

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended June 30, 2001 or

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

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

(I.R.S. Employer Identification Number)

55 Cherry Hill Drive

Beverly, Massachusetts 01915

(Address of principal executive offices, including zip code)

(978) 787-4000

(Registrant's telephone number, including area code)

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

As of August 10, 2001 there were 97,449,705 shares of the registrant's common stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

AXCELIS TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

(In thousands, except per share amounts)	Three Months Ended		Six Months Ended	
	June 30, 2001	June 30, 2000	June 30, 2001	June 30, 2000
Net sales.....	\$ 102,002	\$ 165,844	\$ 254,151	\$ 308,895
Cost of products sold.....	62,902	92,576	151,703	174,153
Gross margin.....	39,100	73,268	102,448	134,742
Other costs and expenses:				
Research and development.....	18,789	17,377	38,051	33,502
Selling.....	13,429	13,420	26,809	25,018
General and administrative.....	14,068	14,595	31,779	27,625
Amortization of goodwill and intangible assets.....	2,320	2,320	4,640	4,640
Income (loss) from operations.....	(9,506)	25,556	1,169	43,957
Other income (expense)				
Royalty income.....	1,781	3,949	4,581	7,772
Equity income of Sumitomo Eaton Nova Corporation.....	3,567	3,316	10,199	6,656
Interest income.....	1,424	947	3,801	1,439
Other expense - net.....	(253)	(2,281)	(248)	(1,224)
Total other income.....	6,519	5,931	18,333	14,643
Income (loss) before income taxes.....	(2,987)	31,487	19,502	58,600
Income taxes (credit).....	(837)	9,916	5,461	18,167
Net income (loss).....	\$ (2,150)	\$ 21,571	\$ 14,041	\$ 40,433
Net income (loss) per share:				
Basic.....	\$ (0.02)	\$ 0.27	\$ 0.14	\$ 0.51
Diluted.....	\$ (0.02)	\$ 0.27	\$ 0.14	\$ 0.51
Shares used in computing net income (loss) per share:				
Basic.....	97,056	80,000	97,053	80,000
Diluted.....	97,056	80,000	97,965	80,000

See accompanying notes to consolidated financial statements.

AXCELIS TECHNOLOGIES, INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(In thousands)	June 30, 2001	December 31, 2000
ASSETS		
Current assets		
Cash and cash equivalents.....	\$ 128,396	\$ 168,157
Accounts receivable, net.....	107,964	150,482
Inventories.....	115,345	122,036
Deferred income taxes and other current assets.....	27,307	26,851
Total current assets.....	379,012	467,526
Property, plant and equipment, net.....	87,955	75,653
Investment in Sumitomo Eaton Nova Corporation...	49,372	44,915
Goodwill.....	41,130	42,977
Intangible assets.....	17,472	20,418
Other assets.....	29,205	20,842
Total assets.....	\$ 604,146	\$ 672,331
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable.....	\$ 29,930	\$ 46,855
Payable to Eaton Corporation.....	-	25,818
Accrued compensation.....	12,855	17,686
Warranty reserve.....	30,048	33,324
Income taxes payable.....	2,320	31,153
Other current liabilities.....	21,529	15,342
Total current liabilities.....	96,682	170,178
Deferred income taxes.....	7,493	7,391
Pension & other employee benefit liabilities....	3,391	3,393
Stockholders' equity		
Common stock.....	97	97
Additional paid-in capital.....	438,107	437,472
Treasury stock - at cost.....	(743)	-
Retained earnings.....	72,722	58,682
Accumulated other comprehensive income (loss)	(13,603)	(4,882)
Total stockholders' equity.....	496,580	491,369
Total liabilities and stockholders' equity.....	\$ 604,146	\$ 672,331

See accompanying notes to consolidated financial statements.

AXCELIS TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(In thousands)	Six Months Ended June 30,	
-----	2001	2000
Cash flows from operating activities:		
Net income.....	\$ 14,041	\$ 40,433
Adjustments required to reconcile net income to net cash provided (used) by operating activities:		
Depreciation.....	4,602	4,469
Amortization of goodwill & intangible assets.....	4,640	4,640
Deferred income taxes.....	103	(4,122)
Equity income of Sumitomo Eaton Nova Corporation.....	(10,199)	(6,656)
Changes in operating assets & liabilities:		
Accounts receivable, net.....	40,768	(27,571)
Inventories.....	5,405	(26,572)
Accounts payable and other current liabilities.....	(17,287)	20,143
Payable to Eaton Corporation.....	(25,818)	-
Income taxes payable.....	(28,833)	-
Other assets.....	(8,365)	(388)
Other - net.....	(326)	(168)
Net cash provided (used) by operating activities..	(21,269)	4,208
Cash flows from investing activities:		
Expenditures for property, plant and equipment..	(16,903)	(2,683)
Sale of Austin, Texas facility.....	-	10,967
Other - net.....	-	(1,431)
Net cash provided (used) by investing activities..	(16,903)	6,853
Cash flows from financing activities:		
Proceeds from the exercise of stock options....	635	-
Acquisition of treasury shares.....	(743)	-
Net transfers from Parent Company.....	-	27,378
Net cash provided (used) by financing activities..	(108)	27,378
Effect of foreign exchange rate changes.....	(1,481)	(55)
Net increase (decrease) in cash and cash equivalents.....	(39,761)	38,384
Cash and cash equivalents at beginning of period..	168,157	3,530
Cash and cash equivalents at end of period.....	\$ 128,396	\$ 41,914

See accompanying notes to consolidated financial statements.

AXCELIS TECHNOLOGIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
SIX MONTHS ENDED JUNE 30, 2001

1) Nature of Business and Basis of Presentation

Axcelis Technologies, Inc. ("Axcelis" or the "Company"), a wholly owned subsidiary of Eaton Corporation ("Eaton") prior to July 10, 2000, is a leading producer of ion implantation, dry strip and photostabilization equipment used in the fabrication of semiconductors in the United States, Europe and Asia Pacific. The Company has recently introduced rapid thermal processing equipment, which is used in semiconductor manufacturing primarily before and after the ion implantation process. In addition, the Company provides extensive aftermarket service and support, including spare parts, equipment upgrades, maintenance services and customer training. The Company has a 50-50 joint venture with Sumitomo Heavy Industries, Ltd. in Japan. This joint venture, which is known as Sumitomo Eaton Nova Corporation, or SEN, licenses technology from the Company for ion implantation, has exclusive rights to the territory of Japan and is the leading producer of ion implantation equipment in Japan.

On April 26, 2000, Eaton announced its plan to reorganize its semiconductor equipment operations into an independent, publicly-held company, Axcelis Technologies, Inc. On June 30, 2000, Eaton substantially completed the transfer of all the assets and related liabilities of its semiconductor equipment operations to the Company. Prior to the transfer, the financial statements of the semiconductor equipment operations were presented on a combined basis. On July 10, 2000, the Company commenced its initial public offering (IPO) of 15,500,000 shares of common stock. On July 20, 2000, the IPO was completed when the underwriters of the IPO exercised their over-allotment option to purchase an additional 1,550,000 shares. A portion of the net proceeds of the offering of \$348.6 million was used to pay a previously declared \$300 million dividend to Eaton. Following the IPO, Eaton owned approximately 82 percent of Axcelis' outstanding common stock. On October 25, 2000, Eaton announced that its board of directors had declared a stock dividend of all remaining shares of Axcelis held by Eaton. The dividend was distributed on December 29, 2000. The distribution was made on the basis of 1.179023 shares of Axcelis for each Eaton common share outstanding.

Axcelis' legal separation from Eaton occurred on June 30, 2000, at which time the Company began to operate independently from Eaton. Subsequent to June 30, 2000, the Company's financial statements are prepared on a consolidated basis. Although prior periods have been prepared on a combined basis, all statements presented are referred to as consolidated statements for simplicity. For periods prior to the separation date, the consolidated financial statements reflect historical results of operations and cash flows of Eaton's semiconductor equipment operations during each respective period, and include allocations of certain Eaton expenses. Beginning in the third quarter of fiscal year 2000, Axcelis' consolidated financial statements no longer include an allocated portion of Eaton's corporate services and infrastructure costs. However, the Company has continued to incur amounts payable to Eaton in connection with transitional agreements, under which Eaton provides services, such as voice and data transmissions and other data-related operations, accounts receivable, accounts payable, fixed assets, payroll, general accounting, financial accounting consolidation, cash management, human resources, tax, legal and real estate. As of June 30, 2001, the majority of these services have been transitioned from Eaton to Axcelis.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the financial statements include normal recurring adjustments necessary for the fair presentation of the results of the periods presented. Operating results for the three and six months ended June 30, 2001 are not necessarily indicative of the results that may be expected for the year ended December 31, 2001.

The balance sheet at December 31, 2000 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in Axcelis Technologies, Inc.'s annual report on Form 10-K for the year ended December 31, 2000.

2) Reclassifications

Certain prior year balances have been reclassified to conform with the current year presentation.

3) Net Income (Loss) Per Share

Basic net income (loss) per share is calculated based on the weighted average number of shares of common stock outstanding during the period. Diluted net income (loss) per share is calculated based on the weighted average number of shares of common stock outstanding plus the dilutive effect of stock options, calculated using the treasury stock method.

4) Comprehensive Income (Loss)

The components of comprehensive income (loss) are as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2001	June 30, 2000	June 30, 2001	June 30, 2000
Net income (loss).....	\$ (2,150)	\$ 21,571	\$ 14,041	\$ 40,433
Foreign currency translation adjustments.....	(2,462)	3,460	(8,721)	2,982
Comprehensive income (loss)...	\$ (4,612)	\$ 25,031	\$ 5,320	\$ 43,415

5) Inventories

Inventories are carried at the lower of cost, determined using the first-in, first out (FIFO) method, or market. The components of inventory were as follows (in thousands):

	June 30, 2001	December 31, 2000
Raw materials.....	\$ 80,912	\$ 74,929
Work-in-process.....	13,326	31,531
Finished goods.....	33,097	26,828
	127,335	133,288
Inventory allowances.....	(11,990)	(11,252)
	\$ 115,345	\$ 122,036

6) Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities". This statement revises accounting and reporting standards for derivative instruments, including derivative instruments embedded in other contracts, and for hedging activities. SFAS No. 133, as amended by SFAS No. 137 and SFAS No. 138, is effective for fiscal quarters of fiscal years beginning after June 15, 2000. The Company adopted this standard beginning in the first quarter of 2001. SFAS No. 133 did not have a material impact on the Company's consolidated financial statements for the six months ended June 30, 2001.

In July 2001, the FASB issued SFAS No. 141, "Business Combinations" (SFAS No. 141) which supersedes Accounting Principles Board ("APB") Opinion No. 16, "Business Combinations." SFAS No. 141 eliminates the pooling-of-interests method of accounting for business combinations and modifies the application of the purchase accounting method. SFAS No. 141 also specifies criteria for intangible assets acquired in a purchase method business combination must meet to be recognized and reported separately from goodwill. The elimination of the pooling-of-interests method is effective for transactions initiated after June 30, 2001. The remaining provisions of SFAS No. 141 will be effective for transactions accounted for using the purchase method that are completed after June 30, 2001. Management does not anticipate the adoption of this statement will have a significant effect on the Company's results of operations or financial position.

In July 2001, the FASB also issued SFAS No. 142, "Goodwill and Intangible Assets" (SFAS No. 142) which supercedes APB Opinion No. 17, "Intangible Assets." SFAS No. 142 eliminates the current requirement to amortize goodwill and indefinite-lived intangible assets, addresses the amortization of intangible assets with a defined life and addresses the impairment testing and recognition for goodwill and intangible assets. SFAS No. 142 will apply to goodwill and intangible assets arising from transactions completed before and after the effective date. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. The Company will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. The Company will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002 and has not yet determined what the effect of these tests will be on the earnings and financial position of the Company.

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

Certain statements in "Management's Discussion and Analysis of Financial Condition and Results of Operations" are forward-looking statements that involve risks and uncertainties. Words such as may, will, should, would, anticipates, expects, intends, plans, believes, seeks, estimates and similar expressions identify such forward-looking statements. The forward-looking statements contained herein are based on current expectations and entail various risks and uncertainties that could cause actual results to differ materially from those expressed in such forward-looking statements. Factors that might cause such a difference include, among other things, those set forth under "Financial Condition, Liquidity and Capital Resources" and "Risk Factors" included in these sections and those appearing elsewhere in this Form 10-Q. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. The Company assumes no obligation to update these forward-looking statements to reflect actual results or changes in factors or assumptions affecting forward-looking statements.

Overview

We are a leading producer of ion implantation, dry strip and photostabilization equipment used in the fabrication of semiconductors in the United States, Europe and Asia Pacific. We have recently introduced rapid thermal processing equipment, which is used in semiconductor manufacturing primarily before and after the ion implantation process. In addition, we provide extensive aftermarket service and support, including spare parts, equipment upgrades, maintenance services and customer training. We have a 50-50 joint venture with Sumitomo Heavy Industries, Ltd. in Japan. This joint venture, which is known as Sumitomo Eaton Nova Corporation, or SEN, licenses technology from us for ion implantation, has exclusive rights to the territory of Japan and is the leading producer of ion implantation equipment in Japan.

Separation from Eaton Corporation

Prior to the initial public offering on July 10, 2000, we were a wholly owned subsidiary of Eaton Corporation (Eaton). On June 30, 2000, Eaton substantially completed the transfer to us of all of the assets of its semiconductor equipment operations that were not previously owned by us, and we assumed the related liabilities. On December 29, 2000, Eaton completed the divestiture of its investment in Axcelis by distributing its remaining 82% ownership interest in Axcelis in the form of a spin-off to Eaton shareholders. We also entered into various other agreements with Eaton which provide for transitional services and support, including those associated with voice and data transmissions and other data-related operations, accounts receivable, accounts payable, fixed assets, payroll, general accounting, financial accounting consolidation, cash management, human resources, tax, legal and real estate. Under these agreements, we reimbursed Eaton for its direct and indirect costs of providing these services until completion of the divestiture, and thereafter, for a limited time, we will reimburse Eaton for its costs plus an additional fee. The transition periods covered by these agreements generally expire by December 29, 2001. As of June 30, 2001, the majority of these services have been transitioned from Eaton to Axcelis.

Results of Operations

During fiscal 2000, unprecedented demand for our products and services by our semiconductor manufacturing customers resulted in record sales and earnings for Axcelis for the fiscal year ended December 31, 2000. However, during the first six months of fiscal 2001, reduced demand for semiconductors combined with an overall slowdown in worldwide economic activity resulted in a significant decline in demand for semiconductor manufacturing equipment. A large number of our customers rescheduled existing orders resulting in the postponement of scheduled equipment deliveries while a smaller number of our customers canceled existing orders. This has resulted in a decline in net sales from the record level of the fourth quarter of fiscal 2000.

The following table sets forth consolidated statements of operations data expressed as a percentage of net sales for the periods indicated:

	Three Months Ended		Six Months Ended	
	June 30, 2001	June 30, 2000	June 30, 2001	June 30, 2000
Net Sales.....	100.0%	100.0%	100.0%	100.0%
Gross Profit.....	38.3	44.2	40.3	43.6
Other costs and expenses				
Research and development.....	18.4	10.5	15.0	10.9
Selling.....	13.2	8.1	10.6	8.1

General and administrative.....	13.8	8.8	12.5	8.9
Amortization of goodwill and intangible assets.....	2.3	1.4	1.8	1.5
Income (loss) from operations	(9.3)	15.4	0.5	14.2
Other income (expense)				
Royalty income.....	1.8	2.4	1.8	2.5
Equity income of SEN.....	3.5	2.0	4.0	2.2
Interest income.....	1.4	0.6	1.5	0.5
Other expense-net.....	(0.3)	(1.4)	(0.1)	(0.4)
Income (loss) before income taxes.	(3.0)	19.0	7.7	19.0
Income taxes (credit).....	(0.8)	6.0	2.2	5.9
Net income (loss).....	(2.1)%	13.0%	5.5%	13.1%

Net Sales

Net sales for the second quarter of fiscal 2001 were \$102.0 million, a decrease of \$63.8 million, or 38.5%, from \$165.8 million in the second quarter of 2000. Net sales for the six months ended June 30, 2001 were \$254.2 million, a decrease of \$54.7 million, or 17.7%, from \$308.9 million for the same period in fiscal 2000. The decreases in net sales from comparable periods in 2000 were attributable to lower levels of capital spending by our semiconductor manufacturing customers resulting in reduced sales of our products and services.

Gross Profit

Gross profit for the second quarter of fiscal 2001 was \$39.1 million, a decrease of \$34.2 million, or 46.6%, from \$73.3 million in the second quarter of fiscal 2000. Gross profit for the six months ended June 30, 2001 was \$102.4 million, a decrease of \$32.3 million, or 24.0%, from \$134.7 million for the same period in fiscal 2000. The decrease in gross profit from prior year periods was due mainly to lower sales volume. Gross profit as a percentage of net sales decreased to 38.3% in the second quarter of fiscal 2001 from 44.2% in the comparable prior period. For the first half of fiscal 2001, gross profit as a percentage of net sales decreased to 40.3% from 43.6% from the first half of fiscal 2000. The decreases from prior year periods were due principally to lower manufacturing capacity utilization caused by lower sales volume.

Operating Expenses

Operating expenses were 47.7% of net sales for the three months ended June 30, 2001, compared to 28.8% for the three months ended June 30, 2000. Operating expenses were 39.9% of net sales for the six months ended June 30, 2001, compared to 29.4% for the six months ended June 30, 2000. The increases from prior year periods were due primarily to lower sales volume. In terms of absolute dollars, operating expenses for the three months and six months ended June 30, 2001 increased \$0.9 million and \$10.5 million, respectively, from the comparable periods in fiscal 2000. Research and development expenses increased by \$1.4 million in the second quarter of fiscal 2001 and \$4.5 million on a year-to-date basis, versus comparable periods in fiscal 2000, to support our continuing investment to deliver our new and enhanced generations of 300mm tools. Selling, general and administrative expenses decreased by \$0.5 million in the quarter ended June 30, 2001 compared to the quarter ended June 30, 2000 due to cost reduction initiatives, partially offset by continuing transition costs associated with our separation from Eaton and increased legal expenses associated with our patent infringement litigation against Applied Materials. On a year-to-date basis, selling, general and administrative expenses increased by \$5.9 million over the first six months of fiscal 2000 due primarily to the transition costs and legal expenses discussed above.

Income (Loss) From Operations

Loss from operations was \$9.5 million for the second quarter of fiscal 2001 as compared to income of \$25.6 million for the second quarter of fiscal 2000. Income from operations was \$1.2 million for the six months ended June 30, 2001 as compared to \$44.0 million for the six months ended June 30, 2000. The decreases were primarily a result of the factors described above.

Other Income

Total other income increased to \$6.5 million for the second quarter of fiscal 2001 as compared to \$5.9 million for the second quarter of fiscal 2000. Total other income increased to \$18.3 million for the first half of fiscal 2001 from \$14.6 million for the first half of 2000. Total other income consists primarily of royalty income and equity income from SEN. Royalty income, primarily from SEN, was \$1.8 million for the second quarter of fiscal 2001 as compared to \$3.9 million for the second quarter of fiscal 2000, and \$4.6 million in the first half of 2001 as compared to \$7.8 million in the first half of 2000. The decrease in royalty income during the second quarter of fiscal 2001 was due to lower overall SEN sales. For the first half of fiscal 2001, the reduction in royalty income was due primarily to a difference in the mix of SEN sales in the first quarter of fiscal 2001 compared to the comparable quarter in fiscal 2000 as overall SEN sales were higher in the first half of fiscal 2001 compared to the first half of fiscal 2000. Equity income attributable to SEN was \$3.6 million for the second quarter of fiscal 2001 compared to \$3.3 million for the second quarter of fiscal 2000, and \$10.2 million in the first half of fiscal 2001 as compared to \$6.7 million in the first half of fiscal 2000. The increase in equity income for the six months ended June 30, 2001 was primarily attributable to higher year-over-year SEN gross profit combined with lower selling, general and administrative expenses.

Income Taxes (Credit)

The company had an income tax credit of \$0.8 million in the second quarter of fiscal 2001 as compared to income tax expense of \$9.9 million in the second quarter of fiscal 2000. Income tax expense was \$5.5 million for the first half of fiscal 2001 as compared to \$18.2 million for the first half of fiscal 2000. The effective income tax rate was 28.0% in the second quarter of fiscal 2001 and first six months of fiscal 2001 as compared to 31.5% and 31.0%, respectively, for the second quarter and the first six months of fiscal 2000. The tax rate in all periods differs from the U.S. statutory rate primarily due to undistributed nontaxable equity income from SEN.

Net Income (Loss)

The company incurred a net loss of \$2.2 million in the second quarter of fiscal 2001 as compared to net income of \$21.6 million in the second quarter of fiscal 2000. The decrease was principally a result of the factors discussed above. Earnings (loss) per share were \$(0.02) in the second quarter of fiscal 2001 and \$0.14 in the first half of fiscal 2001. Comparable earnings per share were \$0.27 and \$0.51 in fiscal 2000, respectively. The decrease was principally a result of the factors discussed above. In addition, the decrease in earnings per share for the first half of fiscal 2001 compared to the first half of fiscal 2000 was due to the higher number of common shares outstanding for the first half of fiscal 2001 compared to the comparable period in fiscal 2000 primarily as a result of our initial public offering in the third quarter of fiscal 2000.

Financial Condition, Liquidity and Capital Resources

As of June 30, 2001, cash and cash equivalents were \$128.4 million, compared with \$168.2 million as of December 31, 2000. The decrease in cash and cash equivalents from December 31, 2000 was due mainly to payments to Eaton of \$54.7 million for transition expenses and income tax payments, as well as capital expenditures and lower accounts payable offset by lower accounts receivable and earnings generated in the first half of fiscal 2001. Net working capital was \$282.3 million at June 30, 2001 as compared to net working capital of \$297.3 million as of December 31, 2000.

Net cash used by operating activities was \$21.3 million for the six months ended June 30, 2001 as compared to net cash provided by operating activities of \$4.2 million for the six months ended June 30, 2000. The cash used by operating activities in the first six months of fiscal 2001 was primarily the result of the factors described above.

Capital expenditures were \$16.9 million in the first six months of fiscal 2001 and \$2.7 million in the first six months of fiscal 2000. The increase in capital expenditures in the first half of fiscal 2001 was principally due to the expansion of our Beverly, Massachusetts facility to house an advanced product demonstration and customer training center for all of our products. The amount of future capital requirements will depend on a number of factors, including the timing and rate of the expansion of our business.

Axcelis' liquidity is affected by many factors. Some of these factors are based on normal operations of the business and others relate to the uncertainties of global economies and the semiconductor equipment industry. Although our cash requirements fluctuate based on the timing and the extent of these factors, we believe that available cash and our cash flows from operations will provide sufficient working capital and satisfy commitments for capital expenditures and other cash requirements of the business.

Risk Factors

As defined under Safe Harbor provisions of The Private Securities Litigation Reform Act of 1995, some of the matters discussed in this filing contain forward-looking statements regarding future events that are subject to risks and uncertainties. The following factors, among others, could cause actual results to differ materially from those described by such statements. These factors include, but are not limited to: the cyclical nature of the semiconductor industry, our ability to keep pace with rapid technological changes in semiconductor manufacturing processes, the highly competitive nature of the semiconductor equipment industry, quarterly fluctuations in operating results attributable to the timing and amount of orders for our products and services, dependency on SEN (our Japanese joint venture) for access to the Japanese semiconductor equipment market, and those risk factors contained in the section titled "Outlook" and Exhibit 99 of our Form 10-K for the year ended December 31, 2000. If any of those risk factors actually occur, our business, financial condition and results of operations could be seriously harmed and the trading price of our common stock could decline.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

A discussion of market risk exposures is included in our Form 10-K for the year ended December 31, 2000 under Management's Discussion and Analysis - Outlook and Exhibit 99 file therewith. There were no material changes during the three months ended June 30, 2001.

Item 1. Legal Proceedings

On January 8, 2001, Axcelis filed a lawsuit against Applied Materials, Inc. (Applied) in the United States District Court for the District of Massachusetts. The complaint alleges that Applied's recently launched (November, 2000) medium current/high energy ion implanter machine infringes an Axcelis patent for ion implantation equipment using radio frequency linear accelerator technology. Axcelis has also alleged that Applied unlawfully interfered with Axcelis' existing and future contracts. On January 18, 2001, Axcelis filed a motion for a preliminary injunction for the reason, among others, that infringement at the time of transition between equipment capable of handling 200 mm wafers and equipment capable of handling 300 mm wafers would irreparably harm Axcelis. Through its motion, the Company asked the court to stop Applied from manufacturing, selling or offering to sell its medium current/high energy ion implanter machine and to order Applied to remove all Axcelis patented technology from implanters that Applied may have placed in chipmakers' plants for process development trials. Applied filed counterclaims of unfair competition, defamation, and tortious interference with prospective economic advantage, all of which it contends arise from certain communications allegedly made by Axcelis about the lawsuit and its claims of infringement.

The parties are engaged in the process of discovery and, based on the scheduling order entered by the court, a trial is scheduled for the fourth quarter of 2001. The Company believes its claims are meritorious and intends to pursue the matter vigorously. Although there can be no assurance of a favorable outcome, the Company does not believe that its pursuit of this matter will have a material adverse effect on the Company's financial condition, results of operations or liquidity. In the event that Applied Materials is found not to have infringed, the Company expects that Applied will continue to use its medium current/high energy implanter as a new and substantial competitor for sales of high energy/medium current ion implantation equipment.

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

At the Annual Meeting of Stockholders held on June 28, 2001, the Company's stockholders voted as follows:

(a) To re-elect two directors for a term of office expiring in 2004:

	Number of Votes	
	For	Withheld
Alexander M. Cutler	79,486,593	471,234
Gary L. Tooker	79,492,399	465,428

Each of Mr. Tooker and Mr. Cutler received a plurality of the votes cast and, therefore, have been duly elected as directors of the Company.

(b) To ratify the appointment of Ernst & Young LLP as auditors of the Company's financial statements for the year ending December 31, 2001:

Number of Votes			
For	Against	Abstaining	Broker non-votes
79,189,076	640,518	128,233	0

A majority of the shares present, or represented at the meeting voted in favor of the proposal.

Item 6. Exhibits and Reports on Form 8-K

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

10.1 2000 Stock Plan, as amended through July 31, 2001. Filed herewith.

b) Reports on Form 8-K

Not applicable

SIGNATURES

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

AXCELIS TECHNOLOGIES, INC.

Dated: August 14, 2001

By: /s/ Cornelius F. Moses III

Cornelius F. Moses III
Executive Vice President, Chief Financial Officer
Duly authorized officer and
Principal financial officer

AXCELIS TECHNOLOGIES, INC.
2000 STOCK PLAN

Adopted by the Board of Directors and Stockholder on June 9, 2000
Amended by the Board of Directors on October 25, 2000
As Amended by the Board of Directors on July 31, 2001

ARTICLE I

A PURPOSE AND ADOPTION OF THE PLAN

1.01 Purpose. The purpose of the Axcelis Technologies, Inc. 2000 Stock Plan (hereinafter referred to as the "Plan") is to assist in attracting and retaining highly competent employees, directors and consultants and to act as an incentive in motivating selected employees, directors and consultants of Axcelis Technologies, Inc. and its Subsidiaries (as defined below) to achieve long-term corporate objectives.

1.02 Adoption and Term. The Plan has been approved by the Board of Directors of Axcelis Technologies, Inc. and its stockholder to be effective as of the date of the consummation of an initial public offering of the Company's common stock (the "Effective Date"). The Plan shall remain in effect until terminated by action of the Board; *provided, however*, that no Incentive Stock Option (as defined below) may be granted hereunder after the tenth anniversary of the Effective Date.

ARTICLE II

DEFINITIONS

For the purposes of this Plan, capitalized terms shall have the following meanings:

2.01 Award means any grant to a Participant of one or a combination of Non-Qualified Stock Options or Incentive Stock Options described in Article VI, Stock Appreciation Rights described in Article VI, Restricted Shares described in Article VII and Performance Awards described in Article VIII.

2.02 Award Agreement means a written agreement between the Company and a Participant or a written notice from the Company to a Participant specifically setting forth the terms and conditions of an Award granted under the Plan.

2.03 Award Period means, with respect to an Award, the period of time set forth in the Award Agreement during which specified target performance goals must be achieved or other conditions set forth in the Award Agreement must be satisfied.

2.04 Beneficiary means an individual, trust or estate who or which, by a written designation of the Participant filed with the Company or by operation of law, succeeds to the rights and obligations of the Participant under the Plan and an Award Agreement upon the Participant's death.

2.05 Board means the Board of Directors of the Company.

2.06 Change in Control means, and shall be deemed to have occurred upon the occurrence of any one of the following events:

(a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 25% or more of either (i) the then outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this subsection (a), the following acquisitions shall not constitute a Change of Control: (i) any acquisition directly from the Company, (ii) any acquisition by the Company, or (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company; or

(b) Individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least two-thirds of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(c) Consummation by the Company of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company or the acquisition of assets of another corporation (a "Business Combination"), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 75% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (ii) no Person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 25% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(d) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

2.07 Code means the Internal Revenue Code of 1986, as amended. References to a section of the Code include that section and any comparable section or sections of any future legislation that amends, supplements or supersedes said section.

2.08 Company means Axcelis Technologies, Inc., a Delaware corporation, and its successors.

2.09 Common Stock means Common Stock of the Company, par value \$0.001 per share.

2.10 Company Voting Securities means the combined voting power of all outstanding securities of the Company entitled to vote generally in the election of directors of the Company.

2.11 Date of Grant means the date designated by the Board as the date as of which it grants an Award, which shall not be earlier than the date on which the Board approves the granting of such Award.

2.12 Disability means a total and permanent disability such that, due to physical or mental illness, injury or disease, a Participant is unable to perform any services for the Company and its Subsidiaries and, in the opinion of a qualified physician designated by the Board, such disability will be permanent and continuous during the remainder of the Participant's life.

2.13 Effective Date shall have the meaning given to such term in Section 1.02.

2.14 Exchange Act means the Securities Exchange Act of 1934, as amended.

2.15 Exercise Price means, with respect to a Stock Appreciation Right, the amount established by the Board in the related Award Agreement as the amount to be subtracted from the Fair Market Value on the date of exercise in order to determine the amount of the payment to be made to the Participant, as further described in Section 6.02(b).

2.16 Fair Market Value means, as of any applicable date, the closing price of a share of the Common Stock on the Nasdaq National Market System ("NMS") or, if not then authorized for trading on the NMS but traded on a nationally recognized exchange, the closing price of a share of the Common on such exchange or, if not then authorized or traded on any nationally recognized exchange, the fair market value of the Common Stock as determined in good faith under procedures established by the Board.

2.17 Incentive Stock Option means a stock option within the meaning of Section 422 of the Code.

2.18 Merger means any merger, reorganization, consolidation, share exchange, transfer of assets or other transaction having similar effect involving the Company.

2.19 Non-Employee Director means a member of the Board who is not also a common law employee of Company. A member of the Board who is a common law employee of the Company shall become a Non-Employee Director as of the date he or she ceases to be an active employee of the Company. For purposes of this Plan, a member of the Board who

receives deferred compensation or benefits, whether through a qualified plan or other arrangement, will not be deemed to be an active employee of the Company solely on account of the receipt of such deferred compensation or benefits.

2.20 Non-Qualified Stock Option means a stock option which is not an Incentive Stock Option.

2.21 Options means all Non-Qualified Stock Options and Incentive Stock Options granted at any time under the Plan.

2.22 Participant means a person designated to receive an Award under the Plan in accordance with Section 5.01.

2.23 Performance Awards means Awards granted in accordance with Article VIII.

2.24 Plan means the Axcelis Technologies, Inc. 2000 Stock Plan as described herein, as the same may be amended from time to time.

2.25 Purchase Price, with respect to Options, shall have the meaning set forth in Section 6.01(c).

2.26 Restricted Shares means Common Stock subject to restrictions imposed in connection with Awards granted under Article VII.

2.27 Retirement means a Participant's voluntary Termination of Employment with the consent of the Board.

2.28 Stock Appreciation Rights means Awards granted in accordance with Article VI.

2.29 Subsidiary means a subsidiary of the Company within the meaning of Section 424(f) of the Code.

2.30 Termination of Employment means the voluntary or involuntary termination of a Participant's employment with the Company or a Subsidiary for any reason, including death, Disability, Retirement or as the result of the divestiture of the Participant's employer or any similar transaction in which the Participant's employer ceases to be the Company or one of its Subsidiaries. Whether entering military or other government service shall constitute Termination of Employment, or whether a Termination of Employment shall occur as a result of Disability, shall be determined in each case by the Board in its sole discretion. In the case of a Member of the Board or consultant who is not an employee of the Company or a Subsidiary, Termination of Employment shall mean voluntary or involuntary termination of Board service or the consulting relationship, as the case may be, for any reason.

ARTICLE III

ADMINISTRATION

3.01 Administration. The Plan shall be administered by the Board, except (i) awards to Non-Employee Directors under Section 6.01(b) shall be automatic and granted under the terms set forth for Non-Employee Directors under the Plan without power or authority of the Board (or if applicable a committee) to alter or amend the number, terms or conditions of such awards and (ii) awards intended to qualify as exempt from the limitations on deductible compensation imposed by Section 162(m) of the Code shall be granted and administered by a committee appointed by the Board consisting of no fewer than two members of the Board who meet each and all requirements to serve as outside directors within the meaning of Section 162(m) of the Code and the regulations promulgated thereunder (the "162(m) Committee"). Except to the extent of matters reserved for the 162(m) Committee, the Board (or its designee, as described below) shall have exclusive and final authority in each determination, interpretation or other action affecting the Plan and its Participants. The Board (or its designee, as described below) shall have the sole discretionary authority to interpret the Plan, to establish and modify administrative rules for the Plan, to impose such conditions and restrictions on Awards as it determines appropriate, and to take such steps in connection with the Plan and Awards granted hereunder as it may deem necessary or advisable. The Board may, subject to compliance with applicable legal requirements, delegate to a person or a committee, none of whom need be members of the Board of the Company, such of its powers and authority under the Plan as it deems appropriate to designated officers or employees of the Company. The Board may appoint such person or committee to exercise any of the authority conferred upon the Board hereunder and, if a person or committee is designated to so serve, the term "Board" as used in this Plan shall include such committee. In the event of any such delegation of authority or exercise of authority by a person or committee so designated, references in the Plan to the Board shall be deemed to refer to the delegate of the Board or such committee, as the case may be.

ARTICLE IV

SHARES

4.01 Number of Shares Issuable. The total number of shares initially authorized to be issued under the Plan shall be 18,500,000 shares of Common Stock. The number of shares available for issuance under the Plan shall be subject to adjustment in accordance with Section 9.07 and, for the purposes of granting Awards other than Incentive Stock Options, shall be increased annually by the lesser of (i) five (5%) percent of the then number of outstanding shares of Common Stock of the Company, (ii) 5,000,000 shares or (iii) such lesser amount determined by the Board. The shares to be offered under the Plan shall be authorized and unissued shares of Common Stock, or issued shares of Common Stock which will have been reacquired by the Company.

4.02 Shares Subject to Terminated Awards. Shares of Common Stock covered by any unexercised portions of terminated Options (including canceled Options) granted under Article VI, shares of Common Stock forfeited as provided in Section 7.02(a) and shares of Common Stock subject to any Award that are otherwise surrendered by a Participant may be subject to new Awards under the Plan. Shares of Common Stock subject to Options, or portions thereof, that have been surrendered in connection with the exercise of Stock Appreciation Rights shall not be available for subsequent Awards under the Plan, but shares of Common Stock issued in payment of such Stock Appreciation Rights shall not be charged against the number of shares of Common Stock available for the grant of Awards hereunder.

ARTICLE V

PARTICIPATION

Participants in the Plan shall be such employees, directors and consultants of the Company and its Subsidiaries as the Board, in its sole discretion, may designate from time to time. The Board's designation of a Participant in any year shall not require the Board to designate such person to receive Awards in any other year. The designation of a Participant to receive an Award under one portion of the Plan does not require the Board to include such Participant under other portions of the Plan. The Board shall consider such factors as it deems pertinent in selecting Participants and in determining the types and amounts of their respective Awards.

ARTICLE VI

STOCK OPTIONS AND STOCK APPRECIATION RIGHTS

6.01 Option Awards.

(a) Grant of Options. The Board may grant, to such Participants as the Board may select, Options entitling the Participants to purchase shares of Common Stock from the Company in such numbers, at such prices, and on such terms and subject to such conditions, not inconsistent with the terms of the Plan, as may be established by the Board. The terms of any Option granted under the Plan shall be set forth in an Award Agreement. No Participant may be granted an Option to purchase more than 1,250,000 shares of Common Stock in any fiscal year of the Company, except that in his or her initial year of service, a Participant may be granted an Option to purchase up to 1,250,000 shares of Common Stock.

(b) Non-Employee Director Options.

(i) Annual Grants. Each person serving as a Non-Employee Director at the commencement of the first meeting of the Board of Directors following July 1st^{of} each calendar year (beginning in 2001) will be automatically granted a Non-Qualified Stock Option on that date to purchase 15,000 shares of Common Stock of the Company. Each such option shall be evidenced by a written Award Agreement that shall set forth the following terms:

- (1) The per share Purchase Price shall be equal to the Fair Market Value of a share of Common Stock on the date of grant, unless then Board determines otherwise in accordance with Section 6.01(c);
- (2) The Option shall expire on the 10th anniversary of the date of grant;
- (3) The Option shall be fully vested on the 181st day after the date of grant; and

(4) The Option shall be exercisable in accordance with Section 6.04 of this Plan.

(ii) Initial Grants. If a member of the Board of Directors first becomes a Non-Employee Director after the initial public offering of the Common Stock of the Company (1) he or she shall automatically be granted a Non-Qualified Option to purchase up to 40,000 shares of Common Stock as of the date he or she first becomes a Non-Employee Director subject to the terms set forth in (1) through (4) above and (2) he or she shall be eligible to receive an annual grant of a Non-Qualified Stock Option as provided above in and each subsequent calendar year thereafter as long as he or she serves as a Non-Employee Director.

(iii) Non-Exclusive. Nothing set forth in this section shall prevent the Board from considering Non-Employee Directors for other awards under this Plan and from making any Awards to Non-Employee Directors.

(c) Purchase Price of Options. Subject to Section 6.01(e) with respect to certain Incentive Stock Options, the Purchase Price of each share of Common Stock which may be purchased upon exercise of any Option granted under the Plan shall be determined by the Board; *provided, however,* that the Purchase Price shall in all cases be equal to or greater than the Fair Market Value on the Date of Grant.

(d) Designation of Options. Except as otherwise expressly provided in the Plan, the Board may designate, at the time of the grant of an Option, such Option as an Incentive Stock Option or a Non-Qualified Stock Option; *provided, however,* that an Option may be designated as an Incentive Stock Option only if the applicable Participant is an employee of the Company or a Subsidiary on the Date of Grant.

(e) Special Incentive Stock Option Rules. No Participant may be granted Incentive Stock Options under the Plan (or any other plans of the Company and its Subsidiaries) that would result in Incentive Stock Options to purchase shares of Common Stock with an aggregate Fair Market Value (measured on the Date of Grant) of more than \$100,000 first becoming exercisable by such Participant in any one calendar year. Notwithstanding any other provision of the Plan to the contrary, no Incentive Stock Option shall be granted to any person who, at the time the Option is granted, owns stock (including stock owned by application of the constructive ownership rules in Section 424(d) of the Code) possessing more than 10% of the total combined voting power of all classes of stock of the Company or any Subsidiary, unless at the time the Incentive Stock Option is granted the Option price is at least 110% of the Fair Market Value of the Common Stock subject to the Incentive Stock Option and the Incentive Stock Option by its terms is not exercisable for more than five (5) years from the Date of Grant.

(f) Rights as a Shareholder. A Participant or a transferee of an Option pursuant to Section 9.04 shall have no rights as a shareholder with respect to the shares of Common Stock covered by an Option until that Participant or transferee shall have become the holder of record of any such shares, and no adjustment shall be made with respect to any such shares of Common Stock for dividends in cash or other property or distributions of other rights on the Common Stock for which the record date is prior to the date on which that Participant or transferee shall have become the holder of record of any shares covered by such Option; *provided, however,* that Participants are entitled to share adjustments to reflect capital changes under Section 9.07.

6.02 Stock Appreciation Rights.

(a) Stock Appreciation Right Awards. The Board is authorized to grant to any Participant one or more Stock Appreciation Rights. Such Stock Appreciation Rights may be granted either independent of or in tandem with Options granted to the same Participant. Stock Appreciation Rights granted in tandem with Options may be granted simultaneously with, or, in the case of Non-Qualified Stock Options, subsequent to, the grant to such Participant of the related Options; *provided, however,* that: (i) any Option covering any share of Common Stock shall expire and not be exercisable upon the exercise of any Stock Appreciation Right with respect to the same share, (ii) any Stock Appreciation Right covering any share of Common Stock shall expire and not be exercisable upon the exercise of any Option with respect to the same share, and (iii) an Option and a Stock Appreciation Right covering the same share of Common Stock may not be exercised simultaneously. Upon exercise of a Stock Appreciation Right with respect to a share of Common Stock, the Participant shall be entitled to receive an amount equal to the excess, if any, of (A) the Fair Market Value of a share of Common Stock on the date of exercise over (B) the Exercise Price of such Stock Appreciation Right established in the Award Agreement, which amount shall be payable as provided in Section 6.02(c).

(b) Exercise Price. The Exercise Price established for any Stock Appreciation Right granted under this Plan shall be determined by the Board, but in the case of Stock Appreciation Rights granted in tandem with Options shall not be less than the Purchase Price of the related Options. Upon exercise of Stock Appreciation Rights, the number of shares issuable upon exercise under any related Options shall automatically be reduced by the number of shares of Common Stock represented by such Options which are surrendered as a result of the exercise of such Stock Appreciation Rights.

(c) Payment of Incremental Value. Any payment that may become due from the Company by reason of a Participant's exercise of a Stock Appreciation Right may be paid to the Participant as determined by the Board (i) all in cash, (ii) all in Common Stock, or (iii) in any combination of cash and Common Stock. In the event that all or a portion of the payment is to be made in Common Stock, the number of shares of Common Stock to be delivered in satisfaction of such payment shall be determined by dividing the amount of such payment or portion thereof by the Fair Market Value on the date of exercise. No fractional share of Common Stock shall be issued to make any payment in respect of Stock Appreciation Rights; if any fractional share would otherwise be issuable, the combination of cash and Common Stock payable to a Participant shall be adjusted as directed by the Board to avoid the issuance of any fractional share.

6.03 Terms of Stock Options and Stock Appreciation Rights.

(a) Conditions on Exercise. An Award Agreement with respect to Options and/or Stock Appreciation Rights may contain such waiting periods, exercise dates and restrictions on exercise (including, but not limited to, periodic installments) as may be determined by the Board at the time of grant.

(b) Duration of Options and Stock Appreciation Rights. Options and Stock Appreciation Rights shall terminate after the first to occur of the following events:

(i) Expiration of the Option or Stock Appreciation Right as provided in the related Award Agreement; or

(ii) Termination of the Award as provided in Section 6.03(e), following the applicable Participant's Termination of Employment; or

(iii) In the case of an Incentive Stock Option, ten years from the Date of Grant (five years in certain cases, as described in Section 6.01(e)) Non-Qualified Stock Options may, if so approved by the Board, have a stated term in excess of ten years, but such Options shall in all events be subject to termination in accordance with clauses (i) and (ii) above; or

(iv) Solely in the case of a Stock Appreciation Right granted in tandem with an Option, upon the expiration of the related Option.

(c) Acceleration of Exercise Time. The Board, in its sole discretion, shall have the right (but shall not in any case be obligated), exercisable at any time after the Date of Grant, to permit the exercise of any Option or Stock Appreciation Right prior to the time such Option or Stock Appreciation Right would otherwise become exercisable under the terms of the related Award Agreement.

(d) Extension of Exercise Time. In addition to the extensions permitted under Section 6.03(e) in the event of Termination of Employment, the Board, in its sole discretion, shall have the right (but shall not in any case be obligated), exercisable on or at any time after the Date of Grant, to permit the exercise of any Option or Stock Appreciation Right after its expiration date described in Section 6.03(e), subject, however, to the limitations described in Sections 6.03(b)(i), (iii) and (iv).

(e) Exercise of Options or Stock Appreciation Rights Upon Termination of Employment. Unless an Optionee's Award Agreement provides otherwise, the following rules shall govern the treatment of Options and Stock Appreciation Rights upon Termination of Employment:

(i) Termination of Vested Options and Stock Appreciation Rights Upon Termination of Employment.

(A) Reasons Other Than Death, Disability or Retirement. In the event of a Participant's voluntary or involuntary Termination of Employment for any reason other than death, Disability or Retirement, the right of the Participant to exercise any Option or Stock Appreciation Right shall terminate on the date of such Termination of Employment, unless the exercise period is extended by the Board in accordance with Section 6.03(d).

(B) Death, Disability or Retirement. In the event of a Participant's Termination of Employment by reason of death, Disability or Retirement, the right of the Participant to exercise any Option or Stock Appreciation Right which he or she was entitled to exercise upon Termination of Employment (or which became exercisable pursuant to Section 6.03(e)(ii)) shall, unless the exercise period is extended by the Board in accordance with Section 6.03(d), terminate upon the earlier of (i) the later to occur of (A) first anniversary of the date of such Termination of Employment and (B) the first anniversary of the date of consummation of a public offering of the Common Stock and (ii) the date of expiration of the Option determined pursuant to Section 6.03(b)(i), (iii) or (iv).

(ii) Termination of Unvested Options or Stock Appreciation Rights Upon Termination of Employment. Subject to Section 6.03(c), to the extent the right to exercise an Option or a Stock Appreciation Right, or any portion thereof, has not accrued as of the date of Termination of Employment, such right shall expire at the date of such Termination of Employment regardless of the reason for such Termination of Employment. Notwithstanding the foregoing, the Board, in its sole discretion and under such terms as it deems appropriate, may permit, for a Participant who terminates employment by reason of Retirement and who will continue to render significant services to the Company or one of its Subsidiaries after his or her Termination of Employment, the continued vesting of his or her Options and Stock Appreciation Rights during the period in which that individual continues to render such services.

6.04 Exercise Procedures. Each Option and Stock Appreciation Right granted under the Plan shall be exercised by written notice to the Company which must be received by the officer or employee of the Company designated in the Award Agreement at or before the close of business on the expiration date of the Award. The Purchase Price of shares purchased upon

exercise of an Option granted under the Plan shall be paid in full in cash by the Participant pursuant to the Award Agreement; *provided, however*, that the Board may (but shall not be required to) permit payment to be made by delivery to the Company of either (a) shares of Common Stock held by the Participant for at least six months (which may include Restricted Shares, subject to such rules as the Board deems appropriate) or (b) any combination of cash and Common Stock or (c) such other consideration as the Board deems appropriate and in compliance with applicable law (including payment in accordance with a cashless exercise program under which, if so instructed by a Participant, shares of Common Stock may be issued directly to the Participant's broker or dealer upon receipt of an irrevocable written notice of exercise from the Participant). In the event that any shares of Common Stock shall be transferred to the Company to satisfy all or any part of the Purchase Price, the part of the Purchase Price deemed to have been satisfied by such transfer of shares of Common Stock shall be equal to the product derived by multiplying the Fair Market Value as of the date of exercise times the number of shares of Common Stock transferred to the Company. The Participant may not transfer to the Company in satisfaction of the Purchase Price any fractional share of Common Stock. Any part of the Purchase Price paid in cash upon the exercise of any Option shall be added to the general funds of the Company and may be used for any proper corporate purpose. Unless the Board shall otherwise determine, any shares of Common Stock transferred to the Company as payment of all or part of the Purchase Price upon the exercise of any Option shall be held as treasury shares.

6.05 Change in Control. Unless otherwise provided by the Board in the applicable Award Agreement, in the event of a Change in Control, all Options and Stock Appreciation Rights Outstanding on the date of such Change in Control shall become immediately and fully exercisable. The provisions of this Section 6.05 shall not be applicable to any Options or Stock Appreciation Rights granted to a Participant if any Change in Control results from such Participant's beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of Company Voting Securities.

ARTICLE VII

RESTRICTED SHARES

7.01 Restricted Share Awards. The Board may grant to any Participant an Award of such number of shares of Common Stock on such terms, conditions and restrictions, whether based on performance standards, periods of service, retention by the Participant of ownership of purchased or designated shares of Common Stock or other criteria, as the Board shall establish. The terms of any Restricted Share Award granted under this Plan shall be set forth in an Award Agreement which shall contain provisions determined by the Board and not inconsistent with this Plan.

(a) Issuance of Restricted Shares. As soon as practicable after the Date of Grant of a Restricted Share Award by the Board, the Company shall cause to be transferred on the books of the Company or its agent, shares of Common Stock, registered on behalf of the Participant, evidencing the Restricted Shares covered by the Award, subject to forfeiture to the Company as of the Date of Grant if an Award Agreement with respect to the Restricted Shares covered by the Award is not duly executed by the Participant and timely returned to the Company. All shares of Common Stock covered by Awards under this Article VII shall be subject to the restrictions, terms and conditions contained in the Plan and the applicable Award Agreements entered into by the appropriate Participants. Until the lapse or release of all restrictions applicable to an Award of Restricted Shares the share certificates representing such Restricted Shares may be held in custody by the Company, its designee, or, if the certificates bear a restrictive legend, by the Participant. Upon the lapse or release of all restrictions with respect to an Award as described in Section 7.01(d), one or more share certificates, registered in the name of the Participant, for an appropriate number of shares as provided in Section 7.01(d), free of any restrictions set forth in the Plan and the related Award Agreement shall be delivered to the Participant.

(b) Shareholder Rights. Beginning on the Date of Grant of a Restricted Share Award and subject to execution of the related Award Agreement as provided in Section 7.01(a), and except as otherwise provided in such Award Agreement, the Participant shall become a shareholder of the Company with respect to all shares subject to the Award Agreement and shall have all of the rights of a shareholder, including, but not limited to, the right to vote such shares and the right to receive dividends; *provided, however*, that any shares of Common Stock distributed as a dividend or otherwise with respect to any Restricted Shares as to which the restrictions have not yet lapsed, shall be subject to the same restrictions as such Restricted Shares and held or restricted as provided in Section 7.01(a).

(c) Restriction on Transferability. None of the Restricted Shares may be assigned or transferred (other than by will or the laws of descent and distribution or to an *inter vivos* trust with respect to which the Participant is treated as the owner under Sections 671 through 677 of the Code), pledged or sold prior to the lapse of the restrictions applicable thereto.

(d) Delivery of Shares Upon Vesting. Upon expiration or earlier termination of the forfeiture period without a forfeiture and the satisfaction of or release from any other conditions prescribed by the Board, or at such earlier time as provided under the provisions of Section 7.03, the restrictions applicable to the Restricted Shares shall lapse. As promptly as administratively feasible thereafter, subject to the requirements of Section 9.05, the Company shall deliver to the Participant or, in case of the Participant's death, to the Participant's Beneficiary, one or more share certificates for the appropriate number of shares of Common Stock, free of all such restrictions, except for any restrictions that may be imposed by law.

7.02 Terms of Restricted Shares.

(a) Forfeiture of Restricted Shares. Subject to Sections 7.02(b) and 7.03, Restricted Shares shall be forfeited and returned to the Company and all rights of the Participant with respect to such Restricted Shares shall terminate unless the Participant continues in the service of the Company or a Subsidiary as an employee until the expiration of the forfeiture period for such Restricted Shares and satisfies any and all other conditions set forth in the Award Agreement. The Board shall determine the forfeiture period (which may, but need not, lapse in installments) and any other terms and conditions applicable with respect to any Restricted Share Award.

(b) Waiver of Forfeiture Period. Notwithstanding anything contained in this Article VII to the contrary, the Board may, in its sole discretion, waive the forfeiture period and any other conditions set forth in any Award Agreement under appropriate circumstances (including the death, Disability or Retirement of the Participant or a material change in circumstances arising after the date of an Award) and subject to such terms and conditions (including forfeiture of a proportionate number of the Restricted Shares) as the Board shall deem appropriate.

(c) Repurchase Rights. The Board may, but shall not be required to, grant to Participants who promptly inform the Board of their intention to elect federal income taxation under Section 83(b) of the Code, the right to require the Company to repurchase upon their termination of employment for any reason other than cause the shares for which federal income tax treatment under Section 83(b) of the Code was elected. Such repurchase right, if granted, may be exercised by the Participant at any time after his or her termination of employment at a price to be determined by the Board at the date of grant but in no event greater than the fair market value of such shares at the time federal income tax treatment under Section 83(b) of the Code was elected.

7.03 Change in Control. Unless otherwise provided by the Board in the applicable Award Agreement, in the event of a Change in Control, all restrictions applicable to the Restricted Share Award shall terminate fully and the Participant shall immediately have the right to the delivery of share certificates for such shares in accordance with Section 7.01(d).

ARTICLE VIII

PERFORMANCE AWARDS

8.01 Performance Awards.

(a) Award Periods and Calculations of Potential Incentive Amounts. The Board may grant Performance Awards to Participants. A Performance Award shall consist of the right to receive a payment (measured by the Fair Market Value of a specified number of shares of Common Stock, increases in such Fair Market Value during the Award Period and/or a fixed cash amount) contingent upon the extent to which certain predetermined performance targets have been met during an Award Period. Performance Awards may be made in conjunction with, or in addition to, any other Awards made under this Plan. The Award Period shall be two or more fiscal or calendar years as determined by the Board. The Board, in its discretion and under such terms as it deems appropriate, may permit newly eligible employees, such as those who are promoted or newly hired, to receive Performance Awards after an Award Period has commenced.

(b) Performance Targets. The performance targets may include such goals related to the performance of the Company and/or the performance of a Participant as may be established by the Board in its discretion. The performance targets established by the Board may vary for different Award Periods and need not be the same for each Participant receiving a Performance Award in an Award Period. The Board, in its discretion, but only under extraordinary circumstances as determined by the Board, may change any prior determination of performance targets for any Award Period at any time prior to the final determination of the value of a related Performance Award when events or transactions occur to cause such performance targets to be an inappropriate measure of achievement.

(c) Earning Performance Awards. The Board, on or as soon as practicable after the Date of Grant, shall prescribe a formula to determine the percentage of the applicable Performance Award to be earned based upon the degree of attainment of performance targets.

(d) Payment of Earned Performance Awards. Payments of earned Performance Awards shall be made in cash or shares of Common Stock or a combination of cash and shares of Common Stock, in the discretion of the Board. The Board, in its sole discretion, may provide such terms and conditions with respect to the payment of earned Performance Awards as it may deem desirable.

8.02 Terms of Performance Awards.

(a) Termination of Employment. Unless otherwise provided below or in Section 8.03, in the case of a Participant's Termination of Employment prior to the end of an Award Period, the Participant will not have earned any Performance Awards for that Award Period.

(b) Retirement. If a Participant's Termination of Employment is because of Retirement prior to the end of an Award Period, the Participant will not be paid any Performance Award, unless the Board, in its sole and exclusive discretion, determines that an Award should be paid. In such a case, the Participant shall be entitled to receive a pro-rata portion of his or her Award as determined under subsection (d).

(c) Death or Disability. If a Participant's Termination of Employment is due to death or to Disability (as determined in the sole and exclusive discretion of the Board) prior to the end of an Award Period, the Participant or the Participant's personal representative shall be entitled to receive a pro-rata share of his or her Award as determined under subsection (d).

(d) Pro-Rata Payment. The amount of any payment to be made to a Participant whose employment is terminated by Retirement, death or Disability (under the circumstances described in subsections (b) and (c)) will be the amount determined by multiplying (i) the amount of the Performance Award that would have been earned through the end of the Award Period had such employment not been terminated by (ii) a fraction, the numerator of which is the number of whole months such Participant was employed during the Award Period, and the denominator of which is the total number of months of the Award Period. Any such payment made to a Participant whose employment is terminated prior to the end of an Award Period shall be made at the end of such Award Period, unless otherwise determined by the Board in its sole discretion. Any partial payment previously made or credited to a deferred account for the benefit of a Participant in accordance with Section 8.01(d) of the Plan shall be subtracted from the amount otherwise determined as payable as provided in this Section 8.02(d).

(e) Other Events. Notwithstanding anything to the contrary in this Article VIII, the Board may, in its sole and exclusive discretion, determine to pay all or any portion of a Performance Award to a Participant who has terminated employment prior to the end of an Award Period under certain circumstances (including the death, Disability or Retirement of the Participant or a material change in circumstances arising after the Date of Grant), subject to such terms and conditions as the Board shall deem appropriate.

8.03 Change in Control. Unless otherwise provided by the Board in the applicable Award Agreement, in the event of a Change in Control, all Performance Awards for all Award Periods shall immediately become fully vested and payable to all Participants and shall be paid to Participants within 30 days after such Change in Control.

ARTICLE IX

TERMS APPLICABLE TO ALL AWARDS GRANTED UNDER THE PLAN

9.01 Plan Provisions Control Award Terms. The terms of the Plan shall govern all Awards granted under the Plan, and in no event shall the Board have the power to grant any Award under the Plan the terms of which are contrary to any of the provisions of the Plan. In the event any provision of any Award granted under the Plan shall conflict with any term in the Plan as constituted on the Date of Grant of such Award, the term in the Plan as constituted on the Date of Grant of such Award shall control. Except as provided in Section 9.03 and Section 9.07, the terms of any Award granted under the Plan may not be changed after the Date of Grant of such Award so as to materially decrease the value of the Award without the express written approval of the holder.

9.02 Award Agreement. No person shall have any rights under any Award granted under the Plan unless and until the Company and the Participant to whom such Award shall have been granted shall have executed and delivered an Award Agreement or the Participant shall have received and acknowledged notice of the Award authorized by the Board expressly granting the Award to such person and containing provisions setting forth the terms of the Award.

9.03 Modification of Award After Grant. No Award granted under the Plan to a Participant may be modified (unless such modification does not materially decrease the value of that Award) after its Date of Grant except by express written agreement between the Company and such Participant, provided that any such change (a) may not be inconsistent with the terms of the Plan, and (b) shall be approved by the Board.

9.04 Limitation on Transfer. Except as provided in Section 7.01(c) in the case of Restricted Shares, a Participant's rights and interest under the Plan may not be assigned or transferred other than by will or the laws of descent and distribution and, during the lifetime of a Participant, only the Participant personally (or the Participant's personal representative) may exercise rights under the Plan. The Participant's Beneficiary may exercise the Participant's rights to the extent they are exercisable under the Plan following the death of the Participant. Notwithstanding the foregoing, the Board may grant Non-Qualified Stock Options that are transferable, without payment of consideration, to such persons, including, but not limited to, immediate family members of the Participant or to trusts or partnerships for such family members, and the Board may also amend outstanding Non-Qualified Stock Options to provide for such transferability.

9.05 Taxes. The Company shall be entitled, if the Board deems it necessary or desirable, to withhold (or secure payment from the Participant in lieu of withholding) the amount of any withholding or other tax required by law to be withheld or paid by the Company with respect to any amount payable and/or shares issuable under such Participant's Award or with respect to any income recognized upon a disqualifying disposition (i.e. a disposition prior to the expiration of the requisite holding periods) of shares received pursuant to the exercise of an Incentive Stock Option, and the Company may defer payment of cash or issuance of shares upon exercise or vesting of an Award unless indemnified to its satisfaction against any liability for any such tax. The amount of such withholding or tax payment shall be determined by the Board and shall be payable by the Participant in cash at such time as the Board determines; *provided, however,* that with the approval of the Board, the Participant may elect to meet his or her withholding requirement, in whole or in part, by having withheld from such Award at the appropriate time that number of shares of Common Stock, rounded up to the next whole share, the Fair Market Value of which is equal to the amount of withholding taxes due.

9.06 Intentionally Omitted.

9.07 Adjustments to Reflect Capital Changes.

(a) Recapitalization. The number and kind of shares subject to outstanding Awards, the Purchase Price or Exercise Price for such shares, the number and kind of shares available for Awards subsequently granted under the Plan and the maximum number of shares in respect of which Awards can be made to any Participant in any calendar year shall be appropriately adjusted to reflect any stock dividend, stock split, combination or exchange of shares, merger, consolidation or other change in capitalization with a similar substantive effect upon the Plan or the Awards granted under the Plan. The Board shall have the power and sole discretion to determine the amount of the adjustment to be made in each case.

(b) Merger. After any Merger in which the Company is the surviving corporation, each Participant shall, at no additional cost, be entitled upon any exercise of an Option or receipt of any other Award to receive (subject to any required action by shareholders), in lieu of the number of shares of Common Stock receivable or exercisable pursuant to such Award prior to such Merger, the number and class of shares or other securities to which such Participant would have been entitled pursuant to the terms of the Merger if, at the time of the Merger, such Participant had been the holder of record of a number of shares of Common Stock equal to the number of shares of Common Stock receivable or exercisable pursuant to such Award. Comparable rights shall accrue to each Participant in the event of successive Mergers of the character described above. In the event of a Merger in which the Company is not the surviving corporation, the surviving, continuing, successor or purchasing corporation, as the case may be (the "Acquiring Corporation"), will either assume the Company's rights and obligations under outstanding Award Agreements or substitute awards in respect of the Acquiring Corporation's stock for outstanding Awards, *provided, however,* that if the Acquiring Corporation does not assume or substitute for such outstanding Awards, the Board shall provide prior to the Merger that any unexercisable and/or unvested portion of the outstanding Awards shall be immediately exercisable and vested as of a date prior to such Merger, as the Board so determines. The exercise and/or vesting of any Award that was permissible solely by reason of this Section 9.07(b) shall be conditioned upon the consummation of the Merger. Any Options which are neither assumed by the Acquiring Corporation nor exercised as of the date of the Merger shall terminate effective as of the effective date of the Merger.

(c) Options to Purchase Shares or Stock of Acquired Companies. After any merger in which the Company or a Subsidiary shall be a surviving corporation, the Board may grant substituted options under the provisions of the Plan, pursuant to Section 424 of the Code, replacing old options granted under a plan of another party to the merger whose shares of stock subject to the old options may no longer be issued following the merger. The manner of application of the foregoing provisions to such options and any appropriate adjustments shall be determined by the Board in its sole discretion. Any such adjustments may provide for the elimination of any fractional shares which might otherwise become subject to any Options.

9.08 Certain Conditions on Awards. The Board may cancel any unexpired Awards at any time the Participant is not in compliance with any agreement between the Company and the Participant or any other legal obligation of the Participant relating to non-competition, confidentiality or proprietary interests and failure to comply with such agreements or obligations prior to, or during the twelve (12) months after, any exercise of an Option or Stock Appreciation Right shall result in the rescission of the exercise and the difference between the Fair Market Value on the date of exercise of the subject shares of Common Stock and the Purchase Price or Exercise Price, as the case may be, shall be returned to the Company by the Participant in cash within ten (10) days after notice of the rescission has been given to the Participant by the Company. Such notice may be given at any time within two years of the date of exercise.

9.09 Initial Public Offering. As a condition of participation under this Plan, each Participant shall be obligated to cooperate with the Company and the underwriters in connection with any public offering of the Company's securities and any transactions relating thereto and shall execute and deliver such agreements and documents, including without limitation, a lock-up agreement, as may be requested by the Company or the underwriters. The Participants' obligations under this Section 9.09 shall apply to any shares of Common Stock issued under the Plan as well as to any and all other securities of the Company or its successor for which such Common Stock may be exchanged or into which such Common Stock may be converted.

9.10 No Right to Employment. No employee or other person shall have any claim of right to be granted an Award under the Plan. Neither the Plan nor any action taken hereunder shall be construed as giving any employee any right to be retained in the employ of the Company or any of its Subsidiaries.

9.11 Awards Not Includable for Benefit Purposes. Payments received by a Participant pursuant to the provisions of the Plan shall not be included in the determination of benefits under any pension, group insurance or other benefit plan applicable to the Participant which is maintained by the Company or any of its Subsidiaries, except as may be provided under the terms of such plans or determined by the Board.

9.12 Governing Law. All determinations made and actions taken pursuant to the Plan shall be governed by the internal laws of the State of Delaware, except for its principles of conflict of laws, and construed in accordance therewith.

9.13 No Strict Construction. No rule of strict construction shall be implied against the Company, the Board or any other person in the interpretation of any of the terms of the Plan, any Award granted under the Plan or any rule or procedure established by the Board.

9.14 Captions. The captions (i.e., all Section headings) used in the Plan are for convenience only, do not constitute a part of the Plan, and shall not be deemed to limit, characterize or affect in any way any provisions of the Plan, and all provisions of the Plan shall be construed as if no captions had been used in the Plan.

9.15 Severability. Whenever possible, each provision in the Plan and every Award at any time granted under the Plan shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of the Plan or any Award at any time granted under the Plan shall be held to be prohibited by or invalid under applicable law, then (a) such provision shall be deemed amended to accomplish the objectives of the provision as originally written to the fullest extent permitted by law and (b) all other provisions of the Plan, such Award and every other Award at any time granted under the Plan shall remain in full force and effect.

9.16 Amendment and Termination.

(a) Amendment. The Board shall have complete power and authority to amend the Plan at any time. No termination or amendment of the Plan may, without the consent of the Participant to whom any Award shall theretofore have been granted under the Plan, materially adversely affect the right of such individual under such Award.

(b) Termination. The Board shall have the right and the power to terminate the Plan at any time. No Award shall be granted under the Plan after the termination of the Plan, but the termination of the Plan shall not have any other effect and any Award outstanding at the time of the termination of the Plan may be exercised after termination of the Plan at any time prior to the expiration date of such Award to the same extent such Award would have been exercisable had the Plan not been terminated.