

AMTECH SYSTEMS INC  
Form 10-Q  
August 14, 2007

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

**FORM 10-Q**

**(Mark One)**

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

For the quarterly period ended: June 30, 2007

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-11412

**AMTECH SYSTEMS, INC.**

(Exact name of registrant as specified in its charter)

Arizona  
(State or other jurisdiction of  
incorporation or organization)

86-0411215  
(I.R.S. Employer  
Identification No.)

131 South Clark Drive, Tempe, Arizona  
(Address of principal executive offices)

85281  
(Zip Code)

Registrant's telephone number, including area code 480-967-5146

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Shares of Common Stock outstanding as of August 10, 2007: 6,515,923

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**AMTECH SYSTEMS, INC. AND SUBSIDIARIES**  
**TABLE OF CONTENTS**

	Page
<b>PART I. FINANCIAL INFORMATION</b>	
<b>Item 1. Condensed Consolidated Financial Statements</b>	
Condensed Consolidated Balance Sheets June 30, 2007 (Unaudited) and September 30, 2006	3
Condensed Consolidated Statements of Operations (Unaudited) Three and Nine Months Ended June 30, 2007 and 2006	4
Condensed Consolidated Statements of Cash Flows (Unaudited) Nine Months Ended June 30, 2007 and 2006	5
Notes to Condensed Consolidated Financial Statements (Unaudited)	6
<b>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</b>	
Cautionary Statement Regarding Forward-Looking Statements	15
Overview	16
Results of Operations	16
Liquidity and Capital Resources	20
Off-Balance Sheet Arrangements	21
Contractual Obligations	21
Critical Accounting Policies	21
Impact of Recently Issued Accounting Pronouncements	23
<b>Item 3. Quantitative and Qualitative Disclosures About Market Risk</b>	
<b>Item 4. Controls and Procedures</b>	
<b>PART II. OTHER INFORMATION</b>	
<b>Item 4. Submission of Matters to a Vote of Security Holders</b>	
	25

<b>Item 6. Exhibits</b>	25
<b>SIGNATURES</b>	26
<b>EXHIBIT INDEX</b>	27

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**PART I FINANCIAL INFORMATION**
**ITEM 1. Condensed Consolidated Financial Statements**
**AMTECH SYSTEMS, INC. AND SUBSIDIARIES**  
**Condensed Consolidated Balance Sheets**  
(in thousands except share data)

	June 30, 2007 (Unaudited)	September 30, 2006
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 17,872	\$ 6,433
Accounts receivable		
Trade (less allowance for doubtful accounts of \$190 and \$223 at June 30, 2007 and September 30, 2006, respectively)	10,384	6,545
Unbilled and other	2,131	849
Inventories	6,814	4,979
Deferred income taxes	1,029	-
Other	1,030	414
Total current assets	39,260	19,220
<b>Property, Plant and Equipment - Net</b>	5,533	2,382
<b>Intangible Assets - Net</b>	1,383	1,144
<b>Goodwill</b>	817	817
<b>Total Assets</b>	<b>\$ 46,993</b>	<b>\$ 23,563</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 3,579	\$ 3,631
Bank loans and current maturities of long-term debt	219	258
Accrued compensation and related taxes	1,121	1,187
Accrued warranty expense	283	289
Deferred profit	1,781	1,071
Customer deposits	990	-
Accrued commissions	593	203
Other accrued liabilities	381	379
Income taxes payable	592	319
Total current liabilities	9,539	7,337
<b>Long-Term Obligations</b>	774	617

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Total liabilities	10,313	7,954
<b>Commitments and Contingencies</b>		
<b>Stockholders' Equity</b>		
Preferred stock; 100,000,000 shares authorized; none issued		
Common stock; \$0.01 par value; 100,000,000 shares authorized; shares issued and outstanding: 6,502,842 and 3,476,042 at June 30, 2007 and September 30, 2006, respectively	65	35
Additional paid-in capital	35,412	15,774
Accumulated other comprehensive income	626	501
Retained earnings (deficit)	577	(701)
Total stockholders' equity	36,680	15,609
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 46,993</b>	<b>\$ 23,563</b>

The accompanying notes are an integral part of these condensed consolidated financial statements.

3

**AMTECH SYSTEMS, INC. AND SUBSIDIARIES**  
**Condensed Consolidated Statements of Operations**  
(Unaudited)  
(in thousands, except per share data)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2007	2006	2007	2006
Revenues, net of returns and allowances	\$ 12,874	\$ 10,351	\$ 32,864	\$ 29,157
Cost of sales	9,450	7,708	24,180	21,240
Gross profit	3,424	2,643	8,684	7,917
Selling, general and administrative	2,700	2,238	7,336	6,299
Restructuring Charge	-	140	-	140
Research and development	117	65	376	372
Operating income	607	200	972	1,106
Interest and other income (expense), net	170	(29)	313	(4)
Income before income taxes	777	171	1,285	1,102
Income tax expense (benefit)	(233)	3	7	280
<b>Net income</b>	<b>\$ 1,010</b>	<b>\$ 168</b>	<b>\$ 1,278</b>	<b>\$ 822</b>
<b>Earnings Per Share:</b>				
Basic earnings per share	\$ .16	\$ .05	\$ .25	\$ .25
Weighted average shares outstanding	6,498,100	3,436,629	5,049,517	2,980,020
Diluted earnings per share	\$ .15	\$ .05	\$ .25	\$ .24
Weighted average shares outstanding	6,575,110	3,521,173	5,103,775	3,445,112

The accompanying notes are an integral part of these condensed consolidated financial statements.

**AMTECH SYSTEMS, INC. AND SUBSIDIARIES**  
**Condensed Consolidated Statements Of Cash Flows**

(Unaudited)

(in thousands)

	<b>Nine Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Operating Activities</b>		
Net income	\$ 1,278	\$ 822
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	524	461
Write-down of inventory	194	183
Provision for doubtful accounts	(41)	40
Deferred income taxes	(1,029)	-
Non-cash share based compensation expense	228	154
Other	7	-
Changes in operating assets and liabilities:		
Accounts receivable	(4,734)	(3,462)
Inventories	(1,855)	(1,673)
Accrued income taxes	258	847
Prepaid expenses and other assets	(602)	274
Accounts payable	(199)	1,154
Accrued liabilities and customer deposits	1,225	836
Deferred profit	659	777
Net cash provided by (used in) operating activities	(4,087)	413
<b>Investing Activities</b>		
Purchases of property, plant and equipment	(3,505)	(602)
Payment for licensing agreement	(300)	-
Net cash used in investing activities	(3,805)	(602)
<b>Financing Activities</b>		
Proceeds from issuance of common stock	19,440	709
Preferred stock cash dividends paid	-	(83)
Payments on long-term obligations	(155)	(103)
Borrowings on long-term obligations	355	-
Net short term borrowings (payments)	(111)	-
Excess tax benefit of stock options	-	27
Net cash provided by financing activities	19,529	550
<b>Effect of Exchange Rate Changes on Cash</b>	(198)	(96)
<b>Net Increase in Cash and Cash Equivalents</b>	11,439	265
<b>Cash and Cash Equivalents, Beginning of Period</b>	6,433	3,309
<b>Cash and Cash Equivalents, End of Period</b>	\$ 17,872	\$ 3,574

<b>Supplemental Cash Flow Information:</b>			
Interest paid	\$	228	\$ 88
Income tax refunds	\$	-	\$ 370
Income tax payments	\$	778	\$ 16
<b>Supplemental Non-cash Financing Activities:</b>			
Stock issued for preferred stock dividend	\$	-	\$ 74
Preferred stock converted to common stock	\$	-	\$ 1,859

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**AMTECH SYSTEMS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE AND NINE MONTHS ENDED JUNE 30, 2007 AND 2006**  
**(UNAUDITED)**

**1. Basis of Presentation**

**Nature of Operations and Basis of Presentation** □ Amtech Systems, Inc. (the "Company") designs, assembles, sells and installs capital equipment and related consumables used in the manufacture of semiconductors, solar cells, and wafers of various materials, primarily for the semiconductor and solar industries. The Company sells these products worldwide, particularly in the United States, Asia and Europe. In addition, the Company provides semiconductor manufacturing support services.

The Company serves niche markets in industries that are experiencing rapid technological advances, and which historically have been very cyclical. Therefore, future profitability and growth depend on the Company's ability to develop or acquire and market profitable new products, and on its ability to adapt to cyclical trends.

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"), and consequently do not include all disclosures normally required by U.S. generally accepted accounting principles. In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements contain all adjustments necessary, all of which are of a normal recurring nature, to present fairly our financial position, results of operations and cash flows. Certain information and note disclosures normally included in financial statements have been condensed or omitted pursuant to the rules and regulations of the SEC. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2006.

The consolidated results of operations for the three and nine month periods ended June 30, 2007, are not necessarily indicative of the results to be expected for the full year.

**Reclassifications** □ Certain reclassifications have been made in the accompanying consolidated financial statements for fiscal 2006 to conform to the 2007 presentation. These reclassifications did not have a material effect on the Company's results of operations.

**Use of Estimates** □ The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Revenue Recognition** □ Revenue is recognized upon shipment of the Company's proven technology equal to the sales price less the greater of (i) the fair value of undelivered services and (ii) the contingent portion of the sales price, which is generally 10-20% of the total contract price. The entire cost of the equipment relating to proven

technology is recorded upon shipment. The remaining contractual revenue, deferred costs and installation costs are recorded upon successful installation of the product.

For purposes of revenue recognition, proven technology means the Company has a history of at least two successful installations. New technology systems are those systems with respect to which the Company cannot demonstrate that it can meet the provisions of customer acceptance at the time of shipment.

Revenue on new technology is deferred until installation and acceptance at the customer's premises is completed, as these sales do not meet the provisions of customer acceptance at the time of shipment. Cost of the equipment relating to new technology is recorded against deferred profit and then recorded in cost of sales upon customer acceptance.

Revenue from services is recognized as the services are performed. Revenue from prepaid service contracts is recognized ratably over the life of the contract. Revenue from spare parts is recorded upon shipment.

## 6

**Deferred Profit** □ Revenue deferred pursuant to the Company's revenue recognition policy, net of the related deferred costs, if any, is recorded as deferred profit in current liabilities. The components of deferred profit are as follows:

	June 30, 2007	September 30, 2006
	(dollars in thousands)	
Deferred revenues	\$ 3,434	\$ 2,493
Deferred costs	(1,653)	(1,422)
Deferred profit	\$ 1,781	\$ 1,071

**Concentrations of Credit Risk** □ Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of trade accounts receivable. The Company's customers consist of manufacturers of semiconductors, semiconductor wafers, microelectromechanical systems, or MEMS, and solar cells located throughout the world. Credit risk is managed by performing ongoing credit evaluations of the customers' financial condition, by requiring significant deposits where appropriate, and by actively monitoring collections. Letters of credit are required of certain customers depending on the size of the order, type of customer or its creditworthiness, and its country of domicile. Reserves for potentially uncollectible receivables are maintained based on an assessment of collectibility.

As of June 30, 2007, accounts receivable from two customers exceeded 10% of accounts receivable; one customer accounted for 14% and the other customer accounted for 12% of total accounts receivable.

**Accounts Receivable - Unbilled and Other** □ Unbilled and other accounts receivable consist mainly of the contingent portion of the sales price that is not collectible until successful installation of the product. These amounts are generally billed upon final acceptance by our customers. The majority of these amounts are offset by balances included in deferred profit.

**Inventories** □ Inventories are stated at the lower of cost (first-in, first-out method) or net realizable value.

The components of inventories are as follows:

	June 30, 2007	September 30, 2006
	(dollars in thousands)	
Purchased parts and raw materials	\$ 4,346	\$ 3,400

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Work-in-process	1,788	1,159
Finished goods	680	420
	\$ 6,814	\$ 4,979

**Property, Plant and Equipment** □ Property, plant and equipment are recorded at cost. Maintenance and repairs are charged to expense as incurred. The cost of property retired or sold and the related accumulated depreciation are removed from the applicable accounts when disposition occurs and any gain or loss is recognized. Depreciation is computed using the straight-line method. Useful lives for equipment, machinery and leasehold improvements range from three to seven years; for furniture and fixtures from five to 10 years; and for buildings 20 years.

7

In March 2007, the Company purchased a manufacturing facility in The Netherlands for a purchase price of approximately \$3.1 million. The following is a summary of property, plant and equipment:

	June 30, 2007	September 30, 2006
	(dollars in thousands)	
Land, building and leasehold improvements	\$ 4,383	\$ 1,094
Equipment and machinery	2,760	2,676
Furniture and fixtures	2,464	2,514
	9,607	6,284
Accumulated depreciation and amortization	(4,074)	(3,902)
	\$ 5,533	\$ 2,382

**Goodwill** □ Goodwill and intangible assets with indefinite lives are not subject to amortization, but are tested for impairment at least annually. The Company accounts for goodwill under the provisions of Statement of Financial Accounting Standards (□SFAS□) No. 142. Accordingly, goodwill is reviewed for impairment on an annual basis, typically at the end of the fiscal year, or more frequently if circumstances dictate.

**Intangibles** □ Intangible assets are capitalized and amortized over 4 to 15 years if the life is determinable. If the life is not determinable, amortization is not recorded.

In April 2007, the company entered into a license agreement with PST Co., LTD (PST) to market, sell, install, service and, under certain circumstances, manufacture machinery and equipment for the manufacturing of photovoltaic cells that employs PECVD Technology (Licensed Product) developed by PST. Under the terms of this agreement the Company paid \$0.3 million to PST in April, with an additional payment due of \$0.7 million upon successful development of the Licensed Product. Under the terms of the agreement PST is required to return the original payment if the development of the Licensed Product is unsuccessful within six months. The license agreement expires in April 2017. These payments will be amortized over the life of the agreement beginning with the successful development of the Licensed Product.

The following is a summary of intangibles:

	Useful Life	June 30, 2007	September 30, 2006
		(dollars in thousands)	
Patents	7 years	\$ -	\$ 74
Trademarks	Indefinite	592	592
Non-compete agreements	10 years	350	350



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Customer lists	15 years	276	276
Technology	4 years	102	102
Licenses	10 years	300	-
		1,620	1,394
Accumulated amortization		(237)	(250)
		\$ 1,383	\$ 1,144

**Warranty** [A limited warranty is provided free of charge, generally for periods of 12 to 24 months to all purchasers of the Company's new products and systems. Accruals are recorded for estimated warranty costs at the time revenue is recognized.

The following is a summary of activity in accrued warranty expense:

	<b>Nine Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
	<b>(dollars in thousands)</b>	
Beginning balance	\$ 289	\$ 248
Warranty expenditures	(61)	(38)
Provision	55	79
Ending balance	\$ 283	\$ 289

**Long-Term Debt** [ In October 2006, the Company received \$0.4 million of additional long-term financing secured by new equipment acquired prior to the end of fiscal 2006. This debt has an interest rate of 7.43% per annum and will be repaid over five years.

8

**Share-Based Compensation** [On October 1, 2005, the Company adopted SFAS No. 123 (R), [Share-Based Payment] ([SFAS 123 (R)]) and Staff Accounting Bulletin 107, [Share-Based Payment.] SFAS 123 (R) requires the Company to measure compensation costs relating to share-based payment transactions based upon the grant-date fair value of the award. Those costs are recognized as expense over the requisite service period, which is generally the vesting period. The Company elected the modified prospective application method of reporting; therefore, prior periods were not restated. Under the modified prospective method, this statement was applied to new awards granted after the time of adoption, as well as to the unvested portion of previously granted awards for which the requisite service had not been rendered as of October 1, 2005. SFAS 123 (R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as cash flow from financing activities rather than as cash flow from operating activities. Our share-based compensation plans are summarized in the table below:

Name of Plan	Shares Authorized	Shares Available	Options Outstanding	Plan Expiration
2007 Employee Stock Incentive Plan	500,000	500,000	-	April 2017
1998 Employee Stock Option Plan	500,000	11,937	410,634	Jan 2008
Non-Employee Directors Stock Option Plan	200,000	78,600	55,000	July 2015
		590,537	465,634	

Share-based compensation expense recognized under SFAS 123 (R) reduced the Company's results of operations by the following amounts:

<b>Three Months Ended</b>	<b>Nine Months Ended June</b>
<b>June 30,</b>	<b>30,</b>

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	2007	2006	2007	2006
	(dollars in thousands, except per share amounts)			
Income before income taxes (1)	\$ 118	\$ 26	\$ 228	\$ 154
Net income	\$ 99	\$ 21	\$ 195	\$ 141
Basic income per share	\$ 0.02	\$ 0.01	\$ 0.05	\$ 0.05
Diluted income per share	\$ 0.02	\$ 0.01	\$ 0.04	\$ 0.04

(1) Stock option expense is included in selling, general and administrative expenses.

Stock options issued under the terms of the plans have, or will have, an exercise price equal to or greater than the fair market value of the common stock at the date of the option grant and expire no later than 10 years from the date of grant, with the most recent grant expiring in 2017. Options issued by the Company vest over one to five years. In May 2007 the Board of Directors approved the 2007 Employee Stock Incentive Plan (□2007 Plan□). The Company may also grant restricted stock awards under the 2007 Plan.

9

The stock option transactions and the options outstanding are summarized as follows:

	Nine Months Ended June 30,			
	2007		2006	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of period	308,384	\$ 5.95	468,206	\$ 4.78
Granted	167,250	7.09	37,522	7.16
Exercised	(8,050)	3.63	(148,779)	3.10
Forfeited	(1,950)	7.01	(33,896)	4.59
Outstanding at end of period	465,634	\$ 6.40	323,053	\$ 5.85
Exercisable at end of period	258,418	\$ 6.04	248,754	\$ 5.83
Weighted average fair value of options granted during the period	\$ 4.30		\$ 5.33	

The fair value of options was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Nine Months Ended June 30,	
	2007	2006
Risk free interest rate	4.5% to 4.9%	4.4% to 4.6%
Expected life	5 - 6.4 years	3-7.5 years
Dividend rate	0%	0%
Volatility	61% to 69%	63% to 101%
Forfeiture rate	4.8%	7.5%

To estimate expected lives for this valuation, it was assumed that options will be exercised at varying schedules after becoming fully vested. In accordance with SFAS 123 (R), forfeitures have been estimated at the time of grant and will be revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based upon historical experience. Fair value computations are highly sensitive to the volatility factor assumed; the greater the volatility, the higher the computed fair value of the options granted.

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There were 11,000 and 167,250 options granted during the three and nine months ended June 30, 2007, respectively; and 17,500 and 37,522 options granted for the comparable periods of fiscal 2006. Total fair value of options granted was approximately \$53,000 and \$767,000 for the three and nine months ended June 30, 2007, respectively; and \$92,000 and \$200,000 for the comparable periods of fiscal 2006.

The following tables summarize information for stock options outstanding and exercisable at June 30, 2007:

Range of Exercise Prices	Number Outstanding	Remaining Contractual Life (in years)	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Options outstanding	465,634	6.5	\$ 6.40	\$ 1,099
Vested and expected to vest	445,471	6.4	\$ 6.38	\$ 1,059
Options exercisable	258,418	4.4	\$ 6.04	\$ 701

### Impact of Recently Issued Accounting Pronouncements

In June 2006, the FASB published FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, which 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*. SFAS No. 109 does not prescribe a recognition threshold or measurement attributable for the financial statement recognition and measurement of a tax position

10

taken in a tax return. Diversity in practice exists in the accounting for income taxes. To address that diversity this Interpretation clarifies the application of SFAS No. 109 by defining a criterion that an individual tax position must meet for any part of the benefit of that position to be recognized in an enterprise's financial statements. Additionally, this Interpretation provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition for such uncertain tax transactions. This Interpretation is effective for the Company's 2008 fiscal year (beginning October 1, 2007). The Company has not yet determined the impact, if any, that the adoption of Interpretation No. 48 will have on its consolidated financial statements.

In September 2006, the Financial Accounting Standards Board issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a formal framework for measuring fair value and expands disclosures about fair value measurements. The Company has not yet determined the impact, if any, that SFAS No. 157 will have on its consolidated financial statements. SFAS No. 157 is effective for the Company's fiscal year beginning October 1, 2008.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities (as amended)*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. In addition, FAS No. 159 establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. The Company has not yet determined the impact, if any, that SFAS No. 159 will have on its consolidated financial statements. SFAS No. 159 is effective for the Company's fiscal year beginning October 1, 2008.

### 2. Deferred Taxes

Deferred tax assets reflect the tax effects of temporary differences between the carrying value of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. SFAS No. 109 *Accounting for Income Taxes* requires that a valuation allowance is recognized if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized. Each quarter the valuation allowance is re-evaluated. During the nine months ended June 30 2007, continued improvement in both the Company's earnings history and its prospects for the future resulted in a \$0.5 million

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lower estimate of the amount of deferred assets that more likely than not will be unrealizable. Tax payments of \$778,000 were made during the nine months ended June 30, 2007. During the nine months ended June 30, 2007, the Company also recorded an increase of \$0.5 million in deferred tax assets for items that meet the more likely than not criteria for recognition under SFAS No. 109.

The tax effects of temporary book-tax differences that give rise to significant portions of the deferred tax asset and deferred tax liability are as follows:

	<b>June 30 2007</b>	<b>September 30, 2006</b>
	(dollars in thousands)	
<b>Deferred tax assets - current:</b>		
Capitalized inventory costs	\$ 279	\$ 205
Inventory write-downs	421	412
Deferred profit	610	377
Accruals and reserves not currently deductible	660	467
	1,970	1,461
<b>Deferred tax assets - non-current:</b>		
Stock option expense	51	17
State net operating losses	183	172
	234	189
<b>Deferred tax liabilities - non-current</b>		
Book vs. tax depreciation and amortization	(81)	(17)
<b>Total deferred tax assets - net</b>	<b>2,123</b>	<b>1,633</b>
Valuation allowance	(1,094)	(1,633)
<b>Deferred tax assets net of valuation allowance</b>	<b>\$ 1,029</b>	<b>\$ -</b>

11

### 3. Earnings Per Share

Earnings per share (EPS) is computed by dividing net income available to common shareholders (net income less accrued preferred stock dividends) by the weighted average number of common shares outstanding for the period. Diluted EPS is computed similarly to basic EPS except that the denominator is increased to include the number of additional common shares that would have been outstanding if potentially dilutive common shares had been issued, and the numerator is based on net income available to common shareholders.

For the three and nine months ended June 30, 2007, options for 190,750 and 196,272 shares, respectively, are excluded from the diluted EPS calculations because they are anti-dilutive. For the three and nine months ended June 30, 2006, options for 17,473 and 6,923 shares, respectively, are excluded from the diluted EPS calculations because they are anti-dilutive.

	<b>Three Months Ended June 30, 2007</b>		<b>Nine Months Ended June 30, 2007</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	(in thousands, except per share amounts)		(in thousands, except per share amounts)	
<b>Basic Earnings Per Share Computation</b>				
Net income	\$ 1,010	\$ 168	\$ 1,278	\$ 822
Preferred stock dividends	-	-	-	(81)
Net income available to common stockholders	\$ 1,010	\$ 168	\$ 1,278	\$ 741

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<b>Weighted Average Shares Outstanding:</b>				
Common stock	6,498	3,437	5,050	2,980

Basic earnings per share	\$ 0.16	\$ 0.05	\$ 0.25	\$ 0.25
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**Diluted Earnings Per Share Computation**

Net income	\$ 1,010	\$ 168	\$ 1,278	\$ 822
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<b>Weighted Average Shares Outstanding:</b>				
Common stock	6,498	3,437	5,050	2,980
Common stock equivalents (1)	77	84	54	465
Diluted shares	6,575	3,521	5,104	3,445

Diluted earnings per share	\$ 0.15	\$ 0.05	\$ 0.25	\$ 0.24
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(1) The number of common stock equivalents is calculated using the treasury stock method and the average market price during the period.

**4. Comprehensive Income**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>(dollars in thousands)</b>		<b>(dollars in thousands)</b>	
Net income, as reported	\$ 1,010	\$ 168	\$ 1,278	\$ 822
Foreign currency translation adjustment	26	94	125	68
Comprehensive income	\$ 1,036	\$ 262	\$ 1,403	\$ 890

**5. Business Segment Information**

The Company's products are classified into two core business segments; the semiconductor and solar equipment segment and the polishing supplies segment. The semiconductor and solar equipment segment designs, manufactures and markets semiconductor wafer processing and handling equipment used in the fabrication of

12

integrated circuits, solar cells and MEMS. Also included in the semiconductor and solar equipment segment are the manufacturing support service operations and corporate expenses, except for a small portion that is allocated to the polishing supplies segment. The polishing supplies segment designs, manufactures and markets carriers, templates and equipment used in the lapping and polishing of wafer-thin materials, including silicon wafers used in the production of semiconductors.

Information concerning the Company's business segments is as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>(dollars in thousands)</b>		<b>(dollars in thousands)</b>	
<b>Net Revenue:</b>				
Semiconductor and solar equipment	\$ 10,886	\$ 8,648	\$ 26,641	\$ 23,927
Polishing supplies	1,988	1,703	6,223	5,230
	\$ 12,874	\$ 10,351	\$ 32,864	\$ 29,157

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<b>Operating Income (loss):</b>				
Semiconductor and solar equipment	\$	306	\$	(26)
Polishing supplies		301		226
		607		200
				972
				1,106
<b>Interest and other income (expense), net</b>				
Income before income taxes	\$	170	\$	(29)
		777		171
				1,285
				1,102

				<b>June 30,</b>	<b>September</b>
				<b>2007</b>	<b>30,</b>
					<b>2006</b>
(dollars in thousands)					
<b>Identifiable Assets:</b>					
Semiconductor and solar equipment			\$	42,733	\$
Polishing supplies				4,260	
			\$	46,993	\$
					23,563

**6. Major Customers and Foreign Sales**

During the three and nine months ended June 30, 2007, two customers represented 14% and 11%, individually, and 12% and 10%, individually, of net revenue, respectively. During the three and nine months ended June 30, 2006, one customer represented 17% and 20% of net revenue, respectively.

Net revenue was in the following geographic regions:

	<b>Nine Months Ended</b>	
	<b>June 30,</b>	
	<b>2007</b>	<b>2006</b>
North America (1)	29%	35%
Asia (2) (3) (4)	48%	44%
Europe (5)	23%	21%
	100%	100%

- (1) Includes 29% and 34% to the United States in 2007 and 2006, respectively
- (2) Includes 17% and 4% to China in 2007 and 2006, respectively.
- (3) Includes 19% and 11% to Taiwan in 2007 and 2006, respectively.
- (4) Includes 6% and 17% to Malaysia in 2007 and 2006, respectively.
- (5) Includes 6% and 11% to Germany in 2007 and 2006, respectively.

**7. Commitments and Contingencies**

**Purchase Obligations** □ As of June 30, 2007, the Company had purchase obligations in the amount of \$6.3 million. These purchase obligations consist of outstanding purchase orders for goods and services. While the amount represents purchase agreements, the actual amounts to be paid may be less in the event that any agreements are renegotiated, cancelled or terminated.

## 8. Issuance of Common Stock

In February 2007, the Company filed registration statements on Form S-1 with the Securities and Exchange Commission for the sale of 2,625,000 shares of its common stock in an underwritten public offering at a price to the public of \$7.05 per share. The Company also granted the underwriters a 30-day option to purchase up to 393,750 additional shares of common stock to cover over-allotments. Net proceeds to the Company were approximately \$19.4 million including the exercise of the over-allotment, net of \$0.4 million of offering expenses and \$1.5 million of underwriting commissions.

## 9. Line of Credit

Effective June 30, 2007, the Company terminated the \$1.0 million export revolver loan and security agreement (LSA) with the Silicon Valley Bank and the Working Capital Guarantee Program Borrower Agreement with the Export-Import Bank of the United States. The termination of the agreements was initiated by the Company as it was no longer needed and was carried out at no cost to the Company. The \$2.0 million domestic LSA remains in force with no changes to its terms.

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## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and the related notes included in Item 1, "Condensed Consolidated Financial Statements" in this quarterly report on Form 10-Q and our consolidated financial statements and related notes included in Item 8, "Financial Statements and Supplementary Data" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2006, as amended.

### Cautionary Statement Regarding Forward-Looking Statements

*The statements in this report include forward-looking statements. These forward-looking statements are based on our management's current expectations and beliefs and involve numerous risks and uncertainties that could cause actual results to differ materially from expectations. You should not rely upon these forward-looking statements as predictions of future events because we cannot assure you that the events or circumstances reflected in these statements will be achieved or will occur. You can identify forward-looking statements by the use of forward-looking terminology, including the words "believes," "expects," "may," "will," "should," "seeks," "intends," "plans," "estimates" or "anticipates" or the negative of these words and phrases or other variations of these words and phrases or comparable terminology. These forward-looking statements relate to, among other things: our sales, results of operations and anticipated cash flows; capital expenditures; depreciation and amortization expenses; research and development expenses; selling, general and administrative expenses; the development and timing of the introduction of new products and technologies; our ability to maintain and develop relationships with our existing and potential future customers and our ability to maintain the level of investment in research and development and capacity that is required to remain competitive. Many factors could cause our actual results to differ materially from those projected in these forward-looking statements, including, but not limited to: whether we will be able to complete acquisitions and integrate such businesses successfully and achieve anticipated synergies; variability of our revenues and financial performance; risks associated with product development and technological changes; the acceptance of our products in the marketplace by existing and potential future customers; disruption of operations or increases in expenses caused by civil or political unrest or other catastrophic events; general economic conditions and conditions in the semiconductor and solar industries in particular; the continued employment of our key personnel and risks associated with competition.*

*For a discussion of the factors that could cause actual results to differ materially from the forward-looking statements, see the "Risk Factors" set forth in Item 1A of Part I of Amtech Systems, Inc.'s Annual Report on Form 10-K for the fiscal year ended September 30, 2006, the "Liquidity and Capital Resources" section under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this item of this report and the other risks and uncertainties that are set forth elsewhere in this report or detailed in our other Securities and Exchange Commission reports and filings. We assume no obligation to update these forward-looking statements.*

### Introduction

Management's Discussion and Analysis ("MD&A") is intended to facilitate an understanding of our business and results of operations. MD&A consists of the following sections:

- Overview
- Results of Operations
- Liquidity and Capital Resources
- Off-Balance Sheet Arrangements
- Contractual Obligations
- Critical Accounting Policies
- Impact of Recently Issued Accounting Pronouncements

## Overview

We operate in two segments: the semiconductor and solar equipment segment and the polishing supplies segment. Our semiconductor and solar equipment segment is a leading supplier of thermal processing systems, including related automation, parts and services, to the semiconductor, photovoltaic solar, silicon wafer and MEMS industries.

Our polishing supplies segment is a leading supplier of wafer carriers to manufacturers of silicon wafers. The polishing segment also manufactures polishing templates, steel carriers and double-sided polishing and lapping machines to fabricators of optics, quartz, ceramics and metal parts, and to manufacturers of medical equipment components.

Our customers are primarily manufacturers of integrated circuits and solar cells, and suppliers of silicon to those manufacturers. The semiconductor and solar cell industries are cyclical and historically have experienced significant fluctuations. Our revenue is impacted by these broad industry trends.

Due to the nature of the capital equipment markets that we serve and due to the nature of our contracts, which include holdbacks of 10-20% of revenue that are recognized at the time of customer acceptance, revenues, gross margins, and operating results have historically fluctuated on a quarterly basis.

As our automation products are often sold in conjunction with new diffusion furnaces, to increase efficiency and reduce costs, we adopted a plan to consolidate the manufacturing of our automation product line into facilities already used to manufacture diffusion furnaces in June 2006. This consolidation was completed during January 2007.

## Results of Operations

The following table sets forth certain operational data as a percentage of net revenue for the periods indicated:

	Three Months Ended		Nine Months Ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
Net revenue	100%	100%	100%	100%
Cost of goods sold	73%	74%	74%	73%
Gross margin	27%	26%	26%	27%
Operating expenses:				
Selling, general and administrative	21%	22%	22%	22%



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Restructuring charges	0%	1%	0%	0%
Research and Development	1%	1%	1%	1%
Total operating expenses	22%	24%	23%	23%
Income from operations	5%	2%	3%	4%
Interest income (expense), net	1%	0%	1%	0%
Income before income taxes	6%	2%	4%	4%
Income tax expense (benefit)	(2%)	0%	0%	1%
Net Income	8%	2%	4%	3%

**Net Revenue**

Net revenue consists of equipment revenue recognized upon shipment or installation of products using proven technology and upon acceptance of products using new technology. In addition, spare parts sales are recognized upon shipment. Service revenue is recognized upon completion of the service activity or ratably over the term of the service contract. The majority of our revenue is generated from large furnace systems sales which, depending on the timing of shipment and installation, can have a significant impact on our revenue and earnings in any given period. See Critical Accounting Policies □ Revenue Recognition.

16

Net Revenue	Three Months Ended				Nine Months Ended		
	June 30, 2007	June 30, 2006	Inc. (Dec)	%	June 30, 2007	June 30, 2006	Inc. (Dec)
	(dollars in thousands)				(dollars in thousands)		
Semiconductor and Solar							
Equipment Segment	\$ 10,886	\$ 8,648	\$ 2,238	26%	\$ 26,641	\$ 23,927	\$ 2,714
Polishing Supplies Segment	1,988	1,703	285	17%	6,223	5,230	993
Total	\$ 12,874	\$ 10,351	\$ 2,523	24%	\$ 32,864	\$ 29,157	\$ 3,707

Net revenue for the quarter ended June 30, 2007 increased by \$2.5 million, or 24%, compared to the quarter ended June 30, 2006. Net revenue from the solar market increased \$3.1 million due to the continuing increase in demand for our solar products. This increase was partially offset by a decrease in semiconductor equipment revenue. In the third quarter of fiscal 2006 we recognized \$0.8 million from the acceptance of several furnaces from a \$5.2 million multi-furnace order which was shipped in the second quarter of fiscal 2006. There was no corresponding acceptance of similar magnitude in the third quarter of fiscal 2007. Net revenue for other semiconductor equipment in the third quarter of fiscal 2007 remained comparable to the same period in fiscal 2006 after excluding the multi-furnace order. The 17% increase in revenue from our polishing supplies segment was primarily the result of increased volume of shipments of our polishing machines.

Net revenue for the nine months ended June 30, 2007 increased by \$3.7 million, or 13%, compared to the nine months ended June 30, 2006. The 13% increase was driven primarily by \$8.1 million of solar revenue, a \$5.8 million increase over the same period in fiscal 2006, a \$1.9 million increase in other semiconductor revenue, excluding the \$5.0 million of 2006 net revenue from the multi-system order discussed above and a \$1.0 million, or 19%, increase for our polishing supplies segment resulting from increased demand for our polishing machines and polishing templates.

The following table reflects new orders<sup>(1)</sup>, shipments and net revenues for the third quarter during the current and prior fiscal year, and the backlog as of the end of those periods, on a consolidated basis, as well as for each of our two business segments.

Third Quarter

Year-to-Date

	Semi-conductor and Solar Equipment Segment (2)			Semi-conductor and Solar Equipment Segment (2)		
	Polishing Supplies Segment		Total Company	Polishing Supplies Segment		Total Company
	(dollars in thousands)			(dollars in thousands)		
<b>2007:</b>						
New orders (1)	\$ 15,020	\$ 2,314	\$ 17,334	\$ 33,477	\$ 6,440	\$ 39,917
Shipments	11,638	1,988	13,626	27,510	6,223	33,733
Net revenues	10,886	1,988	12,874	26,641	6,223	32,864
Backlog 6/30/2007	19,450	1,203	20,653	19,450	1,203	20,653
<b>Book-to-bill ratio</b>	<b>1.3:1</b>	<b>1.2:1</b>	<b>1.3:1</b>	<b>1.2:1</b>	<b>1.0:1</b>	<b>1.2:1</b>
<b>2006:</b>						
New orders (1)	\$ 8,708	\$ 1,798	\$ 10,506	\$ 23,084	\$ 5,163	\$ 28,247
Shipments	9,204	1,695	10,899	25,467	5,230	30,697
Net revenues	8,648	1,703	10,351	23,928	5,230	29,158
Backlog 6/30/2006	12,556	921	13,477	12,556	921	13,477
<b>Book-to-bill ratio</b>	<b>0.9:1</b>	<b>1.1:1</b>	<b>1.0:1</b>	<b>0.9:1</b>	<b>1.0:1</b>	<b>0.9:1</b>

(1) Orders are net of cancellations and include the change in the U.S. dollar value of orders recorded in Euros by our semiconductor and solar equipment segment.

(2) The backlog as of June 30, 2007 and 2006, respectively, includes \$0.9 million and \$1.0 million of deferred revenue for which there is an equal amount of deferred costs, i.e. with no gross profit to be realized.

### **Backlog**

Our order backlog as of June 30, 2007 and 2006 was \$20.7 million and \$13.5 million, respectively, a 53% increase. Our backlog as of June 30, 2007 includes approximately \$11.5 million of orders from our solar industry customers compared to \$3.1 million in orders from solar industry customers at June 30, 2006. The orders included in our

backlog are generally credit approved customer purchase orders expected to ship within the next six to twelve months. Because our orders are typically subject to cancellation or delay by the customer, our backlog at any particular point in time is not necessarily representative of actual sales for succeeding periods, nor is backlog any assurance that we will realize profit from completing these orders. We believe the orders included in backlog are probable of being filled and not cancelled. Our backlog also includes revenue deferred pursuant to our revenue recognition policy, derived from orders that have already been shipped, but which have not met the criteria for revenue recognition.

### **Gross Profit and Gross Margin**

Cost of goods sold consists of purchased material, labor and overhead to manufacture equipment and spare parts and the cost of service, including factory and field support to customers for warranty, installation, service contracts and paid service calls. In addition, the cost of outsourcing the assembly or manufacturing of certain systems and subsystems to third parties and subcontracted field service is included in cost of goods sold. The timing of recognizing the revenue components of an order may have a particularly significant effect on gross margin when the component attributed to equipment is recognized in one period and the remaining component attributed to installation, generally a holdback of 10% to 20% of the order, is recognized in a later period because the latter revenue has a significantly higher gross margin percentage.

Gross profit	Three Months Ended				Nine Months Ended			
	June	June	Inc.	%	June	June	Inc.	%
	30, 2007	30, 2006	(Dec)		30, 2007	30, 2006	(Dec)	
	(dollars in thousands)				(dollars in thousands)			
Semiconductor and Solar								
Equipment Segment	\$ 2,758	\$ 2,103	\$ 655	31%	\$ 6,533	\$ 6,227	\$ 306	5%
Polishing Supplies Segment	666	540	126	23%	2,151	1,690	461	27%
Total	\$ 3,424	\$ 2,643	\$ 781	30%	\$ 8,684	\$ 7,917	\$ 767	10%
Gross margin	27%	26%			26%	27%		

Gross profit for the quarter ended June 30, 2007 increased 30%, to \$3.4 million from \$2.6 million in the quarter ended June 30, 2006, with the gross margin increasing one percentage point to 27%, from 26%. Gross profit in the semiconductor and solar equipment segment increased despite a \$0.9 million unfavorable change in deferred profit in the quarter, relative to the change in deferred profit in the third quarter of fiscal 2006. In the third quarter of fiscal 2007, the amount of profit deferred to future periods increased \$0.7 million compared to a \$0.2 million decrease in the third quarter of fiscal 2006. Contributing to the higher margins in this segment were improved product mix and better labor efficiencies and plant utilization achieved through higher manufacturing volumes. Shipments in the third quarter of fiscal 2006 included certain products which had lower margins due to higher engineering and material costs. The polishing supplies segment also achieved higher labor efficiencies from increased sales volumes, resulting in a gross margin improvement of two percentage points.

Gross profit for the nine months ended June 30, 2007 increased 10%, to \$8.7 million from \$7.9 million, with a slight decrease in the gross margin percentage compared to the nine months ended June 30, 2006. The improvements in gross margin in the third quarter of fiscal 2007 are offset by a slight decline in gross margin in the first half of fiscal 2007, when compared to the same period in fiscal 2006. In the first half of fiscal 2006, we shipped a significantly higher number of semiconductor automation systems and etching machines, which typically carry a higher gross margin than the products we shipped in the first half of fiscal 2007.

The continued growth of our sales to the solar industry created capacity constraints at our European operations. Consequently, we purchased a new operating plant in March of 2007, which will significantly increase our capacity and is expected to incrementally improve the operating efficiencies in our semiconductor and solar cell equipment manufacturing segment in fiscal 2008.

### ***Selling, General and Administrative***

Selling, general and administrative expenses consist primarily of the cost of employees, consultants and contractors, facility costs, sales commissions, promotional marketing expenses, legal, investor relations and accounting expenses.

Selling, general and administrative	Three Months Ended				Nine Months Ended			
	June	June	Inc.	%	June	June	Inc.	%
	30, 2007	30, 2006	(Dec)		30, 2007	30, 2006	(Dec)	
	(dollars in thousands)				(dollars in thousands)			
Semiconductor and Solar								
Equipment Segment	\$ 2,335	\$ 1,925	\$ 410	21%	\$ 6,231	\$ 5,364	\$ 867	16%
Polishing Supplies Segment	365	313	52	17%	1,105	935	170	18%
Total	\$ 2,700	\$ 2,238	\$ 462	21%	\$ 7,336	\$ 6,299	\$ 1,037	16%
Percent of net revenue	21%	22%			22%	22%		

Selling, general and administrative expenses for the quarter ended June 30, 2007 increased \$0.5 million, or 21%, to \$2.7 million from \$2.2 million for the quarter ended June 30, 2006. The increase was primarily due to a \$0.2 million increase in personnel and consulting costs, and a \$0.1 million increase in stock option expense. Additionally, commissions increased \$0.2 million for the three months ended June 30, 2007 when compared to the same period in fiscal 2006 due to higher shipments to regions where third-party sales representatives are utilized. For the three and nine months ended June 30, 2007, other personnel and consulting costs increased compared to the same periods ended June 30, 2006 as a result of the need to (i) improve internal financial and operational reporting, (ii) identify potential improvements in operational efficiencies, (iii) assist in developing and executing our growth strategies and (iv) manage the increasing compliance obligations of a growing multi-national public company.

### **Restructuring Charges**

In June 2006, Amtech adopted a plan to consolidate the manufacturing of its automation product line into facilities already used to manufacture diffusion furnaces. Amtech's automation products are often sold in conjunction with the sale of new diffusion furnaces. As a result of this decision, the Company incurred a restructuring charge of \$0.1 million. We incurred no comparable costs in fiscal 2007.

### **Research and Development**

Research and development expenses consist of the cost of employees, consultants and contractors who design, engineer and develop new products and processes; materials and supplies used in those activities; and product prototyping.

	Three Months Ended				Nine Months Ended			
	June	June	Inc.	%	June	June	Inc.	%
	30,	30,	(Dec)		30,	30,	(Dec)	
<b>Research and Development</b>	<b>2007</b>	<b>2006</b>	<b>(Dec)</b>	<b>%</b>	<b>2007</b>	<b>2006</b>	<b>(Dec)</b>	<b>%</b>
	<b>(dollars in thousands)</b>				<b>(dollars in thousands)</b>			
Semiconductor and Solar								
Equipment Segment	\$ 117	\$ 65	\$ 52	80%	\$ 376	\$ 372	\$ 4	1%
Polishing Supplies Segment	-	-	-	0%	-	-	-	0%
Total	\$ 117	\$ 65	\$ 52	80%	\$ 376	\$ 372	\$ 4	1%

Research and development costs for the three and nine months ended June 30, 2007 are comparable to the three and nine month periods ended June 30, 2006. Costs reflect credits for \$0.1 million of government grants for the three and nine month periods ended June 30, 2007 and 2006.

### **Interest and other income (expense), net**

Interest and other income (expense), net primarily consists of interest income, interest expense and gains and losses on foreign currency transactions.

	Three Months Ended			Nine Months Ended		
	June	June	Inc.	June 30,	June	Inc.
	30,	30,	(Dec)	2007	2006	(Dec)
<b>Interest and other</b>						
<b>income (expense), net</b>	<b>2007</b>	<b>2006</b>	<b>(Dec)</b>	<b>2007</b>	<b>2006</b>	<b>(Dec)</b>
	<b>(dollars in thousands)</b>			<b>(dollars in thousands)</b>		
Interest and other income						
(expense), net	\$ 155	\$ (4)	\$ 159	\$ 324	\$ (9)	\$ 333

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Foreign currency gains (losses)	15	(25)	40	(11)	5	(16)
Total	\$ 170	\$ (29)	\$ 199	\$ 313	\$ (4)	\$ 317

Interest income represents earnings on invested funds. Interest expense primarily consists of interest incurred on our overdraft facility, revolving line of credit, equipment financing, a mortgage on Amtech's land and buildings in the Netherlands, and amortization of debt issuance costs. Due to an increase in cash and cash equivalents raised in the secondary public offering of common stock during the second quarter of fiscal 2007, net interest income increased by \$0.2 million and \$0.3 million during the three and nine months ended June 30, 2007, respectively, from the comparable periods in fiscal 2006.

**Income Taxes**

During the three months ended June 30, 2007 we recorded an income tax benefit of \$0.2 million while the provision for the same period ended June 30, 2006 was effectively zero, as a result of recording reductions in the valuation allowance on deferred tax assets of \$0.5 million and \$0.1 million, respectively. The reductions in the valuation allowance on deferred tax assets result from a continued improvement in both our earnings history and our prospects for the future, which caused us to reduce our estimate of the amount of deferred assets that more likely than not will be unrealizable. During the nine months ended June 30, 2007 and 2006, we recorded income tax provisions of effectively zero and \$0.3 million, respectively, as a result of recording reductions in the valuation allowance on deferred tax assets of \$0.5 million and \$0.2 million, respectively. In addition, during the nine months ended June 30, 2007, we recorded an increase of \$0.5 million in deferred tax assets, excluding the effects of the change in the valuation allowance for items that meet the more likely than not criteria for recognition under SFAS No. 109. (See Note 2 to the condensed consolidated financial statements). For the nine months ended June 30, 2007 and 2006, the effective tax rates excluding the benefit from the reductions in the valuation allowance were 43.3% and 47%, respectively, as permanent differences have become smaller in relation to income before taxes.

**Liquidity and Capital Resources**

In February 2007, we completed the sale of 3,018,750 shares of common stock in a public offering for \$7.05 per share. The net proceeds of the sale after offering expenses and underwriting fees was \$19.4 million. We intend to use the net proceeds from this offering for working capital and other general corporate purposes, including possible future product or business acquisitions in connection with the planned expansion of our solar and semiconductor businesses.

At June 30, 2007 and September 30, 2006, cash and cash equivalents were \$17.9 million and \$6.4 million, respectively. Our working capital increased \$17.8 million to \$29.7 million as of June 30, 2007, compared to \$11.9 million at September 30, 2006. Our ratio of current assets to current liabilities increased to 4.1:1 at June 30, 2007, from 2.6:1 at September 30, 2006. The increase in cash and cash equivalents and working capital and the improvement in the current ratio resulted primarily from the \$19.4 million of net proceeds after deducting expenses raised from the secondary public offering of common stock during February 2007. The increase was partially offset by \$3.5 million of capital expenditures, primarily a building acquired in the Netherlands, which will increase the capacity of our semiconductor and solar equipment segment. We intend to mortgage the new facility once improvements have been made and operations have been transferred.

At June 30, 2007, our principal sources of liquidity consisted of \$17.9 million of cash and cash equivalents and the \$2.3 million in available domestic and export credit facilities. Amtech's revolving line of credit with Silicon Valley Bank contains certain financial and other covenants. Amtech was in compliance with these covenants as of June 30, 2007. Effective June 30, 2007, the \$1.0 million export credit facility was terminated at the request of and at no cost to Amtech. We believe that our principal sources of liquidity discussed above and the increased capital and liquidity resulting from the February 2007 secondary public offering are sufficient to support operations and will

allow us to pursue our growth strategies, which include possible acquisitions.

**Cash Flows from Operating Activities**

Cash used in our operating activities was \$4.1 million for the nine months ended June 30, 2007, compared to \$0.4 million provided by such activities for the nine months ended June 30, 2006. During the nine months ended June 30, 2007 cash was primarily used to finance business growth, including increases in accounts receivable (\$4.7 million), inventory (\$1.9 million) and prepaid and other assets (\$0.6 million). This use of cash was partially offset by increases in accrued liabilities and customer deposits of \$1.2 million, deferred profit of \$0.7 million and accrued income taxes of \$0.3 million.

### ***Cash Flows from Investing Activities***

Our investing activities for the nine months ended June 30, 2007 and 2006 used \$3.8 million and \$0.6 million of cash, respectively. During fiscal 2007, the most significant investment was the purchase of a 48,000 sq. ft. manufacturing facility located in Vaassen, The Netherlands for approximately \$3.1 million. Another significant investment in fiscal 2007 was \$0.3 million paid for a license of certain solar PECVD technology from the licensor. Other investments in both periods consisted primarily of purchases of equipment.

### ***Cash Flows from Financing Activities***

Cash provided by financing activities for the nine months ended June 30, 2007 was \$19.5 million, which primarily consists of the \$19.4 million, net of expenses, raised in the secondary public offering of the Company's common stock. Other financing activities during the first nine months of fiscal 2007 include the October 2006 equipment financing of \$0.4 million and \$0.3 million of payments on debt. This compares to \$0.6 million of cash provided by financing activities during the nine months ended June 30, 2006, primarily from the exercise of warrants and stock options.

### ***Off-Balance Sheet Arrangements***

As of June 30, 2007, Amtech had no off-balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K promulgated by the Securities and Exchange Commission.

### ***Contractual Obligations***

Significant changes in contractual obligations since the end of fiscal 2006 consist mainly of increases in our purchase obligations and long-term debt (See Notes 1 and 7 of the Condensed Consolidated Financial Statements). In April, 2007, the Company also committed, under a license agreement, to pay an additional \$0.7 million to a third party for the successful development of a product to be licensed by the Company. Refer to Amtech's annual report on Form 10-K for the year ended September 30, 2006, for information on the Company's other contractual obligations.

### ***Critical Accounting Policies***

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our consolidated financial statements that have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period.

On an on-going basis, we evaluate our estimates and judgments, including those related to revenue recognition, inventory valuation, accounts receivable collectibility, warranty and impairment of long-lived assets. We base our estimates and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances. The results of these estimates and judgments form the basis for making conclusions about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

A critical accounting policy is one that is both important to the presentation of our financial position and results of operations, and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. These uncertainties are discussed in

Item 1A. Risk Factors of our Annual Report on Form 10-K. We believe the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our consolidated financial statements.

**Revenue Recognition.** We review product and service sales contracts with multiple deliverables to determine if separate units of accounting are present in the arrangements. Where separate units of accounting exist, revenue is allocated to delivered items equal to the total sales price less the greater of the relative fair value of the undelivered items, and all contingent portions of the sales arrangement.

We recognize revenue when persuasive evidence of an arrangement exists; the product has been delivered and title has transferred, or services have been rendered; the seller's price to the buyer is fixed or determinable; and collectibility is reasonably assured. For us, this policy generally results in revenue recognition at the following points:

- For the semiconductor and solar equipment segment, transactions where legal title passes to the customer upon shipment, we recognize revenue upon shipment for those products where the customer's defined specifications have been met with at least two similarly configured systems and processes for a comparably situated customer. However, a portion of the revenue associated with certain installation-related tasks, equal to the greater of the relative fair value of those tasks or the portion of the contract price contingent upon their completion, generally 10%-20% of the system's selling price (the "holdback"), and directly related costs, if any, are deferred and recognized into income when the tasks are completed. Since we defer only those costs directly related to installation or other unit of accounting not yet delivered and that portion of the contract price is often considerably greater than the fair market value of those items, our policy at times will result in deferral of profit that is disproportionately greater than the deferred revenue. When this is the case, the gross profit recognized in one period will be lower and the gross profit reported in a subsequent period will improve.
- For products where the customer's defined specifications have not been met with at least two similarly configured systems and processes, the revenue and directly related costs are deferred at the time of shipment and recognized into income at the time of customer acceptance or when this criterion has been met. We have, on occasion, experienced longer than expected delays in receiving cash from certain customers pending final installation or system acceptance. If some of our customers refuse to pay the final payment, or otherwise delay final acceptance or installation, the deferred revenue would not be recognized, adversely affecting our future operating results.
- Equipment sold by the polishing supplies segment does not include process guarantees, acceptance criteria or holdbacks; therefore, the related revenue is recorded upon transfer of title which is generally at time of shipment. Our shipping terms for both segments are customarily FOB our shipping point or equivalent terms.
- For all segments, sales of spare parts and consumables are recognized upon shipment, as there are no post shipment obligations other than standard warranties.
- Service revenue is recognized upon performance of the services requested by the customer. Revenue related to service contracts is recognized ratably over the period of the contract or in accordance with the terms of the contract, which generally coincides with the performance of the services requested by the customer.

**Deferred Tax Asset Valuation Allowance.** We currently have significant deferred tax assets resulting from expenses not currently deductible for tax purposes, revenue recognized for tax purposes but deferred for financial statement purposes and state net operating loss carryforwards that will reduce taxable income in future periods.

SFAS No. 109 requires 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. It also states that it is difficult to conclude that a valuation allowance is not needed when there is negative evidence such as cumulative losses in recent years. Therefore, the cumulative losses weigh heavily in the overall assessment. Each quarter, Amtech analyzes each deferred tax asset to determine the amount that is more likely than not to be realized, based upon the weight of available evidence,

and adjusts the valuation allowance to the amount of deferred taxes that do not meet the criteria for recognition under SFAS No. 109.

**Inventory Valuation.** We value our inventory at the lower of cost (first-in, first-out method) or net realizable value. We regularly review inventory quantities and record a write-down for excess and obsolete inventory. The write-down is primarily based on historical inventory usage adjusted for expected changes in product demand and production requirements. However, our industry is characterized by customers in highly cyclical industries, rapid technological changes, frequent new product developments and rapid product obsolescence. While the inventories acquired in the Bruce Technologies transaction, which is described in our annual report on Form 10-K for the year ended September 30, 2006, will require several years to consume in production and through spare parts sales, management believes the write-downs taken were sufficient to protect against future losses, as this product line is receiving greater attention under its current ownership. Changes in demand for our products and product mix could result in further write-downs.

**Allowance for Doubtful Accounts.** We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. This allowance is based on historical experience, credit evaluations, specific customer collection history and any customer-specific issues we have identified. Since a significant portion of our revenue is derived from the sale of high-value systems, our accounts receivable are often concentrated in a relatively few number of customers. A significant change in the liquidity or financial position of any one of these customers could have a material adverse impact on the collectibility of our accounts receivable and our future operating results.

**Warranty.** We provide a limited warranty, generally for 12 to 24 months, to our customers. A provision for the estimated cost of providing warranty coverage is recorded upon shipment of all systems. On occasion, we have been required and may be required in the future to provide additional warranty coverage to ensure that the systems are ultimately accepted or to maintain customer goodwill. While our warranty costs have historically been within our expectations and we believe that the amounts accrued for warranty expenditures are sufficient for all systems sold through June 30, 2007, we cannot guarantee that we will continue to experience a similar level of predictability with regard to warranty costs. In addition, technological changes or previously unknown defects in raw materials or components may result in more extensive and frequent warranty service than anticipated, which could result in an increase in our warranty expense.

**Impairment of Long-lived Assets.** We periodically evaluate whether events and circumstances have occurred that indicate the estimated useful lives of long-lived assets or intangible assets may warrant revision or that the remaining balance may not be recoverable. Goodwill is also tested for impairment at least annually. When factors indicate that an asset should be evaluated for possible impairment, we use an estimate of the related undiscounted net cash flows generated by the asset over the remaining estimated life of the asset in measuring whether the asset is recoverable. We make judgments and estimates used in establishing the carrying value of long-lived or intangible assets. Those judgments and estimates could be modified if adverse changes occurred in the future resulting in an inability to recover the carrying value of these assets. We have not experienced any impairment to long-lived assets during fiscal 2007, 2006 or 2005. Future adverse changes could be caused by, among other factors, a downturn in the semiconductor industry, a general economic slowdown, reduced demand for our products in the marketplace, poor operating results, the inability to protect intellectual property or changing technologies and product obsolescence.

### **Impact of Recently Issued Accounting Pronouncements**

For discussion of the impact of recently issued accounting pronouncements, see [Item 1: Financial Information] under [Impact of Recently Issued Accounting Pronouncements].

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to financial market risks, including changes in foreign currency exchange rates and interest rates. Our operations in the United States are conducted in U.S. dollars. Our operations in Europe, a component



of the semiconductor and solar equipment segment, conduct business primarily in the Euro, but also enter into transactions denominated in U.S. dollars. The functional currency of our European operation is the Euro. Nearly all of the transactions, assets and liabilities of all other operating units are denominated in the U.S. dollar, their functional currency. The following disclosures about market risk should be read in conjunction with the more in depth discussion in Item 7A, Quantitative and Qualitative Disclosures About Market Risk in our Annual Report on Form 10-K for the fiscal year ended September 30, 2006.

As of June 30, 2007, we did not hold any stand-alone or separate derivative instruments. We incurred net foreign currency transaction gains or losses of less than \$0.1 million during the three months ended June 30, 2007 and 2006. As of June 30, 2007, our foreign subsidiaries had \$8.2 million of assets (cash and receivables) denominated in currencies other than the functional currency, primarily the U.S. dollar. As of June 30, 2007, we had \$5.4 million of accounts payable, consisting primarily of amounts owed by our foreign subsidiaries to our U.S. companies, denominated in U.S. dollars. Although the intercompany accounts are eliminated in consolidation, they reduce our foreign subsidiaries' net exposure to fluctuations in the value of the U.S. dollar to \$3.0 million. A 10% change in the value of the functional currency relative to the non-functional currency would result in net gains or losses of \$0.3 million. Our net investment in and long-term advances to our foreign operations totaled \$3.0 million as of June 30, 2007. A 10% change in the value of the Euro relative to the U.S. dollar would cause an approximately \$0.3 million foreign currency translation adjustment, a type of other comprehensive income (loss), which would be a direct adjustment to our stockholders' equity.

During the nine months ended June 30, 2007, our European operations transacted U.S. dollar denominated sales and purchases of \$4.2 million and \$2.9 million, respectively. As of June 30, 2007, sales commitments denominated in a currency other than the function currency of our transacting operation totaled \$3.9 million. Our lead-times to fulfill these commitments generally range between 13 and 20 weeks. A 10% change in the relevant exchange rates between the time the order was taken and the time of shipment would cause our gross profit on such orders to be approximately \$0.4 million greater than or less than expected on the date the order was taken.

#### ITEM 4. CONTROLS AND PROCEDURES

##### *Disclosure Controls and Procedures*

Our management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), has carried out an evaluation of the effectiveness of our disclosure controls and procedures as of June 30, 2007, pursuant to Exchange Act Rules 13a-15(e) and 15(d)-15(e). Based upon that evaluation, our CEO and CFO have concluded that as of such date, our disclosure controls and procedures in place are effective.

##### *Changes in Internal Control Over Financial Reporting*

There has been no change in Amtech's internal control over financial reporting during the third quarter of fiscal 2007 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

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## PART II. OTHER INFORMATION

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

#### **Election of Directors**

At our annual shareholders' meeting, which was held on May 18, 2007, all nominees standing for election as directors were elected to serve for one year terms or until their successors are elected and qualified. The following chart indicates the number of votes cast for and the number of votes withheld with respect to each nominee for director:

Nominee(1)	For	Withheld
Jong S. Whang	5,780,330	23,485
Michael Garnreiter	5,665,396	138,419

Alfred W. Giese	5,777,933	25,882
Brian L. Hoekstra	5,778,022	25,793
Robert F. King	5,777,933	25,882

(1) Abstentions were not counted in the election of the directors.

### Approval of 2007 Employee Stock Incentive Plan

The Company's 2007 Employee Stock Incentive Plan was approved by a majority of the votes cast on the proposal, with 1,603,318 shares voted for, 207,308 shares voted against and 172,715 shares withholding their vote.

### Item 6. Exhibits

10.1	Employment Agreement with J.S. Whang dated April 13, 2007	**
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as Amended	*
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as Amended	*
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	*
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	*

\* Filed herewith.

\*\* Incorporated by reference to Amtech's Quarterly Report on Form 10-Q for the quarterly period ended on March 31, 2007.

25

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### SIGNATURES

Pursuant to the requirements 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.

AMTECH SYSTEMS, INC.

By /s/ Robert T. Hass  
 Robert T. Hass  
 Chief Accounting Officer  
 (Principal Accounting Officer)

Dated: August 14, 2007

26

**EXHIBIT INDEX**

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