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

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FORM 10-Q

(MARK ONE)

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

For the quarterly period ended September 30, 2000 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) 232-4000**

(Registrant's telephone number, including area code)

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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 November 14, 2000 there were 97,050,000 shares of the registrant's common stock outstanding.

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FORM 10-Q  
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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 September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
Net sales.....	\$ 182,509	\$ 108,658	\$ 491,404	\$ 266,596
Cost of products sold.....	101,327	66,398	275,480	162,056
Gross margin.....	81,182	42,260	215,924	104,540
Other costs & expenses				
Selling.....	15,881	10,085	40,899	27,657
General and administrative.....	15,670	10,608	43,295	29,971
Research & development.....	17,527	12,347	51,029	37,079
Amortization of goodwill & intangible assets.....	2,320	2,320	6,960	6,960
Income from operations.....	29,784	6,900	73,741	2,873
Other income (expense)				
Royalty income.....	3,296	1,455	11,068	4,180
Equity income of Sumitomo Eaton Nova Corporation.....	5,479	4,981	12,135	1,232
Other income (expense) - net.....	2,824	(259)	3,039	(851)
Total other income.....	11,599	6,177	26,242	4,561
Income before income taxes.....	41,383	13,077	99,983	7,434
Income taxes.....	12,903	3,428	31,070	1,948
Net income.....	\$ 28,480	\$ 9,649	\$ 68,913	\$ 5,486

Basic & diluted net income

per share.....	\$	0.30	\$	0.12	\$	0.81	\$	0.07
Shares used in computing basic & diluted net income per share.....		95,028		80,000		85,046		80,000
Dividends declared per common share*					\$	3.75		

\*Calculated using the 80,000,000 shares owned by Eaton Corporation at the declaration date and prior to the initial public offering.

See accompanying notes to consolidated financial statements.

**AXCELIS TECHNOLOGIES, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**(UNAUDITED)**

(In thousands)	September 30, 2000	December 31, 1999
<b>ASSETS</b>		
Current assets		
Cash and short-term investments.....	\$ 129,780	\$ 3,530
Accounts receivable, net.....	134,006	101,335
Receivable from Eaton Corporation.....		11,241
Inventories.....	121,939	83,326
Deferred income taxes.....	27,594	33,036
Prepaid expenses.....	3,718	3,024
Total current assets.....	417,037	235,492
Property, plant and equipment, net.....	65,896	73,809
Investment in Sumitomo Eaton Nova Corporation...	37,324	22,210
Goodwill.....	43,862	47,006
Intangible assets.....	21,864	26,190
Other assets.....	19,431	18,128
Total assets.....	\$ 605,414	\$ 422,835
<b>LIABILITIES AND STOCKHOLDERS' EQUITY/ PARENT COMPANY INVESTMENT</b>		
Current liabilities		
Accounts payable.....	\$ 31,687	\$ 24,579
Payable to Eaton Corporation.....	14,423	
Accrued compensation.....	14,271	8,984
Warranty reserve.....	32,347	18,568
Other current liabilities.....	36,752	13,602
Total current liabilities.....	129,480	65,733
Deferred income taxes.....	10,369	10,238
Pension & other employee benefit liabilities....	3,301	4,568
Stockholders' equity/Parent company investment		
Common Stock.....	97	
Additional paid-in capital.....	436,978	
Retained earnings.....	28,479	
Accumulated other comprehensive income (loss)	(3,290)	(5,529)
Parent company investment.....		347,825
Total Stockholders' equity/parent company investment.....	462,264	342,296
Total liabilities and stockholders' equity/parent company investment	\$ 605,414	\$ 422,835

See accompanying notes to consolidated financial statements.

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

(In thousands)	Nine Months Ended September 30,	
	2000	1999
<b>Cash flows from operating activities:</b>		
Net income.....	\$ 68,913	\$ 5,485
Adjustments required to reconcile to net cash provided by (used in) operating activities:		
Depreciation.....	6,434	6,409
Amortization of goodwill & intangible assets	6,960	6,960
Deferred income taxes.....	(7,559)	5,249
Pension liability and OPEB reserve.....	(1,038)	464
Undistributed income of Sumitomo Eaton Nova Corporation.....	(12,135)	(1,232)
Deferred royalty income from Sumitomo Eaton Nova Corporation.....		(2,286)
Restructuring charges.....		(5,080)
Changes in operating assets & liabilities, excluding non-cash restructuring charges:		
Accounts receivable, net.....	(33,674)	(56,498)
Inventories.....	(38,825)	(12,367)
Accounts payable and other current liabilities.....	61,390	14,169
Other assets.....	(1,317)	6,812
Other - net.....	(1,026)	2,426
Cash provided by (used in) operating activities...	48,123	(29,489)
<b>Cash flows from investing activities:</b>		
Expenditures for property, plant & equipment....	(7,821)	(11,252)
Proceeds from sale of Austin, Texas facility....	10,967	
Other - net.....	(1,659)	(2,487)
Net cash provided by (used in) investing activities.....	1,487	(13,739)
<b>Cash flows from financing activities:</b>		
Net proceeds from the sale of Axcelis common shares.....	349,262	
Payment of previously declared dividend to Eaton Corporation.....	(300,000)	
Net transfers from Parent Company.....	27,378	41,830
Net cash provided by financing activities.....	76,640	41,830
Net increase (decrease) in cash & short-term investments.....	126,250	(1,398)
Cash & short-term investments at beginning of period.....	3,530	3,338
Cash & short term investments at end of period....	\$ 129,780	\$ 1,940

See accompanying notes to consolidated financial statements.

**AXCELIS TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**  
**NINE MONTHS ENDED SEPTEMBER 30, 2000**

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 equipment used in the fabrication of semiconductors.

The Company also produces dry strip, photostabilization and rapid thermal processing equipment, which is used in semiconductor manufacturing primarily before and after the ion implantation process. In addition, it provides extensive aftermarket service and support, including spare parts, equipment upgrades, maintenance services and customer training. The Company has a 50-50 joint venture in Japan with Sumitomo Heavy Industries, Ltd. This joint venture, which is known as Sumitomo Eaton Nova Corporation, or SEN, licenses technology from Axcelis 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.

The financial statements include normal recurring adjustments which are, in the opinion of management, necessary for the fair presentation of the results of these periods. Prior to the initial public offering, Eaton did not account for or operate the Company as a separate, stand-alone entity and, as a result, the financial information included herein may not reflect the Company's consolidated financial position at December 31, 1999, or operating results and cash flows for the periods presented if it had been a separate, stand-alone entity. Parent Company investment represents Eaton's investment in Axcelis. All significant intercompany balances and transactions have been eliminated in the accompanying financial statements. The equity method is used to account for the 50% investment in SEN.

The accompanying consolidated financial statements for the three and nine months ended September 30, 2000 and 1999 are unaudited and have been prepared on a basis consistent with the audited financial statements included in the Company's Registration Statement (Registration No. 333- 36330) on Form S-1 filed with the Securities and Exchange Commission on May 5, 2000, as amended ("Registration Statement"). The combined balance sheet at December 31, 1999 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. The consolidated financial statements should be read in conjunction with the combined financial statements and related notes included in the Registration Statement. The results of operations for the three and nine months ended September 30, 2000 are not necessarily indicative of results to be expected for the entire year or any other period.

## 2) Initial Public Offering

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. At the offering price of \$22.00 per share, the Company received \$349.3 million from these trans- actions, net of underwriting discounts, commissions and related expenses. The net proceeds, together with cash from other sources, were used to pay a previously declared \$300 million dividend to Eaton. Remaining proceeds will be used for general corporate purposes. Prior to the IPO, Eaton owned 100% of the 80,000,000 shares of the outstanding Axcelis common stock.

On October 13, 2000, Eaton received confirmation from the Internal Revenue Service that the divestiture of its Axcelis common stock via a stock distribution to Eaton shareholders' will be tax-free to Eaton and its shareholders. On October 25, 2000, Eaton's Board of Directors declared a dividend distribution of all of its Axcelis shares. Eaton announced that the dividend will be distributed on December 29, 2000 to Eaton shareholders of record as of 5 p.m. Eastern Standard Time on December 6, 2000. Eaton currently holds 79,994,900 shares, or approximately 82 percent, of the outstanding common stock in Axcelis.

## 3) Net Income Per Share

Basic net income per share is calculated based on the weighted average number of shares of common stock outstanding during the period. Diluted net income 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. The dilutive effect of stock options outstanding during fiscal 2000 was insignificant. No stock options were outstanding during fiscal 1999.

## 4) Comprehensive Income

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
Net income.....	\$ 28,480	\$ 9,649	\$ 68,913	\$ 5,486
Foreign currency translation adjustments.....	(744)	1,958	2,239	267
Comprehensive income.....	\$ 27,736	\$ 11,607	\$ 71,152	\$ 5,753

## 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):

	September 30, 2000	December 31, 1999
Raw materials.....	\$ 80,916	\$ 54,146
Work-in-process.....	26,621	19,229
Finished goods.....	25,109	20,800
	-----	-----
	132,646	94,175
Inventory allowances.....	(10,707)	(10,849)
	-----	-----
	\$ 121,939	\$ 83,326
	=====	=====

#### 6) Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board 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 must adopt the standard by the first quarter of 2001. SFAS No. 133 is not expected to have a material impact on the Company's consolidated financial statements.

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements". SAB 101, which was subsequently amended by SAB No. 101A and SAB No. 101B (collectively referred to as SAB 101), articulates certain of the SEC staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. The Company has concluded that its revenue recognition policy continues to be appropriate and in accordance with generally accepted accounting principles and SAB 101.

## **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 equipment used in the fabrication of semiconductors. We also produce dry strip, photostabilization and 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.

### **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. 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 will reimburse Eaton for its direct and indirect costs of providing these services until 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 vary, but are generally less than two years from July 10, 2000. The agreements do not necessarily reflect the costs of obtaining these services from unrelated third parties or of providing the applicable services in-house. However, management believes that purchasing these services from Eaton provides an efficient means of obtaining these services during the transition period. We must also negotiate new agreements with various third parties as a separate, standalone entity. There can be no assurance that the terms we will be able to negotiate for these agreements will be as favorable as those we have enjoyed as part of Eaton. See "Arrangements with Eaton" included in our Registration Statement on Form S-1 for a more detailed discussion of the agreements entered into between our company and Eaton.

## Results of Operations

During the third quarter of fiscal 2000, demand for our products and services continued to grow as semiconductor manufacturers added capacity and invested in new technology in response to strong demand for communications and consumer electronic products and the resulting increase in semiconductor use. As a result, net sales for the third quarter of fiscal 2000 reached new quarterly records. Historically, semiconductor and semiconductor manufacturing equipment industries have been cyclical; therefore, our results of operations for the three and nine months ended September 30, 2000 may not necessarily be indicative of future operating results.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
Net sales.....	100.0%	100.0%	100.0%	100.0%
Gross profit.....	44.5	38.9	43.9	39.2
Other costs & expenses				
Selling.....	8.7	9.3	8.3	10.4
General & administrative.....	8.6	9.8	8.8	11.2
Research & development.....	9.6	11.4	10.4	13.9
Amortization of goodwill & intangible assets.....	1.3	2.1	1.4	2.6
Income from operations	16.3	6.4	15.0	1.0
Other income (expense)				
Royalty income.....	1.8	1.3	2.3	1.6
Equity income of SEN.....	3.0	4.6	2.5	0.5
Other income (expense)-net....	1.6	(0.2)	0.6	(0.3)
Income before income taxes.....	22.7	12.0	20.4	2.8
Income taxes.....	7.0	3.2	6.3	0.7
Net income.....	15.6%	8.9%	14.0%	2.1%

### Net Sales

Net sales for the third fiscal quarter of 2000 increased \$73.9 million, or 68.0%, to a record \$182.5 million from \$108.7 million for the comparable period in 1999. Net sales for the nine months ended September 30, 2000 increased \$224.8 million, or 84.3%, to \$491.4 million from \$266.6 million for the same period in 1999. These improvements were driven by continued high levels of capital spending by our semiconductor manufacturing customers, resulting in increased demand for our products.

### Gross Margin

Gross margin was 44.5% for the third fiscal quarter of 2000, up from 38.9% for the third fiscal quarter of 1999. Gross margin for the nine months ended September 30, 2000 was 43.9% compared to 39.2% for the comparable period in fiscal 1999. Increases from prior year periods were due primarily to improved capacity utilization resulting from higher sales volume, as well as ongoing productivity improvements.

### Operating Expenses

Operating expenses were 28.2% of net sales for the three months ended September 30, 2000, compared to 32.6% for the three months ended September 30, 1999, and 28.9% of net sales for the nine months ended September 30, 2000, compared to 38.1% for the nine months ended September 30, 1999. The decreases from prior year periods are due primarily to higher sales volume. In absolute dollars, operating expenses for the three and nine months ended September 30, 2000 were higher than those for the comparable periods of fiscal 1999. Research and development expenses increased to support our continuing investment to deliver new and enhanced generations of our 300mm tools. Selling, general and administrative expenses increased as a result of higher personnel costs associated with increases in headcount necessary to support our increased business volume.

### Income From Operations

Income from operations was \$29.8 million for the third quarter of fiscal 2000 as compared to \$6.9 million for the third quarter of fiscal 1999. Income from operations was \$73.7 million for the first nine months of fiscal 2000 compared to \$2.9 million for the first nine months of fiscal 1999. The increase was primarily a result of the factors described above.

### Other Income (Expense)

Total other income increased to \$11.6 million for the third quarter of fiscal 2000 as compared to \$6.2 million for the third quarter of fiscal 1999. Total other income increased to \$26.2 million for the first nine months of fiscal 2000 from

\$4.6 million for the first nine months of fiscal 1999. Total other income consists primarily of royalty income and equity income from SEN. Royalty income, primarily from SEN, was \$3.3 million for the third quarter of fiscal 2000 as compared to \$1.5 million for the third quarter of fiscal 1999, and \$11.1 million for the first nine months of fiscal 2000 as compared to \$4.2 million for the first nine months of fiscal 1999. Equity income attributable to SEN was \$5.5 million for the third quarter of fiscal 2000 compared to \$5.0 million for the third quarter of fiscal 1999, and \$12.1 million for the first nine months of fiscal 2000 as compared to \$1.2 million for the first nine months of fiscal 1999. The increases in fiscal 2000 were attributable to increased SEN sales volume due primarily to the recovery in the Japanese semiconductor market, which began in late 1999.

#### Income Taxes

Income taxes were \$12.9 million in the third quarter of fiscal 2000 as compared to \$3.4 million in the third quarter of fiscal 1999. Income taxes were \$31.1 million in the first nine months of fiscal 2000 as compared to \$1.9 million in the first nine months of fiscal 1999. The effective income tax rate was 31.2% in the third quarter of fiscal 2000 and 31.1% in the first nine months of fiscal 2000, as compared to a 26.2% tax rate in the third quarter and first nine months of fiscal 1999. The tax rate in all periods differs from the U.S. statutory rate primarily due to undistributed nontaxable equity income (losses) from SEN and credits from increased research activities. These adjustments had a lesser impact on the current year's tax rate as compared to the prior year's rate due to the significant increase in pretax income in fiscal 2000.

#### Net Income

Net income increased to \$28.5 million in the third quarter of fiscal 2000 and \$68.9 million in the first nine months of fiscal 2000 as compared to \$9.6 million in the third quarter of fiscal 1999 and \$5.5 million in the first nine months of fiscal 1999. The increases were principally a result of the factors discussed above. Earnings per share were \$0.30 in the third quarter of fiscal 2000 and \$0.81 in the first nine months of fiscal 2000. Comparable earnings per share were \$0.12 and \$0.07 in fiscal 1999, respectively.

#### Financial Condition, Liquidity and Capital Resources

As of September 30, 2000, cash and short-term investments were \$129.8 million, compared with \$3.5 million as of December 31, 1999. Significant sources of cash were net income of \$68.9 million, net proceeds received from the initial public offering of \$49.3 million, subsequent to the payment of the \$300 million dividend to Eaton, and the sale of the our Austin, Texas facility for \$11.0 million. Net working capital was \$287.6 million at September 30, 2000 as compared to net working capital of \$169.8 million as of December 31, 1999. The increases in cash, accounts receivable and inventory were the primary causes of the increase in working capital, all of which increased primarily as a result of higher business volume in the first nine months of fiscal 2000.

Net cash provided by operating activities was \$48.1 million for the nine months ended September 30, 2000 as compared to net cash used of \$29.5 million for the nine months ended September 30, 1999. The cash provided by operating activities in the first nine months of fiscal 2000 was primarily the result of improved earnings performance and working capital management.

Capital expenditures were \$7.8 million in the first nine months of fiscal 2000 and \$11.2 million in the first nine months of fiscal 1999. The amount of future capital requirements will depend on a number of factors, including the timing and rate of the expansion of our business. We anticipate increased capital expenditures to support our worldwide sales growth including the expansion of our Beverly, Massachusetts and Rockville, Maryland facilities.

On July 10, 2000, we completed our initial public offering of 15,500,000 shares of common stock. Additionally, on July 20, 2000, the underwriters of the offering exercised their over-allotment option to purchase an additional 1,550,000 shares. At the offering price of \$22.00 per share, the Company received \$349.3 million, net of underwriting discounts, commissions and related expenses, \$300 million of which was used to pay a previously declared dividend to Eaton.

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, the Company's management believes that the net proceeds from the IPO retained by us, together with available cash and our cash flows from operations, will provide sufficient working capital to 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 "Risk



Factors" beginning on page 9 of our Form S-1 Registration Statement. 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 the audited combined financial statements and related notes for the year ended December 31, 1999 under Management's Discussion and Analysis - Quantitative and Qualitative Disclosure about Market Risk as presented in our Form S-1 Registration Statement. There were no material changes during the nine months ended September 30, 2000.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

From time to time, a number of lawsuits, claims and proceedings have been or may be asserted by or against us relating to the conduct of our business, including those pertaining to patent validity or infringement, commercial, employment and employee benefit matters.

Earlier this year, we defended a reexamination before the United States Patent and Trademark Office ("USPTO") of a patent, expiring in 2005, which is important to us because it relates to ion implantation equipment having a significant market share. On June 22, 2000, the USPTO issued a decision confirming the patentability of our claims in the patent with certain amendments that we believe are not material. Thereafter, the USPTO ordered a second reexamination of the same patent pursuant to an earlier-filed request by the same requester, and merged the two reexamination proceedings. The USPTO has not yet acted on the merits of the second request.

While the outcome of these lawsuits, claims and uncertainties (including the second reexamination by the USPTO referred to above) cannot be predicted with certainty, we do not believe that the likely disposition of any such pending matters will materially affect us.

### **Item 2. Changes in Securities and Use of Proceeds**

In connection with our initial public offering (IPO) in July 2000, Axcelis filed its Registration Statement, which was declared effective on July 10, 2000. The managing underwriters in the offering were Goldman, Sachs & Co., Morgan Stanley Dean Witter, Lehman Brothers and Salomon Smith Barney.

In the IPO (including the exercise of the over-allotment option), Axcelis sold 17,050,000 shares of common stock at \$22.00 per share resulting in gross proceeds of \$375.1 million, \$22.5 million of which was applied toward the underwriting discounts and commissions. Other expenses related to the IPO are estimated to have been \$3.3 million and have been paid or are payable to unaffiliated parties. The company used a portion of the proceeds for the payment of a previously declared dividend to Eaton of \$300 million. Axcelis currently expects to use the remaining net proceeds primarily for general corporate purposes. Eaton currently plans to divest of its 79,994,900 shares of Axcelis common stock prior to year end via a dividend distribution to Eaton shareholders.

### **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 by the Board of Directors on October 25, 2000; filed herewith.
- 10.2 Employee Stock Purchase Plan; filed herewith.
- 27.0 Financial Data Schedule for the nine months ended September 30, 2000; 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.

Dated: November 14, 2000

By: /s/ Brian R. Bachman

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Brian R. Bachman  
*Vice Chairman and Chief Executive Officer*  
*Duly authorized officer*

By: /s/ Cornelius F. Moses III

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Cornelius F. Moses III  
*Executive Vice President, Chief Financial Officer*  
*Principal financial officer*

EXHIBIT INDEX

EXHIBIT NUMBER -----	DESCRIPTION -----
10.1	2000 Stock Plan, as amended by the Board of Directors on October 25, 2000; filed herewith.
10.2	Employee Stock Purchase Plan; filed herewith.
27.0	Financial Data Schedule for the nine months ended September 30, 2000; filed herewith.

**AXCELIS TECHNOLOGIES, INC.**  
**2000 STOCK PLAN**

*As amended by the Board of Directors on October 25, 2000*

**ARTICLE I**

**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. 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 after Eaton Corporation disposes of substantially all of its interest in the Company:

(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.

Neither the initial public offering of common stock of the Company nor the disposition by Eaton of all or any portion of its interest in the Company shall be a Change in Control for purposes of this Agreement.

**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 or of Eaton Corporation. A member of the Board who is an employee of Eaton Corporation shall be deemed a Non-Employee Director upon the earlier to occur of (i) his or her Retirement from Eaton Corporation or (ii) the date at which Eaton Corporation's ownership of the Common Stock of the Company is less than 20% of all then outstanding shares of Common Stock of the 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 or Eaton Corporation 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.

**4.03 Special Section 368(c) Limitation.** Notwithstanding any other provision of this Plan to the contrary, no award shall be converted into shares of Common Stock (including, but not limited to, upon exercise of an Option) if the effect of such conversion would cause Eaton Corporation to not be in control of the Company for purposes of Section 368(c) of the Code or prevent Eaton Corporation from filing a consolidated federal income tax return with the Company. Any purported conversion (including, but not limited to, an attempt to exercise an Option) shall be void and without force or effect. The Award purported to be converted into shares of Common Stock shall remain outstanding without any change in rights or obligations of the Participant or the Company. No cash or other form of consideration shall be paid or delivered in connection with any conversion prevented by this limitation. If Eaton disposes of all or substantially all of its interest in the Company, this Section 4.03 shall be without further force or effect.

## 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.** As of the date of the initial public offering of the Common Stock of the Company, each person then serving as a Non-Employee Director shall be automatically granted a Non-Qualified Stock Option to purchase 24,000 shares of Common Stock. Each calendar year thereafter, each person serving as a Non-Employee Director as of the first meeting of the Board of Directors following July 1st<sup>of</sup> such calendar year will be automatically granted a Non-Qualified Stock Option to purchase 12,000 shares of Common Stock of the Company as of such meeting of the Board of Directors. 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;
- (2) The Option shall expire on the 10<sup>th</sup> anniversary of the date of grant;
- (3) The Option shall be fully vested on the 181<sup>st</sup> day after the date of grant; and
- (4) The Option shall be exercisable in accordance with Section 6.04 of this Plan but subject to Section 4.03 of this Plan.

If a member of the Board of Directors becomes a Non-Employee Director (including as a result of the operation of the second or third sentences of Section 2.19 of this Plan) on a day other than the day of the initial public offering of the Common Stock of the Company, (i) he or she shall be granted a Non-Qualified Option to purchase up to 24,000 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 (ii) he or she shall be eligible to receive a grant of a Non-Qualified Stock Option as provided above on the day in the subsequent calendar year and each calendar year thereafter on which grants of options or other Awards under this Plan are first considered as long as he or she serves as a Non-Employee Director. 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.** In addition to the conditions imposed under Section 4.03 of this Plan, 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. Without limiting the applicability of Section 4.03, no Option shall be exercisable prior to the date of consummation of a disposition by Eaton Corporation of all or substantially all of its interest in the Company.

**(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.** Subject to Section 4.03 of this Plan, 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.** Subject to Section 4.03 of this Plan, 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.

**EMPLOYEE STOCK PURCHASE PLAN**

**1. PURPOSE.**

The purpose of this Plan is to provide an opportunity for Employees of Axcelis Technologies, Inc. (the "Corporation") and its Designated Subsidiaries, to purchase Common Stock of the Corporation and thereby to have an additional incentive to contribute to the prosperity of the Corporation. It is the intention of the Corporation that the Plan qualifies as an "Employee Stock Purchase Plan" under Section 423 of the Internal Revenue Code of 1986, as amended.

**2. DEFINITIONS.**

(a) "**Board**" shall mean the Board of Directors of the Corporation.

(b) "**Code**" shall mean the Internal Revenue Code of 1986, as amended. Any reference to a section of the Code herein shall be a reference to any successor or amended section of the Code.

(c) "**Committee**" shall mean the committee appointed by the Board in accordance with Section 14 of the Plan.

(d) "**Common Stock**" shall mean the Common Stock of the Corporation, or any stock into which such Common Stock may be converted.

(e) "**Compensation**" shall mean base pay, including pay under any system which measures earnings by quantity and quality of production, variable pay, including without limitation, bonuses and incentive payments (but excluding sign-on bonuses and bonuses paid under the Executive Incentive Compensation Plan, the Executive Strategic Compensation Plan, the Senior Operating Managers Plan, and any successors to such plans and any other similar management bonuses or incentive payments), shift premium and overtime pay, but excluding severance pay in a single lump sum and not as salary continuation, pay in lieu of vacation, cost-of-living allowance, retainers, fees, and any other special remuneration, with any modifications determined by the Committee. The Committee shall have the authority to determine and approve all forms of pay to be included in the definition of Compensation and may change the definition on a prospective basis.

(f) "**Corporation**" shall mean Axcelis Technologies, Inc., a Delaware corporation.

(g) "**Designated Subsidiary**" shall mean a Subsidiary that has been designated by the Committee as eligible to participate in the Plan with respect to its Employees.

(h) "**Employee**" shall mean an individual classified as an employee (within the meaning of Code Section 3401(c) and the regulations thereunder) by the Corporation or a Designated Subsidiary on the Corporation's or such Designated Subsidiary's payroll records during the relevant participation period. Employees shall not include individuals classified as independent contractors.

(i) "**Entry Date**" shall mean the first Trading Day of the Offering Period or, for any Employee who became a Participant after such date, the first Trading Day of the first Purchase Period commencing after the date on which such Employee became a Participant.

(j) "**Fair Market Value**" shall be the closing sales price for the Common Stock (or the closing bid, if no sales were reported) as quoted on the NASDAQ National Market, or other principal securities market on which the Common Stock is traded, on the date of determination if that date is a Trading Day, or if the date of determination is not a Trading Day, the last market Trading Day prior to the date of determination, as reported in *The Wall Street Journal* or such other source as the Committee deems reliable. "Fair Market Value" on the effective date of the Plan shall be the offering price of the Common Stock specified in the Registration Statement on Form S-1.

(k) "**Offering Period**" shall mean the period of twenty-four (24) months commencing on the first Trading Day on or about July 1 of every other year and terminating on the last Trading Day in the period ending twenty-four (24) months later. The first offering period shall commence on the beginning of the effective date of the Registration Statement on Form S-1 for the initial public offering of the Company's Common Stock (the "IPO Date") and continue until June 30, 2002, subject to the limitation set forth in Section 4.4. The duration and timing of Offering Periods may be changed or modified by the Committee.

(l) "**Participant**" shall mean a participant in the Plan as described in Section 5 of the Plan.

(m) "**Plan**" shall mean the Axcelis Technologies, Inc. Employee Stock Purchase Plan.

(n) "**Purchase Date**" shall mean the last Trading Day of each Purchase Period.

(o) "**Purchase Period**" shall mean the period of six (6) months commencing after one Purchase Date and ending with the next Purchase Date, except that the first Purchase Period shall commence on the Plan's effective date. For those Employees who are eligible and become Participants in the Plan as of the effective date of the Plan (the first Entry Date), the initial Purchase Period

will begin on the Plan's effective date and end on June 30, 2001. For those Employees who are eligible and become Participants on the Plan's second Entry Date (January 1, 2001), the initial Purchase Period for such participants will begin on January 1, 2001 and end on June 30, 2001. Subsequent Purchase Periods, if any, shall run consecutively after the termination of the preceding Purchase Period.

(p) "**Purchase Price**" shall mean 85% of the Fair Market Value of a share of Common Stock on the Entry Date or on the Purchase Date, whichever is lower; provided however, that the Purchase Price may be adjusted by the Committee pursuant to Section 7.4.

(q) "**Shareholder**" shall mean a record holder of shares entitled to vote shares of Common Stock under the Corporation's by-laws.

(r) "**Subsidiary**" shall mean any corporation (other than the Corporation) in an unbroken chain of corporations beginning with the Corporation, as described in Code Section 424(f).

(s) "**Trading Day**" shall mean a day on which U.S. national stock exchanges and the NASDAQ System are open for trading.

### **3. ELIGIBILITY.**

3.1 Any Employee regularly employed on a full-time or part-time basis by the Corporation or by any Designated Subsidiary on an Entry Date shall be eligible to participate in the Plan with respect to the Purchase Period commencing on such Entry Date, provided that the Committee may establish administrative rules requiring that employment commence some minimum period (e.g., one pay period) prior to an Entry Date to be eligible to participate with respect to the Purchase Period beginning on that Entry Date.

3.2 The Committee may also determine that a designated group of highly compensated Employees are ineligible to participate in the Plan so long as the excluded category fits within the definition of "highly compensated employee" in Code Section 414(q). No Employee may participate in the Plan if immediately after an option is granted the Employee owns or is considered to own (within the meaning of Code Section 424(d)), shares of stock, including stock which the Employee may purchase by conversion of convertible securities or under outstanding options granted by the Corporation, possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Corporation or of any of its Subsidiaries.

3.3 All Employees who participate in the Plan shall have the same rights and privileges under the Plan except for differences which may be mandated by local law and which are consistent with Code Section 423(b)(5); provided, however, that any affiliate of the Corporation whose Employees are not granted options under this Plan may adopt a separate "sub-plan" in accordance with the provisions of Section 15 which is not designed to qualify under Code section 423 and the Employees participating thereunder need not have the same rights and privileges as Employees participating in the Code section 423 Plan. The Board may impose restrictions on eligibility and participation of Employees who are officers and directors to facilitate compliance with federal or state securities laws or foreign laws.

### **4. OFFERING PERIODS.**

4.1 The Plan shall be implemented by consecutive Offering Periods with a new Offering Period commencing on the first Trading Day on or after the date twenty-four (24) months from the first date of the immediately preceding Offering Period, or on such other date as the Committee shall determine, and continuing thereafter for twenty-four (24) months or until terminated pursuant to Section 13 hereof. A Participant whose Entry Date is after the beginning of a 24-month Offering Period shall have a truncated Offering Period of eighteen (18), twelve (12), or six (6) months.

4.2 The first offering period shall commence on the beginning of the effective date of the Registration Statement on Form S-1 for the initial public offering of the Company's Common Stock (the "IPO Date") and continue until June 30, 2002.

4.3 The Committee shall have the authority to change the duration of Offering Periods (including the commencement dates thereof) with respect to future offerings without Shareholder approval if such change is announced at least five (5) days prior to the scheduled beginning of the first Offering Period to be affected thereafter.

4.4 Notwithstanding any other provision of this Plan to the contrary, no purchase under this Plan shall be consummated if the effect of such purchase would cause Eaton Corporation not to be in control of the Company for purposes of Section 368(c) of the Code or prevent Eaton Corporation from filing a consolidated federal income tax return with the Company for the period covering such purchase. All offers to sell Company Common Stock and all order to purchase shares of Common Stock shall be subject to and condition by this limitation. If Eaton Corporation disposes of all or substantially all of its ownership interest in the Company, the limitation set forth in this Section 4.4 shall be without force and effect.

### **5. PARTICIPATION.**

5.1 An Employee who is eligible to participate in the Plan in accordance with Section 3 may become a Participant by completing and submitting, on a date prescribed by the Committee prior to an applicable Entry Date (unless a later date is set by the Committee), a completed payroll deduction authorization and Plan enrollment form provided by the Corporation or by following an electronic or other enrollment process as prescribed by the Committee. An eligible Employee may authorize payroll deductions at the rate of any whole percentage of the Employee's Compensation, not to exceed ten percent (10%) of the Employee's

Compensation. As determined by the Committee, payroll deductions may begin at a date after the effective date of the Plan. All payroll deductions may be held by the Corporation and commingled with its other corporate funds where administratively appropriate. No interest shall be paid or credited to the Participant with respect to such payroll deductions. The Corporation shall maintain a separate bookkeeping account for each Participant under the Plan and the amount of each Participant's payroll deductions shall be credited to such account. A Participant may not make any additional payments into such account.

5.2 Under procedures established by the Committee, a Participant may withdraw from the Plan during a Purchase Period, by completing and filing a new payroll deduction authorization and Plan enrollment form with the Corporation or by following electronic or other procedures prescribed by the Committee, prior to a date set by the Committee that precedes the Purchase Date. If a Participant withdraws from the Plan during a Purchase Period, his or her accumulated payroll deductions will be refunded to the Participant without interest. The Committee may establish rules limiting the frequency with which Participants may withdraw and re-enroll in the Plan and may impose a waiting period on Participants wishing to re-enroll following withdrawal.

5.3 A Participant may change his or her rate of contribution through payroll deductions during the periods specified by the Committee by filing a new payroll deduction authorization and Plan enrollment form or by following electronic or other procedures prescribed by the Committee. If a Participant has not followed such procedures to change the rate of contribution, the rate of contribution shall continue at the originally elected rate throughout the Purchase Period and future Purchase Periods (including Purchase Periods of subsequent Offering Periods). In accordance with Section 423(b)(8) of the Code, the Committee may reduce a Participant's payroll deductions to zero percent (0%) at any time during a Purchase Period.

## **6. TERMINATION OF EMPLOYMENT.**

In the event any Participant terminates employment with the Corporation or any of its Designated Subsidiaries for any reason (including death) prior to the expiration of a Purchase Period, the Participant's participation in the Plan shall terminate and all amounts credited to the Participant's account shall be paid to the Participant or, in the case of death, to the Participant's heirs or estate, without interest. Whether a termination of employment has occurred shall be determined by the Committee. The Committee may also establish rules regarding when leaves of absence or changes of employment status will be considered to be a termination of employment, including rules regarding transfer of employment among Designated Subsidiaries, Subsidiaries and the Corporation, and the Committee may establish termination of employment procedures for this Plan which are independent of similar rules established under other benefit plans of the Corporation and its Subsidiaries.

## **7. OFFERING.**

7.1 Subject to adjustment as set forth in Section 10, the maximum number of shares of Common Stock which may be issued pursuant to the Plan shall be 2.5 million shares, plus an annual increase to be added on the last day of each fiscal year of the Corporation beginning in 2001, equal to one percent (1%) of the outstanding shares of the Corporation on such date or a lesser amount determined by the Committee, provided that the maximum number of shares of Common Stock that may be issued pursuant to the Plan shall be 7.5 million shares. If, on a given Purchase Date, the number of shares with respect to which options are to be exercised exceeds the number of shares then available under the Plan, the Corporation shall make a pro rata allocation of the shares remaining available for purchase in as uniform a manner as shall be practicable and as it shall determine to be equitable.

7.2 Each Purchase Period shall be determined by the Committee. For those Employees who are eligible and become Participants in the Plan as of the effective date of the Plan (the first Entry Date), the initial Purchase Period will begin on the Plan's effective date and end on June 30, 2001. For those Employees who are eligible and become Participants on the Plan's second Entry Date (January 1, 2001), the initial Purchase Period for such participants will begin on January 1, 2001 and end on June 30, 2001. Unless otherwise determined by the Committee, the Plan will operate with successive six (6) month Purchase Periods commencing at July 1 and January 1. The Committee shall have the power to change the duration of future Purchase Periods, without Shareholder approval, and without regard to the expectations of any Participants.

7.3 With respect to any Offering Period, each eligible Employee who has elected to participate as provided in Section 5.1 shall be granted, as of such Employee's Entry Date, an option for each Purchase Period within the Offering Period to purchase that number of whole shares of Common Stock (not to exceed 1,500 shares) which may be purchased with the payroll deductions accumulated on behalf of such Employee during each such Purchase Period at the purchase price specified in Section 7.4 below, subject to the additional limitation that no Employee participating in the Section 423 Plan shall be granted an option to purchase Common Stock under the Plan at a rate which exceeds U.S. twenty-five thousand dollars (U.S. \$25,000) of the Fair Market Value of such Common Stock (determined at the time such option is granted) for each calendar year in which such option is outstanding at any time. The foregoing sentence shall be interpreted so as to comply with Code Section 423(b)(8).

7.4 The purchase price under each option shall be the lower of: (i) a percentage (not less than eighty-five percent (85%)) established by the Committee ("Designated Percentage") of the Fair Market Value of the Common Stock on the Entry Date on which an option is granted, or (ii) the Designated Percentage of the Fair Market Value on the Purchase Date on which the Common Stock is purchased. The Committee may change the Designated Percentage with respect to any future Offering Period, but not below eighty-five percent (85%), and the Committee may determine with respect to any prospective Offering Period that the option price shall be the Designated Percentage of the Fair Market Value of the Common Stock on the Purchase Date.

## **8. PURCHASE OF STOCK.**

Upon the expiration of each Purchase Period, a Participant's option shall be exercised automatically for the purchase of that number of whole shares of Common Stock which the accumulated payroll deductions credited to the Participant's account at that



time shall purchase at the applicable price specified in Section 7.4. Notwithstanding the foregoing, the Corporation or its designee may make such provisions and take such action as it deems necessary or appropriate for the withholding of taxes and/or social insurance which the Corporation or its Designated Subsidiary is required by law or regulation of any governmental authority to withhold. Each Participant, however, shall be responsible for payment of all individual tax liabilities arising under the Plan.

## **9. PAYMENT AND DELIVERY.**

As soon as practicable after the exercise of an option, the Corporation shall deliver to the Participant a record of the Common Stock purchased and the balance of any amount of payroll deductions credited to the Participant's account not used for the purchase, except as specified below. The Committee may permit or require that shares be deposited directly with a broker designated by the Committee or to a designated agent of the Corporation, and the Committee may utilize electronic or automated methods of share transfer. The Committee may require that shares be retained with such broker or agent for a designated period of time and/or may establish other procedures to permit tracking of disqualifying dispositions of such shares. The Corporation shall retain the amount of payroll deductions used to purchase Common Stock as full payment for the Common Stock and the Common Stock shall then be fully paid and non-assessable. No Participant shall have any voting, dividend, or other Shareholder rights with respect to shares subject to any option granted under the Plan until the shares subject to the option have been purchased and delivered to the Participant as provided in this Section 9.

## **10. RECAPITALIZATION.**

If after the grant of an option, but prior to the purchase of Common Stock under the option, there is any increase or decrease in the number of outstanding shares of Common Stock because of a stock split, stock dividend, combination or recapitalization of shares subject to options, the number of shares to be purchased pursuant to an option, the price per share of Common Stock covered by an option and the maximum number of shares specified in Section 7.1 may be appropriately adjusted by the Board, and the Board shall take any further actions which, in the exercise of its discretion, may be necessary or appropriate under the circumstances.

The Board's determinations under this Section 10 shall be conclusive and binding on all parties.

## **11. MERGER, LIQUIDATION, OTHER CORPORATION TRANSACTIONS.**

In the event of shareholder approval of a liquidation or dissolution of the Corporation, the Offering Period will terminate immediately, unless otherwise provided by the Board in its sole discretion, and all outstanding options shall automatically terminate and the amounts of all payroll deductions will be refunded without interest to the Participants.

In the event of a sale of all or substantially all of the assets of the Corporation, the acquisition by a person (including any entity or group) of beneficial ownership of a majority of the Corporation's outstanding capital stock (based on voting power, but excluding any acquisition by the Corporation, its affiliate, employee benefit plans of the Corporation or its affiliate, and any underwriter holding securities temporarily pursuant to an offering), or the merger or consolidation of the Corporation with or into another corporation, then in the sole discretion of the Board, (1) each option shall be assumed or an equivalent option shall be substituted by the successor corporation or parent or subsidiary of such successor corporation, (2) a date established by the Board on or before the date of consummation of such merger, consolidation or sale shall be treated as a Purchase Date, and all outstanding options shall be exercised on such date, or (3) all outstanding options shall terminate and the accumulated payroll deductions will be refunded without interest to the Participants.

## **12. TRANSFERABILITY.**

Options granted to Participants may not be voluntarily or involuntarily assigned, transferred, pledged, or otherwise disposed of in any way, and any attempted assignment, transfer, pledge, or other disposition shall be null and void and without effect. If a Participant in any manner attempts to transfer, assign or otherwise encumber his or her rights or interests under the Plan, other than as permitted by the Code, such act shall be treated as an election by the Participant to discontinue participation in the Plan pursuant to Section 5.2.

## **13. AMENDMENT OR TERMINATION OF THE PLAN.**

13.1 The Plan shall continue until June 30, 2020 unless otherwise terminated in accordance with Section 13.2.

13.2 The Board may, in its sole discretion, insofar as permitted by law, terminate or suspend the Plan, or revise or amend it in any respect whatsoever, except that, without approval of the Shareholders, no such revision or amendment shall materially increase the number of shares subject to the Plan, other than an adjustment under Section 10 of the Plan.

## **14. ADMINISTRATION.**

The Board shall appoint a Committee consisting of at least two members who will serve for such period of time as the Board may specify and whom the Board may remove at any time. The Committee will have the authority and responsibility for the day-to-day administration of the Plan, the authority and responsibility specifically provided in this Plan and any additional duty, responsibility and authority delegated to the Committee by the Board, which may include any of the functions assigned to the Board in this Plan. The Committee may delegate to one or more individuals the day-to-day administration of the Plan. The Committee shall have full power and authority to promulgate any rules and regulations which it deems necessary for the proper

administration of the Plan, to interpret the provisions and supervise the administration of the Plan, to make factual determinations relevant to Plan entitlements and to take all action in connection with administration of the Plan as it deems necessary or advisable, consistent with the delegation from the Board. Decisions of the Board and the Committee shall be final and binding upon all participants. Any decision reduced to writing and signed by a majority of the members of the Committee shall be fully effective as if it had been made at a meeting of the Committee duly held. The Corporation shall pay all expenses incurred in the administration of the Plan. No Board or Committee member shall be liable for any action or determination made in good faith with respect to the Plan or any option granted hereunder.

#### **15. COMMITTEE RULES FOR FOREIGN JURISDICTIONS.**

The Committee may adopt rules or procedures relating to the operation and administration of the Plan to accommodate the specific requirements of local laws and procedures. Without limiting the generality of the foregoing, the Committee is specifically authorized to adopt rules and procedures regarding handling of payroll deductions, payment of interest, conversion of local currency, payroll tax, withholding procedures and handling of stock certificates which vary with local requirements.

The Committee may also adopt "sub-plans" separate from this Plan for purposes of Code Section 423 applicable to particular affiliates of the Corporation, which sub-plans may be designed to be outside the scope of Code section 423. Notwithstanding the foregoing, the shares of Common Stock issued under any sub-plan shall be aggregated with the shares of Common Stock issued under this Plan and such aggregate number of shares shall be subject to the maximum number set forth under Section 7.1 hereof. The rules of such sub-plans may take precedence over other provisions of this Plan, with the exception of Section 7.1, but unless otherwise superseded by the terms of such sub-plan, the provisions of this Plan shall govern the operation of such sub-plan.

#### **16. SECURITIES LAWS REQUIREMENTS.**

The Corporation shall not be under any obligation to issue Common Stock upon the exercise of any option unless and until the Corporation has determined that: (i) it and the Participant have taken all actions required to register the Common Stock under the Securities Act of 1933, or to perfect an exemption from the registration requirements thereof; (ii) any applicable listing requirement of any stock exchange on which the Common Stock is listed has been satisfied; and (iii) all other applicable provisions of state, federal and applicable foreign law have been satisfied.

#### **17. GOVERNMENTAL REGULATIONS.**

This Plan and the Corporation's obligation to sell and deliver shares of its stock under the Plan shall be subject to the approval of any governmental authority required in connection with the Plan or the authorization, issuance, sale, or delivery of stock hereunder.

#### **18. NO ENLARGEMENT OF EMPLOYEE RIGHTS.**

Nothing contained in this Plan shall be deemed to give any Employee the right to be retained in the employ of the Corporation or any Designated Subsidiary or to interfere with the right of the Corporation or Designated Subsidiary to discharge any Employee at any time.

#### **19. GOVERNING LAW.**

This Plan shall be governed by Delaware law, without regard to that State's choice of law rules.

#### **20. EFFECTIVE DATE.**

This Plan shall become effective on the IPO Date, subject to approval of the Shareholders of the Corporation within 12 months before or after its adoption by the Board.

#### **21. REPORTS.**

Individual accounts shall be maintained for each Participant in the Plan. Statements of account shall be given to Participants at least annually, which statements shall set forth the amounts of payroll deductions, the Purchase Price, the number of shares purchased and the remaining cash balance, if any.

