AXCELIS TECHNOLOGIES INC
Form DEF 14A
March 20, 2002

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No. __)

Filed by the Registrant x

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Check the appropriate box:

¨ Preliminary Proxy Statement

¨ Confidential,for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

x Definitive Proxy Statement

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¨ Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

AXCELIS TECHNOLOGIES, INC.

(Name of Registrant as Specified In Its Certificate)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To be held May 1, 2002

The 2002 annual meeting of stockholders of Axcelis Technologies, Inc., a Delaware corporation, will be held at the State Street Bank Building, 225 Franklin Street, Boston, Massachusetts, 11:00 a.m. on Wednesday, May 1, 2002 for the following purposes:

1. To elect three (3) directors to serve until the 2005 annual meeting of stockholders.
2. To ratify our 2000 Stock Plan for purposes of Sections 162(m) and 422 of the Internal Revenue Code.
3. To ratify the appointment of independent auditors.
4. To transact such other business as may properly come before the meeting or any adjournment thereof.

Only stochholders of record at the close of business on March 4, 2002 will be entitled to vote at the annual meeting or at any adjournment.

It is important that your shares be represented at the meeting. Therefore, whether or not you plan to attend the meeting, please complete your proxy card an return it in the enclosed envelope, which requires no postage if mailed in the United States. If you attend the meeting an wish to vote in person, your proxy will not be used.

By order of the Board of Directors

Lynnette C. Fallon
Secretary

March 20, 2002

PROXY STATEMENT

The Board of Directors of Axcelis Technologies, Inc. ("Axcelis" or the "Company") is soliciting your proxy for use at the 2002 annual meeting of stockholders to be held on Wednesday, May 1, 2002 and at any adjournment of the meeting. This proxy statement and the accompanying proxy card are first being sent or given to stockholders of Axcelis on or about March 20, 2002.

General Information About Voting

Who can vote. You may vote your shares of Axcelis common stock at the annual meeting of you were a sockholder of record at the close of business on March 4, 2002. On that date, there were 97,867,921 shares of common stock outstanding. You are entitled to one vote for each share of common stock that you held on the record date.

How to vote your shares. You may vote your shares either by proxy or by attending the meeting and voting in person. If you choose to vote by proxy, please complete, date, sign and return the proxy card in the enclosed postage prepaid envelope. The proxies named in the proxy card will vote your shares as you have instructed. If you sign and return the proxy card without indicating how your votes should be cast, the proxies will vote your shares in favor of each of the proposals contained in this proxy statement, as recommended by our Board of Directors. Even if you plan to attend the meeting, please complete and mail your proxy card to ensure that your shares are represented at the meeting. If you attend the meeting, you can still revoke your proxy by voting in person. If your shares are held in a brokerage or bank account, you must make arrangements with your broker or bank to vote your shares in person.

Proposals to be considered at the annual meeting. The principal business expected to be transacted at the meeting, as more fully described below, will be the reelection of three directors whose current terms end in 2002, the ratification of our 2000 Stock Plan to allow the deductibility for federal tax purposes of compensation arising from certain option grants under the Plan and the ratification of the selection of independent auditors of the Company.

Quorum. A quorum of stockholders is required to transact business at the meeting. A majority of the outstanding shares of common stock entitled to vote, represented at the meeting in person or by proxy, constitutes a quorum for the transaction of business.

Number of votes required. The number of votes required to approve the proposals that are scheduled to be presented at the meeting is as follows:

Proposal	Required Vote
Election of three nominees as directors.	Each nominee must receive a plurality of the votes cast.
Approval of 2000 Stock Plan	This requires the affirmative vote of a majority of the shares present or represented at the meeting and entitled to vote.
Ratification of auditors	This requires the affirmative vote of a majority of the shares present or represented at the meeting and entitled to vote.

Abstentions and broker non-votes. Abstentions and broker non-votes will be counted as follows. (A broker non-vote occurs when a broker cannot vote a customer's shares registered in the broker's name because the customer did not send the broker instructions on how to vote on the matter and the broker is barred by law or stock exchange regulations from exercising its discretionary voting authority in the particular matter.) In voting on the proposals to ratify our 2000 Stock Plan and the appointment of our auditors, abstentions will be counted as votes against the proposal. Because brokers may vote shares registered in their names in their discretion on both matters, there will be no broker non-votes recorded.

Discretionary voting by proxies on other matters. Aside from the proposals for the election of directors, the ratification of the 2000 Stock Plan and the ratification of our selection of auditors, we do not know of any other proposals that may be presented at the 2002 annual meeting. If another matter is properly presented for consideration at the meeting, the persons named in the accompanying proxy card will exercise their discretion in voting on the matter.

How you may revoke your proxy. You may revoke the authority granted by your executed proxy card at any time before we exercise it by filing with our Corporate Secretary, Lynnette C. Fallon, a written revocation or a duly executed proxy card bearing a later date, or by voting in person at the meeting. If your shares are held in a brokerage account, you must make arrangements with your broker or bank to revoke your proxy.

Expenses of solicitation. We will bear all costs of soliciting proxies. We will upon request reimburse brokers, custodians and fiduciaries for out-of-pocket expenses incurred in forwarding proxy solicitation materials to the beneficial owners of stock held in their names. In addition to solicitations by mail, our directors, officers and employees may solicit proxies from stockholders in person or by other means of communication, including telephone, facsimile and e-mail, without additional remuneration.

SHARE OWNERSHIP

The following table shows the amount of our common stock beneficially owned as of March 1, 2002 by (i) persons known by us to own more than 5% of our common stock, (ii) the executive officers named in the Summary Compensation Table on page 13 and all other executive officers, (iii) our directors and (iv) all of our current executive officers and directors as a group.

Beneficial Owner (1)	Shares Owned	Options or Warrants Exercisable as of April 30, 2002	Total Shares Beneficially Owned	Percent of Class
5% Stockholders				
Wellington Management Company, LLP (2) 75 State St. Boston, MA 02109	9,859,566	0	9,859,566	10.07%
Vanguard Windsor Funds Windsor Fund (3) 100 Vanguard Blvd. Malvern, PA 19355	6,953,089	0	6,953,089	7.10
FMR Corp. Edward C. Johnson 3d Abigail P. Johnson (4) 82 Devonshire Street Boston, MA 02109	4,981,482	0	4,981,482	5.09
Executive Officers				
Brian R. Bachman (5)	28,778	1,905,415	1,934,193	1.94
Mary G. Puma (6)	56,202	414,241	470,443	*
Michael J. Luttati	8,154	381,739	389,893	*
Ted S. Miller	9,395	79,288	88,683	*
Robert A. Mionis (7)	43,121	148,377	191,498	*
Cornelius F. Moses, III	7,690	53,750	61,440	*
Kevin M. O'Connor (8)	7,987	75,350	83,337	*
Jan Paul van Maaren	2,183	2,750	4,933	*
Lynnette C. Fallon	1,138	6,750	7,888	*
Kevin M. Bisson (9)	1,793	68,623	70,416	*
Non-Executive Directors				
Alexander M. Cutler (10)	35,457	55,000	90,457	*
Stephen R. Hardis	65,735	55,000	120,735	*
Ned C. Lautenbach	7,358	55,000	62,358	*
Philip S. Paul	5,000	55,000	60,000	*
Naoki Takahashi	1,000	55,000	56,000	*
Gary L. Tooker (11)	13,537	55,000	68,537	*
Patrick H. Nettles	0	40,000	40,000	*
H. Brian Thompson	0	0	0	0

All Current Executive Officers and Directors as a Group (17 persons)	265,750	1,601,868	1,867,618	1.88

* Indicates less than 1%

(1) Unless otherwise noted, the number of shares beneficially owned by each person listed includes any shares over which a person has sole or shared voting or investment power as well as shares which the person has the right to acquire on or before April 30, 2002 (60 days after March 1, 2002) by exercising a stock option or other right. Unless otherwise noted, each person has sole investment and voting power (or shares that power with his or her spouse) over the shares listed in the table. The percentage ownership of each person listed in the table was calculated using the total number of shares outstanding on March 1, 2002, plus any shares these persons could acquire upon the exercise of any options held by them on or before April 30, 2002.

(2) Based on a Schedule 13G filed by Wellington Management Company, LLP with the Securities and Exchange Commission in February 2002, which states that such shares are held of record by Wellington's investment advisory clients and that Wellington shares the power to vote 2,580,871 of such shares and the power to dispose of all of such shares. These shares include the shares disclosed in the table as beneficially owned by Vanguard Windsor Funds, a client of Wellington.

(3) Based on Schedule 13G filed by Vanguard Windsor Funds-Windsor Fund with the Securities and Exchange Commission in February 2002, which states that Vanguard has sole power to vote, and shared power to dispose of, all of such shares.

(4) Based on Schedule 13G filed by FMR Corp, Edward C. Johnson 3d and Abigail P. Johson with the Securities and Exchange Commission in February 2002, which states that, among them, they have sole power to vote 1,225,054 of such shares and sole power to dispose of all of such shares.

(5) Mr. Bachman resigned as an officer and as a director of the Company on January 23, 2002. In connection with his resignation, all of Mr. Bachman's outstanding options became exercisable for the remaining term of the options.

(6) Ms. Puma's ownership includes 47,522 shares that are subject to forfeiture to the Company, which lapses as to 23,761 shares on each of December 31, 2003 and 2004.

(7) Mr. Mionis's ownership includes 37,000 shares that are subject to forteiture to the Company, which lapses as to 7,400 shares on each of July 30, 2003, 2004, 2005, 2006 and 2007.

(8) Mr. O'Connor's ownership includes 43,000 shares exercisable under a "bridge" option only in the event that our Common Stock has had a closing price of $22.00 or more for 20 consecutive trading days.

(9) Mr. Bisson's ownership includes 8,000 shares exercisable under a "bridge" option only in the event that our Common Stock has had a closing price of $22.00 or more for 20 consecutive trading days.

(10) Mr. Culter's ownership includes 7,279 shares owned by a trust of which Mr. Cutler has shared voting and investment power and an aggregate of 1,178 shares owned by his wife as trustee for Mr. Cutler's two minor children.

(11) Mr. Tooker's ownership includes 13,537 shares owned by a trust for which Mr. Tooker has shared voting and investment power.

PROPOSAL 1: ELECTION OF DIRECTORS

Our Board of Directors has fixed the number of directors at nine, which number is subject to increase by action of the Board. Under our charter, our Board is divided into three classes as nearly equal in number of directors as possible. The term of one class expires, and their successors are elected for a term of three years, at each annual stockholders' meeting. At the upcoming annual meeting, three directors will be elected to hold office for a term of three years until our annual meeting in 2005 and until their successors are elected and qualified. Each of the Board's nominees, H. Brian Thompson, Stephen R. Hardis and Ned C. Lautenbach, has consented to serve if elected. However, if any nominee is unable to serve, proxies will be voted for any other candidate nominated by the Board.

The following table contains biographical information about the nominees for director and current directors whose term of office will continue after the meeting.

Name and Age	Business Experience and Other Directorships	Director Since	Present Term Expires
Ned C. Lautenbach* Age: 58	Mr. Lautenbach has been a partner of Clayton, Dubilier & Rice, Inc., an investment firm specializing in structuring leveraged buyouts, since 1998. Before joining CD&R, Mr. Lautenbach was employed by IBM from 1968 until his retirement in 1998. At IBM, he held several executive positions, including Vice President, President of IBM Asia Pacific, Senior Vice President, Chairman of IBM World Trade Corporation, Senior Vice President and Group Executive, Sales and Distribution, and was a member of IBM's Corporate Executive Committee. He is a director of Eaton Corporation, Acterna Corporation, Covansys Corporation, Fidelity Mutual Funds and Fairfield University.	2000	2002
H. Brian Thompson* Age: 62	Mr. Thompson has been the Chief Executive Officer of Universal Telecommunications, Inc., a private investment and advisory firm, since 2000. Mr. Thompson previously served as Chairman and Chief Executive Officer of Global Telesystems, Inc., a telecommunications company, from March 1999 through September 2000 and served as Chairman and Chief Executive Officer of LCI International, a telecommunications company, from 1991 until its sale to Qwest Communications International, Inc., a broadband internet communications company, in June 1998. At that time, Mr. Thompson became Vice Chairman of the Board of Qwest until his resignation in December 1998. Earlier, he was Executive Vice President of MCI Communications through its growth years in the 1980s. Mr. Thompson serves on the Boards of Directors of Bell Canada International, Inc., DynCorp, ICL PLC, Williams Communications Group and ArrayComm.	2002	2002
Stephen R. Hardis* Age: 66	Mr. Hardis is the Company's Chairman of the Board. He was Chairman and Chief Executive Officer of Eaton Corporation, a global diversified industrial manufacturer, until July 2000. Mr. Hardis became Eaton's Chairman in January 1996 and its Chief Executive Officer in September 1995. Prior to that, he served as Eaton's Vice Chairman from 1986 and its Executive Vice President - Finance and Administration	2000	2002

	from 1979. Mr. Hardis is a director of American Greetings Corporation, Lexmark International Group, Inc., Marsh & McLennan Companies, Inc., Nordson Corporation, Progressive Corporation, Apogent Technologies Inc. and Steris Corporation.		
Mary G. Puma Age: 44	Ms. Puma has been the Company's Chief Executive Officer and President since January 2002 and President and Chief Operating Officer since May 2000. Prior to that, she served as General Manager and Vice President of Eaton Corporation's Semiconductor Equipment Operations. In May 1996, she joined Eaton as General Manager of the Commercial Controls Division. Prior to joining Eaton, Ms. Puma spent 15 years in various marketing and general management positions for General Electric Company. Ms. Puma is a director of Nordson Corporation.	2000	2003
Philip S. Paul Age: 63	Mr. Paul is Chairman of Paul Capital Partners, L.L.C., a private investment firm and registered investment advisor that he founded in 1991. Prior to 1991, Mr. Paul was Chairman and Chief Executive Officer of Hillman Ventures, Inc., a private equity investment firm which funded venture capital and buyouts. Mr. Paul is a director of Soma Networks, Inc. and serves on the advisory boards of U.S. Venture Partners, Bay Partners, New Enterprise Associates, The Danske Bank's Private Equity Program (Copenhagen), and S.E.D. Ventures (Paris).	2000	2003
Naoki Takahashi Age: 56	Mr. Takahashi has been a director of Sumitomo Heavy Industries, Ltd., a integrated industrial product manufacturer, since April 2000. He has also been Executive Vice President and General Manager of Sumitomo's Precision Products Division since April 2000 and Executive Vice President and General Manager of its Corporate Technology Operations Group since 1998. From 1996 to 1998, he was General Manager of the Research and Development Center of Sumitomo.	2000	2003
Gary L. Tooker Age: 62	Mr. Tooker is retired Chairman of the Board of Motorola, Inc., a manufacturer of electronics equipment. Mr. Tooker served as Vice Chairman of Motorola from June to December 1999, and as Chairman from 1997. Prior to that, Mr. Tooker served as Motorola's Vice Chairman and Chief Executive Officer from 1993. Mr. Tooker is a director of Avnet, Inc. and Eaton Corporation.	2000	2004
Patrick H. Nettles Age: 57	Mr. Nettles has served as Executive Chairman of the Board of Directors of CIENA Corporation, a manufacturer of optical networking equipment, since May 2001. Prior to that, Mr. Nettles served as Chairman of the Board of Directors and Chief Executive Officer of CIENA from October 2000, as its President, Chief Executive Officer and Director from April 1994, and as its Director and Chief Executive Officer from February 1994.	2001	2004
Alexander M. Cutler Age: 50	Mr. Cutler is Chairman and Chief Executive Officer of Eaton Corporation. Prior to assuming this position in August 2000, Mr. Cutler was President and Chief Operating Officer of Eaton Corporation since 1995. Mr. Cutler served as Eaton's Executive Vice President and Chief Operating Officer - Controls from 1993 to 1995, as its Executive Vice President - Operations from 1991 and President of its Industrial Group from 1986. He is also a director of KeyCorp.	2000	2004

* Indicates a nominee for election as director.

Board of Directors and Committee Meetings

Our Board of Directors held 11 meetings during 2001. Our Board has standing Audit and Compensation Committees but does not have a Nominating Committee. Each of our directors attended at least 75% of the meetings of the Board and of the committees on which such director served, except Mr. Tooker, who attended 65% of those meetings. The average rate of attendance for all directors was 89%.

Audit Committee. The Audit Committee selects and evaluates the Company's independent auditors, reviews the audited financial statements and discusses the adequacy of the Company's internal controls with management and the auditors. The Audit Committee, which met four times during 2001, is composed of three directors: Messrs. Paul (Chairman), Lautenbach and Tooker. For more information about the Audit Committee, see the "Audit Committee Report" below.

Compensation Committee. The Compensation Committee determines the compensation to be paid to our executive officers and also administers our 2000 Stock Plan (the "Stock Plan"). The Compensation Committee also reviews the management succession plan for the organization. During 2001, the members of the Compensation Committee were each of the directors other than Mr. Bachman and Ms. Puma. Mr. Hardis is Chairman of the Compensation Committee. The Compensation Committee held five meetings in 2001. For more information about the Compensation Committee, see the "Compensation Committee Report on Executive Compensation" below.

Director Compensation

*Director Fees.*Prior to July 31, 2001, other than the Chairman of the Board, our directors did not receive any cash fees or retainers. Mr. Hardis, the Chairman of the Board, receives an annual retainer of $200,000, payable quarterly. Commencing July 31, 2001, our Board approved cash fees for non-employee directors (other than a separately compensated Chairman of the Board, such as Mr. Hardis) for attendance at Board and committee meetings, as well as an annual retainer of $7,500 for committee chairpersons (other than a separately compensated Chairman of the Board). The meeting fees are: (1) $2,000 for attendance in person at a meeting of the Board of Directors; (2) $1,000 for attendance in person at a "stand-alone" meeting of any committee of the Board of Directors; and (3) $500 for participation in a telephonic meeting of the Board of Directors or committee of the Board of Directors.

Accordingly, in 2001, Mr. Paul received an annual retainer for his service as chairman of the Audit Committee, and the other non-employee Board members received fees for meetings held on or after July 31, 2001.

Automatic Option Grants. All non-employee directors of Axcelis are eligible to receive initial and annual automatic grants under our 2000 Stock Plan. At the time of our initial public offering, each of Mr. Lautenbach, Mr. Tooker, Mr. Paul and Mr. Takahashi received an initial automatic grant of options to purchase 24,000 shares. Mr. Hardis and Mr. Cutler received initial grants of options to purchase 24,000 shares in August 2000 and January 2001, respectively. In July 2001, the Board of Directors approved an amendment to the Stock Plan to increase the size of the automatic initial option grants to 40,000 shares and of the automatic annual grants to 15,000 shares. At that time, non-employee directors who had already received initial grants under the Stock Plan received a discretionary grant exercisable for 16,000 shares, representing the difference between 24,000 and 40,000 shares. Mr. Nettles received an initial automatic grant for 40,000 shares on his election to the Board in July 2001. Annual automatic grants are issued once a year, at the meeting of the Board of Directors following July 1 of each year, beginning in 2001. All non-employee director options are fully exercisable on the 181st day after the date the option is granted, provided the optionee is still a director on that date. The options have a term of ten years and an exercise price equal to the closing price of our common stock on the grant date.

AUDIT COMMITTEE REPORT

An Audit Committee of the Board was formed prior to our initial public offering, composed entirely of non-management directors. The members of the Audit Committee meet the independence and financial sophistication requirements of the Nasdaq Stock Market Rules. Our Board of Directors adopted a charter for the Audit Committee that establishes the responsibilities of the Committee. A copy of this charter was included with our proxy statement for our 2001 annual meeting of stockholders.

The Committee schedules meetings to occur after the preparation of quarterly and annual financial statements but prior to the public release of financial results for the period. If not discussed at these periodic meetings, additional meetings are also planned during the year to discuss the Company's internal control systems with the independent auditors and to review the scope and results of the Company's internal audit plans. The Committee met in April 2001 prior to the release of the financial results for the first quarter of 2001 and in July 2001 prior to the release of the financial results for the second quarter of 2001 and in January 2002 prior to the release of the 2001 annual financial results. In lieu of a Committee meeting prior to the release of the financial results for the third quarter of 2001, the chairman of the Audit Committee met with representatives of our independent auditors to review the results.

At all of these meetings, Axcelis' Chief Financial Officer was present, as was our General Counsel and our independent auditors. The Committee's agenda is established by the Committee's chairman, with input from the Company's Chief Financial Officer. Depending on the content of the meeting, the Committee holds private sessions with the Company's independent auditors and, separately, with the Chief Financial Officer, at which candid discussions of financial management, accounting and internal control issues can take place.

The Board of Directors engaged Ernst & Young LLP as our independent auditors for 2001. We have discussed with our independent auditors and the Company's Chief Financial Officer overall audit scopes and plans, the results of external audit examinations, evaluations by the auditors of the Company's internal controls and the quality of the Company's financial reporting.

Management has reviewed with the Audit Committee the audited 2001 consolidated financial statements in our Form 10-K Annual Report filed with the Securities and Exchange Commission and included in the Annual Report to Stockholders which accompanies this proxy statement. The review included a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements.

In its meetings with representatives of the independent auditors, the Committee asks them to address, and discusses their response to several questions that the Committee believes are particularly relevant to its oversight. These questions include:

Are there any significant accounting judgments made by management in preparing the financial statements that would have been made differently had the auditors themselves prepared and been responsible for the financial statements?

Based on the auditors' experience, and their knowledge of the Company, do the Company's financial statements fairly present to investors, with clarity and completeness, the Company's financial position and performance for the reporting period in accordance with generally accepted accounting principles, and SEC disclosure requirements?

Based on the auditors' experience, and their knowledge of the Company, has the Company implemented internal controls and internal audit procedures that are appropriate for the Company?

The Committee believes that, by focusing its discussions with the independent auditors, it can promote a meaningful dialogue that provides a basis for its oversight judgements.

The Committee received from the independent auditors their annual written reports covering (1) matters required to be discussed by the auditors with the Committee under Statement on Auditing Standards No. 61, *Communication with Audit Committees* and (2) their independence from the Company and its management, which report is made under Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*. Both reports were discussed with the auditors and management at an Audit Committee meeting, including a discussion of any relationship that may impact the objectivity and independence of our auditors and whether the provision of any non-audit services by the auditors is compatible with maintaining their independence.

In performing all of these functions, the Audit Committee acts only in an oversight capacity. Necessarily, in its oversight role, the Committee relies on the work and assurances of the Company's management, which has the primary responsibility for financial statements and reports, and of the independent auditors, who in their report on the audited annual financial statements, express an opinion on the conformity of the Company's annual financial statements to accounting principles generally accepted in the United States.

In reliance on these reviews and discussions, and the report of the independent auditors, the Audit Committee has recommended to the Board of Directors, and the Board of Directors has approved, that the audited financial statements be included in the Company's 2001 Annual Report on Form 10-K for filing with the Securities and Exchange Commission. The Committee and the Board have also recommended, subject to reconsideration in the absence of shareholder ratification, the selection of the Company's independent auditors for the current year.

By the audit committee,

Philip S. Paul
Ned C. Lautenbach
Gary L. Tooker

EXECUTIVE COMPENSATION

Compensation Committee Report on Executive Compensation

The Compensation Committee of the Board of Directors has the oversight and administration responsibility for our executive compensation programs. Mr. Hardis chairs the Committee, and during 2001 membership included Mr. Cutler, Mr. Tooker, Mr. Takahashi, Mr. Paul, Mr. Lautenbach, and Mr. Nettles.

This report is submitted by the Compensation Committee and addresses the compensation policies for 2001 as they affected Mr. Bachman, as Chief Executive Officer, and the other top four executive officers named in the Summary Compensation Table below.

Compensation Philosophy

During 2001, the Committee was responsible for recommending and approving the compensation package of each of the executive officers. In making decisions regarding executive compensation, the Committee considered a variety of competitive market benchmarking sources completed by external consulting firms including Executive Alliance (a division of Clark/Bardes Consulting), Watson Wyatt Worldwide and Iquantic (a division of Buck Consulting Group). Additionally, the Committee engaged outside consulting services to conduct a comprehensive review of its executive compensation programs and processes to ensure both competitiveness and regulatory compliance. This review found the programs to be sound in their design, emphasizing a pay-for-performance philosophy as well as an alignment of executive and shareholder interests.

In order to attract, retain and motivate the talented personnel it needs to meet corporate objectives, Axcelis has structured its executive compensation program to provide its executives with base compensation at the 50th percentile of the compensation paid by other similar sized technology companies. Incentive compensation targets are set at the 75th percentile of the levels paid by similar sized technology companies. If such objectives are met, Axcelis' compensation program is designed to deliver total compensation at or above the 75th percentile for total compensation paid by our peer group. Any bonuses are funded primarily based on corporate performance, and actual awards may vary greatly from year to year according to the Company's overall performance and the individual's impact on that performance. In the year 2001, there were no bonuses paid under this plan as the Company failed to meet its profitability objectives for the year.

The Company's executive compensation program consists of base salary, cash bonuses and stock option awards. In certain cases, restricted stock grants are part of an executive's compensation package. All of these components are designed with the objective of attracting and retaining executives and motivating management to meet and exceed Company growth and profitability goals. In determining the total amount and mix of the compensation package for each executive officer, the Committee members subjectively consider the overall value to the Company of each executive in light of numerous factors such as contributions to the Company's competitive position in the marketplace, individual performance, and the past and expected contribution by each executive officer toward the achievement of the Company's performance objectives. Additionally, a review of external competitive practices is considered when setting the individual targets.

Base Salary

The Company's base salaries are structured to be within the median range of salaries paid by similar companies for comparable positions. The Committee believes that the Company's most direct competitors for executive positions are not necessarily the same as the peer companies in the Philadelphia Semiconductor index, but, depending upon the position, may represent a broader group of similar sized technology companies. The Company actively participates in survey groups facilitated by Iquantic and Executive Alliance. While data from these surveys is categorized by industry type, revenue, and/or geographic locale, the Committee emphasizes the survey cut representing companies with revenues between $300 million and $1 billion, as this most accurately represents companies in a similar position to Axcelis.

As a result of market conditions, the Committee decided not to make adjustments in executive salaries during 2001.

Cash Bonuses

Cash bonus targets are set based upon a variety of factors, including market data and anticipated impact of the individual. For the elected officers these targets range from 30% up to 50% in the case of the Chief Executive Officer.

For 2001, the Committee adopted a cash bonus plan with two components. The first component is the growth component. This measures the Axcelis performance versus identified "peer" companies in the area of annual sales growth. Included in this index are Applied Materials, KLA-Tencor, Lam Research, Mattson, Novellus, Semitool, Varian Semiconductor, FSI International and Teradyne. The second component measures our financial performance against our annual operating plan, and determines the funding mechanism. Because we did not achieve the requisite profitability to fund under the plan, there were no awards made under the plan for 2001.

Stock Options and Restricted Stock Grants

The Committee believes it is in the best interests of the Company and its shareholders to grant stock options and restricted stock as a long-term component of executive and key employee compensation program. Stock option and restricted stock grants to executive officers and other key employees are intended to keep employee financial interests in line with long-term shareholder value.

Stock option awards are at the discretion of the Committee, taking into account the individual's past performance and long-term potential to contribute to achieving Company goals. Excluding options granted to replace options issued by Eaton Corporation which terminated in the spin-off of the Company in December 2000, all option grants under our

2000 Stock Plan have an exercise price equal to the closing price of the Company's common stock on the date of grant. Except for those Eaton replacement options and the "bridge" options described below, all options granted to executive officers vest over a period of four years and expire on the 10th anniversary of the date of grant. Eaton replacement options have terms of less than 10 years, since they expire on the original expiration date of the option they replace.

In 2001, an annual grant of options was approved by the Committee to four executives selected by the Committee as requiring additional stock options to supplement their holdings in the Company in light of benchmarking data and other factors. As in the case of cash compensation benchmarking, external data was used to assess our competitive position. Options with special vesting and termination provisions were granted to two executive officers who held only stock options issued at the time of our initial public offering (which have exercise prices of $22.00 per share) and who are believed to be essential to the Company's long term success. These special options, referred to by the Company as "bridge options," become exercisable after the 20th consecutive day on which Nasdaq reports a closing price of $22.00 or more for our common stock and remain exercisable for six months. In the event the $22.00 price point does not occur prior to the fourth anniversary of the date of grant, the bridge options will become exercisable on that date, and will expire one year later. The effect of these special provisions are:

to give the recipient the benefit of an appreciation in our stock price from July 2001 up to $22.00, but by forcing the exercise six months after the $22.00 price point is met, to cut off any significant further appreciation, since the executive already holds options to compensate him or her after that point, or

if the $22.00 price point is not reached by the fourth anniversary of the date of grant, to permit exercise for only one year to the extent of any appreciation over the grant price, which eliminates any long term dilutive effect of these options.

The Committee felt these grants were important in light of the fact that the Company did not expect to increase salaries or pay any bonus compensation for 2001. Options for a total of 51,000 shares were granted to executives with these "bridge" option terms.

Other executives, including Mr. Bachman and the executive officers named in the Summary Compensation Table, did not receive any option grants in 2001 in light of the significant option grants made to them at the time of our initial public offering and options issued to them to in December 2000 to replace terminating Eaton Corporation options.

In addition, in 2001, the Committee approved restricted stock grants to two executive officers, totaling 64,000 shares. The Committee's philosophy is to make restricted stock grants on a selective basis to ensure appropriate incentives are in place to reward past performance and create the proper long term incentives to retain critical executives. The shares covered by these grants are subject to forfeiture to the Company if the recipient terminates employment, with 20% of the shares being released annually from such forfeiture provision beginning on the second anniversary of the date of grant.

Compensation of Chief Executive Officer and Chief Operating Officer

Mr. Bachman and Ms. Puma received base compensation during 2001 in accordance with the minimum base compensation due to them under their respective Employment Agreements. Neither officer received any bonus payment in respect of services during 2001.

Neither Mr. Bachman nor Ms. Puma received stock options or restricted stock grants during 2001.

Compensation Deductibility

Section 162(m) of the Internal Revenue Code denies a tax deduction to a public corporation for annual compensation in excess of one million dollars paid to its Chief Executive Officer and its four other highest compensated officers. This provision excludes certain types of "performance based compensation" from the compensation subject to the limitation on deductibility.

The 2000 Stock Plan contains an individual annual limit on the number of stock options that may be granted under the plan so that the awards will qualify for the exclusion from the limitation on deductibility for performance-based compensation, assuming that we obtain stockholder ratification for the 2000 Stock Plan at the 2002 annual meeting of shareholders. The Committee will continue to assess the impact of Section 162(m) on its compensation practices and determine what further action, if any, is appropriate.

By the Compensation Committee,

Stephen R. Hardis, Chairman
Alexander M. Cutler
Patrick H. Nettles
Philip S. Paul
Ned C. Lautenbach
Gary L. Tooker
Naoki Takahashi

Compensation Tables

The following tables contain information on compensation paid for 2001 to our Chief Executive Officer and the four other most highly paid executive officers. None of Messrs. Luttati, Mionis or Moses was an executive officer of the Company during 1999. In January 2002, Ms. Puma replaced Mr. Bachman as our Chief Executive Officer, following Mr. Bachman's resignation.

Summary Compensation Table

	Annual Compensation			Long-Term Compensation			
				Awards		Payouts	
Name and Position	**Year**	**Salary ($)**	**Bonus ($)**	**Restricted Stock Awards ($)**	**Securities Underlying Options**	**Long-Term Incentive Payouts**	**All Other Compensation**
Brian R. Bachman	2001	$ 600,000	$ 0		0	$ 0	$ 16,530 (1)
Vice Chairman and Chief	2000	500,010	415,830		1,920,415	0	109,839 (2)
Executive Officer	1999(3)	380,040	364,656		0	414,037	14,560 (4)
Mary G. Puma	2001	380,004	0		0	0	77,356 (5)
President and Chief	2000	320,012	312,391	$ 341,588(6)	949,133	0	76,923 (7)
Operating Officer	1999(3)	224,700	264,839		0	81,700	12,522 (4)
Michael J. Luttati	2001	263,207	0		0	0	5,100 (8)
Senior Vice President-General Manager, Implant and Rapid Thermal Processing	2000	239,106	206,177		564,603	0	8,650 (9)

Systems Division							
Cornelius F. Moses, III	2001	330,000	0		0	0	5,100 (8)
Executive Vice President and Chief Financial Officer	2000(10)	82,500	185,000(8)		215,000	0	0
Robert A. Mionis	2001	241,500	0	521,700(12)	0	0	5,100 (8)
Senior Vice President-Worldwide Operations	2000	217,003	174,796		280,094	0	8,507(13)

(1) Represents $4,407 paid in cash as a matching contribution to Axcelis' 401(k) plan during 2001 and $12,123 in storage expenses paid in 2001 associated with Mr. Bachman's relocation in 2000.

(2) Mr. Bachman received a one-time payment of $99,999 in consideration of the forfeiture of certain perquisites provided by Eaton Corporation and $9,840 representing the market value of shares of Eaton Common Stock received by Mr. Bachman as a matching contribution to Eaton's 401(k) plan at the end of 2000.

(3) Represents cash compensation paid by Eaton Corporation in respect of Mr. Bachman and Ms. Puma's services during 1999, all or part of which services related to the Company's business.

(4) Represents several components. Under the Eaton Corporation Share Purchase and Investment Plan, Eaton made matching contributions in 1999 as follows: Mr. Bachman, $4,392 and Ms. Puma, $4,357. Under an Eaton Corporation program, Eaton funded $9,486 towards the purchase of an automobile by Mr. Bachman and $7,459 toward the purchase of an automobile by Ms. Puma. Eaton Corporation paid annual premiums for individual whole life insurance during 1999 as follows: Mr. Bachman, $682 and Ms. Puma, $706.

(5) Represents $5,100 paid in cash as a matching contribution to Axcelis' 401(k) plan and $72,256 in principal and accrued interest forgiven by the Company on December 31, 2001 under a promissory note due from Ms. Puma.

(6) Represents the value of 47,522 shares using the closing price on the date of grant, December 1, 2000 ($7.188). At December 31, 2001, Ms. Puma held all 47,522 shares of restricted stock, which had a value (based on the closing price on December 31, 2001 of $12.89) of $621,558.58. Except Mr. Mionis, no other executives held restricted stock on that date. Ms. Puma's restricted stock is subject to forfeiture to the Company if her employment terminates. This forfeiture provision expires as to 23,761 shares on each of December 31, 2003 and 2004. Ms. Puma would be entitled to receive any dividends paid on these shares.

(7) Ms. Puma received a one-time payment of $70,000 in consideration of the forfeiture of certain perquisites provided by Eaton Corporation and $6,923 representing the market value of shares of Eaton Common Stock received by Ms. Puma as a matching contribution to Eaton's 401(k) plan at the end of 2000.

(8) Represents the amount paid in cash as a matching contribution to Axcelis' 401(k) plan during 2001.

(9) Represents the market value of shares of Eaton Common Stock received as a matching contribution to Eaton's 401(k) plan at the end of 2000.

(10) Mr. Moses commenced employment on October 1, 2000, and therefore the reported compensation for 2000 reflects a pro rated portion of his annual compensation.

(11) $80,000 of this amount represents a signing bonus paid to Mr. Moses on commencement of employment.

(12) Represents the value of 37,000 shares using the closing price on the date of grant, July 30, 2001 ($14.10). At December 31, 2001, Mr. Mionis held all 37,000 shares of restricted stock, which had a value (based on the closing price on December 31, 2001 of $12.89) of $476,930. Except Ms. Puma, no other executives held restricted stock on that date. Mr. Mionis's restricted stock is subject to forfeiture to the Company if his employment terminates. This forfeiture provision expires as to 7,400 shares on each of July 30, 2003, 2004, 2005, 2006 and 2007. Mr. Mionis would be entitled to receive any dividends paid on these shares.

(13) Represents the market value of shares of Eaton Common Stock received as a matching contribution in Eaton's 401(k) plan at the end of 2000.

Option Grants in Last Fiscal Year

No stock options were granted under our Stock Plan during fiscal 2001 to the executive officers named in the Summary Compensation Table.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

The following table provides information on options exercised during 2001 by the officers named in the Summary Compensation Table and the total number of exercisable and unexercisable stock options held at December 31, 2001 by those officers.

Fiscal Year-End Option Values

	Number of Securities Underlying Unexercised Options at	Value of Unexercised in-the-Money Options at