FIRST BANCORP /PR/
Form S-1/A
August 25, 2010

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As filed with the Securities and Exchange Commission on August 25, 2010

Registration No. 333-165252

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

Amendment No. 8
to
Form S-4
on
Form S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

FIRST BANCORP.
(Exact name of registrant as specified in its charter)

Puerto Rico	**6022**	**66-0561882**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S Employer Identification Number)*

1519 Ponce de León Avenue, Stop 23
Santurce, Puerto Rico 00908
(787) 729-8200
(Address, including zip code and telephone number, including area code, of registrant s principal executive offices)

Lawrence Odell
Executive Vice President and General Counsel
First BanCorp.
1519 Ponce de León Avenue, Stop 23
Santurce, Puerto Rico 00908
(787) 729-8109
(Name, address, including zip code and telephone number, including area code, of agent for service)

Copies to:

Linda L. Griggs **Gail A. Pierce** **Morgan, Lewis & Bockius LLP** **1111 Pennsylvania Avenue, NW**	**James R. Tanenbaum** **Anna T. Pinedo** **Morrison & Foerster LLP** **1290 Avenue of the Americas**

Washington, DC 20004	**New York, New York 10104**

Approximate date of commencement of proposed sale of the securities to the public: As soon as practicable after this registration statement becomes effective.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus may change. We may not complete the exchange offer and issue these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PROSPECTUS SUBJECT TO COMPLETION Dated August 25, 2010

Offer to Exchange

Up to 256,401,610 shares of our Common Stock for any and all issued and outstanding shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock
(subject to the limitations and qualifications described herein)

First BanCorp is offering to exchange (the Exchange Offer), on the terms and subject to the conditions set forth in this prospectus and in the accompanying letters of transmittal, up to 256,401,610 newly issued shares of our common stock, par value $1.00 per share (our Common Stock), for any and all of the issued and outstanding shares of:

Ø $90,000,000 in aggregate liquidation preference of our 7.125% Noncumulative Perpetual Monthly Income Preferred Stock, Series A (Series A Preferred Stock);

Ø $75,000,000 in aggregate liquidation preference of our 8.35% Noncumulative Perpetual Monthly Income Preferred Stock, Series B (Series B Preferred Stock);

Ø $103,500,000 in aggregate liquidation preference of our 7.40% Noncumulative Perpetual Monthly Income Preferred Stock, Series C (Series C Preferred Stock);

Ø $92,000,000 in aggregate liquidation preference of our 7.25% Noncumulative Perpetual Monthly Income Preferred Stock, Series D (Series D Preferred Stock); and

Ø $189,600,000 in aggregate liquidation preference of our 7.00% Noncumulative Perpetual Monthly Income Preferred Stock, Series E (Series E Preferred Stock and, collectively with our Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock, Preferred Stock).

The Exchange Offer will expire at 9:30 a.m., New York City time, on August 25, 2010 (the expiration date), unless extended or earlier terminated by us. You must validly tender your shares of Preferred Stock for exchange in the Exchange Offer on or prior to the expiration date to receive shares of our Common Stock.

Our Common Stock trades on the New York Stock Exchange (NYSE) under the symbol FBP. As of August 17, 2010, the closing sale price for our Common Stock on the NYSE was $0.52 per share.

None of First BanCorp, the dealer manager, the exchange agent, the information agent or any other person is making any recommendation as to whether you should tender your shares of Preferred Stock. You must make your own decision after reading this prospectus and the documents incorporated by reference herein and consulting with your advisors.

Before deciding to exchange your securities for shares of our Common Stock, you are encouraged to read and carefully consider this prospectus (including the documents incorporated by reference herein) in its entirety, in particular the risk factors beginning on page 26 of this prospectus.

The shares of our Common Stock are not savings accounts, deposits or other obligations of any of our bank or non-bank subsidiaries and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

Neither the Securities and Exchange Commission, any state or the Commonwealth of Puerto Rico securities commission, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System nor any other regulatory body has approved or disapproved of the Exchange Offer or of the securities to be issued in the Exchange Offer or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The Dealer Manager for the Exchange Offer is:

UBS Investment Bank

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The Exchange Agent and the Information Agent for the Exchange Offer is:

BNY Mellon Shareowner Services

In its capacity as the Exchange Agent:

By Mail:	By Hand or Overnight Courier:
BNY Mellon Shareowner Services	BNY Mellon Shareowner Services
Attn: Corporate Actions Dept.	Attn: Corporate Actions Dept., 27th Floor
P.O. Box 3301	480 Washington Boulevard
South Hackensack, NJ 07606	Jersey City, NJ 07310

By Facsimile:
(For Eligible Institutions Only)
(201) 680-4626
Confirm Facsimile Transmission:
(201) 680-4860

In its capacity as the Information Agent:

BNY Mellon Shareowner Services
480 Washington Boulevard, 27th Floor
Jersey City, NJ 07310
Toll Free: (800) 777-3674
Call Collect: (201) 680-6579

The date of this prospectus is August   , 2010.

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For each share of Preferred Stock that we accept for exchange in accordance with the terms of the Exchange Offer, we will issue a number of shares of our Common Stock having the aggregate dollar value (the Exchange Value) set forth in the applicable table below. We refer to the number of shares of our Common Stock we will issue (based on the Relevant Price (as defined below)) for each share of Preferred Stock we accept in the Exchange Offer as the exchange ratio. The Relevant Price was fixed on August 20, 2010 and was equal to the greater of (1) the average Volume Weighted Average Price, or VWAP, of a share of our Common Stock, determined as described on page 9 of this prospectus under the heading Questions and Answers about the Exchange Offer How will the Average VWAP be determined? during the five trading-day period ending on August 20, 2010 and (2) the Minimum Share Price of $1.18 per share of our Common Stock. If the Minimum Share Price is used to determine the exchange ratio, 11.6525 shares of Common Stock will be issued in exchange for each share of Preferred Stock that we accept for tender in the Exchange Offer. The Relevant Price is $1.18. **Depending on the trading price of our Common Stock compared to the Relevant Price, the market value of the Common Stock we issue in exchange for each share of Preferred Stock we accept for exchange may be less than, equal to or greater than the applicable Exchange Value.** If the trading price of our Common Stock is below $1.18 per share, the market value of our Common Stock to be received in the Exchange Offer will be less than the applicable Exchange Value.

Based on the Exchange Values set forth in the table below and the Minimum Share Price disclosed above, we will accept tenders of all shares of Preferred Stock.

CUSIP	Title of Securities	Aggregate liquidation preference outstanding	Liquidation preference per share	Exchange Value
318672201	7.125% Noncumulative Perpetual Monthly Income Preferred Stock, Series A	$ 90,000,000	$ 25	$ 13.75
318672300	8.35% Noncumulative Perpetual Monthly Income Preferred Stock, Series B	$ 75,000,000	$ 25	$ 13.75
318672409	7.40% Noncumulative Perpetual Monthly Income Preferred Stock, Series C	$ 103,500,000	$ 25	$ 13.75
318672508	7.25% Noncumulative Perpetual Monthly Income Preferred Stock, Series D	$ 92,000,000	$ 25	$ 13.75
318672607	7.00% Noncumulative Perpetual Monthly Income Preferred Stock, Series E	$ 189,600,000	$ 25	$ 13.75

The Exchange Offer will expire at 9:30 a.m., New York City time, on August 25, 2010 (unless we extend the Exchange Offer or terminate it early). You may withdraw any shares of Preferred Stock that you tender at any time prior to the expiration date of the Exchange Offer.

Our obligation to exchange shares of our Common Stock for shares of Preferred Stock in the Exchange Offer is subject to a number of conditions that must be satisfied or waived, including, among others, (i) pursuant to NYSE listing requirements, the approval by the holders of our Common Stock to the issuance of up to 256,401,610 shares of Common Stock upon the exchange of Preferred Stock in the Exchange Offer, (ii) the approval by the holders of our Common Stock of an amendment to our Restated Articles of Incorporation (Articles of Incorporation) to reduce the par value of a share of Common Stock from $1.00 to $0.10 per share, if necessary to issue shares of Common Stock in the Exchange Offer, and (iii) the absence of any change or development (affecting our business or otherwise) that in our reasonable judgment may materially reduce the anticipated benefits to us of the Exchange Offer or that has had, or could reasonably be expected to have, a material adverse effect on us or our businesses, financial condition, operations or prospects. Our obligation to exchange is not subject to any minimum tender condition. The conditions in (i) and (ii) have been met.

The remainder of this prospectus has not been updated to reflect the results of the Special Meeting of Stockholders held on Tuesday, August 24, 2010 and the determination of the Relevant Price on August 20, 2010. Information regarding the results of the Special Meeting and the determination of the Relevant Price is included in the Current Reports on Form 8-K dated August 24, 2010 and August 23, 2010, respectively, which are incorporated into this prospectus.

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Important

Certain shares of Preferred Stock were issued in book-entry form, and are currently represented by one or more global certificates held for the account of The Depository Trust Company (DTC). If your securities are book-entry securities, you may tender your shares of Preferred Stock by transferring them through DTC s Automated Tender Offer Program (ATOP) or following the other procedures described under The Exchange Offer Procedures for Tendering Shares of Preferred Stock.

If your interest as a holder of Preferred Stock is in certificated form, you must deliver to BNY Mellon Shareowner Services (the Exchange Agent) (1) the certificates for the shares of your Preferred Stock to be exchanged in the manner specified in the accompanying letter of transmittal and (2) a proper assignment of the shares of Preferred Stock to First BanCorp, or to any transfer agent for the shares of Preferred Stock, or in blank.

If you are a beneficial owner of shares of Preferred Stock that are held by or registered in the name of a broker, securities dealer, custodian, commercial bank, trust company or other nominee, and you wish to participate in the Exchange Offer, you must promptly contact your broker, securities dealer, custodian, commercial bank, trust company or other nominee to instruct it to tender your shares of Preferred Stock and to agree to the terms of the accompanying letter of transmittal. **You are urged to instruct your broker, securities dealer, custodian, commercial bank, trust company or other nominee at least five business days prior to the expiration date of the Exchange Offer in order to allow adequate processing time for your instruction.** Tenders not received by the Exchange Agent, on or prior to the expiration date will be disregarded and have no effect.

We are not providing for guaranteed delivery procedures and, therefore, you must allow sufficient time for the necessary tender procedures to be completed during normal business hours of DTC on or prior to the expiration date of the Exchange Offer. **Tenders not received by the Exchange Agent on or prior to the expiration date will be disregarded and have no effect.**

We are incorporating by reference into this prospectus important business and financial information that is not included in or delivered with this prospectus. This information is available without charge to security holders upon written or oral request. Requests should be directed to either First BanCorp or BNY Mellon Shareowner Services (the Information Agent) as follows:

First BanCorp.
Attention: Lawrence Odell, Secretary
P.O. Box 9146
San Juan, Puerto Rico, 00908-0146
(787) 729-8109

BNY Mellon Shareowner Services
480 Washington Boulevard, 27th Floor
Jersey City, NJ 07310
Toll Free: (800) 777-3674
Call Collect: (201) 680-6579

In order to ensure timely delivery of such documents, security holders must request this information no later than five business days before the date by which they must make their investment decision. Accordingly, any request for documents should have been made by August 17, 2010 to ensure timely delivery of the documents on or prior to the expiration date of the Exchange Offer.

You should rely only on the information contained in or incorporated by reference into this prospectus. We have not authorized anyone to provide you with information that is different. You should assume that the information contained in or incorporated by reference into this prospectus is accurate only as of the date of this prospectus or as of the date of the document incorporated by reference, as applicable. We are not making an offer of these securities in any jurisdiction where such offer is not permitted.

In this prospectus, unless otherwise stated or the context otherwise requires, Corporation, we, us, our and First BanCorp refer to First BanCorp. and its subsidiaries.

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Forward-looking Statements

Certain statements in this prospectus are forward-looking statements. These forward-looking statements may relate to First BanCorp s financial condition, results of operations, plans, objectives, future performance and business, including, but not limited to, statements with respect to the adequacy of the allowance for loan and lease losses, market risk and the impact of interest rate changes, capital markets conditions, capital adequacy and liquidity and the effect of new accounting guidance on the Corporation s financial condition and results of operations. All statements contained herein that are not clearly historical in nature are forward-looking, and the words anticipate, believe, continues, expect, estimate, intend, project and similar expressions and future or conditional verbs such as will should, could, might, can, may, or similar expressions are generally intended to identify forward-looking statem

These forward-looking statements are not guarantees of future performance and involve certain risks, uncertainties, estimates and assumptions by us that are difficult to predict. Various factors, some of which are beyond our control, could cause actual results to differ materially from those expressed in, or implied by, such forward-looking statements. Factors that might cause such a difference include, but are not limited to:

- uncertainty about whether we will be able to fully comply with the written agreement dated June 3, 2010 (the Agreement) that we entered into with the Federal Reserve Bank of New York (the Fed) and the order dated June 2, 2010 (the Order and collectively with the Agreement, the Agreements) that our banking subsidiary, First Bank Puerto Rico (First Bank or the Bank) entered into with the Federal Deposit Insurance Corporation (FDIC) and the Office of the Commissioner of Financial Institutions of the Commonwealth of Puerto Rico (OCIF) that, among other things, require the Bank to attain certain capital levels and reduce its special mention, classified, delinquent and non-accrual assets;

- uncertainty as to whether we will be able to meet the conditions necessary to compel the United States Department of the Treasury (the U.S. Treasury) to convert into Common Stock the shares of our preferred stock that we issued to the U.S. Treasury;

- uncertainty as to whether we will be able to complete future capital-raising efforts;

- the risk of being subject to possible additional regulatory action, including as a result of an inability to implement the capital plans submitted in accordance with the Agreements;

- the strength or weakness of the real estate market and of the consumer and commercial credit sector and their impact on the credit quality of our loans and other assets, including our construction and commercial real estate loan portfolios, which have contributed and may continue to contribute to, among other things, the increase in the levels of non-performing assets, charge-offs and the provision expense;

- adverse changes in general economic conditions in the United States and in Puerto Rico, including the interest rate scenario, market liquidity, housing absorption rates, real estate prices and disruptions in the U.S. capital markets, which may reduce interest margins, impact funding sources and affect demand for all of our products and services and the value of our assets;

- our reliance on brokered certificates of deposit and our ability to obtain, on a periodic basis, approval to issue brokered certificates of deposit to fund operations and provide liquidity in accordance with the terms of the Order;

- an adverse change in our ability to attract new clients and retain existing ones;

Ø a decrease in demand for our products and services and lower revenues and earnings because of the continued recession in Puerto Rico, the recently announced consolidation of the banking industry in Puerto Rico and the current fiscal problems and budget deficit of the Puerto Rico government;

Forward-looking Statements

- Ø a need to recognize additional impairments of financial instruments or goodwill relating to acquisitions;
- Ø uncertainty about regulatory and legislative changes for financial services companies in Puerto Rico, the United States and the U.S. and British Virgin Islands, which could affect our financial performance and could cause our actual results for future periods to differ materially from prior results and anticipated or projected results;
- Ø uncertainty about the effectiveness of the various actions undertaken to stimulate the U.S. economy and stabilize the U.S. financial markets, and the impact such actions may have on our business, financial condition and results of operations;
- Ø changes in the fiscal and monetary policies and regulations of the federal government, including those determined by the Fed, the FDIC, government-sponsored housing agencies and local regulators in Puerto Rico and the U.S. and British Virgin Islands;
- Ø the risk that the FDIC may further increase the deposit insurance premium and/or require special assessments to replenish its insurance fund, causing an additional increase in our non-interest expense;
- Ø risks of not being able to generate sufficient income to realize the benefit of the deferred tax asset;
- Ø risks of not being able to recover the assets pledged to Lehman Brothers Special Financing, Inc.;
- Ø changes in our expenses associated with acquisitions and dispositions;
- Ø developments in technology;
- Ø the impact of Doral Financial Corporation s financial condition on the repayment of its outstanding secured loans to us;
- Ø risks associated with further downgrades in the credit ratings of our securities;
- Ø general competitive factors and industry consolidation; and
- Ø the possible future dilution to holders of our Common Stock resulting from additional issuances of Common Stock or securities convertible into Common Stock.

Although the forward-looking statements are based on our current beliefs and expectations, we do not undertake, and specifically disclaim any obligation, to update any of the forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements except as required by the federal securities laws.

You should carefully consider these factors and the risk factors beginning on page 26 of this prospectus. All forward-looking statements attributable to First BanCorp or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained in this prospectus.

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Where You Can Find More Information

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the SEC). Our SEC filings are available to the public over the Internet at the SEC s website at *http://www.sec.gov,* which contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. You may also read and copy any document we file with the SEC at its public reference facilities located at 100 F Street, N.E., Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities.

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Incorporation of Certain Documents by Reference

We hereby incorporate by reference into this prospectus the following documents that we have filed with the SEC:

- Ø Our Annual Report on Form 10-K for the year ended December 31, 2009 filed on March 2, 2010;
- Ø Our Proxy Statement for the Annual Meeting of Stockholders held on April 27, 2010 filed on April 6, 2010;
- Ø Our Proxy Statement for the August 24, 2010 Special Meeting of Stockholders filed on August 2, 2010;
- Ø Our Current Reports on Form 8-K filed on February 3, 2010 (excluding Items 2.02 and 9.01), April 29, 2010 (excluding Items 2.02 and 9.01, as amended by Form 8-K/A filed on May 3, 2010), June 4, 2010, July 2, 2010, July 7, 2010, July 15, 2010, July 16, 2010, July 20, 2010, August 17, 2010, August 18, 2010, August 23, 2010 and August 24, 2010; and
- Ø Our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2010 and June 30, 2010 filed on May 10, 2010 and August 9, 2010, respectively.

You may request a copy of these filings, other than an exhibit to a filing unless that exhibit is specifically incorporated by reference into that filing, at no cost, by writing to us at the following address: First BanCorp., Attention: Lawrence Odell, Secretary, P.O. Box 9146, San Juan, Puerto Rico, 00908-0146. Telephone requests may be directed to: (787) 729-8109. E-mail requests may be directed to lawrence.odell@firstbankpr.com. You may also access this information at our website at *www.firstbankpr.com* by viewing the SEC Filings subsection of the Investor Relations menu. No additional information on our website is deemed to be part of or incorporated by reference into this prospectus.

Please note that this Registration Statement and the Schedule TO filed in connection with the Exchange Offer do not permit incorporation by reference of future filings. If a material change occurs in the information set forth in this prospectus, we will amend this Registration Statement and the Schedule TO accordingly.

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Questions and Answers about the Exchange Offer

The following are certain questions regarding the Exchange Offer that you may have as a holder of shares of Preferred Stock and the answers to those questions. These questions and answers may not contain all of the information that is important to you and are qualified in their entirety by the more detailed information included or incorporated by reference into this prospectus. Before deciding to exchange your securities for shares of our Common Stock, you should carefully consider the information contained in or incorporated by reference into this prospectus, including the information set forth under the heading Risk Factors beginning on page 26 of this prospectus. For further information about us, see Where You Can Find More Information.

WHAT IS THE PURPOSE OF THE EXCHANGE OFFER?

We decided to conduct this Exchange Offer to improve our capital structure given the continuing difficult economic conditions in the markets in which we operate and the evolving regulatory environment. We must increase our common equity to provide additional protection against the future recognition of additional loan loss reserves against our loan portfolio and credit losses associated with the disposition of non-performing assets due to the current economic situation in Puerto Rico and the United States that has impacted the Corporation s asset quality and earnings performance. Total non-performing loans to total loans increased to 12.40% as of June 30, 2010 from 11.23% as of December 31, 2009 and from 8.94% as of June 30, 2009.

The restructuring of our equity components through the Exchange Offer will strengthen the quality of our regulatory capital position and enhance our ability to meet any new capital requirements. Furthermore, through the Exchange Offer, we are seeking to improve the Corporation s Tier 1 common equity to risk-weighted assets ratio. In the Supervisory Capital Assessment Program (the SCAP) applied to large money-center banks in the U.S., federal regulators established a 4% Tier 1 common equity to risk-weighted assets ratio as the minimum threshold to determine the potential capital needs of such banks. While the SCAP is not applicable to us, we believe that the Tier 1 common equity ratio is being viewed by financial analysts and rating agencies as a guide for measuring the capital adequacy of banking institutions. The Exchange Offer will also improve our tangible common equity to tangible assets ratio, which is another metric used by financial analysts to determine a bank s capital requirements. As of June 30, 2010, our Tier 1 common equity ratio was 2.86% and our tangible common equity ratio was 2.57%. If 70% of our outstanding shares of Preferred Stock is exchanged in the Exchange Offer, which is the Corporation s targeted success rate for the Exchange Offer, our Tier 1 common equity ratio and tangible common equity ratio as of June 30, 2010 on a pro forma basis after giving effect to the Exchange Offer would have been 5.92% and 4.70%, respectively. Our Tier 1 common equity would be strengthened by $385 million based on a 70% success rate for the exchange. See Regulatory and Other Capital Ratios Reconciliation of Tangible Common Equity and Tangible Assets and Regulatory and Other Capital Ratios Reconciliation of Common Stockholders Equity (GAAP) to Tier 1 Common Equity (Non-GAAP).

Finally, if holders of $385 million of the liquidation preference of the Preferred Stock tender their shares of Preferred Stock in the Exchange Offer, we raise $500 million of additional capital, and the holders of our Common Stock approve amendments to our Articles of Incorporation, within nine months of the July 7, 2010 date of our agreement with the U.S. Treasury, we will meet the substantive conditions necessary for us to compel the U.S. Treasury to convert into Common Stock the shares of a new series of Fixed Rate Cumulative Mandatorily Convertible Preferred Stock, Series G (the Series G Preferred Stock), that we issued to the U.S. Treasury in exchange for the $400 million liquidation value of our Fixed Rate Cumulative Perpetual Preferred Stock, Series F, $1,000 liquidation preference per share (Series F Preferred Stock), and accrued and unpaid dividends. No assurance can be given that we will

Questions and Answers about the Exchange Offer

able to meet these conditions for the conversion of the Series G Preferred Stock, including the requirement to raise additional capital. See Agreement with the U.S. Treasury.

WHAT ARE THE REQUIREMENTS OF THE RECENT REGULATORY AGREEMENTS?

The Corporation entered into the Agreement with the Fed dated June 3, 2010 and our subsidiary, FirstBank Puerto Rico (FirstBank or the Bank), agreed to the Order with the FDIC and the OCIF dated June 2, 2010. Pursuant to these Agreements, the Corporation and FirstBank have agreed to take certain actions designed to improve their financial condition. These actions include the adoption and implementation of various plans, procedures and policies related to their capital, lending activities, liquidity and funds management and strategy. In addition, the Order requires FirstBank to develop and adopt a plan to attain a leverage ratio of at least 8%, a Tier 1 capital to risk-weighted assets ratio of at least 10% and a Total capital to risk-weighted assets ratio of at least 12%, and obtain approval prior to issuing, increasing, renewing or rolling over brokered deposits. The Agreement also requires the Corporation to obtain the approval of the Fed prior to paying dividends, receiving dividends from FirstBank, incurring, increasing or guaranteeing any debt, or purchasing or redeeming any stock, to comply with certain notice provisions prior to appointing any new directors or senior executive officers and to comply with certain restrictions on severance payments and indemnification.

Concurrently with the issuance by the FDIC of its Order, the FDIC granted FirstBank a temporary waiver through June 30, 2010 to enable it to continue accessing the brokered deposit market. FirstBank has obtained an additional waiver through September 30, 2010. FirstBank will request waivers for future periods although no assurance can be given that the FDIC will continue to issue such waivers. Any failure to obtain a future waiver would have a significantly adverse effect on FirstBank, which has relied on brokered deposits to fund a major part of its operations and had, as of June 30, 2010, $7.1 billion in brokered deposits outstanding, representing approximately 56% of our total deposits. For more information about the Agreements, see Regulatory Agreements.

WHAT ADDITIONAL EFFORTS IS THE CORPORATION TAKING TO IMPROVE ITS CAPITAL?

We have assured our regulators that we are committed to raising capital and we have submitted capital plans to our regulators regarding how we plan to raise capital. In addition to this Exchange Offer, we have been taking steps to implement strategies to increase tangible common equity and regulatory capital through (1) the issuance of approximately $500 million of equity in one or more public or private offerings (a Capital Raise), (2) the conversion into Common Stock of the shares of Series G Preferred Stock that we issued to the U.S. Treasury in exchange for the Series F Preferred Stock that we sold to it on January 16, 2009, as further discussed below, and (3) a rights offering to common stockholders. With respect to a Capital Raise, we plan to seek to raise at least $500 million of equity because we believe that amount would enable us to absorb possible additional losses based on a worst case evaluation of possible losses over the next five years while maintaining the capital ratios required for a well-capitalized financial institution as well as those required by the FDIC s Order. We expect to amend this Prospectus to disclose any material developments relating to a Capital Raise that occur prior to the expiration date of the Exchange Offer. If we complete a Capital Raise, we expect to issue rights to the holders of our currently outstanding 92,542,722 shares of Common Stock that entitle them to acquire one share of Common Stock for each share of Common Stock they own at a price equal to the purchase price in a Capital Raise. No assurance can be given that we will complete a Capital Raise, the conversion of the Series G Preferred Stock or a rights offering.

We believe that the Exchange Offer and, to the extent completed, the conversion of the Series G Preferred Stock into Common Stock and a Capital Raise would enhance our long-term financial stability, improve our ability to operate in the current economic environment, and improve our ability to access the capital markets in order to fund strategic initiatives or other business needs and to absorb any future credit losses.

Questions and Answers about the Exchange Offer

Our inability to complete the Exchange Offer would hinder our efforts to sell Common Stock in a Capital Raise. If we need to continue to recognize significant reserves and we cannot complete a Capital Raise, the Corporation and FirstBank may not be able to comply with the minimum capital requirements included in the capital plans required by the Agreements. These capital plans, which are subject to the approval of our regulators, set forth our plan to attain the capital ratio requirements set forth in the Order over time. In addition to a Capital Raise, the capital plans contemplate alternative capital preservation strategies, including among other things, an accelerated deleverage strategy and the divesture of profitable businesses. If, at the end of any quarter, we do not comply with any specified minimum capital ratios, we must notify our regulators. The Corporation must notify the Fed within 30 days of the end of any quarter of its inability to comply with a capital ratio requirement and submit an acceptable written plan that details the steps it will take to comply with the requirement. FirstBank must immediately notify the FDIC of its inability to comply with a capital ratio requirement and, within 45 days, it must either increase its capital to comply with the ratio requirements or submit a contingency plan to the FDIC for its sale, merger, or liquidation. In the event of a liquidation of FirstBank, the holders of any outstanding preferred stock would rank senior to the holders of our Common Stock with respect to rights upon any liquidation of the Corporation.

WHAT ARE THE TERMS OF THE EXCHANGE OF THE SERIES F PREFERRED STOCK FOR SERIES G PREFERRED STOCK?

On July 20, 2010, we exchanged our Series F Preferred Stock, which has a liquidation preference of $400 million, and accrued and unpaid dividends on the Series F Preferred Stock, for 424,174 shares of a new series of Series G Preferred Stock, that has similar terms (including the same liquidation preference), but which we can convert, under the conditions described below, into shares of Common Stock based on an initial conversion rate of 896.3045 shares of Common Stock for each share of Series G Preferred Stock (calculated by dividing $650, or a discount of 35% from the $1,000 liquidation preference per share of Series G Preferred Stock, by the initial conversion price of $0.7252 per share, which is subject to adjustment). No assurance can be given that we will able to meet the conditions for the conversion of the Series G Preferred Stock, including the requirement to raise additional capital. See Agreement with the U.S. Treasury.

HOW WOULD THE ISSUANCE OF ADDITIONAL SHARES OF COMMON STOCK AFFECT PARTICIPANTS IN THE EXCHANGE OFFER?

Existing holders of Preferred Stock that participate in the Exchange Offer would be significantly diluted if we issue additional shares of Common Stock other than through the Exchange Offer. These possible additional issuances include: (i) the possible issuance of shares of Common Stock in a Capital Raise at a price significantly below the book value per share of Common Stock as of June 30, 2010 of $5.48; (ii) the possible issuance of shares of Common Stock to the U.S. Treasury upon conversion of the Series G Preferred Stock; and (iii) the possible issuance of additional shares of Common Stock to The Bank of Nova Scotia (BNS) pursuant to its anti-dilution right, subject to the consent of the Federal Reserve (see Agreement with The Bank of Nova Scotia). Our issuance of 256,401,610 shares of Common Stock in the Exchange Offer, which is 100% of the shares offered in the Exchange Offer, would reduce on a pro forma basis our loss per share for the six-month period ended June 30, 2010 from $2.27 to $0.60 and our book value per share as of June 30, 2010 from $5.48 to $3.03. If, subsequent to our issuance of 256,401,610 shares of Common Stock in the Exchange Offer, we were to issue shares of Common Stock to the U.S. Treasury upon conversion of the Series G Preferred Stock, to investors in a Capital Raise and to BNS, we estimate that we would issue approximately 1.43 billion additional shares based on (i) our agreement with the U.S. Treasury and (ii) a sale in a Capital Raise of $500 million at a per-share price of $0.57, the market price of our Common Stock on July 14, 2010.

Accordingly, our loss per share for the six-month period ended June 30, 2010 and our book value per share as of June 30, 2010 would be reduced on a pro forma basis to $0.12 and $1.16, respectively. Such

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additional issuances of shares of Common Stock would decrease the voting power of participants in the Exchange Offer from 73% after the completion of the Exchange Offer, assuming all of the Preferred Stock is tendered, to 14% if approximately 1.68 billion shares of Common Stock are issued in a Capital Raise, to the U.S. Treasury and to BNS upon its exercise in full of its anti-dilution right. Finally, the additional issuances of shares of Common Stock may adversely impact the market price of our Common Stock.

At this time, we expect that any investor in a Capital Raise would acquire less than 10% of our outstanding shares to avoid being considered a bank holding company under the Bank Holding Company Act of 1956. If the Series G Preferred Stock is converted into Common Stock, the U.S. Treasury would acquire a significant percentage of our Common Stock. Any such ownership would give the U.S. Treasury the ability to influence stockholder matters in a manner that may conflict with the interests of other holders of Common Stock.

WHAT ARE THE KEY TERMS OF THE EXCHANGE OFFER?

We are offering to exchange up to 256,401,610 newly issued shares of our Common Stock for any and all issued and outstanding shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock.

For each share of Preferred Stock that we accept for exchange in accordance with the terms of the Exchange Offer, we will issue a number of shares of our Common Stock having the Exchange Value set forth in the table below unless the Minimum Share Price is used to determine the exchange ratio, in which case we would issue 11.6525 shares of Common Stock for each share of Preferred Stock.

CUSIP	Title of securities	Aggregate liquidation preference outstanding	Liquidation preference per share	Exchange Value
318672201	7.125% Noncumulative Perpetual Monthly Income Preferred Stock, Series A	$ 90,000,000	$ 25	$ 13.75
318672300	8.35% Noncumulative Perpetual Monthly Income Preferred Stock, Series B	$ 75,000,000	$ 25	$ 13.75
318672409	7.40% Noncumulative Perpetual Monthly Income Preferred Stock, Series C	$ 103,500,000	$ 25	$ 13.75
318672508	7.25% Noncumulative Perpetual Monthly Income Preferred Stock, Series D	$ 92,000,000	$ 25	$ 13.75
318672607	7.00% Noncumulative Perpetual Monthly Income Preferred Stock, Series E	$ 189,600,000	$ 25	$ 13.75

Depending on the trading price of our Common Stock compared to the Relevant Price, the market value of the Common Stock we issue on the settlement date in exchange for each share of Preferred Stock we accept for exchange may be less than, equal to or greater than the applicable Exchange Value referred to above. If the trading price of our Common Stock is below $1.18 per share, the market value of our Common Stock to be received in the Exchange Offer will be less than the applicable Exchange Value.

WHAT CONSIDERATION ARE WE OFFERING IN EXCHANGE FOR SHARES OF PREFERRED STOCK?

For each share of Preferred Stock that we accept for exchange in accordance with the terms of the Exchange Offer, we will issue a number of shares of our Common Stock having the aggregate dollar value (based on the Relevant Price) equal to the applicable Exchange Value.

Questions and Answers about the Exchange Offer

Depending on the trading price of our Common Stock compared to the Relevant Price, the market value of the Common Stock we issue in exchange for each share of Preferred Stock we accept for exchange may be less than, equal to or greater than the applicable Exchange Value.

If the Minimum Share Price is used to determine the exchange ratio, 11.6525 shares of Common Stock will be issued in exchange for each share of Preferred Stock that we accept for tender in the Exchange Offer. If the trading price of our Common Stock is below $1.18 per share, the market value of our Common Stock to be received in the Exchange Offer will be less than the applicable Exchange Value.

HOW WILL THE AVERAGE VWAP BE DETERMINED?

Average VWAP during a period means the arithmetic average of VWAP for each trading day during that period. VWAP for any day means the per share volume weighted average price of our Common Stock on that day as displayed under the heading Bloomberg VWAP on Bloomberg Page FBP US <equity> VAP (or its equivalent successor page if such page is not available) in respect of the period from the scheduled open of trading on the relevant trading day until the scheduled close of trading on the relevant trading day (or if such VWAP is unavailable, the market price of one share of our Common Stock on such trading day determined, using a volume weighted average method, by a nationally recognized investment banking firm we retain for that purpose).

HOW MAY I OBTAIN INFORMATION REGARDING THE RELEVANT PRICE AND APPLICABLE EXCHANGE RATIOS?

Throughout the Exchange Offer, the indicative average VWAP, the Minimum Share Price, the resultant indicative Relevant Price and the indicative exchange ratios will be available at www.firstbankpr.com, by clicking on Exchange Offer in the Investor Relations section at this address, and from the Information Agent, at one of its numbers listed on the back cover page of this prospectus.

We will announce the final exchange ratio for each series of Preferred Stock prior to 9:00 a.m., New York City time, on the business day immediately succeeding the second business day prior to the expiration date of the Exchange Offer, and those final exchange ratios will also be available by that time at www.firstbankpr.com, by clicking on Exchange Offer in the Investor Relations section at this address, and from the Information Agent. No additional information on our website is deemed to be part of or incorporated by reference into this prospectus.

Depending on the trading price of our Common Stock compared to the Relevant Price, the market value of the Common Stock we issue in exchange for each share of Preferred Stock we accept for exchange may be less than, equal to or greater than the applicable Exchange Value.

WILL ALL SHARES OF PREFERRED STOCK THAT I TENDER BE ACCEPTED IN THE EXCHANGE OFFER?

Yes, we will accept all shares of Preferred Stock validly tendered in the Exchange Offer.

WHAT HAPPENS TO TENDERED SHARES OF PREFERRED STOCK THAT ARE NOT ACCEPTED FOR EXCHANGE?

If your tendered shares of Preferred Stock are not accepted for exchange because the tender is not in proper form, our acceptance of the tender would be unlawful, in our opinion, or for any other reason pursuant to the terms and conditions of the Exchange Offer, such shares will be returned without expense to you or, in the case of shares of Preferred Stock tendered by book-entry transfer, such shares will be credited to an account maintained at DTC, designated by the participant who delivered such shares, in each case, promptly following the expiration or termination, as applicable, of the Exchange Offer.

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Questions and Answers about the Exchange Offer

WILL FRACTIONAL SHARES BE ISSUED IN THE EXCHANGE OFFER?

We will not issue fractional shares of our Common Stock in the Exchange Offer and no cash will be paid for fractional shares. Instead, the number of shares of Common Stock received by each holder whose shares of Preferred Stock are accepted for exchange in the Exchange Offer will be rounded down to the nearest whole number.

WHAT ARE THE CONDITIONS APPLICABLE TO THE EXCHANGE OFFER?

Our obligation to exchange shares of our Common Stock for shares of Preferred Stock in the Exchange Offer is subject to a number of conditions that must be satisfied or waived by us, including, among others, (i) pursuant to NYSE listing requirements, the approval by the holders of our Common Stock to the issuance of up to 256,401,610 shares of Common Stock upon the exchange of Preferred Stock in the Exchange Offer, (ii) the approval by the holders of our Common Stock of an amendment to our Articles of Incorporation to reduce the par value of a share of Common Stock from $1.00 to $0.10 per share if necessary to issue shares of Common Stock in the Exchange Offer, and (iii) the absence of any change or development (affecting our business or otherwise) that in our reasonable judgment may materially reduce the anticipated benefits to us of the Exchange Offer or that has had, or could reasonably be expected to have, a material adverse effect on us or our businesses, financial condition, operations or prospects. Our obligation to exchange is not subject to any minimum tender condition.

We will hold a special meeting of the holders of our Common Stock at our principal offices located at 1519 Ponce de Leon Avenue, Santurce, Puerto Rico, on August 24, 2010, for the purpose of seeking approval of such holders of the issuance of up to 256,401,610 shares of Common Stock upon the exchange of Preferred Stock in the Exchange Offer in an amount equal to a majority of the votes cast, provided that the total votes cast at such special meeting represents more than 50% of the issued and outstanding shares of our Common Stock, and the approval of the amendment to our Articles of Incorporation to reduce the par value of a share of Common Stock from $1.00 to $0.10 per share, if necessary. In addition, holders of our Common Stock will be asked to approve an amendment to our Articles of Incorporation to increase the number of authorized shares of Common Stock from 750,000,000 to 2,000,000,000 shares so that we will have sufficient shares of Common Stock in case we are able to issue shares of Common Stock upon conversion of the Series G Preferred Stock and in a Capital Raise. In addition, holders of Common Stock will be asked to approve the issuance of shares of Common Stock to (i) BNS if it exercises its anti-dilution right in connection with the Exchange Offer or the issuance of Series G Preferred Stock to the U.S. Treasury and (ii) a director pursuant to the terms of the Exchange Offer and to approve a reverse stock split.

HOW DO I PARTICIPATE IN THE EXCHANGE OFFER?

The Exchange Offer will expire at 9:30 a.m., New York City time on August 25, 2010, unless extended or earlier terminated by us. You may withdraw any shares of Preferred Stock that you previously tendered in the Exchange Offer on or prior to the expiration date of the Exchange Offer.

Certain shares of Preferred Stock were issued in book-entry form and are currently represented by one or more global certificates held for the account of DTC. If your securities are book-entry securities, you may tender your shares of Preferred Stock by transferring them through ATOP or following the other procedures described under The Exchange Offer Procedures for Tendering Shares of Preferred Stock.

If your interest as a holder of Preferred Stock is in certificated form, you must deliver to the Exchange Agent (1) the certificates for the shares of your Preferred Stock to be exchanged in the manner specified in the accompanying letter of transmittal and (2) a proper assignment of the shares of Preferred Stock to First BanCorp, or to any transfer agent for the shares of Preferred Stock, or in blank.

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Questions and Answers about the Exchange Offer

If you hold your shares of Preferred Stock through a bank, broker or other nominee, in order to validly tender your shares of Preferred Stock in the Exchange Offer, you must follow the instructions provided by your broker, securities dealer, custodian, commercial bank, trust company or other nominee with regard to procedures for tendering, in order to enable your broker, securities dealer, custodian, commercial bank, trust company or other nominee to comply with the procedures described below. **Beneficial owners are urged to appropriately instruct their broker, securities dealer, custodian, commercial bank, trust company or other nominee at least five business days prior to the expiration date in order to allow adequate processing time for their instruction.**

In order for a broker, securities dealer, custodian, commercial bank, trust company or other nominee to validly tender your shares of Preferred Stock in the Exchange Offer, such broker, securities dealer, custodian, commercial bank, trust company or other nominee must deliver to the Exchange Agent an electronic message that will contain:

- your acknowledgment and agreement to, and agreement to be bound by, the terms of the accompanying letter of transmittal; and
- a timely confirmation of book-entry transfer of your shares of Preferred Stock into the Exchange Agent s account.

Should you have any questions as to the procedures for tendering your shares of Preferred Stock, please call your broker, securities dealer, custodian, commercial bank, trust company or other nominee; or call the Information Agent.

WE ARE NOT PROVIDING FOR GUARANTEED DELIVERY PROCEDURES AND, THEREFORE, YOU MUST ALLOW SUFFICIENT TIME FOR THE NECESSARY TENDER PROCEDURES TO BE COMPLETED DURING NORMAL BUSINESS HOURS OF DTC ON OR PRIOR TO THE EXPIRATION DATE.

See The Exchange Offer Procedures for Tendering Shares of Preferred Stock.

DO I HAVE A CHOICE IN WHETHER TO TENDER MY PREFERRED STOCK?

Yes. Holders of Preferred Stock are not required to tender their Preferred Stock pursuant to this prospectus. All rights and obligations pursuant to which each series of Preferred Stock was issued will continue with respect to the Preferred Stock that remains outstanding after the expiration date.

MAY I TENDER ONLY A PORTION OF THE PREFERRED STOCK THAT I HOLD?

Yes. You may choose to tender in the Exchange Offer all or any portion of the Preferred Stock that you hold.

WHAT ARE THE CONSEQUENCES OF NOT EXCHANGING MY PREFERRED STOCK?

After the completion of the Exchange Offer, we intend to delist any remaining shares of our Preferred Stock from trading on the NYSE and, to the extent permitted by law, we intend to deregister any such remaining shares under the Exchange Act. The delisting of any such remaining shares, the reduction in the number of shares of Preferred Stock available for trading and our suspension of dividends on Preferred Stock may have a significant and adverse effect on the liquidity of any trading market for, and the price of, shares of Preferred Stock not exchanged in the Exchange

Offer. Therefore, if you do not exchange your Preferred Stock in the Exchange Offer, your shares of Preferred Stock may become illiquid for an indefinite period of time.

Questions and Answers about the Exchange Offer

WILL WE PAY DIVIDENDS ON PREFERRED STOCK THAT REMAINS OUTSTANDING AFTER THE COMPLETION OF THE EXCHANGE OFFER?

The Agreement we entered into with the Fed requires, among other things, that we obtain the approval of the Fed before we pay dividends, including dividends on the Preferred Stock. We cannot determine if or when we may pay such dividends in the future. On July 30, 2009, we announced the suspension of dividends on our Common Stock, Preferred Stock and previously outstanding Series F Preferred Stock, which was sold to the U.S. Treasury on January 16, 2009, effective with the preferred dividend for August 2009. We have not paid dividends on the Preferred Stock since August 2009. Resumption of the payment of dividends on our Preferred Stock also will require us to conclude that their payment will not affect our capital position. Furthermore, we are generally not obligated or required to pay dividends on Preferred Stock and no such dividends can be paid unless they are declared by our board of directors out of funds legally available for payment.

WILL THE COMMON STOCK TO BE ISSUED IN THE EXCHANGE OFFER BE LISTED FOR TRADING?

We will file an application with the NYSE to list the shares of our Common Stock to be issued in the Exchange Offer. For more information regarding the market for our Common Stock, see Market Price, Dividend and Distribution Information.

IS THE CORPORATION MAKING A RECOMMENDATION REGARDING WHETHER I SHOULD TENDER IN THE EXCHANGE OFFER?

We are not making any recommendation regarding whether you should tender or refrain from tendering your Preferred Stock in the Exchange Offer. Accordingly, you must make your own determination as to whether to tender your Preferred Stock in the Exchange Offer and, if so, the number of shares of Preferred Stock to tender. Before making your decision, we urge you to carefully read this prospectus in its entirety, including the information set forth in the Risk Factors section of this prospectus and all documents incorporated by reference herein.

WILL I HAVE TO PAY ANY FEES OR COMMISSIONS IF I TENDER MY PREFERRED STOCK?

Tendering holders are not obligated to pay brokerage fees or commissions to us or to the Dealer Manager, the Exchange Agent or the Information Agent. If your shares of Preferred Stock are held through a broker, securities dealer, custodian, commercial bank, trust company or other nominee who tenders the Preferred Stock on your behalf, your broker, securities dealer, custodian, commercial bank, trust company or other nominee may charge you a commission for doing so. You should consult with your broker, securities dealer, custodian, commercial bank, trust company or other nominee to determine whether any charges will apply.

WILL THE CORPORATION RECEIVE ANY CASH PROCEEDS FROM THE EXCHANGE OFFER?

No. The Corporation will not receive any cash proceeds from the Exchange Offer.

WILL THE EXCHANGE OFFER TRIGGER ANY ANTI-DILUTION RIGHTS?

Both BNS and the U.S. Treasury have anti-dilution rights.

Pursuant to the terms of the Stockholder Agreement, dated August 24, 2007, by and between us and BNS (the Stockholder Agreement), for as long as BNS beneficially owns at least 5% of our outstanding Common Stock, BNS has an anti-dilution right and a right of first refusal. For example, if we were to issue all 256,401,610 shares of Common Stock in the Exchange Offer, BNS would be entitled under its anti-dilution right to acquire up to 28,476,121 additional shares of our Common Stock at a price equal to the price per share at which the shares of our Common Stock were issued in the Exchange Offer, subject to the

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Questions and Answers about the Exchange Offer

consent of the Federal Reserve. If BNS declines to exercise any part of its anti-dilution right and we issue 256,401,610 shares of Common Stock in the Exchange Offer, BNS s beneficial ownership would be reduced to approximately 2.65%. See Agreement with The Bank of Nova Scotia.

In addition, the U.S. Treasury has an anti-dilution right relating to the warrant that it acquired at the same time that it acquired shares of our Series F Preferred Stock in January 2009. This right will be triggered if the value of the Preferred Stock exchanged for Common Stock in the Exchange Offer, as determined by our board of directors, is equal to less than 90% of the market value of the Common Stock as determined pursuant to the terms of the warrant. At the time we exchanged the Series F Preferred Stock for Series G Preferred Stock, we issued to the U.S. Treasury an amended and restated warrant to replace the original warrant. Like the original warrant, the amended and restated warrant has an anti-dilution right that requires an adjustment to the exercise price for, and the number of shares underlying, the warrant. This adjustment will be necessary under various circumstances, including if we issue shares of Common Stock for consideration per share that is lower than the initial conversion price of the Series G Preferred Stock, or $0.7252. See Agreement with the U.S. Treasury.

WILL THE EXCHANGE OFFER AFFECT OUR REGULATORY CAPITAL RATIOS?

No. The Exchange Offer itself will not affect our Total capital or Tier 1 capital. These ratios will only be affected if BNS exercises its anti-dilution right under the Stockholder Agreement and acquires shares of our Common Stock. See Agreement with The Bank of Nova Scotia. However, the Exchange Offer will improve our tangible common equity ratio and our Tier 1 common equity to risk-weighted assets ratio, which are non-GAAP financial measures used by financial analysts, investment bankers and others to evaluate capital adequacy.

WILL THE CORPORATION NEED TO RAISE ADDITIONAL CAPITAL AFTER THE COMPLETION OF THE EXCHANGE OFFER?

We also intend to conduct a Capital Raise, given the continuing difficult economic conditions in Puerto Rico and the other markets in which we operate and the potential for future credit losses. Even if we are able to complete a Capital Raise, the Corporation expects to undertake additional efforts to raise capital through a rights offering and possibly a sale of additional shares of Common Stock in an offering later in 2010. No assurance can be given that any of these additional offerings will be completed.

If BNS continues to own at least 5% of our outstanding shares of Common Stock at the time of any such sale of Common Stock, it can exercise its anti-dilution right and right of first refusal in connection with any such offering. No assurance can be given that any issuance of shares of Common Stock in an offering will be possible at an acceptable price, or that BNS will exercise its anti-dilution right or right of first refusal in the event of an offering, or that the Federal Reserve will approve any such purchase by BNS. If BNS exercises its anti-dilution right or right of first refusal in connection with an offering, the NYSE listing requirements may require us to, once again, seek stockholder approval of the issuance of shares of our Common Stock to BNS. See Agreement with The Bank of Nova Scotia.

WHAT ARE THE TAX CONSEQUENCES OF MY PARTICIPATING IN THE EXCHANGE OFFER?

We anticipate that no gain or loss will be recognized upon completion of the Exchange Offer by any persons subject to United States federal or Puerto Rico income tax.

WHO CAN I TALK TO IF I HAVE QUESTIONS?

If you have questions regarding the Exchange Offer, please contact the Dealer Manager or the Information Agent at the addresses and telephone numbers included on the back cover of this prospectus.

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Summary

The following summary highlights material information contained in this prospectus. It may not contain all of the information that is important to you and is qualified in its entirety by the more detailed information included or incorporated by reference into this prospectus. Before deciding to exchange your securities for shares of our Common Stock, you should carefully consider the information contained in or incorporated by reference into this prospectus, including the information set forth under the heading Risk Factors starting on page 26 in this prospectus.

THE CORPORATION

First BanCorp is a publicly-owned financial holding company that is subject to regulation, supervision and examination by the Federal Reserve. The Corporation was incorporated under the laws of the Commonwealth of Puerto Rico to serve as the bank holding company for FirstBank Puerto Rico (FirstBank or the Bank). The Corporation controls two wholly-owned subsidiaries: FirstBank and FirstBank Insurance Agency, Inc. (FirstBank Insurance Agency), through which we operate a total of 176 branches, stand-alone offices and in-branch service centers throughout Puerto Rico, the United States and British Virgin Islands and the state of Florida specializing in commercial banking, residential mortgage loan originations, finance leases, personal loans, small loans, auto loans and insurance agency services. FirstBank is a Puerto Rico-chartered commercial bank and FirstBank Insurance Agency is a Puerto Rico-chartered insurance agency. FirstBank is subject to the supervision, examination and regulation of both the Office of the Commissioner of Financial Institutions of the Commonwealth of Puerto Rico and the FDIC. Deposits are insured through the FDIC Deposit Insurance Fund. In addition, within FirstBank, the operations in the U.S. Virgin Islands are subject to regulation and examination by the United States Virgin Islands Banking Board; in the British Virgin Islands, operations are subject to regulation by the British Virgin Islands Financial Services Commission. As of June 30, 2010, First BanCorp had approximately $18.1 billion in assets, $12.7 billion in deposits and $1.4 billion in stockholders equity.

The Corporation s principal executive offices are located at 1519 Ponce de Leon Avenue, Stop 23, Santurce, Puerto Rico 00908, and its telephone number is (787) 729-8200.

REGULATORY AGREEMENTS

The Corporation entered into the Agreement with the Fed dated June 3, 2010 and our subsidiary, FirstBank, agreed to the Order with the FDIC and the OCIF dated June 2, 2010. Pursuant to these Agreements, the Corporation and FirstBank have agreed to take certain actions designed to improve their financial condition. These actions include the adoption and implementation of various plans, procedures and policies related to their capital, lending activities, liquidity and funds management and strategy. In addition, the Order requires FirstBank to develop and adopt a plan to attain a leverage ratio of at least 8%, a Tier 1 capital to risk-weighted assets ratio of at least 10% and a Total capital to risk-weighted assets ratio of at least 12%, and obtain approval prior to issuing, increasing, renewing or rolling over brokered deposits. The Agreement also requires the Corporation to obtain the approval of the Fed prior to paying dividends, receiving dividends from FirstBank, incurring, increasing or guaranteeing any debt, or purchasing or redeeming any stock, to comply with certain notice provisions prior to appointing any new directors or senior executive officers and to comply with certain restrictions on severance payments and indemnification.

Concurrently with the issuance by the FDIC of its Order, the FDIC granted FirstBank a temporary waiver through June 30, 2010 to enable it to continue accessing the brokered deposit market. FirstBank has obtained an additional waiver through September 30, 2010. FirstBank will request waivers for future periods although no assurance can be given that the FDIC will continue to issue such waivers. Any failure to obtain a future waiver would have a significantly adverse effect on FirstBank, which has relied on brokered deposits to fund a major part of its operations and had, as of June 30, 2010, $7.1 billion in brokered deposits outstanding, representing approximately 56% of our total deposits. For more information about the Agreements, see Regulatory Agreements.

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THE EXCHANGE OFFER

We decided to conduct this Exchange Offer to improve our capital structure given the continuing difficult economic conditions in the markets in which we operate and the evolving regulatory environment. We must increase our common equity to provide additional protection against the future recognition of additional loan loss reserves against our loan portfolio and credit losses associated with the disposition of non-performing assets due to the current economic situation in Puerto Rico and the United States that has impacted the Corporation s asset quality and earnings performance. Total non-performing loans to total loans increased to 12.40% as of June 30, 2010 from 11.23% as of December 31, 2009 and from 8.94% as of June 30, 2009. The Exchange Offer will strengthen our capital position if it is successful. Our Tier 1 capital will only be affected if BNS decides to exercise its anti-dilution right under the Stockholder Agreement and acquires shares of our Common Stock. See Agreement with The Bank of Nova Scotia. The Exchange Offer will improve the Corporation s Tier 1 common equity to risk-weighted assets ratio and tangible common equity to tangible assets ratio, which, as of June 30, 2010, were 2.86% and 2.57%, respectively. If 70% of our outstanding shares of Preferred Stock is exchanged in the Exchange Offer, which is the Corporation s targeted success rate for the Exchange Offer, our Tier 1 common equity ratio and tangible common equity ratio as of June 30, 2010 on a pro forma basis after giving effect to the Exchange Offer would have been 5.92% and 4.70%, respectively. Our Tier 1 common equity would be strengthened by $385 million based on a 70% success rate for the exchange. See Regulatory and Other Capital Ratios Reconciliation of Tangible Common Equity and Tangible Assets and Regulatory and Other Capital Ratios Reconciliation of Common Stockholders Equity (GAAP) to Tier 1 Common Equity (Non-GAAP). We believe that the Exchange Offer will enhance our long-term financial stability and improve our ability to operate in the current economic environment. In addition, it will improve our ability to access the capital markets in order to fund strategic initiatives or other business needs and to absorb any future credit losses. See The Exchange Offer Purpose of the Exchange Offer. Finally, if holders of $385 million of the liquidation preference of the Preferred Stock tender their shares of Preferred Stock in the Exchange Offer, we raise $500 million of additional capital, and the holders of our Common Stock approve amendments to our Articles of Incorporation, within nine months of the July 7, 2010 date of our agreement with the U.S. Treasury, we will meet the substantive conditions necessary for us to compel the U.S. Treasury to convert into Common Stock the shares of a new series of Series G Preferred Stock that we issued to the U.S. Treasury in exchange for the $400 million liquidation value of our Series F Preferred Stock, and accrued and unpaid dividends. See Agreement with the U.S. Treasury.

ADDITIONAL EFFORTS THE CORPORATION IS TAKING TO IMPROVE ITS CAPITAL

We have assured our regulators that we are committed to raising capital and we have submitted capital plans to our regulators regarding how we plan to raise capital. In addition to this Exchange Offer, we have been taking steps to implement strategies to increase tangible common equity and regulatory capital through (1) a Capital Raise, (2) the conversion into Common Stock of the shares of Series G Preferred Stock, subject to the satisfaction of the conditions to such conversion, and (3) a rights offering to common stockholders. With respect to a Capital Raise, we are seeking to raise at least $500 million of equity because we believe that amount would enable us to absorb possible additional losses based on a worst case evaluation of possible losses over the next five years while maintaining the capital ratios required for a well-capitalized financial institution as well as those required by the FDIC s Order. We expect to amend this Prospectus to disclose any material developments relating to a Capital Raise that occur prior to the expiration date of the Exchange Offer. If we complete a Capital Raise, we expect to issue rights to the holders of our currently outstanding 92,542,722 shares of Common Stock that entitle them to acquire one share of Common Stock for each share of Common Stock they own at a price equal to the purchase price in a Capital Raise. No assurance can be given that we will complete a Capital Raise, the conversion of the Series G Preferred Stock or a rights offering.

Our inability to complete the Exchange Offer would hinder our efforts to sell Common Stock in a Capital Raise. If we need to continue to recognize significant reserves and we cannot complete a Capital

Raise, the Corporation and FirstBank may not be able to comply with the minimum capital requirements included in the capital plans required by the Agreements. These capital plans, which are subject to the approval of our regulators, set forth our plan to attain the capital ratio requirements set forth in the Order over time. In addition to a Capital Raise, the capital plans contemplate alternative capital preservation strategies, including among other things, an accelerated deleverage strategy and the divesture of profitable businesses. If, at the end of any quarter, we do not comply with any specified minimum capital ratios, we must notify our regulators. The Corporation must notify the Fed within 30 days of the end of any quarter of its inability to comply with a capital ratio requirement and submit an acceptable written plan that details the steps it will take to comply with the requirement. FirstBank must immediately notify the FDIC of its inability to comply with a capital ratio requirement and, within 45 days, it must either increase its capital to comply with the ratio requirements or submit a contingency plan to the FDIC for its sale, merger, or liquidation. In the event of a liquidation of FirstBank, the holders of any outstanding preferred stock would rank senior to the holders of our Common Stock with respect to rights upon any liquidation of the Corporation.

AGREEMENT WITH THE U.S. TREASURY RELATING TO THE CONVERSION OF THE SERIES G PREFERRED STOCK

On July 20, 2010, we issued to the U.S. Treasury shares of Series G Preferred Stock in exchange for our Series F Preferred Stock, which had a liquidation preference of $400 million, and accrued and unpaid dividends on the Series F Preferred Stock. The Series G Preferred Stock has similar terms (including the same liquidation preference), but is convertible, as described below, into approximately 380.2 million shares of Common Stock based on an initial conversion rate of 896.3045 shares of Common Stock for each share of Series G Preferred Stock (calculated by dividing $650, or a discount of 35% from the $1,000 liquidation preference per share of Series G Preferred Stock, by the initial conversion price of $0.7252 per share, which is subject to adjustment). See Agreement with the U.S. Treasury.

IMPACT OF ISSUANCE OF ADDITIONAL SHARES OF COMMON STOCK ON PARTICIPANTS IN THE EXCHANGE OFFER

Participants in the Exchange Offer would be significantly diluted if we issue additional shares of Common Stock other than through the Exchange Offer. These additional issuances include: (i) the possible issuance of shares of Common Stock in a Capital Raise at a price significantly below the book value per share of Common Stock as of June 30, 2010 of $5.48; (ii) the possible issuance of shares of Common Stock upon conversion of the Series G Preferred Stock; and (iii) the possible issuance of additional shares of Common Stock to BNS pursuant to its anti-dilution right, subject to the consent of the Federal Reserve (see Agreement with The Bank of Nova Scotia).

Our issuance of 256,401,610 shares of Common Stock in the Exchange Offer would reduce on a pro forma basis our loss per share for the six-month period ended June 30, 2010 from $2.27 to $0.60 and our book value per share as of June 30, 2010 from $5.48 to $3.03. If, subsequent to our issuance of 256,401,610 shares of Common Stock in the Exchange Offer, we were to issue shares of Common Stock to the U.S. Treasury upon conversion of the Series G Preferred Stock, to investors in a Capital Raise and to BNS, we estimate that we would issue approximately 1.43 billion additional shares based on (i) our agreement with the U.S. Treasury and (ii) a sale in a Capital Raise of $500 million at a per-share price of $0.57, the market price of our Common Stock on July 14, 2010. Accordingly, our loss per share for the six-month period ended June 30, 2010 and our book value per share as of June 30, 2010 would be reduced on a pro forma basis to $0.12 and $1.16, respectively. Such additional issuances of shares of Common Stock would decrease the voting power of participants in the Exchange Offer from 73% after the completion of the Exchange Offer, assuming all of the Preferred Stock is tendered, to 14% if approximately 1.68 billion shares of Common Stock are issued in a Capital Raise, to the U.S. Treasury and to BNS upon its exercise in full of its anti-dilution right. Finally, the additional issuances of shares of Common Stock may adversely impact the market price of our Common Stock.

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The participants in the Exchange Offer may also experience additional dilution upon the exercise by the U.S. Treasury of its warrant. The Corporation has outstanding a warrant held by the U.S. Treasury to purchase 5,842,259 shares of Common Stock. If this warrant is exercised, the issuance of shares of Common Stock would further reduce the loss per share, book value per share and voting power of the participants in the Exchange Offer. In addition, as of June 30, 2010, there are approximately 2,073,200 shares of Common Stock underlying options granted to employees pursuant to the 1997 Stock Option Plan. The holders of these options are unlikely to exercise their options because the weighted average exercise price was $13.24 as of June 30, 2010.

At this time, we expect that any investor in a Capital Raise would acquire less that 10% of our outstanding shares to avoid being considered a bank holding company under the Bank Holding Company Act of 1956. If the Series G Preferred Stock is converted into Common Stock, the U.S. Treasury would acquire approximately 21% of our Common Stock, assuming approximately 1.68 billion shares are issued in the Exchange Offer, in the Capital Raise, to the U.S. Treasury and to BNS. Any such ownership would give the U.S. Treasury the ability to influence stockholder matters in a manner that may conflict with the interests of other holders of Common Stock.

REGULATORY AND OTHER CAPITAL RATIOS[1]

The following table sets forth our capital ratios as of June 30, 2010 on an as reported basis, as well as on a pro forma basis after giving effect to the Exchange Offer. The pro forma ratios presented reflect (i) completion of the Exchange Offer under the Low Participation Scenario and (ii) completion of the Exchange Offer under the High Participation Scenario. This table should be read in conjunction with the information set forth under Selected Financial Data, Unaudited Pro Forma Financial Information, Regulatory and Other Capital Ratios and our consolidated audited financial statements set forth in our Form 10-Q for the quarter ended June 30, 2010, which are incorporated by reference into this prospectus. See also Risk Factors.

	As of June 30, 2010		
	As reported	Pro forma for Exchange Offer (Low)[2]	Pro forma for Exchange Offer (High)[3]
Total capital (Total capital to risk-weighted assets)	13.35%	13.35%	13.35%
Tier 1 capital ratio (Tier 1 capital to risk-weighted assets)	12.05	12.05	12.05
Leverage (Tier 1 capital to average assets)	8.14	8.14	8.14
Tangible common equity (Tangible common equity to tangible assets)	2.57	4.09	5.31
Tier 1 common (Tier 1 common equity to risk-weighted assets)	2.86	5.05	6.80

(1) The tangible common equity ratio is a non-GAAP financial measure. It is not prepared in accordance with generally accepted accounting principles in the United States (GAAP). The tangible common equity ratio is generally used by financial analysts and investment bankers to evaluate capital adequacy. The ratio of Tier 1 common equity to risk-weighted assets is a non-GAAP financial measure used by the Federal Reserve in

connection with the stress test administered to the 19 largest U.S. bank holding companies under the SCAP, the results of which were announced on May 7, 2009. For a reconciliation of these non-GAAP financial measures to U.S. GAAP, see Regulatory and Other Capital Ratios Reconciliation of Tangible Common Equity and Tangible Assets and Regulatory and Other Capital Ratios Reconciliation of Common Stockholders Equity (GAAP) to Tier 1 Common Equity (Non-GAAP).

(2) *The Low Participation Scenario assumes (i) the exchange of 50% of the outstanding shares of Preferred Stock ($275.05 million aggregate liquidation preference) for 128,200,805 shares of our Common Stock, and (ii) a Relevant Price of $1.18 per share.*

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(3) The High Participation Scenario assumes (i) the exchange of 90% of the outstanding shares of Preferred Stock ($495.09 million aggregate liquidation preference) for 230,761,449 shares of our Common Stock, and (ii) a Relevant Price of $1.18 per share.

DIVIDEND SUSPENSION ON COMMON STOCK AND PREFERRED STOCK

On July 30, 2009, we announced the suspension of dividends on our Common Stock, Preferred Stock and previously outstanding Series F Preferred Stock effective with the preferred dividend for August 2009. We are generally not obligated or required to pay dividends on our Common Stock or preferred stock and no such dividends can be paid unless they are declared by our board of directors out of funds legally available for payment. Moreover, the Agreement with the Fed requires us to obtain its approval before we pay any dividends. Furthermore, our board of directors cannot declare, set apart or pay any dividends on shares of our Common Stock unless (i) any accrued and unpaid dividends on our Preferred Stock for the twelve monthly dividend periods ending on the immediately preceding dividend payment date have been paid or are paid contemporaneously and the full monthly dividend on our Preferred Stock for the then current month has been or is contemporaneously declared and paid or declared and set apart for payment and, (ii) with respect to our Series G Preferred Stock, any accrued and unpaid dividends for past dividend periods, including the latest completed dividend period, on all outstanding shares of Series G Preferred Stock have been declared and paid in full.

ANTI-DILUTION RIGHTS THAT MAY BE TRIGGERED BY THE EXCHANGE OFFER

Both BNS and the U.S. Treasury have anti-dilution rights. BNS s anti-dilution right will be triggered by the Exchange Offer. If BNS exercises its anti-dilution right, BNS would be entitled to acquire up to that number of shares of Common Stock that would enable it to maintain its percentage interest in the Corporation, or up to 28,476,121 additional shares of our Common Stock if we issue 256,401,610 shares in the Exchange Offer, at a price equal to the price per share at which the shares of our Common Stock were issued in the Exchange Offer. The U.S. Treasury has an anti-dilution right relating to the warrant that it acquired at the same time that it acquired shares of our Series F Preferred Stock in January 2009. This right will be triggered if the value of the Preferred Stock exchanged for Common Stock in the Exchange Offer, as determined by our board of directors, is equal to less than 90% of the market value of the Common Stock as determined pursuant to the terms of the warrant. At the time we exchanged the Series F Preferred Stock for Series G Preferred Stock, we issued to the U.S. Treasury an amended and restated warrant to replace the original warrant. Like the original warrant, the amended and restated warrant has an anti-dilution right that requires an adjustment to the exercise price for, and the number of shares underlying, the warrant. This adjustment will be necessary under various circumstances, including if we issue shares of Common Stock for consideration per share that is lower than the initial conversion price of the Series G Preferred Stock, or $0.7252. See Agreement with the U.S. Treasury and Agreement with The Bank of Nova Scotia.

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Summary of Terms of the Exchange Offer

Exchange Offer

We are offering to issue up to 256,401,610 newly issued shares of our Common Stock in exchange for any and all of the issued and outstanding shares of Preferred Stock, validly tendered and not validly withdrawn on or prior to the expiration date, upon the terms and subject to the conditions set forth in this prospectus and in the accompanying letter of transmittal (including, if the Exchange Offer is extended or amended, the terms and conditions of any such extension or amendment).

For each share of Preferred Stock that we accept for exchange in accordance with the terms of the Exchange Offer, we will issue a number of shares of our Common Stock having the aggregate dollar value (based on the Relevant Price) equal to the Exchange Value set forth in the table below.

Depending on the trading price of our Common Stock compared to the Relevant Price, the market value of the Common Stock we issue in exchange for each share of Preferred Stock we accept for exchange may be less than, equal to or greater than the applicable Exchange Value referred to below.

Set forth below is a table that shows, with respect to each series of Preferred Stock, the aggregate liquidation preference outstanding, the liquidation preference per share of Preferred Stock and the applicable Exchange Value for each series.

CUSIP	Title of securities	Aggregate liquidation preference outstanding	Liquidation preference per share	Exchange Value
318672201	7.125% Noncumulative Perpetual Monthly Income Preferred Stock, Series A	$90,000,000	$ 25	$ 13.75
318672300	8.35% Noncumulative Perpetual Monthly Income Preferred Stock, Series B	$75,000,000	$ 25	$ 13.75
318672409	7.40% Noncumulative Perpetual Monthly Income Preferred Stock, Series C	$103,500,000	$ 25	$ 13.75
318672508	7.25% Noncumulative Perpetual Monthly Income Preferred Stock, Series D	$92,000,000	$ 25	$ 13.75
318672607	7.00% Noncumulative Perpetual Monthly Income Preferred Stock, Series E	$189,600,000	$ 25	$ 13.75

See The Exchange Offer Terms of the Exchange Offer and The Exchange Offer Procedures for Tendering Shares of Preferred Stock.

Purpose of the Exchange Offer	We are conducting this Exchange Offer to improve our capital structure given the continuing difficult economic conditions in the markets in which we operate and the evolving regulatory environment. We believe that the Exchange Offer will enhance our long-term financial stability and improve our ability to operate in the current economic environment. In addition, it will improve our ability to access the capital markets in order to fund strategic initiatives or other business needs and to

	absorb any future credit losses. Finally, if holders of $385 million of the liquidation preference of the Preferred Stock tender their shares of Preferred Stock in the Exchange Offer, we raise $500 million of additional capital, and the holders of our Common Stock approve amendments to our Articles of Incorporation, within nine months of the July 7, 2010 date of our agreement with the U.S. Treasury, we will meet the substantive conditions necessary for us to compel the U.S. Treasury to convert into Common Stock the shares of Series G Preferred Stock that we issued to the U.S. Treasury in exchange for the $400 million liquidation value of our Series F Preferred Stock, and accrued and unpaid dividends. See Agreement with the U.S. Treasury.
Consideration Offered in the Exchange Offer	We are offering to exchange up to 256,401,610 newly issued shares of our Common Stock for outstanding shares of Preferred Stock, on the terms and subject to the conditions set forth in this prospectus and in the accompanying letter of transmittal. As of August 13, 2010, we had approximately 92.5 million shares of Common Stock outstanding. Our acceptance of validly tendered shares of Preferred Stock for exchange is subject to the terms and conditions of the Exchange Offer. We will promptly return any securities that are not accepted for exchange, such as, because the tender is not in proper form or our acceptance of the tender would be unlawful, in our opinion, following the expiration of the Exchange Offer. We will promptly return all tendered securities following termination of the Exchange Offer. For each share of Preferred Stock that we accept for exchange in accordance with the terms of the Exchange Offer, we will issue a number of shares of our Common Stock having the aggregate dollar value (based on the Relevant Price) equal to the Exchange Value set forth in the table under The Exchange Offer Terms of the Exchange Offer Offer Consideration, subject to the Minimum Share Price limitation. **Depending on the trading price of our Common Stock compared to the Relevant Price described above, the market value of the Common Stock we issue in exchange for each share of Preferred Stock we accept for exchange may be less than, equal to or greater than the relevant Exchange Value referred to above.** If the Minimum Share Price is used to determine the exchange ratio, 11.6525 shares of Common Stock will be issued in exchange for each share of Preferred Stock that we accept for tender in the Exchange Offer; the market value of those shares will be less than the applicable Exchange Value if the trading price of our Common Stock is below $1.18 per share. We are not making a recommendation as to whether you should exchange your shares of Preferred Stock in the

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	Exchange Offer. We have not retained, and do not intend to retain, any unaffiliated representatives to act solely on behalf of the holders of the shares of Preferred Stock for purposes of negotiating the Exchange Offer or preparing a report concerning the fairness of the Exchange Offer. You must make your own independent decision regarding your participation in the Exchange Offer.
Publication of Exchange Ratio Information	Throughout the Exchange Offer, the indicative average VWAP, the Minimum Share Price, the resultant indicative Relevant Price, and the indicative exchange ratios will be available at www.firstbankpr.com, by clicking on Exchange Offer in the Investor Relations section at this address, and from the Information Agent, at one of its numbers listed on the back cover page of this prospectus. We will announce the final exchange ratio for each series of Preferred Stock prior to 9:00 a.m., New York City time, on the business day immediately succeeding the second business day prior to the expiration date of the Exchange Offer, and those final exchange ratios will also be available by that time at www.firstbankpr.com, by clicking on Exchange Offer in the Investor Relations section at this address, and from the Information Agent. No additional information on our website is deemed to be part of or incorporated by reference into this prospectus.
Expiration Date	The Exchange Offer will expire at 9:30 a.m., New York City time, on August 25, 2010 unless the Exchange Offer is extended or earlier terminated by us. The term expiration date means such date and time or, if an Exchange Offer is extended, the latest date and time to which the Exchange Offer is so extended.
Fractional Shares	We will not issue fractional shares of our Common Stock in the Exchange Offer and no cash will be paid for fractional shares. Instead, the number of shares of Common Stock received by each holder whose shares of Preferred Stock are accepted for exchange in the Exchange Offer will be rounded down to the nearest whole number.
Settlement Date	The settlement date with respect to the Exchange Offer will be a date promptly following the expiration date. We currently expect the settlement date to be three trading days after the expiration date.
Withdrawal Rights	You may withdraw previously tendered shares of Preferred Stock at any time before the expiration date of the Exchange Offer. In addition, you may withdraw any shares of Preferred Stock that you tender that are not accepted by us for exchange after the expiration of 40 business days after the commencement of the Exchange Offer. See The Exchange Offer Withdrawal of Tenders.
Conditions to the Exchange Offer	Our obligation to issue shares of our Common Stock in exchange for shares of Preferred Stock in the Exchange Offer is subject to a number of conditions that must be satisfied or

	waived by us, including, among others, (i) pursuant to NYSE listing requirements, the approval by the holders of our Common Stock to the issuance of up to 256,401,610 shares of Common Stock upon the exchange of Preferred Stock in the Exchange Offer, (ii) the approval by the holders of our Common Stock of an amendment to our Articles of Incorporation to reduce the par value of a share of Common Stock from $1.00 to $0.10 per share, if necessary to issue shares of Common Stock in the Exchange Offer (the reduction will be necessary to complete the Exchange Offer if, for example, the market value of a share of Preferred Stock tendered in the exchange is less than $10 at a time when the market value of the Common Stock would result in the issuance of more than 10 shares per tendered share of Preferred Stock), and (iii) the absence of any change or development (affecting our business or otherwise) that in our reasonable judgment may materially reduce the anticipated benefits to us of the Exchange Offer or that has had, or could reasonably be expected to have, a material adverse effect on us or our businesses, financial condition, operations or prospects. See The Exchange Offer Conditions of the Exchange Offer.
Extensions; Waivers and Amendments; Termination	Subject to applicable law, we reserve the right to: (1) extend the Exchange Offer; (2) waive any and all conditions to or amend the Exchange Offer in any respect, including amending the Exchange Value or the Minimum Share Price; or (3) terminate the Exchange Offer. Any extension, waiver, amendment or termination will be followed as promptly as practicable by a public announcement thereof, such announcement in the case of an extension to be issued no later than 9:00 a.m., New York City time, on the next business day after the last previously scheduled expiration date. See The Exchange Offer Expiration Date; Extension; Termination; Amendment.
Procedures for Tendering Shares of Preferred Stock	Certain shares of Preferred Stock were issued in book-entry form, and are currently represented by one or more global certificates held for the account of DTC. If your securities are book entry securities, you may tender your shares of Preferred Stock by transferring them through ATOP or following the other procedures described under The Exchange Offer Procedures for Tendering Shares of Preferred Stock. If you hold your shares of Preferred Stock through a broker, securities dealer, custodian, commercial bank, trust company or other nominee, in order to validly tender your shares of Preferred Stock in the Exchange Offer, you must follow the instructions provided by your broker, securities dealer, custodian, commercial bank, trust company or other nominee with regard to procedures for tendering, in order to enable your broker, securities dealer, custodian, commercial bank, trust company or other nominee to comply with the procedures described below. **Beneficial owners are urged to instruct appropriately their broker, securities dealer, custodian, commercial bank, trust**

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company or other nominee at least five business days prior to the expiration date in order to allow adequate processing time for their instruction.

In order for a broker, securities dealer, custodian, commercial bank, trust company or other nominee to tender validly your shares of Preferred Stock in the Exchange Offer, such broker, securities dealer, custodian, commercial bank, trust company or other nominee must deliver to the Exchange Agent an electronic message that will contain:

Ø your acknowledgment and agreement to, and agreement to be bound by, the terms of the accompanying letter of transmittal; and

Ø a timely confirmation of book-entry transfer of your shares of Preferred Stock into the Exchange Agent s account.

Should you have any questions as to the procedures for tendering your shares of Preferred Stock, please call your broker, securities dealer, custodian, commercial bank, trust company or other nominee; or call the Information Agent.

On the date of any tender for exchange, if your interest in shares of Preferred Stock is in certificated form, you must do each of the following in order to validly tender for exchange:

Ø complete and manually sign the accompanying letter of transmittal provided by the Information Agent, or a facsimile of the letter of transmittal, and deliver the signed letter to;

Ø surrender the certificates for your shares of Preferred Stock to the Information Agent;

Ø if required, furnish appropriate endorsements and transfer documents; and

Ø if required, pay all transfer or similar taxes.

You may obtain copies of the required form of the letter of transmittal from the Exchange Agent.

WE ARE NOT PROVIDING FOR GUARANTEED DELIVERY PROCEDURES AND, THEREFORE, YOU MUST ALLOW SUFFICIENT TIME FOR THE NECESSARY TENDER PROCEDURES TO BE COMPLETED DURING NORMAL BUSINESS HOURS OF DTC ON OR PRIOR TO THE EXPIRATION DATE.

TENDERS RECEIVED BY THE EXCHANGE AGENT AFTER THE EXPIRATION DATE WILL BE DISREGARDED AND HAVE

	NO EFFECT.
	See The Exchange Offer Procedures for Tendering Shares of Preferred Stock.
United States Federal Income Tax Considerations	For United States federal income tax purposes: (i) the exchange of shares of Preferred Stock for shares of our Common Stock

pursuant to the Exchange Offer will be treated as a recapitalization within the meaning of Section 368(a)(1)(E) of the Internal Revenue Code of 1986, as amended, and (ii) it is intended that this prospectus, in combination with the related letter of transmittal, will constitute a plan of reorganization, within the meaning of Treasury Regulation Section 1.368-2(g). Therefore, we anticipate that no gain or loss will be recognized upon completion of the Exchange Offer by any persons subject to United States federal income tax. See Certain Material U.S. Federal Income Tax Considerations. Each holder should consult its own tax advisor regarding the U.S. federal, state, local, and foreign income and other tax consequencescember 31, 2005 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, 2005 and the amendment to the annual report on Form 10-K/A filed on June 29, 2006.

Note 2. Stock-Based Compensation

Adoption of SFAS No. 123R

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004) Share-Based Payment (SFAS No. 123R). SFAS No. 123R replaces SFAS No. 123 Accounting for Stock-Based Compensation (SFAS No. 123), supersedes Accounting Principles Board Opinion No. 25 Accounting for Stock Issued to Employees (APB No. 25), and amends SFAS No. 95 Statement of Cash Flows . SFAS No. 123R requires entities to recognize compensation expense for all share-based payments to employees and directors, including grants of employee stock options, based on the grant-date fair value of those share-based payments (with limited exceptions), adjusted for expected forfeitures. In April 2005, the Securities and Exchange Commission (SEC) issued a final ruling that extended the compliance date for SFAS No. 123R to the first interim or annual reporting period of the registrants first fiscal year that begins on or after June 15, 2005.

The Company adopted SFAS No. 123R, effective January 1, 2006 using the modified prospective transition method. Under that transition method, stock-based compensation expense recognized during the three and nine months ended September 30, 2006 includes: (a) stock options, restricted stock and restricted stock units granted prior to, but not yet vested, as of December 31, 2005, based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) shares issued in offerings under the Employee Stock Purchase Plan with offering periods commencing January 1, 2006 and stock options, restricted stock and restricted stock units granted subsequent to December 31, 2005, based on the grant-date fair value estimated using the Black-Scholes valuation model in accordance with the provisions of SFAS No. 123R. Expense is recognized ratably over the requisite service period. Under the modified prospective transition method, results for prior periods are not restated.

Under SFAS No. 123R the Company recognized stock-based compensation expense of $1.6 million and $4.5 million for the three and nine months ended September 30, 2006, respectively. Adoption of SFAS No. 123R reduced income before income taxes and net income by approximately $0.7 million and $2.7 million ($0.01 per basic and diluted share and $0.03 per basic and diluted share) for the three and nine months ended September 30, 2006, respectively, as the Company would have recognized $0.9 million and $1.8 million of stock-based compensation expense for the three and nine months ended September 30, 2006, respectively, related to its outstanding and additional issuances of restricted stock and restricted stock units prior to the adoption of SFAS No. 123R.

SFAS No. 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow. Because the Company does not recognize the benefit of tax deductions in

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excess of recognized compensation cost due to its cumulative net operating loss position, this change had no impact on the Company s consolidated statement of cash flows as of and for the three and nine months ended September 30, 2006. For 2006, the Company used restricted stock units in its annual share-based payment program for employees, while continuing to use stock options for new hire grants. As a result, restricted stock units comprised the majority of equity grants in 2006.

Accounting Prior to Adoption of SFAS No. 123R

Prior to January 1, 2006, as permitted under SFAS No. 123, as amended by SFAS No. 148 Accounting for Stock-Based Compensation Transition and Disclosure, Axcelis elected to follow the provisions of APB No. 25 to account for stock-based awards to employees. Under APB No. 25, compensation expense with respect to such awards is not recognized if on the date the awards were granted the exercise price was equal to or greater than the market value of the underlying common shares. Historically, all stock options have been granted with an exercise price equal to the fair market value of the common stock on the date of grant. Accordingly, no compensation expense was recognized from option grants to employees and directors. The fair value of restricted stock unit and restricted stock awards was charged to deferred compensation at the time of issuance and amortized to expense over the vesting period on a straight-line basis.

On October 24, 2005, the Compensation Committee of the Board of Directors resolved to accelerate the vesting of certain unvested and out-of-the-money stock options with exercise prices equal to or greater than $10.00 per share. These options were previously awarded to its employees and other eligible participants, including executive officers, under the Company s 2000 Stock Plan. Of the approximately 1.5 million accelerated options, 309,474 options, or 21.2%, were held by executive officers. The acceleration of vesting was effective for stock options outstanding as of December 15, 2005, at which date the closing price of the Company s common stock was $4.70 per share. The weighted average exercise price of the options subject to the acceleration was $11.52 per share. The acceleration of the vesting of these options did not result in compensation expense based on generally accepted accounting principles. For pro forma disclosure requirements under SFAS No. 123, the Company recognized an incremental $7.1 million of stock-based compensation expense for all options whose vesting was accelerated. As a result of this action the Company is not recognizing compensation expense of approximately the same amount associated with these options in operating results upon effectiveness of the application of SFAS No. 123R.

The modified prospective transition method of SFAS No. 123R requires the presentation of pro forma information, for periods presented prior to the adoption of SFAS No. 123R, regarding net income (loss) and net income (loss) per share as if the Company had accounted for its stock plans under the fair value method of SFAS No. 123.

For pro forma purposes, the fair value of stock options was estimated using the Black-Scholes option valuation model and amortized on a graded attribution approach using the following assumptions for the three and nine months ended September 30, 2005:

	Three months ended September 30, 2005		**Nine months ended September 30, 2005**	
Risk-free interest rate	3.74 4.05	%	2.92 4.05	%
Expected stock price volatility	69.3	%	69.3	%
Weighted average expected term (in years)	4.0		4.0	
Expected dividend yield	0.0	%	0.0	%

The weighted average grant date fair value (determined using the Black-Scholes option pricing model) for options granted during the three and nine months ended September 30, 2005 was $3.75 and $3.71, respectively.

The following table illustrates the effect on net loss and net loss per share for the three and nine months ended September 30, 2005 if the Company had accounted for its stock plans using the fair value method of accounting provided under SFAS No. 123:

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		Three months ended September 30, 2005	Nine months ended September 30, 2005
Net loss, as reported (Under APB No. 25)		$ (5,167)	$ (2,520)
Add:	Stock-based employee compensation expense included in reported net loss	549	593
Deduct:	Total stock-based employee compensation expense determined under fair value based method for all awards	(3,615)	(11,842)
Pro forma net loss		$ (8,233)	$ (13,769)
Net loss per share as reported			
Basic		$ (0.05)	$ (0.03)
Diluted		$ (0.05)	$ (0.03)
Pro forma net loss per share			
Basic		$ (0.08)	$ (0.14)
Diluted		$ (0.08)	$ (0.14)

2000 Stock Plan

The Company maintains the Axcelis Technologies, Inc. 2000 Stock Plan (the 2000 Plan), a stock award and incentive plan which permits the issuance of options, stock appreciation rights, restricted stock, restricted stock units, and performance awards to selected employees, directors and consultants of the Company. The 2000 Plan originally reserved 18.5 million shares of common stock for future grant, which amount was subsequently increased to 33.2 million shares of common stock. The 2000 Plan expires in 2012. At September 30, 2006 there were 17.4 million shares of common stock available for future grant. At September 30, 2006, stock awards outstanding under the 2000 Plan included stock options, restricted stock, and restricted stock units.

Expiration of non-qualified stock options or stock appreciation rights is based on award agreements. Non-qualified stock options typically expire ten years from date of grant, but, if approved by the Board of Directors, may have a stated term in excess of ten years. Incentive stock option awards expire ten years from the date of grant. Generally, options granted to employees terminate upon termination of employment (or 90 days thereafter). Under the terms of the 2000 Plan, the exercise price, determined by the Board of Directors, may not be less than the fair market value of a share of the Company s common stock on the date of grant. Stock options granted to employees generally vest over a period of four years while stock options granted to non-employee members of the Company s Board of Directors generally vest over a period of 6 months and, once vested, are not affected by the director s termination of service to the Company. The Company settles stock option exercises with newly issued common shares.

Generally, unvested restricted stock and restricted stock unit awards expire upon termination of service to the Company (or 90 days thereafter). Restricted stock or restricted stock unit awards granted to employees generally vest over a period of four years while restricted stock or restricted stock units granted to members of the Company s Board of Directors generally vest over a period of six months.

Under the 2000 Plan, fair market value is defined as the closing price of a share of the common stock on the Nasdaq National Market System (now the Nasdaq Global Market), as of any applicable date, as long as the Company s shares are traded on such system

Stock Options

The Company estimates the fair value of stock options using the Black-Scholes valuation model, consistent with the provisions of SFAS No. 123R, SEC SAB No. 107 and the Company s prior period pro forma disclosures of net earnings, including stock-based compensation (determined under a fair value method as prescribed by SFAS No. 123).

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option valuation model and a straight line attribution approach using the following assumptions for the three and nine months ended September 30, 2006:

	Three months ended September 30, 2006			**Nine months ended September 30, 2006**		
Risk-free interest rate	4.75	5.12	%	4.29	5.12	%
Expected stock price volatility	57.0		%	56.9	59.0	%
Weighted average expected term (in years)	4.2			4.2		
Expected dividend yield	0.0		%	0.0		%

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The risk-free interest rate is based on U.S. Treasury interest rates for a term consistent with the expected life of the stock options.

The expected stock price volatility assumption was derived using a combination of historical and implied volatility. The Company determined that a blended volatility is more reflective of market conditions and a better indicator of expected volatility than historical volatility alone. Prior to the adoption of SFAS No. 123R, the Company used historical volatility as the basis for its expected volatility assumption.

Weighted average expected term was calculated using a forward looking lattice model of the Company s stock price incorporating a suboptimal exercise factor and a projected post-vest forfeiture rate. Prior to the adoption of SFAS No. 123R, the Company used the estimated option life (typically four years) as the basis for its expected term assumption.

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

The forfeiture rate used was based upon historical experience. As required by SFAS No. 123R, the Company will adjust the estimated forfeiture rate based upon actual experience.

The weighted average grant date fair value per option (determined using the Black-Scholes option pricing model) for options granted during the three and nine months ended September 30, 2006 was $2.92 and $2.47, respectively.

The following table summarizes the stock option activity for the nine months ended September 30, 2006:

	Options	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term (years)**	**Aggregate Intrinsic Value**
Outstanding at December 31, 2005	13,464	$ 11.81		
Granted	604	4.98		
Exercised	(225)	6.05		
Canceled	(193)	6.51		
Expired	(788)	11.75		
Outstanding at September 30, 2006	12,862	$ 11.68	5.5	$ 3,856
Exercisable at September 30, 2006	11,394	$ 12.36	5.1	$ 2,504

The total intrinsic value of options exercised during the three and nine months ended September 30, 2006 was nil and $0.2 million, respectively. The total fair value of stock options vested during the three and nine months ended September 30, 2006 was $1.0 million and $3.4 million, respectively. As of September 30, 2006, there was $3.8 million of total forfeiture adjusted unrecognized compensation cost related to non-vested stock options granted under the 2000 Plan. That cost is expected to be recognized over a weighted-average period of 2.1 years. Cash received from stock option exercises was $0.1 and $1.4 million during the three and nine months ended September 30, 2006, respectively.

The following table summarizes information with respect to stock options outstanding and exercisable at September 30, 2006:

	Options Outstanding			**Options Exercisable**	
Range of Exercise Prices	**Number Outstanding**	**Weighted-Average Remaining Contractual Life (years)**	**Weighted-Average Exercise Price**	**Number Exercisable**	**Weighted-Average Exercise Price**
$4.36 -$6.38	2,588	6.9	$ 5.60	1,884	$ 5.74
$6.77 - $10.00	2,902	4.9	$ 8.06	2,138	$ 8.28
$10.28 - $15.38	5,064	5.6	$ 12.20	5,064	$ 12.20
$15.63 - $22.00	2,307	3.6	$ 21.87	2,307	$ 21.87
$24.13	1	3.8	$ 24.13	1	$ 24.13
Total	12,862	5.5	$ 11.68	11,394	$ 12.36

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Restricted Stock And Restricted Stock Units

During 2005, the Compensation Committee of the Board of Directors approved the issuance of 854,000 restricted stock units (RSUs) to selected employees, including 365,000 to executive officers, and the issuance of 44,000 shares of restricted stock to Directors under the 2000 Plan. RSUs represent the Company s unfunded and unsecured promise to issue shares of the common stock at a future date, subject to the terms of the RSU Award Agreement and the 2000 Plan. The purpose of these awards is to assist in attracting and retaining highly competent employees and directors and to act as an incentive in motivating selected employees and directors to achieve long-term corporate objectives. These 2005 RSU awards vest over four years for employees and executive officers. The 2005 restricted stock awards to directors vested on January 1, 2006. The fair value of restricted stock unit and restricted stock awards is charged to expense ratably over the requisite service period.

In accordance with an approval by the Compensation Committee of the Board of Directors under the 2000 Plan, in July 2006 the Company issued 862,000 RSUs to selected employees, including 417,000 to executive officers, and 50,000 shares of restricted stock to directors. In September 2006, the Company issued an additional 5,600 RSUs to selected employees under the 2000 Plan, as approved by the Compensation Committee fo the Board of Directors. The 2006 awards vest over four years for non-executive officers. The 2006 awards for executive officers vest 50% on July 3, 2009 and 50% on July 3, 2010, subject to acceleration if the Company meets certain market capitalization targets, but not earlier than July 3, 2008. The 2006 restricted stock awards to directors will vest on January 2, 2007. The fair value of restricted stock unit and restricted stock awards is charged to expense ratably over the requisite service period.

Changes in the Company s non-vested restricted stock and restricted stock units for the nine months ended September 30, 2006 follow:

	Shares/units
Outstanding at December 31, 2005	1,063
Granted	917
Vested	(137)
Forfeited	(8)
Outstanding at September 30, 2006	1,835

The fair value of the Company s restricted stock and restricted stock units was calculated based upon the fair market value of the Company s stock at the date of grant. As of September 30, 2006, there was $9.4 million of total forfeiture adjusted unrecognized compensation cost related to nonvested restricted stock and restricted stock units, which is expected to be amortized over a weighted average amortization period of 3.2 years.

Employee Stock Purchase Plan

The Employee Stock Purchase Plan (the Purchase Plan) provides effectively all Axcelis employees the opportunity to purchase common stock of the Company at less than market prices. Purchases are made through payroll deductions of up to 10% of the employee s salary, subject to certain caps set forth in the Purchase Plan. Historically, employees could purchase Axcelis common stock at 85% of the market value of the Company s common stock on the first trading day of each offering period or on the day the stock is purchased, whichever was lower. Effective January 1, 2006, employees may only purchase Axcelis common stock at 85% of the market value of the Company s common stock on the day the stock is purchased. The purchase price may be adjusted by a committee of the Board of Directors.

Compensation expense was not recognized through December 31, 2005 because the Purchase Plan was a non-compensatory plan under Section 423 of the Internal Revenue Code. Under SFAS No. 123R, the Purchase Plan is now considered compensatory and as such, compensation expense is recognized beginning January 1, 2006. Compensation expense is computed as the benefit of discounted stock price, amortized to compensation expense straight-line over each offering period of six months. Compensation expense for the three and nine months ended September 30, 2006 was $0.1 million and $0.3 million, respectively.

As of September 30, 2006, there were a total of 4.3 million shares reserved for issuance and available for purchase under the Purchase Plan. There were 0.2 million shares purchased under the Purchase Plan during the three months ended September 30, 2006 and 0.5 million shares purchased under the Purchase Plan during the nine months ended September 30, 2006.

Note 3. Net Income (Loss) Per Share

SFAS No. 128, Earnings Per Share, requires two presentations of earnings per share, basic and diluted. Basic earnings (loss) per share is computed by dividing income (loss) 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 (loss) per

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share is similar to basic earnings (loss) per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued.

For purposes of computing diluted earnings per share, weighted average common shares outstanding do not include stock options with an exercise price inclusive of unrecognized compensation expense which exceeded the average fair market value of the Company s common stock for the period, as the effect would be anti-dilutive. As such, the Company has excluded from the computation 12.1 million and 12.2 million (for the three and nine months ended September 30, 2006, respectively) and 11.5 million and 10.9 million (for the three and nine months ended September 30, 2005, respectively) outstanding stock options. In addition, 7.5 million shares and 6.9 million shares of common stock for the assumed conversion of the Company s convertible debt for the three and nine months ended September 30, 2006, respectively, and 6.3 million shares of common stock for the assumed conversion of the Company s convertible debt for the three and nine months ended September 30, 2005, computed using the if converted method, were excluded from the computation of diluted earnings per share as the effect of conversion would be anti-dilutive. These stock options and conversions could, however, become dilutive in future periods.

A reconciliation of net income (loss) and shares used in computing basic and diluted earnings (loss) per share follows:

	Three months ended September 30,		**Nine months ended September 30,**	
	2006	**2005**	**2006**	**2005**
	(in thousands, except per share data)			
Income (loss) available to common stockholders	$ 12,520	$ (5,167)	$ 25,209	$ (2,520)
Weighted average common shares outstanding used in computing basic net income (loss) per share	101,165	100,428	101,003	100,256
Incremental shares	447		202	
Weighted average common shares outstanding used in computing diluted net income (loss) per share	101,612	100,428	101,205	100,256
Net income (loss) per share				
Basic	$ 0.12	$ (0.05)	$ 0.25	$ (0.03)
Diluted	0.12	(0.05)	0.25	(0.03)

Note 4. Comprehensive Income (Loss)

The components of comprehensive income (loss) follow:

	Three months ended September 30,		**Nine months ended September 30,**	
	2006	**2005**	**2006**	**2005**
	(in thousands)			
Net income (loss)	$ 12,520	$ (5,167)	$ 25,209	$ (2,520)
Other comprehensive income (loss):				
Foreign currency translation adjustments	(4,315)	(3,276)	1,582	(13,797)
Unrealized gain (loss) on marketable securities	28	(16)	36	(31)
Comprehensive income (loss)	$ 8,233	$ (8,459)	$ 26,827	$ (16,348)

Note 5. Inventories

The Company adopted Statement of Financial Accounting Standards No. 151 (SFAS No. 151) Inventory Costs, an amendment of ARB 43, Chapter 4 effective January 1, 2006. SFAS No. 151 amends the guidance in ARB No. 43, Chapter 4, Inventory Pricing to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). SFAS No. 151 requires that idle facility expense, excessive spoilage, double freight, and rehandling costs be recognized as current period charges. In addition, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. Adopting SFAS No. 151 did not have a material impact on the Company s consolidated financial statements.

The components of inventories follow:

	September 30, 2006 (in thousands)	December 31, 2005
Raw materials	$ 88,839	$ 78,230
Work-in-process	41,773	22,073
Finished goods (completed systems)	15,643	9,669
	$ 146,255	$ 109,972

Note 6. Restructuring

The Company recorded restructuring charges of $0.1 million for both the three and nine months ended September 30, 2006. The charge recorded during the three months ended September 30, 2006 represents a reevaluation of the assumptions used in determining the fair value of certain lease obligations related to facilities abandoned in a previous restructuring. The revised assumptions, including lower estimates of expected sub-rental income over the remainder of the lease terms and expected lease termination costs associated with exiting a portion of the facilities, are based on management s evaluation of the commercial rental market. For the nine months ended September 30, 2006, the above mentioned charges are net of a credit of $0.3 million to previously recognized restructuring charges relating primarily to the adjustment for severance and other one-time termination benefits associated with reduction in force actions and the consolidation of the Company s Rockville, Maryland operations into its headquarters and manufacturing facility located in Beverly, Massachusetts. In addition to the amounts reported as restructuring charges, $0.4 million of relocation and other incremental expenses related to the consolidation of the Rockville, Maryland operations are included in general and administrative expense for the nine months ended September 30, 2006.

In total, the Company expects to incur approximately $13.1 million in restructuring and general and administrative expenses related to these actions, of which $12.9 million has been recognized in the statement of income since the fourth quarter of 2004. The Company expects to incur approximately $0.2 million in additional expense through December 31, 2006. Of the total cost related to these actions, approximately $12.4 million is expected to result in cash expenditures, of which $11.3 million has been paid through September 30, 2006. Leases are expected to be paid over the remaining lease periods extending to 2007.

Changes in the Company s restructuring liability are as follows:

	Severance (in thousands)	Retention	Leases	Total
Balance at December 31, 2005	$ 636	$ 120	$ 1,264	$ 2,020
Restructuring expense (credit)	(287)	(51)	485	147
Cash payments	(349)	(69)	(883)	(1,301)
Balance at September 30, 2006	$	$	$ 866	$ 866

Restructuring charges of $1.5 million and $5.4 million for the three and nine months ended September 30, 2005, respectively, consisted primarily of severance and other one-time termination benefits that were paid related to reduction in force actions and the consolidation of the Company s Rockville, Maryland operations into its headquarters and manufacturing facility located in Beverly, Massachusetts. In addition to the amounts reported as restructuring charges, $1.4 million and $4.2 million for the three and nine months ended September 30, 2005, respectively, of relocation and other incremental expenses related to the consolidation of the Rockville, Maryland operations are included in general and administrative expense.

Note 7. Product Warranty

The Company offers a one - to three - year warranty for all of its products, 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.

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Changes in the Company s product warranty liability are as follows:

	Nine months ended September 30, 2006 (in thousands)	2005
Balance at December 31	$ 7,166	$ 10,924
Warranties issued during the period	7,284	7,181
Settlements made during the period	(4,637)	(6,944)
Changes in liability for pre-existing warranties during the period	(2,406)	(1,152)
Balance at September 30	$ 7,407	$ 10,009
Amount classified as current	$ 6,569	$ 8,321
Amount classified as long-term	838	1,688
Balance at September 30	$ 7,407	$ 10,009

Note 8. Convertible Subordinated Debt

On May 2, 2006, the Company entered into an exchange and purchase agreement pursuant to which the holder of an aggregate of approximately $50.8 million of the Company s existing 4.25% Convertible Subordinated Notes due January 15, 2007 (the Old Notes), agreed to exchange its Old Notes for $50.8 million in aggregate principal amount of the Company s newly issued 4.25% Convertible Senior Subordinated Notes due January 15, 2009 (the New Notes), plus accrued and unpaid interest on the Old Notes through but excluding May 2, 2006, the closing date of the exchange. In addition, the Company issued an additional $24.2 million of New Notes, resulting in an aggregate of $75 million of New Notes outstanding.

The New Notes are unsecured senior indebtedness of the Company and bear interest at the rate of 4.25% per annum. Interest is payable on January 15 and July 15 of each year, commencing July 15, 2006. The New Notes mature on January 15, 2009. At maturity, the Company is required to repay the outstanding principal of the New Notes, plus a maturity premium of 11.125% of such principal, resulting in an effective annual yield to maturity of approximately 8.0%.

The principal amount of the New Notes, together with the accreted portion of the maturity premium, which increases over the term of the notes, as of the conversion date, are convertible at the option of the holder, at any time on or prior to maturity, into shares of the Company s common stock at a conversion price equal to $20.00 per share, which also is the conversion price of the Old Notes, subject to adjustment in certain circumstances.

In accordance with the Financial Accounting Standards Board s Emerging Issues Task Force Issue No. 96-19, Debtor s Accounting for a Modification or Exchange of Debt Instruments , the Company considered the terms of the New Notes to be substantially different from the terms of the Old Notes. As such, the Company wrote off approximately $0.2 million of debt issuance costs related to the Old Notes to interest expense during the three months ended June 30, 2006. In addition, debt issuance costs of approximately $0.3 million related to the New Notes are being amortized to interest expense over the term of the New Notes.

Note 9. Deferred Income Taxes

At December 31, 2005, the Company had $104.2 million of deferred tax assets relating to net operating loss carryforwards, tax credit carryforwards and other temporary differences (principally in the United States, Europe, and Asia), which are available to reduce income taxes in future years. SFAS No. 109 Accounting for Income Taxes requires that a valuation allowance be established when it is more likely than not that all or a portion of deferred tax assets will not be realized. A review of all available positive and negative evidence needs to be considered, including a company s performance, the market environment in which the company operates, length of carryback and carryforward periods, existing sales backlog, and projections of future operating results. Where there are cumulative losses in recent years, SFAS No. 109 creates a strong presumption that a valuation allowance is needed. This presumption can be overcome in very limited circumstances.

In 2003, the Company entered a three-year cumulative loss position and revised its projections of the amount and timing of profitability in future periods. As a result, the Company increased its valuation allowance to reduce the carrying value of deferred tax assets to zero. The Company will maintain a valuation allowance on future tax benefits for entities in a three-year cumulative loss position until it can sustain an appropriate level of profitability. However, going forward should the Company s return to profitability provide sufficient evidence, in accordance with the provisions of SFAS No. 109, to support the ultimate realization of income tax benefits attributable to net operating losses, tax credit carryforwards, and other deductible temporary differences, a reduction in the valuation allowance may be recorded and the carrying value of deferred tax assets may be restored, resulting in a non-cash credit to earnings.

Note 10. Significant Customers

In the three months ended September 30, 2006, one customer accounted for approximately 12% and three other customers each accounted for approximately 10% of revenue, respectively. In the nine months ended September 30, 2006, one customer accounted for approximately 11% of revenue. In the three months ended September 30, 2005, three customers accounted for approximately

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13%, 11% and 10% of revenue, respectively. In the nine months ended September 30, 2005, one customer accounted for approximately 21% of revenue. For the three and nine months ended September 30, 2006 and 2005, no other customer accounted for more than 10% of revenue.

Note 11. Contingencies

Litigation

From time to time, the Company may be subject to legal proceedings and claims arising from the conduct of its business including litigation related to intellectual property matters, customer contract matters, employment claims and environmental matters. At September 30, 2006, the Company is not a party to any material legal proceedings.

Indemnifications

The Company s system sales agreements typically include provisions under which the Company agrees to take certain actions, provide certain remedies and defend its customers against third-party claims of intellectual property infringement under specified conditions and to indemnify customers against any damage and costs awarded in connection with such claims. The Company has not incurred any material costs as a result of such indemnifications and has not accrued any liabilities related to such obligations in the accompanying consolidated financial statements.

Note 12. Recent Accounting Pronouncements

SFAS 158

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans , which requires an employer to (a) recognize in its statement of financial position an asset for a plan s overfunded status or a liability for a plan s underfunded status, (b) measure a plan s assets and its obligations that determine its funded status as of the end of the employer s fiscal year, and (c) recogonize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective as of the end of the fiscal year ending after December 15, 2006. The requirement to measure plan assets and benefit obligations as of the date of the employer s fiscal year-end statement of financial position becomes effective for fiscal years ending after December 15, 2008. The Company is currently evaluating what impact, if any, this statement will have on its consolidated financial statements.

FIN 48

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109, Accounting for Income Taxes . It also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and it provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective as of the beginning of the first fiscal year beginning after December 15, 2006. The Company does not believe adoption of FIN 48 will have a material impact on the Company s consolidated financial statements.

SFAS 154

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections , which changes the requirements for the accounting and reporting of a change in accounting principle. SFAS No. 154 applies to all voluntary changes in accounting principle as well as to changes required by an accounting pronouncement that does not include specific transition provisions. SFAS No. 154 requires that changes in accounting principle be retrospectively applied. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. SFAS No. 123R, however, allowed for a modified prospective approach of adoption. The adoption of this statement did not have any impact on the Company s consolidated financial statements.

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

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herein are based on current expectations and entail various risks and uncertainties that could cause actual results to differ materially from those expressed in such forward-looking statements. Factors that might cause such a difference include, among other things, those set forth under Liquidity and Capital Resources and Risk Factors and 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. We assume no obligation to update these forward-looking statements to reflect actual results or changes in factors or assumptions affecting forward-looking statements.

Overview

Axcelis Technologies, Inc. (Axcelis, we, us, or our), is a worldwide producer of ion implantation, dry strip, thermal processing and curing equipment used in the fabrication of semiconductors. In addition, we provide extensive aftermarket service and support, including spare parts, equipment upgrades, and maintenance services. We own 50% of the equity of a joint venture known as SEN Corporation, an SHI and Axcelis Company, or SEN with Sumitomo Heavy Industries, Ltd. in Japan. SEN licenses technology from us relating to the manufacture of specified ion implantation products and has exclusive rights to manufacture and sell these products in the territory of Japan. SEN is the leading producer of ion implantation equipment in Japan.

The semiconductor capital equipment industry has in the past been subject to significant cyclical swings in capital spending by semiconductor manufacturers. Capital spending is influenced by demand for semiconductors and the products using them, the utilization rate and capacity of existing semiconductor manufacturing facilities and changes in semiconductor technology, all of which are outside of our control. As a result, our revenues and gross margins, to the extent affected by increases or decreases in volume, could fluctuate from year to year and period to period. Our gross margins are also affected by the introduction of new products. We typically become more efficient in manufacturing products as they mature. For example, our gross margins in 2002, 2003 and 2004 were adversely affected in part as a result of the increased proportion of relatively new systems sold to process 300mm wafers. We expect gross margins overall to decline slightly in 2006 compared to 2005 due to initial sales of our new single wafer implant products. Our expense base is largely fixed and does not vary significantly with changes in volume. Therefore, we could experience fluctuations in operating results and cash flows depending on our revenues as driven by the level of capital expenditures by semiconductor manufacturers.

The substantial expense of building, upgrading or expanding a semiconductor fabrication facility is increasingly causing semiconductor companies to contract with foundries to manufacture their semiconductors. In addition, consolidation and joint venturing within the semiconductor manufacturing industry is increasing. We expect these trends to continue to reduce the number of our potential customers. This growing concentration of Axcelis customers may increase competitive pricing as higher percentages of our total revenues are tied to the buying decisions of a particular customer or a small number of customers.

The years 2005 and 2006 are transition years in implant products and technology. While customers continue to buy multi-wafer tools, leading edge customers are shifting to single wafer tools. While the effect on systems revenue is not quantifiable, we have experienced a loss of ion implant market share because these leading edge semiconductor manufacturers have shifted from our multi-wafer high current ion implant systems to single wafer high current ion implant systems. In response to this market trend, we introduced our single wafer Optima platform in 2005. In 2005 we began shipping the Optima MD, our single wafer mid dose tool. We shipped the first Optima HD, our single wafer high dose tool, during the second quarter of 2006. We also have development projects underway to produce and launch our next generation of single wafer products.

Axcelis accesses the important Japanese market for certain ion implant systems through SEN, a joint venture with Sumitomo Heavy Industries, Ltd., that we do not control. The joint venture agreement gives both owners veto rights, so that neither owner alone can effectively control SEN. SEN s business is subject to the same risks as our business. Royalties and equity income from SEN have made a substantial contribution to our earnings, and a substantial decline in SEN s sales and net income could have a material adverse effect on our operating results. As a result of this joint venture structure, we have less control over SEN management than over our own management and may not have timely knowledge of factors affecting SEN s business. In addition, given the equal ownership, it is possible that the SEN Board may be unable to reach consensus on important matters from time to time which could delay important decisions. The license agreement between SEN and Axcelis continues in its existing form on a year-to-year basis, subject to the right of either party to terminate. Under the SEN bylaws, termination of the license agreement by SEN would be an important matter requiring approval of a majority of the SEN directors. Given Axcelis 50% representation on the SEN Board, the license agreement will be perpetual until such time as Axcelis deems a termination to be in our interest. Axcelis has no present intent to terminate the SEN license agreement.

Operating results for the current periods presented are not necessarily indicative of the results that may be expected for subsequent interim periods or for the year as a whole.

Critical Accounting Estimates

Management s discussion and analysis of our financial condition and results of operations are based upon Axcelis consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, income taxes, intangibles, accounts receivable, inventory and warranty obligations. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The critical accounting estimates are those that we believe are the more significant judgments and estimates used in the preparation of our condensed consolidated financial statements. As of September 30, 2006 there have been no material changes to the critical accounting estimates as described in our Management s Discussion and Analysis of Financial Condition and Results of Operations and in the Notes to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2005.

Results of Operations

The following table sets forth our results of operations as a percentage of revenue for the periods indicated:

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Revenue				
Systems	64.0 %	53.9 %	58.7 %	55.7 %
Services	34.2	45.0	39.3	41.7
Royalties, primarily from SEN	1.8	1.1	2.0	2.6
	100.0	100.0	100.0	100.0
Cost of revenue	56.6	59.1	58.6	58.4
Gross profit	43.4	40.9	41.4	41.6
Other costs and expenses				
Research & development	14.3	20.3	16.0	18.3
Selling	9.6	12.2	10.0	12.4
General & administrative	9.8	13.7	10.1	12.5
Amortization of intangible assets	0.5	0.7	0.6	0.7
Restructuring		1.8		1.9
	34.2	48.7	36.7	45.8
Income (loss) from operations	9.2	(7.9)	4.7	(4.1)
Other income (expense)				
Equity income of SEN	1.9	1.6	3.2	4.1
Interest income	1.8	1.7	1.7	1.4
Interest expense	(2.1)	(1.9)	(2.0)	(1.8)
Other-net	0.1	0.5	0.3	
	1.7	1.9	3.2	3.6
Income (loss) before income taxes	10.9	(6.0)	7.9	(0.5)
Income taxes (credit)	0.7	(0.1)	0.5	0.4
Net income	10.2 %	(5.9)%	7.4 %	(0.9)%

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Three and nine months ended September 30, 2006 in comparison to the three and nine months ended September 30, 2005

Revenue

Revenue from system sales was $78.5 million, or 64.0% of revenue for the three months ended September 30, 2006, compared with $47.1 million, or 53.9% of revenue for the three months ended September 30, 2005. Revenue from system sales was $198.7 million, or 58.7% of revenue for the nine months ended September 30, 2006, compared with $155.7 million, or 55.7% of revenue for the nine months ended September 30, 2005. The increase in sales of systems compared with 2005 was primarily attributable to capacity additions for both 300mm and 200mm production.

Approximately 42.0% of revenue from system sales for the three months ended September 30, 2006 was from the sale of 200mm products and 58.0% of revenue was from the sale of 300mm products, compared with 60.2% and 39.8%, respectively, for the three months ended September 30, 2005. For the nine months ended September 30, 2006 approximately 46.2% of revenue from system sales was from the sale of 200mm products and 53.8% of revenue was from the sale of 300mm products, compared with 44.2% and 55.8%, respectively, for the nine months ended September 30, 2005. This highlights the continued strong demand for 200mm products in emerging markets such as China that offset the overall market trend towards 300mm products.

Services revenue, which includes spare parts, equipment upgrades and maintenance services, was $42.1 million, or 34.2% of revenue for the three months ended September 30, 2006, compared with $39.3 million, or 45.0% of revenue, for the three months ended September 30, 2005. Services revenue was $133.0 million, or 39.3% of revenue for the nine months ended September 30, 2006, compared with $116.7 million, or 41.7% of revenue for the nine months ended September 30, 2005. Services revenue fluctuates period to period based mainly on capacity utilization at customers manufacturing facilities which affects the sale of spare parts.

A portion of our revenue from system sales is deferred until installation and other services related to future deliverables are performed. The total amount of deferred revenue at September 30, 2006 and 2005 was $49.9 million and $42.6 million, respectively.

Royalty revenue was $2.2 million, or 1.8% of revenue for the three months ended September 30, 2006, compared with $1.0 million, or 1.2% of revenue for the three months ended September 30, 2005. Royalty revenue for the nine months ended September 30, 2006 was $6.7 million, or 2.0% of revenue, compared to $7.1 million, or 2.6% of revenue for the nine months ended September 30, 2005. Royalties are primarily earned under the terms of our license agreement with SEN. Royalty revenue changes are mainly attributable to fluctuations in SEN sales volume based on demand for equipment by Japanese semiconductor manufacturers and the timing of revenue recognition on shipments in Japan.

Revenue from sales of ion implantation products and services accounted for $89.1 million, or 72.5% of total revenue in the three months ended September 30, 2006, compared with $69.1 million, or 79.0%, of total revenue in the three months ended September 30, 2005. Revenue from sales of ion implantation products and services accounted for $256.3 million, or 75.7% of revenue in the nine months ended September 30, 2006, compared with $222.9 million, or 79.7% of revenue in the nine months ended September 30, 2005. We expect revenue from the sale of ion implantation products and services to average from 75% to 80% of total revenues.

Worldwide revenues, including revenues from SEN of $45.3 million and $173.8 million for the three and nine months ended September 30, 2006, respectively, were $168.1 million and $512.2 million for the three and nine months ended September 30, 2006, respectively. Worldwide revenues, including revenues from SEN of $38.9 million and $192.8 million for the three and nine months ended September 30, 2005, respectively, were $126.3 million and $472.4 million for the three and nine months ended September 30, 2005, respectively. The increase in worldwide revenues for the three months ended September 30, 2006 is primarily the result of strong demand for our ion implant products as well as complementary products and services as discussed above. On a year to date basis, this strong demand was partially offset by the transition to single wafer, high dose ion implant systems, as discussed above, as well as the timing of shipments in Japan. Axcelis believes that the information regarding the aggregate annual revenues of SEN, a 50% owned unconsolidated subsidiary of Axcelis, combined with Axcelis own revenues for the quarter, is useful to investors. SEN s ion implant products are covered by a license from Axcelis and therefore the combined revenue of the two companies indicates the full market penetration of Axcelis technology. We use the worldwide revenue with SEN to understand our position vis-à-vis competitors in the ion implantation market. The combined revenues drive market share and are relevant to understanding our competitive position.

Gross Profit

Gross profit was 43.4% of revenue in the three months ended September 30, 2006, compared with gross profit of 40.9% of revenue in the three months ended September 30, 2005. The gross profit increase of 2.5 percentage points was the result of favorable systems volume, mix and deferrals (approximately 5.1 percentage points), favorable manufacturing expenses (approximately 2.6 percentage points) and higher SEN royalties (approximately 0.6 percentage points), offset by a lower percentage of total revenue of higher margin parts and service business (approximately 5.8 percentage points).

Gross profit was 41.4% of revenue in the nine months ended September 30, 2006, compared with gross profit of 41.6% of revenue in the nine months ended September 30, 2005. The gross profit decrease of 0.2 percentage points was the result of a lower percentage of total revenue of higher margin parts and service business (approximately 1.2 percentage points) and lower 100%

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margin SEN royalties (approximately 0.6 percentage points) offset by favorable systems volume, mix and deferrals (approximately 1.0 percentage points) and favorable manufacturing expenses (approximately 0.6 percentage points).

Research and Development

Research and development expense was $17.6 million in the three months ended September 30, 2006, a decrease of $0.2 million, or 0.9%, compared with $17.8 million in the three months ended September 30, 2005. The decrease was driven primarily by decreased project material, consulting and supplies ($1.9 million) partially offset by increased payroll and payroll related expenses ($1.8 million). Research and development expense was $54.0 million in the nine months ended September 30, 2006, an increase of $2.8 million, or 5.5%, compared with $51.2 million in the nine months ended September 30, 2005. The increase was driven primarily by increased payroll and payroll related expenses ($5.4 million) partially offset by decreased project material, consulting and supplies ($1.4 million) and decreased amortization related to manufactured products used in research and development ($1.1 million). Increases in overall research and development expenses in the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005 are attributable principally to development efforts related to our single wafer Optima platform.

Selling

Selling expense was $11.7 million in the three months ended September 30, 2006, an increase of $1.0 million, or 9.3%, compared with $10.7 million in the three months ended September 30, 2005. The increase was driven primarily by increased commission and variable compensation expense driven by higher systems revenue ($1.0 million) offset by lower consulting services ($0.3 million). Selling expense was $33.9 million in the nine months ended September 30, 2006, a decrease of $0.7 million, or 2.0%, compared with $34.6 million in the nine months ended September 30, 2005. The decrease was driven primarily by lower payroll and payroll related expenses resulting from a reduction in headcount ($1.0 million), lower consulting services ($0.8 million) and decreased amortization expense ($0.6 million) partially offset by higher commission and variable compensation expense driven by higher systems revenue ($1.6 million) and increased travel expense ($0.3 million).

General and Administrative

General and administrative expense was $12.0 million in both the three months ended September 30, 2006 and 2005. The 2006 expense was driven primarily by lower costs associated with the consolidation of our Rockville, Maryland operations into our headquarters and manufacturing facility located in Beverly, Massachusetts ($1.4 million) and lower professional fees ($0.3 million) offset by increased variable compensation ($1.3 million) and stock based compensation expense associated with the adoption of SFAS No. 123R ($0.4 million). General and administrative expense was $34.3 million in the nine months ended September 30, 2006, a decrease of $0.7 million, or 2.1%, compared with $35.0 million in the nine months ended September 30, 2005. The decrease was driven primarily by decreased costs associated with the consolidation of our Rockville, Maryland operations into our headquarters and manufacturing facility located in Beverly, Massachusetts ($3.3 million), decreased payroll and payroll related expense ($0.6 million), decreased insurance expense related to a workers compensation premium settlement recorded in the first quarter of 2005 ($0.4 million), lower professional fees ($0.2 million) and decreased recruiting expense ($0.3 million) partially offset by increased variable compensation ($2.6 million) and stock based compensation expense associated with the adoption of SFAS No. 123R ($1.5 million).

Restructuring

We recorded restructuring charges of $0.1 million for both the three and nine months ended September 30, 2006. The charge recorded during the three months ended September 30, 2006 represents a reevaluation of the assumptions used in determining the fair value of certain lease obligations related to facilities abandoned in a previous restructuring. The revised assumptions, including lower estimates of expected sub-rental income over the remainder of the lease terms and expected lease termination costs associated with exiting a portion of the facilities, are based on management s evaluation of the commercial rental market. For the nine months ended September 30, 2006, the above mentioned charges are net of a credit of $0.3 million to previously recognized restructuring charges relating primarily to the adjustment for severance and other one-time termination benefits associated with reduction in force actions and the consolidation of the Company s Rockville, Maryland operations into our headquarters and manufacturing facility located in Beverly, Massachusetts.

In total, we expect to incur approximately $13.1 million in restructuring and general and administrative expenses related to these actions, of which $12.9 million has been recognized in the statement of operations since the fourth quarter of 2004. We expect to incur approximately $0.2 million in additional expense through December 2006. Of the total cost related to these actions, approximately $12.4 million is expected to result in cash expenditures, of which $11.3 million has been paid through September 30, 2006. Leases are expected to be paid over the remaining lease periods extending to 2007.

Changes in our restructuring liability are as follows:

	Severance (in thousands)	Retention	Leases	Total
Balance at December 31, 2005	$ 636	$ 120	$ 1,264	$ 2,020
Restructuring expenses and adjustments	(287)	(51)	485	147
Cash payments	(349)	(69)	(883)	(1,301)
Balance at September 30, 2006	$	$	$ 866	$ 866

Restructuring charges of $1.5 million and $5.4 million for the three and nine months ended September 30, 2005, respectively, primarily consisted of severance and other one-time termination benefits that were paid related to reduction in force actions and the consolidation of our Rockville, Maryland operations into our headquarters and manufacturing facility located in Beverly, Massachusetts.

Other Income (Expense)

Equity income attributable to SEN was $2.4 million and $10.7 million for the three and nine months ended September 30, 2006, respectively. This is compared to equity income attributable to SEN of $1.4 million and $11.4 million for the three and nine months ended September 30, 2005, respectively. Fluctuations in equity income from SEN reflect changes in its sales volume and net income resulting from demand changes in the Japanese semiconductor market.

Interest income of $2.3 million and $5.8 million for the three and nine months ended September 30, 2006, respectively, primarily relates to interest earned on cash, cash equivalents and marketable securities. Interest income increased by $0.7 million and $2.0 million from the three and nine months ended September 30, 2005, respectively, due primarily to higher interest rates earned on invested balances.

Interest expense of $2.6 million and $6.7 million in the three and nine months ended September 30, 2006, respectively, primarily relates to our convertible subordinated notes. Interest expense increased by $0.9 million and $1.7 million from the three and nine months ended September 30, 2005, respectively, primarily as the result of our issuance of an additional $24.2 million of convertible senior subordinated notes on May 2, 2006 and an effective annual yield to maturity of approximately 8% on the new convertible senior subordinated notes.

Income Taxes

Income tax expense was $0.9 million and $1.6 million in the three and nine months ended September 30, 2006, as compared to an income tax credit and income tax expense of $(0.1) million and $1.2 million in the three and nine months ended September 30, 2005. Income tax expense relates principally to operating results of foreign entities in jurisdictions, principally in Asia, where we earn taxable income. We have significant net operating loss carryforwards in the United States and certain foreign jurisdictions, principally Europe, and, as a result, we do not currently pay significant income taxes in those jurisdictions nor have the ability to obtain tax benefit for such losses as discussed in footnote 9 to the consolidated financial statements. Accordingly, our effective income tax rate is not meaningful.

Adoption of SFAS No. 123R

As discussed in footnote 2 to the consolidated financial statements, we adopted SFAS No. 123 (revised 2004), Share-Based Payment (SFAS No. 123R), effective January 1, 2006 using the modified prospective transition method. Under that transition method, stock-based compensation expense recognized during the three and nine months ended September 30, 2006 includes: (a) stock options, restricted stock and restricted stock units granted prior to, but not yet vested, as of December 31, 2005, based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123 Accounting for Stock-Based Compensation (SFAS No. 123), and (b) shares issued in offerings under the Employee Stock Purchase Plan with offering periods commencing and stock options, restricted stock and restricted stock units granted, subsequent to December 31, 2005, based on the grant-date fair value estimated using the Black-Scholes option valuation model in accordance with the provisions of SFAS No. 123R. Under the modified prospective transition method, results for prior periods are not restated.

Under SFAS No. 123R we recognized stock-based compensation expense of $1.6 million and $4.5 million for the three and nine months ended September 30, 2006, respectively. Adoption of SFAS No. 123R reduced income before income taxes and net income by approximately $0.7 million and $2.7 million ($0.01 per basic and diluted share and $0.03 per basic and diluted share) for the three and nine months ended September 30, 2006, respectively, as we would have recognized $0.9 million and $1.8 million of stock-based compensation expense for the three and nine months ended September 30, 2006, respectively, related to our outstanding and additional issuances of restricted stock and restricted stock units prior to the adoption of SFAS No. 123R.

SFAS No. 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow. Because we do not recognize the benefit of tax deductions in excess of

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recognized compensation cost due to our net operating loss position, this change had no impact on our consolidated statement of cash flows for the three and nine months ended September 30, 2006.

Prior to January 1, 2006, as permitted under SFAS No. 123, as amended by SFAS No. 148 Accounting for Stock-Based Compensation Transition and Disclosure, we elected to follow the provisions of APB No. 25 to account for stock-based awards to employees. Under APB No. 25, compensation expense with respect to stock option awards is not recognized if on the date the awards were granted the exercise price was equal to or greater than the market value of the underlying common shares. Historically, all stock options have been granted with an exercise price equal to the fair market value of the common stock on the date of grant. Accordingly, no compensation expense was recognized from option grants to employees and directors.

On October 24, 2005, the Compensation Committee of the Board of Directors resolved to accelerate the vesting of certain unvested and out-of-the-money stock options with exercise prices equal to or greater than $10.00 per share. These options were previously awarded to our employees and other eligible participants, including executive officers, under our 2000 Stock Plan. Of the approximately 1.5 million accelerated options, 309,474 options, or 21.2%, were held by executive officers. The acceleration of vesting was effective for stock options outstanding as of December 15, 2005, at which date the closing price of our common stock was $4.70 per share. The weighted average exercise price of the options subject to the acceleration was $11.52 per share. The acceleration of the vesting of these options did not result in compensation expense based on generally accepted accounting principles. For pro forma disclosure requirements under SFAS No. 123, we recognized an incremental $7.1 million of stock-based compensation expense for all options whose vesting was accelerated. As a result of this action we are not recognizing compensation expense of approximately the same amount associated with these options in operating results, upon effectiveness of the application of SFAS No. 123R.

For 2006, we have shifted our share-based payment programs from share options to principally restricted stock units.

Liquidity and Capital Resources

Cash, cash equivalents, and marketable securities at September 30, 2006 were $182.0 million, compared with $165.2 million at December 31, 2005. The $16.8 million increase in cash and cash equivalents, and marketable securities was mainly attributable to $24.2 million of proceeds from the issuance of convertible senior subordinated notes in May 2006 and $2.9 million in proceeds from the exercise of stock options and stock purchases under the Employee Stock Purchase Plan offset by $5.9 million in cash used by operations, driven primarily by increased inventories to accommodate volume increases and an increase in accounts receivable caused by the timing of systems shipments. We expect to generate positive cash flow for the year ended December 31, 2006.

Net working capital was $277.6 million at September 30, 2006 compared with $301.1 million at December 31, 2005. The $23.5 million decrease in net working capital is attributable principally to the reclassification of $74.2 million of our outstanding convertible debentures which mature in January 2007 to current liabilities partially offset by $24.2 million of proceeds from the May 2006 issuance of additional convertible senior subordinated notes and the above mentioned increased in inventories and accounts receivable.

Capital expenditures were $3.9 million and $6.3 million for the nine months ended September 30, 2006 and 2005, respectively. We have no significant capital projects planned for 2006 and total capital expenditures for 2006 are projected to be less than $8.0 million. Future capital expenditures beyond 2006 will depend on a number of factors, including the timing and rate of expansion of our business.

We have no off-balance sheet arrangements other than foreign exchange contracts used to hedge amounts receivable from SEN ($1.6 million at September 30, 2006).

We had a $50.0 million revolving credit facility that expired in October 2006. We did not borrow against the facility during its term. The purpose of the facility was to provide funds for working capital and general corporate purposes as required. To the extent that we had borrowings under the agreement, those borrowings would bear interest at the bank s base rate, as defined in the agreement, or LIBOR plus an applicable percentage. The credit facility was secured by substantially all of our assets (excluding our investment in SEN) and contained certain financial and other restrictive covenants including restrictions on the payment of dividends, minimum levels of tangible net worth, liquidity and profitability as well as maximum levels of indebtedness and capital spending. At September 30, 2006, we were in compliance with all covenants. We incurred an annual commitment fee based on an EBITDA formula outlined in the agreement applied to the full commitment. We are currently evaluating the need for a new credit facility.

As discussed in footnote 8 to the consolidated financial statements, on May 2, 2006, we entered into an exchange and purchase agreement pursuant to which the holder of an aggregate of approximately $50.8 million of our existing 4.25% Convertible Subordinated Notes due January 15, 2007 (the Old Notes), agreed to exchange its Old Notes for $50.8 million in aggregate principal amount of our newly issued 4.25% Convertible Senior Subordinated Notes due January 15, 2009 (the New Notes), plus accrued and

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unpaid interest on the Old Notes through but excluding May 2, 2006, the closing date of the exchange. In addition, we issued an additional $24.2 million of New Notes, resulting in an aggregate of $75 million of New Notes outstanding. After this exchange, we have $74.2 million of outstanding convertible debentures that mature in January 2007. We believe that our existing cash balances, expected positive cash flows for 2006 will allow us to repay the remaining debt when it matures without causing a liquidity issue.

We have outstanding standby letters of credit, bank guarantees and surety bonds in the amount of $18.1 million to support certain operating lease obligations, workers compensation insurance, and certain value added tax claims in Europe. At September 30, 2006, $11.9 million of cash was pledged as collateral for certain outstanding standby letters of credit and bank guarantees, and is reflected as restricted cash on the consolidated balance sheet.

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 extent of these factors, we believe that our existing cash and cash equivalents will be sufficient to satisfy our anticipated cash requirements for at least the next twelve months.

Outlook

Our performance is directly related to semiconductor manufacturers levels of capital expenditures to open new fabrication facilities and expand existing ones, as well as operational improvements we have implemented over the past several years. The level of capital expenditures by these manufacturers depends upon the current and anticipated market demand for semiconductors and the products utilizing them, the available manufacturing capacity in manufacturers fabrication facilities, and the ability of manufacturers to increase productivity in existing facilities without incurring additional capital expenditures.

On November 1, 2006, we announced that net revenues (excluding SEN) for the fourth quarter of 2006 are forecast in the range of $115 million to $125 million. Gross margins are projected to be in the range of 38% to 40%. We expect results of operations will be in the range of $0.11 to $0.15 per diluted share.

It is difficult to predict our customers capital spending plans since they can change very quickly. At our current sales level, each sale, or failure to make a sale, could have a material effect on our results of operations in a particular quarter.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

As of September 30, 2006, there have been no material changes to the quantitative and qualitative information about market risk disclosed in Item 7A to our annual report on Form 10-K for the year ended December 31, 2005.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this quarterly report (the Evaluation Date). Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of the Evaluation Date, these disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) identified in connection with the evaluation of our internal control that occurred during our third quarter of 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

We are not a party to any material legal proceedings.

Item 1A. Risk Factors.

As of September 30, 2006, there have been no material changes to the risk factors disclosed in Item 1A to our annual report on Form 10-K for the year ended December 31, 2005.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

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

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

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

Exhibit No	**Description**
3.1	Amended and Restated Certificate of Incorporation of the Company. Incorporated by reference to Exhibit 3.1 of the Company s Registration Statement on Form S-1 (Registration No. 333-36330).
3.2	Bylaws of the Company, as amended as of January 23, 2002. Incorporated by reference to Exhibit 3.2 of the Company s Form 10-K for the year ended December 31, 2001, filed with the Commission on March 12, 2002.
3.3	Certificate of Designation of Series A Participating Preferred Stock, filed with the Secretary of State of Delaware on July 5, 2000. Incorporated by reference to Exhibit 3.3 of the Company s Form 10-K for the year ended December 31, 2000, filed with the Commission on March 30, 2001.
4.1	Indenture between Axcelis Technologies, Inc. and State Street Bank and Trust Company, as Trustee, including the form of note, dated as of January 15, 2002. Incorporated by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K filed with the Commission on January 15, 2002.
4.2	Revolving Credit Agreement dated as of October 3, 2003 among the Company, ABN Amro Bank N.V. and the other lenders named therein, as amended by the First Amendment to Revolving Credit Agreement, dated as of May 3, 2004. Pursuant to Regulation S-K, Item 601(b)(4)(iii), this exhibit has not been filed, since the total amount of the facility does not exceed 10% of the Company s total assets at this time. The Company will furnish a copy of the Credit Agreement to the Commission on request.
4.3	Indenture between Axcelis Technologies, Inc. and U.S. Bank National Association, as Trustee, dated as of May 2, 2006. Incorporated by reference to Exhibit 4.12 to the Company s Current Report on Form 8-K filed with the Commission on May 4, 2006.
10.1	Modification of Executive Officer Base Compensation and Incentive Targets. Incorporated by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K filed with the Commission on August 10, 2006.
31.1	Certification of the Principal Executive Officer under Exchange Act Rule 13a-14(a)/15d-14(a) (Section 302 of the Sarbanes-Oxley Act), dated November 6, 2006. Filed herewith.

31.2	Certification of the Principal Financial Officer under Exchange Act Rule 13a-14(a)/15d-14(a) (Section 302 of the Sarbanes-Oxley Act), dated November 6, 2006. Filed herewith.
32.1	Certification of the Principal Executive Officer pursuant to Section 1350 of Chapter 63 of title 18 of the United States Code (Section 906 of the Sarbanes-Oxley Act), dated November 6, 2006. Filed herewith.
32.2	Certification of the Principal Financial Officer pursuant to Section 1350 of Chapter 63 of title 18 of the United States Code (Section 906 of the Sarbanes-Oxley Act), dated November 6, 2006. Filed herewith.

SIGNATURES

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

AXCELIS TECHNOLOGIES, INC.

	/s/ Stephen G. Bassett	
DATED: November 8, 2006	By:	Stephen G. Bassett, Executive Vice President and Chief Financial Officer Duly authorized officer and Principal Financial Officer