leases</b>
	<b>(in thousands)</b>
2016	\$ 2,319
2017	1,198
2018	326
2019	98
2020	73
Thereafter	
	<b>\$ 4,014</b>

## (b) Sale Leaseback Financing Obligation

In addition to the lease commitments as described above, the Company entered into a 22-year lease agreement relating to our corporate headquarters in Beverly, Massachusetts. The following table relates to the cash payment schedule associated with this lease obligation as of December 31, 2015:

	<b>Lease Obligation</b>
	<b>(in thousands)</b>
2016	\$ 4,815
2017	5,315
2018	5,471
2019	5,594
2020	5,719
Thereafter	103,847
Total lease payments	<b>\$ 130,761</b>
Less interest portion	(83,175)
Sale leaseback obligation	<b>\$ 47,586</b>

## (c) Purchase Commitments

The Company has non-cancelable contracts and purchase orders for inventory of \$35.8 million at December 31, 2015.



## Axcelis Technologies, Inc.

## Notes to Consolidated Financial Statements (Continued)

## Note 17. Commitments and Contingencies (Continued)

## (d) 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.

## (e) 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 18. Business Segment and Geographic Region Information

The Company operates in one business segment, which is the manufacture of capital equipment for the semiconductor manufacturing industry. The principal market for semiconductor manufacturing equipment is semiconductor manufacturers. Substantially all sales are made directly by the Company to its customers located in the United States, Europe and Asia Pacific.

The Company's ion implantation systems product line includes high current, medium current and high energy implanters. Other products include legacy dry strip equipment, curing systems, and thermal processing systems. In addition to new equipment, the Company provides post-sales equipment service and support, including spare parts, equipment upgrades, used equipment, maintenance services and customer training.

Revenue by product lines is as follows:

	Years ended December 31,		
	2015	2014	2013
	(in thousands)		
Ion implantation systems, services, and royalties	\$ 282,624	\$ 183,148	\$ 164,030
Other systems and services	18,871	19,903	31,602
	\$ 301,495	\$ 203,051	\$ 195,632

## Axcelis Technologies, Inc.

## Notes to Consolidated Financial Statements (Continued)

## Note 18. Business Segment and Geographic Region Information (Continued)

Revenue and long-lived assets by geographic region, based on the physical location of the operation recording the sale or the asset, are as follows:

	Revenue		Long-Lived Assets
	(in thousands)		
2015			
United States	\$ 226,890	\$	41,729
Europe	24,209		
Asia Pacific	50,396		334
	\$ 301,495	\$	42,063

2014			
United States	\$ 126,255	\$	40,001
Europe	29,140		
Asia Pacific	47,656		299
	\$ 203,051	\$	40,300

2013			
United States	\$ 116,969	\$	44,424
Europe	27,933		
Asia Pacific	50,730		480
	\$ 195,632	\$	44,904

Long-lived assets consist of property, plant and equipment, net, and assets manufactured for internal use. Operations in Europe and Asia Pacific consist of sales and service organizations.

International revenue, which includes export sales from U.S. manufacturing facilities to foreign customers and sales by foreign subsidiaries and branches, was \$256.5 million (85.1% of total revenue), \$162.4 million (80.0% of total revenue) and \$149.4 million (76.4% of total revenue) in 2015, 2014 and 2013, respectively.

## Note 19. Income Taxes

Loss before income taxes is as follows:

	Years ended December 31,		
	2015	2014	2013
	(in thousands)		
United States	\$ 12,708	\$ (11,987)	\$ (18,998)
Foreign	2,497	1,820	2,894

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Loss before income taxes	\$	15,205	\$	(10,167)	\$	(16,104)
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## Axcelis Technologies, Inc.

## Notes to Consolidated Financial Statements (Continued)

## Note 19. Income Taxes (Continued)

Provision for income taxes is as follows:

	Years ended December 31,		
	2015	2014	2013
	(in thousands)		
<b>Current:</b>			
United States			
Federal	\$	\$	\$
State	(33)	59	84
Foreign	374	780	641
Total current	341	839	725
<b>Deferred:</b>			
Foreign	186	260	315
Total deferred	186	260	315
Income tax provision	\$ 527	\$ 1,099	\$ 1,040

Reconciliations of income taxes at the United States Federal statutory rate to the effective income tax rate are as follows:

	Years ended December 31,		
	2015	2014	2013
	(in thousands)		
Income tax benefit at the United States statutory rate	\$ 5,322	\$ (3,558)	\$ (5,636)
State income taxes	(22)	38	55
Unrecognized tax benefits	(174)	184	(293)
Effect of change in valuation allowance	(5,676)	(6,835)	5,975
Foreign income tax rate differentials	600	259	(1,244)
Unremitted earnings of foreign subsidiaries	(102)	(758)	961
Stock options	379	686	450
Deemed distribution from foreign subsidiaries		607	316
Discrete items, net	(540)	9,143	
Other, net	740	1,333	456
Income tax provision	\$ 527	\$ 1,099	\$ 1,040

## Axcelis Technologies, Inc.

## Notes to Consolidated Financial Statements (Continued)

## Note 19. Income Taxes (Continued)

Significant components of current and long-term deferred income taxes are as follows:

	As of December 31,			
	2015		2014	
	Current	Long Term	Current	Long Term
	(in thousands)			
Federal net operating loss carryforwards	\$	\$ 101,479	\$	\$ 105,119
State net operating loss carryforwards		1,636		2,210
Foreign net operating loss carryforwards		810		1,280
Federal tax credit carryforwards		16,343		16,669
State tax credit carryforwards		3,964		5,293
Unremitted earnings of foreign subsidiaries		(8,632)		(8,800)
Intangible assets		286		383
Property, plant and equipment		9,331		4,548
Accrued compensation	1,082		65	
Inventories	2,541		9,808	
Stock compensation		6,001		5,198
Warranty	1,214		486	
Other	1,237	(3,945)	1,620	(2,328)
Deferred taxes, gross	6,074	127,273	11,979	129,572
Valuation allowance	(6,335)	(125,928)	(10,975)	(128,982)
Deferred taxes, net	\$ (261)	\$ 1,345	\$ 1,004	\$ 590

At December 31, 2015, the Company had \$124.2 million of deferred tax assets worldwide relating to net operating loss carryforwards, tax credit carryforwards and other temporary differences, which are available to reduce income taxes in future years. A valuation allowance must be established when it is "more likely than not" that all or a portion of deferred tax assets will not be realized. A review of all available positive and negative evidence needs to be considered, including a company's performance, the market environment in which the company operates, length of carryback and carryforward periods, existing sales backlog, and projections of future operating results. Where there are cumulative losses in recent years there is a strong presumption that a valuation allowance is needed. This presumption can be overcome in very limited circumstances.

The Company maintains a 100% domestic valuation allowance reducing the carrying value of the deferred tax assets in the United States to zero. The Company will continue to maintain a full valuation allowance for those tax assets until sustainable future levels of profitability are evident. Changes in the valuation allowance in 2015 and 2014 were attributable to changes in the composition of temporary differences and changes in net operating loss carryforwards. The remaining net deferred tax asset on the consolidated balance sheet represents the balances related to the activities of the foreign subsidiaries.

At December 31, 2015, the Company has federal and state net operating loss carryforwards of \$327.1 million and foreign net operating loss carryforwards of \$3.4 million, expiring principally between 2016 and 2034.

**Axcelis Technologies, Inc.**

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

**Note 19. Income Taxes (Continued)**

The Company has research and development and other tax credit carryforwards of \$16.7 million at December 31, 2015 that can be used to reduce future federal and state income tax liabilities. These tax credit carryforwards expire principally between 2016 and 2028. In addition, the Company has foreign tax credit carryforwards of \$3.6 million at December 31, 2015 that are available to reduce future U.S. income tax liabilities subject to certain limitations. These foreign tax credit carryforwards expire in 2016.

It is Company policy to provide taxes for the total anticipated tax impact of the undistributed earnings of our wholly-owned foreign subsidiaries, as such earnings are not expected to be reinvested indefinitely. The Company anticipates that U.S. tax resulting from remitting such earnings will be off-set by net operating loss or credit carryforwards to the extent available. In addition, the Company does not anticipate incurring a foreign withholding tax on remitting such earnings since it does not intend to remit the earnings as dividends.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. The Company and most foreign subsidiaries are subject to income tax examinations by tax authorities for all years dating back to 2005. The Company's policy is to recognize interest related to unrecognized tax benefits as interest expense and penalties as operating expenses. The Company believes that it has appropriate support for the income tax positions taken and to be taken on its tax returns and that its accruals for tax liabilities are adequate for all open years based on an assessment of many factors including past experience and interpretations of tax law applied to the facts of each matter.

At December 31, 2015, the Company had unrecognized tax benefits related to uncertain tax positions of approximately \$7.7 million, of which approximately \$5.5 million reduced the Company's deferred tax assets and the offsetting valuation allowance and \$2.1 million was recorded in other long-term liabilities. The Company does not expect any significant changes in unrecognized tax benefits in 2016. The Company recognized \$0.2 million in interest and penalty expense related to unrecognized tax benefits for each of the years-ended December 31, 2015, 2014 and 2013, respectively.

See Note 3 above relating to the potential effect associated with the taxable gain on the sale of the Company's corporate headquarters.

## Axcelis Technologies, Inc.

## Notes to Consolidated Financial Statements (Continued)

## Note 19. Income Taxes (Continued)

A reconciliation of the beginning and ending balance of unrecognized tax benefits are as follows:

	2015	2014
	(in thousands)	
Balance at beginning of year	\$ 7,960	\$ 7,645
(Decrease) increase in unrecognized tax benefits as a result of tax positions taken during a prior period	(78)	92
Decreases in unrecognized tax benefits related to settlements with tax authorities	(211)	
Increases in unrecognized tax benefits as a result of tax positions taken during the current period		223
Balance at end of year	\$ 7,671	\$ 7,960
Recorded as other long-term liability	\$ 2,142	\$ 2,328
Recorded as a decrease in deferred tax assets and offsetting valuation allowance	5,529	5,632
	\$ 7,671	\$ 7,960

## Note 20. Quarterly Results of Operations (unaudited)

	Dec. 31, 2015(1)	Sept. 30, 2015(2)	June 30, 2015(3)	March 31, 2015	Dec. 31, 2014(4)	Sept. 30, 2014(5)	June 30, 2014(6)	March 31, 2014
	(in thousands, except per share data)							
Revenue	\$ 70,458	\$ 79,317	\$ 78,437	\$ 73,283	\$ 62,530	\$ 38,531	\$ 41,150	\$ 60,840
Gross profit	21,973	29,179	27,174	23,380	18,796	15,144	14,484	21,740
Net income (loss)	826	6,101	5,883	1,868	164	(4,704)	(6,900)	174
Net income (loss) per basic share	\$ 0.01	\$ 0.05	\$ 0.05	\$ 0.02	\$ 0.00	\$ (0.04)	\$ (0.06)	\$ 0.00
Net income (loss) per diluted share	\$ 0.01	\$ 0.05	\$ 0.05	\$ 0.02	\$ 0.00	\$ (0.04)	\$ (0.06)	\$ 0.00

- (1) Net income includes a \$0.8 million charge to inventory reserves, \$0.8 million variable incentive plan expense and \$1.5 million of revenue for fully written down inventory sold in quarter.
- (2) Net income includes a \$0.3 million charge to inventory reserves and \$2.2 million variable incentive plan expense.
- (3) Net income includes a \$0.3 million charge to inventory reserves, \$1.1 million stock-based compensation acceleration and \$2.3 million of revenue for fully written down inventory sold in quarter.
- (4) Net income includes a \$0.8 million charge to inventory reserves.
- (5) Net loss includes a \$0.8 million charge to inventory reserves and a \$2.3 million restructuring charge.
- (6) Net loss includes a \$0.2 million charge to inventory reserves and a \$0.1 million restructuring charge.



**Signatures**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AXCELIS TECHNOLOGIES, INC.

By: /s/ MARY G. PUMA

\_\_\_\_\_  
 Mary G. Puma,  
*President and Chief Executive Officer*

Dated: March 4, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Signature	Title	Date
_____ /s/ MARY G. PUMA Mary G. Puma	Director and Principal Executive Officer	March 4, 2016
_____ /s/ KEVIN J. BREWER Kevin J. Brewer	Principal Accounting and Financial Officer	March 4, 2016
_____ /s/ RICHARD J. FAUBERT Richard J. Faubert	Director	March 4, 2016
_____ /s/ R. JOHN FLETCHER R. John Fletcher	Director	March 4, 2016
_____ /s/ ARTHUR L. GEORGE, JR. Arthur L. George Jr.	Director	March 4, 2016
_____ /s/ JOSEPH P. KEITHLEY Joseph P. Keithley	Director	March 4, 2016
_____ /s/ JOHN T. KURTZWEIL John T. Kurtzweil	Director	March 4, 2016

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<b>Signature</b>	<b>Title</b>	<b>Date</b>
<hr/> <u>/s/ BARBARA J. LUNDBERG</u> Barbara J. Lundberg	Director	March 4, 2016
<hr/> <u>/s/ PATRICK H. NETTLES</u> Patrick H. Nettles	Director	March 4, 2016
<hr/> <u>/s/ THOMAS ST. DENNIS</u> Thomas St. Dennis	Director	March 4, 2016

**Exhibit Index**

Exhibit No.	Description
2.1	Real Estate Sale Agreement dated as of October 3, 2014 between the Company and Middleton Beverly Investors LLC. Incorporated by reference to Exhibit 2.1 to the Company's Form 10-Q filed with the Commission on November 6, 2014.
2.2	Sixth Amendment to Real Estate Sale Agreement between the Company and Middleton Beverly Investors LLC dated as of January 30, 2015. Incorporated by reference to Exhibit 2.2 of the Company's Form 10-K for the year ended December 31, 2014 filed with the Commission on March 11, 2015.
3.1	Amended and Restated Certificate of Incorporation of the registrant, as adopted May 6, 2009. Incorporated by reference to Exhibit 3.1 of the Company's Form 8-K filed with the Commission on May 11, 2009.
3.2	Bylaws of the Company, as amended and restated as of May 13, 2014. Incorporated by reference to Exhibit 3.2 of the Company's Form 8-K filed with the Commission on May 19, 2014.
4.1	Specimen Stock Certificate. Incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-1 (Registration No. 333-36330).
10.1*	Axcelis Technologies, Inc. 2000 Stock Plan, as amended through November 13, 2014. Incorporated by reference to Exhibit 10.1 of the Company's Form 10-K for the year ended December 31, 2014 filed with the Commission on March 11, 2015.
10.2*	Axcelis Technologies, Inc. 2012 Equity Incentive Plan, as amended through May 13, 2015. Incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q for the quarter ended June 30, 2015 filed with the Commission on August 5, 2015.
10.3*	Axcelis Management Incentive Plan, as amended and restated by the Compensation Committee of the Board of Directors on February 11, 2010. Incorporated by reference to Exhibit 10.2 of the Company's report on Form 10-K for the year ended December 31, 2009 filed with the Commission on March 15, 2010.
10.4*	Form of Indemnification Agreement approved by the Board of Directors of the Company on February 9, 2012 for use with each of its directors and officers. Incorporated by reference to Exhibit 10.4 of the Company's report on Form 10-K for the year ended December 31, 2011 filed with the Commission on February 29, 2012.
10.5*	Form of Change in Control Agreement, as amended, as approved by the Board of Directors on April 27, 2012 between the Company and each of its executive officers.  Incorporated by reference to Exhibit 10.5 of the Company's report on Form 10-Q for the quarter ended June 30, 2012 filed with the Commission on August 7, 2012.
10.6*	Form of Employee non-qualified stock option grant under the 2000 Stock Plan, updated as of April 5, 2002. Incorporated by reference to Exhibit 10.1 of the Company's report on Form 10-Q filed with the Commission on November 9, 2004.
10.7*	Form of Non-Employee Director stock non-qualified stock option grant under the 2000 Stock Plan, updated as of July 12, 2004. Incorporated by reference to Exhibit 10.2 of the Company's report on Form 10-Q filed with the Commission on November 9, 2004.



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<b>Exhibit No.</b>	<b>Description</b>
10.8*	Form of Restricted Stock Unit Award Agreement for use under the 2000 Stock Plan. Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the Commission on June 28, 2005.
10.9*	Form of Employee Non-Qualified Stock Option Certificate under the 2012 Equity Incentive Plan, adopted June 18, 2012. Incorporated by reference to Exhibit 10.2 of the Company's report on Form 10-Q for the quarter ended June 30, 2012 filed with the Commission on August 7, 2012.
10.10*	Form of Non-Employee Director Non-Qualified Stock Option Certificate under the 2012 Equity Incentive Plan, adopted June 18, 2012. Incorporated by reference to Exhibit 10.3 of the Company's report on Form 10-Q for the quarter ended June 30, 2012 filed with the Commission on August 7, 2012.
10.11*	Form of Restricted Stock Unit Award Agreement under the 2012 Equity Incentive Plan, adopted June 18, 2012. Incorporated by reference to Exhibit 10.4 of the Company's report on Form 10-Q for the quarter ended June 30, 2012 filed with the Commission on August 7, 2012.
10.12*	Named Executive Officer Base Compensation at March 4, 2016. Filed herewith.
10.13*	Non-Employee Director Cash Compensation at March 4, 2016. Filed herewith.
10.14*	Amended and Restated Employment Agreement between the Company and Mary G. Puma dated November 6, 2007. Incorporated by reference to Exhibit 10.3 of the Company's report on Form 10-Q for the quarter ended September 30, 2007 filed with the Commission on November 8, 2007.
10.15*	Form of Executive Separation Pay Agreement between the Company and each of Kevin J. Brewer, William Bintz, John E. Aldeborgh, Lynnette C. Fallon and Douglas A. Lawson dated March 5, 2015. Incorporated by reference to Exhibit 10.15 of the Company's Form 10-K for the year ended December 31, 2014 filed with the Commission on March 11, 2015.
10.19	License Agreement dated as of March 30, 2009 between the Company and SEN Corporation. Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on April 3, 2009.
10.20	Loan and Security Agreement dated as of October 31, 2013 between the Company and Silicon Valley Bank. Incorporated by reference to Exhibit 10.4 to the Company's report on Form 10-Q filed with the Commission on November 8, 2013.
10.21	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. Incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q filed with the Commission on November 6, 2014.
10.23	Second Amendment to the Loan and Security Agreement between the Company and Silicon Valley Bank., effective February 2, 2015. Incorporated by reference to Exhibit 10.23 of the Company's Form 10-K for the year ended December 31, 2014 filed with the Commission on March 11, 2015.
10.24	Lease Agreement between the Company and Beverly Property Owner LLC, effective January 30, 2015. Incorporated by reference to Exhibit 10.24 of the Company's Form 10-K for the year ended December 31, 2014 filed with the Commission on March 11, 2015.

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<b>Exhibit No.</b>	<b>Description</b>
14.1	Ethical Business Conduct at Axcelis, revised through January 2003. Incorporated by reference to Exhibit 14.1 of the Company's report on Form 10-K filed with the Commission on March 28, 2003.
21.1	Subsidiaries of the Company. Filed herewith.
23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm. 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 March 4, 2016. 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 March 4, 2016. 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 March 4, 2016. 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 March 4, 2016. Filed herewith.
101	The following materials from the Company's Form 10-K for the year ended December 31, 2015, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Statements of Operations, (ii) Consolidated Statement of Comprehensive Income (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements.

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\*  
Indicates a management contract or compensatory plan.

**You may obtain a copy of any of these exhibits free of charge either on our website at <http://www.axcelis.com> or by contacting Investor Relations at Axcelis Technologies, Inc., 108 Cherry Hill Drive, Beverly, MA 01915-1053.**

## Schedule II Valuation and Qualifying Accounts

Axcelis Technologies, Inc.  
(In thousands)

	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Other(*)	Balance at End of Period
<b>Year Ended December 31, 2015</b>					
Allowance for doubtful accounts and returns(**)	\$ 390	\$	\$ (390)	\$	\$
Reserve for excess and obsolete inventory(***)	23,642	1,185	(14,362)		10,465
<b>Year Ended December 31, 2014</b>					
Allowance for doubtful accounts and returns	\$ 404	\$	\$	\$ (14)	\$ 390
Reserve for excess and obsolete inventory(**)	25,091	1,003	(2,452)		23,642
<b>Year Ended December 31, 2013</b>					
Allowance for doubtful accounts and returns	\$ 305	\$ 96	\$	\$ 3	\$ 404
Reserve for excess and obsolete inventory(***)	33,601	2,562	(10,913)	(159)	25,091

(\*) Represents foreign currency translation adjustments.

(\*\*) Deductions include the write-off of accounts receivable.

(\*\*\*) Deductions include the disposal and sale of fully reserved inventory