

AXCELIS TECHNOLOGIES INC

Form 10-Q

November 03, 2017

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2017

Or

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

For the transition period from                      to

Commission file number 000-30941

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AXCELIS TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Delaware	34-1818596
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

108 Cherry Hill Drive

Beverly, Massachusetts 01915

(Address of principal executive offices, including zip code)

(978) 787-4000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Emerging growth company

If an emerging growth company, indicate by check mark if registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of October 31, 2017 there were 31,413,168 shares of the registrant's common stock outstanding.

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## PART 1—FINANCIAL INFORMATION

## Item 1. Financial Statements.

Axcelis Technologies, Inc.

Consolidated Statements of Operations

(In thousands, except per share amounts)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Revenue:				
Product	\$ 98,161	\$ 59,302	\$ 276,678	\$ 180,336
Services	6,321	6,348	17,487	17,286
Total revenue	104,482	65,650	294,165	197,622
Cost of revenue:				
Product	58,056	36,360	162,542	111,262
Services	6,675	5,186	18,096	13,709
Total cost of revenue	64,731	41,546	180,638	124,971
Gross profit	39,751	24,104	113,527	72,651
Operating expenses:				
Research and development	11,003	8,493	32,154	25,607
Sales and marketing	6,801	5,992	21,335	17,742
General and administrative	8,112	5,988	22,960	18,262
Restructuring charges	—	—	—	282
Total operating expenses	25,916	20,473	76,449	61,893
Income from operations	13,835	3,631	37,078	10,758
Other (expense) income:				
Interest income	219	53	399	161
Interest expense	(1,337)	(1,342)	(3,784)	(3,727)
Other, net	138	(55)	—	(352)
Total other expense	(980)	(1,344)	(3,385)	(3,918)
Income before income taxes	12,855	2,287	33,693	6,840
Income tax provision (benefit)	1,014	136	(1,586)	(196)
Net income	\$ 11,841	\$ 2,151	\$ 35,279	\$ 7,036
Net income per share:				

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Basic	\$ 0.38	\$ 0.07	\$ 1.15	\$ 0.24
Diluted	\$ 0.35	\$ 0.07	\$ 1.07	\$ 0.23
Shares used in computing net income per share:				
Basic weighted average common shares	31,274	29,221	30,550	29,118
Diluted weighted average common shares	33,524	31,037	33,048	30,760

See accompanying Notes to these Consolidated Financial Statements

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Axcelis Technologies, Inc.

Consolidated Statements of Comprehensive Income

(In thousands)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Net income	\$ 11,841	\$ 2,151	\$ 35,279	\$ 7,036
Other comprehensive income:				
Foreign currency translation adjustments	524	936	2,928	1,529
Amortization of actuarial gains and other adjustments from pension plan	32	26	89	78
Total other comprehensive income	556	962	3,017	1,607
Comprehensive income	\$ 12,397	\$ 3,113	\$ 38,296	\$ 8,643

See accompanying Notes to these Consolidated Financial Statements

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Axcelis Technologies, Inc.

Consolidated Balance Sheets

(In thousands, except per share amounts)

(Unaudited)

	September 30, 2017	December 31, 2016
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 113,889	\$ 70,791
Accounts receivable, net	69,835	50,573
Inventories, net	123,441	113,853
Prepaid expenses and other current assets	7,466	5,512
Total current assets	314,631	240,729
Property, plant and equipment, net	35,704	30,840
Long-term restricted cash	6,799	6,864
Other assets	25,971	23,798
Total assets	\$ 383,105	\$ 302,231
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 33,594	\$ 24,996
Accrued compensation	15,829	5,142
Warranty	4,154	2,426
Income taxes	285	240
Deferred revenue	14,447	10,335
Other current liabilities	5,388	4,592
Total current liabilities	73,697	47,731
Sale leaseback obligation	47,704	47,586
Long-term deferred revenue	1,985	674
Other long-term liabilities	5,317	4,785
Total liabilities	128,703	100,776
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred stock, \$0.001 par value, 30,000 shares authorized; none issued or outstanding	—	—
Common stock, \$0.001 par value, 75,000 shares authorized; 31,433 shares issued and outstanding at September 30, 2017; 29,518 shares issued and outstanding at December 31, 2016	31	30
Additional paid-in capital	550,058	535,408
Accumulated deficit	(296,425)	(331,704)

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Accumulated other comprehensive income (loss)	738	(2,279)
Total stockholders' equity	254,402	201,455
Total liabilities and stockholders' equity	\$ 383,105	\$ 302,231

See accompanying Notes to these Consolidated Financial Statements

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Axcelis Technologies, Inc.

Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine months ended September 30,	
	2017	2016
Cash flows from operating activities		
Net income	\$ 35,279	\$ 7,036
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,752	3,193
Gain on sale of equipment	—	(162)
Deferred taxes	(2,076)	465
Stock-based compensation expense	4,325	3,930
Provision for doubtful accounts	—	106
Provision for excess and obsolete inventory	1,547	1,142
Changes in operating assets & liabilities:		
Accounts receivable	(18,374)	(7,898)
Inventories	(8,237)	(7,534)
Prepaid expenses and other current assets	(1,645)	(58)
Accounts payable and other current liabilities	21,345	(4,120)
Deferred revenue	5,353	(704)
Income taxes	34	85
Other assets and liabilities	(981)	(8,494)
Net cash provided by (used in) operating activities	40,322	(13,013)
Cash flows from investing activities		
Proceeds from sale of equipment	—	162
Expenditures for property, plant and equipment and capitalized software	(6,910)	(2,261)
Net cash used in investing activities	(6,910)	(2,099)
Cash flows from financing activities		
Net settlement on restricted stock grants	(1,134)	(2)
Financing fees and other expenses	—	(146)
Proceeds from Employee Stock Purchase Plan	349	—
Proceeds from exercise of stock options	11,112	1,737
Net cash provided by financing activities	10,327	1,589
Effect of exchange rate changes on cash and cash equivalents	(706)	186
Net increase (decrease) in cash, cash equivalents and restricted cash	43,033	(13,337)
Cash, cash equivalents and restricted cash at beginning of period	77,655	85,825
Cash, cash equivalents and restricted cash at end of period	\$ 120,688	\$ 72,488

See accompanying Notes to these Consolidated Financial Statements

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Axcelis Technologies, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Note 1. Nature of Business

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

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

The balance sheet at December 31, 2016 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in Axcelis Technologies, Inc.’s Annual Report on Form 10-K for the year ended December 31, 2016.

Note 2. Stock-Based Compensation

The Company maintains the Axcelis Technologies, Inc. 2012 Equity Incentive Plan (the “2012 Equity Plan”), which became effective on May 2, 2012, and permits the issuance of options, restricted stock, restricted stock units and performance awards to selected employees, directors and consultants of the Company. The Company’s 2000 Stock Plan (the “2000 Stock Plan”), expired on May 1, 2012 and no new grants may be made under that plan after that date. However, unexpired awards granted under the 2000 Stock Plan remain outstanding and subject to the terms of the 2000 Stock Plan. The Company also maintains the Axcelis Technologies, Inc. Employee Stock Purchase Plan (the “ESPP”), an Internal Revenue Code Section 423 plan.

The 2012 Equity Plan and the ESPP are more fully described in Note 14 to the consolidated financial statements in the Company's 2016 Annual Report on Form 10-K.

The Company recognized stock-based compensation expense of \$1.7 million and \$1.9 million for the three month periods ended September 30, 2017 and 2016, respectively. The Company recognized stock-based compensation expense of \$4.3 million and \$3.9 million for the nine month periods ended September 30, 2017 and 2016, respectively. These amounts include compensation expense related to restricted stock units, non-qualified stock options and stock to be issued to participants under the ESPP.

In the three month periods ended September 30, 2017 and 2016, the Company issued 0.3 million and 0.2 million shares of common stock, respectively, related to stock option exercises, shares issued under the ESPP and vesting of restricted stock units. In the three month periods ended September 30, 2017 and 2016, the Company received proceeds of \$1.8 million and \$1.2 million, respectively, related to stock option exercises and ESPP purchases.

In the nine month periods ended September 30, 2017 and 2016, the Company issued 1.9 million and 0.4 million shares of common stock, respectively, related to stock option exercises, shares issued under the ESPP and vesting of restricted stock units. In the nine month periods ended September 30, 2017 and 2016, the Company received proceeds of \$11.4 million and \$1.7 million, respectively, related to stock option exercises and ESPP purchases.

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## Note 3. Computation of Net Earnings per Share

Basic earnings per share is computed by dividing income available to common stockholders (the numerator) by the weighted average number of common shares outstanding (the denominator) for the period. The computation of diluted earnings per share is similar to basic earnings per share, except that the denominator is increased by the number of additional common shares that would have been outstanding if the potentially dilutive common shares issuable for stock options, restricted stock units and employee stock purchase plan accounts had been issued, calculated using the treasury stock method.

The components of net earnings per share are as follows:

	Three months		Nine months ended	
	ended September 30, 2017	2016	September 30, 2017	2016
	(in thousands, except per share data)			
Net income available to common stockholders	\$ 11,841	\$ 2,151	\$ 35,279	\$ 7,036
Weighted average common shares outstanding used in computing basic income per share	31,274	29,221	30,550	29,118
Incremental options and RSUs	2,250	1,816	2,498	1,642
Weighted average common shares used in computing diluted net income per share	33,524	31,037	33,048	30,760
Net income per share				
Basic	\$ 0.38	\$ 0.07	\$ 1.15	\$ 0.24
Diluted	\$ 0.35	\$ 0.07	\$ 1.07	\$ 0.23

Diluted weighted average common shares outstanding does not include options and restricted stock units outstanding to purchase four thousand and 0.9 million common equivalent shares for the three month periods ended September 30, 2017 and 2016, respectively, and does not include options and restricted stock units outstanding to purchase 0.2 million and 0.9 million common equivalent shares for the nine month periods ended September 30, 2017 and 2016, respectively, as their effect would have been anti-dilutive.

## Note 4. Accumulated Other Comprehensive Income (Loss)

The following table presents the changes in accumulated other comprehensive income (loss), net of tax, by component for the nine months ended September 30, 2017:

	Foreign currency (in thousands)	Defined benefit pension plan	Total
Balance at December 31, 2016	\$ (1,591)	\$ (688)	\$ (2,279)
Other comprehensive income	2,928	89	3,017
Balance at September 30, 2017	\$ 1,337	\$ (599)	\$ 738

Note 5. Cash, cash equivalents and restricted cash

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows.

	September 30,	
	2017	2016
	(dollars in thousands)	
Cash and cash equivalents	\$ 113,889	\$ 65,623
Long-term restricted cash	6,799	6,865
Total cash, cash equivalents and long-term restricted cash	\$ 120,688	\$ 72,488

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The restricted cash balance of \$6.8 million as of September 30, 2017 includes a \$5.9 million letter of credit associated with a security deposit for the lease of our corporate headquarters in Beverly, Massachusetts, a \$0.8 million letter of credit relating to workers' compensation insurance and a \$0.1 million deposit relating to customs activity. The restricted cash balance of \$6.9 million as of September 30, 2016 includes the \$5.9 million letter of credit security deposit, a \$0.9 million letter of credit relating to workers' compensation insurance and a \$0.1 million deposit relating to customs activity.

## Note 6. Inventories, net

The components of inventories are as follows:

	September 30, 2017	December 31, 2016
	(in thousands)	
Raw materials	\$ 86,342	\$ 82,263
Work in process	28,098	14,117
Finished goods (completed systems)	9,001	17,473
Inventories, net	\$ 123,441	\$ 113,853

When recorded, inventory reserves are intended to reduce the carrying value of inventories to their net realizable value. The Company establishes inventory reserves when conditions exist that indicate inventory may be in excess of anticipated demand or is obsolete based upon assumptions about future demand for the Company's products or market conditions. The Company regularly evaluates the ability to realize the value of inventories based on a combination of factors including the following: forecasted sales or usage, estimated product end of life dates, estimated current and future market value and new product introductions. Purchasing and usage alternatives are also explored to mitigate inventory exposure. As of September 30, 2017 and December 31, 2016, inventories are stated net of inventory reserves of \$8.4 million and \$8.8 million, respectively.

## Note 7. Product Warranty

The Company generally offers a one year warranty for all of its systems, the terms and conditions of which vary depending upon the product sold. For all systems sold, the Company accrues a liability for the estimated cost of

standard warranty at the time of system shipment and defers the portion of systems revenue attributable to the fair value of non-standard warranty. Costs for non-standard warranty are expensed as incurred. Factors that affect the Company's warranty liability include the number of installed units, historical and anticipated product failure rates, material usage and service labor costs. The Company periodically assesses the adequacy of its recorded liability and adjusts the amount as necessary.

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

	Nine months ended September 30,	
	2017	2016
	(in thousands)	
Balance at January 1 (beginning of year)	\$ 2,666	\$ 3,555
Warranties issued during the period	3,898	2,286
Settlements made during the period	(1,614)	(3,570)
Changes in estimate of liability for pre-existing warranties during the period	(562)	551
Balance at September 30 (end of period)	\$ 4,388	\$ 2,822
Amount classified as current	\$ 4,154	\$ 2,597
Amount classified as long-term	234	225
Total warranty liability	\$ 4,388	\$ 2,822

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Note 8. Fair Value Measurements

Certain assets on the Company's balance sheets are reported at their fair value. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

(a) Fair Value Hierarchy

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

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

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

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

(b) Fair Value Measurements

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

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