

AMTECH SYSTEMS INC
Form 10-Q
May 14, 2008

**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: March 31, 2008

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

Edgar Filing: AMTECH SYSTEMS INC - Form 10-Q

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller Reporting Company

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

Shares of Common Stock outstanding as of May 5, 2008: 9,080,048

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

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Condensed Consolidated Financial Statements	
Condensed Consolidated Balance Sheets	
March 31, 2008 (Unaudited) and September 30, 2007	3
Condensed Consolidated Statements of Operations (Unaudited)	
Three and Six Months Ended March 31, 2008 and 2007	5
Condensed Consolidated Statements of Cash Flows (Unaudited)	
Six Months Ended March 31, 2008 and 2007	6
Notes to Condensed Consolidated Financial Statements (Unaudited)	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	
Caution Regarding Forward-Looking Statements	17
Overview	18
Results of Operations	18
Liquidity and Capital Resources	22
Off-Balance Sheet Arrangements	23
Contractual Obligations	23
Critical Accounting Policies	23
Impact of Recently Issued Accounting Pronouncements	25
Item 3. Quantitative and Qualitative Disclosures About Market Risk	26
Item 4. Controls and Procedures	26
PART II. OTHER INFORMATION	
Item 4. Submission of Matters to a Vote of Security Holders	27
Item 6. Exhibits	27
SIGNATURES	28
EXHIBIT INDEX	29

PART I FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements

AMTECH SYSTEMS, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(in thousands except share data)

	March 31,	September 30,
	2008	2007
	(Unaudited)	
Assets		
Current Assets		
Cash and cash equivalents	\$ 37,848	\$ 18,370
Restricted cash	-	443
Accounts receivable		
Trade (less allowance for doubtful accounts of \$195 and \$126 at March 31, 2008 and September 30, 2007, respectively)	13,618	9,952
Unbilled and other	3,859	3,127
Inventories	16,570	7,289
Deferred income taxes	2,768	1,690
Other	2,558	1,339
Total current assets	77,221	42,210
Property, Plant and Equipment - Net	8,559	6,245
Deferred Income Taxes - Long Term	-	30
Intangible Assets - Net	4,284	1,364
Goodwill	3,098	817
Restricted cash - non-current	1,631	-
Total Assets	\$ 94,793	\$ 50,666

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

3

AMTECH SYSTEMS, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(in thousands except share data)

	March	September
	31,	30,
	2008	2007
	(Unaudited)	
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	\$ 8,700	\$ 4,150
Bank loans and current maturities of long-term debt	217	224
Accrued compensation and related taxes	2,722	2,139
Accrued warranty expense	591	256
Deferred profit	2,575	2,144
Customer deposits	2,732	1,824
Other accrued liabilities	1,200	562
Income taxes payable	517	419
Total current liabilities	19,254	11,718

3

Income Taxes Payable Long-term	436	-
Deferred Income Taxes Long-term	931	-
Long-Term Obligations	355	744
Total liabilities	20,976	12,462
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock; 100,000,000 shares authorized; none issued	-	-
Common stock; \$0.01 par value; 100,000,000 shares authorized; shares issued and outstanding: 9,074,298 and 6,517,923 at March 31, 2008 and September 30, 2007	91	65
Additional paid-in capital	69,762	35,610
Accumulated other comprehensive income	2,311	813
Retained Earnings	1,653	1,716
Total stockholders' equity	73,817	38,204
Total Liabilities and Stockholders' Equity	\$ 94,793	\$ 50,666

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

4

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2008	2007	2008	2007
Revenues, net of returns and allowances	\$ 17,591	\$ 10,539	\$ 29,332	\$ 19,990
Cost of sales	13,464	7,671	21,645	14,730
Gross profit	4,127	2,868	7,687	5,260
Selling, general and administrative	3,966	2,417	7,268	4,636
Research and development	243	141	476	259
Operating income (loss)	(82)	310	(57)	365
Interest and other income (expense), net	348	122	501	143
Income before income taxes	266	432	444	508
Income tax expense	105	170	175	240
Net income	\$ 161	\$ 262	\$ 269	\$ 268
Earnings Per Share:				
Basic earnings per share	\$ 0.02	\$ 0.05	\$ 0.03	\$ 0.06

Edgar Filing: AMTECH SYSTEMS INC - Form 10-Q

Weighted average shares outstanding	9,072	5,193	8,350	4,325
Diluted earnings per share	\$ 0.02	\$ 0.05	\$ 0.03	\$ 0.06
Weighted average shares outstanding	9,185	5,255	8,501	4,371

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

5

AMTECH SYSTEMS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements Of Cash Flows
(Unaudited)
(in thousands)

	Six Months Ended March 31,	
	2008	2007
Operating Activities		
Net income	\$ 269	\$ 268
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	700	329
Deferred income taxes	(653)	(560)
Non-cash share based compensation expense	229	110
Other	167	103
Changes in operating assets and liabilities:		
Accounts receivable	(949)	(1,112)
Inventories	(6,639)	(2,690)
Accrued income taxes	107	272
Prepaid expenses and other assets	(759)	(299)
Accounts payable	2,821	344
Accrued liabilities and customer deposits	787	1,883
Deferred profit	(185)	(46)
Net cash used in operating activities	(4,105)	(1,398)
Investing Activities		
Purchases of property, plant and equipment	(1,873)	(3,240)
Increase in restricted cash	463	-
Investment in R2D	(8,047)	-
Net cash used in investing activities	(9,457)	(3,240)
Financing Activities		
Proceeds from issuance of common stock, net	33,869	19,403
Payments on long-term obligations	(635)	(103)
Borrowings on long-term obligations	-	355
Net short term borrowings (payments)	-	(111)
Excess tax benefit of stock options	80	-
Net cash provided by financing activities	33,314	19,544
Effect of Exchange Rate Changes on Cash	(274)	(146)
Net Increase in Cash and Cash Equivalents	19,478	14,760

Cash and Cash Equivalents, Beginning of Period	18,370	6,433
Cash and Cash Equivalents, End of Period	\$ 37,848	\$ 21,193

Supplemental Cash Flow Information:

Interest paid	\$ 178	\$ 107
Income tax payments	\$ 747	\$ 529

AMTECH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE AND SIX MONTHS ENDED MARCH 31, 2008 AND 2007
(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 solar cells, semiconductors and wafers of various materials, primarily for the semiconductor 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 our Annual Report on Form 10-K for the fiscal year ended September 30, 2007.

The consolidated results of operations for the three and six month periods ended March 31, 2008, are not necessarily indicative of the results to be expected for the full year.

Use of Estimates □ The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. The full amount of revenue and costs of new technology shipments is recognized upon the completion of installation at the customers' premises and acceptance of the product by the customer.

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.

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:

	March 31, 2008	September 30, 2007
	(dollars in thousands)	
Deferred revenues	\$ 3,642	\$ 3,894
Deferred costs	1,067	1,750
Deferred profit	\$ 2,575	\$ 2,144

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 solar cells, semiconductors, semiconductor wafers, and MEMS 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 March 31, 2008, accounts receivable from one customer accounted for 34% of total accounts receivable.

Restricted Cash □ Current restricted cash of \$0.4 million as of September 30, 2007 consists of bank guarantees of certain customer deposits in excess of our European line of credit. As of March 31, 2008 bank guarantees did not exceed our line of credit.

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 customer acceptance. The majority of these amounts are offset by balances included in deferred profit.

Inventories □ Inventories are stated at the lower of cost or net realizable value. Cost for approximately 50% of inventory are determined on an average cost basis with the remainder determined on a first-in, first-out (FIFO) basis. The components of inventories are as follows:

	March 31, 2008	September 30, 2007
	(dollars in thousands)	
Purchased parts and raw materials	\$ 9,701	\$ 5,291
Work-in-process	6,008	1,456
Finished goods	861	542
	\$ 16,570	\$ 7,289

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

Edgar Filing: AMTECH SYSTEMS INC - Form 10-Q

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.

The following is a summary of property, plant and equipment:

8

	March 31, 2008	September 30, 2007
	(dollars in thousands)	
Land, building and leasehold improvements	\$ 7,104	\$ 5,105
Equipment and machinery	3,658	2,874
Furniture and fixtures	3,069	2,570
	13,831	10,549
Accumulated depreciation and amortization	(5,272)	(4,304)
	\$ 8,559	\$ 6,245

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 2 to 15 years if the life is determinable. If the life is not determinable, amortization is not recorded.

On October 8, 2007, the Company acquired, through its wholly-owned subsidiary, Tempres Holding B.V., 100% of the voting equity, in R2D Ingenierie, or R2D, a solar cell and semiconductor automation equipment manufacturing company, located near Montpellier, France.

The intangible assets of R2D principally consist of intellectual property and technology, reseller relationships, customer contracts, trademarks and non-compete agreements totaling \$3.2 million. The valuation of the intangible assets is preliminary and dependent upon final valuation analysis which will be determined with the assistance of an independent third-party consultant. The fair value of intangible assets was determined by a valuation approach that estimates the future economic benefit stream of the asset. This benefit stream was then discounted to present value with an appropriate risk-adjusted discount rate. See Note 9, Acquisition, for detail of the intangible assets acquired.

The following is a summary of intangibles:

	Useful Life	March 31, 2008	September 30, 2007
		(dollars in thousands)	
Trademarks	Indefinite	\$ 592	\$ 592
Non-compete agreements	8-10 years	526	350
Customer lists	10-15 years	1,492	276
Technology	4-10 years	1,674	102
Licenses	10 years	300	300
Backlog and other	1-2 years	226	-
		4,810	1,620
Accumulated amortization		(526)	(256)

\$4,284	\$ 1,364
---------	----------

Restricted Cash – Non-current Restricted cash – non-current consists of cash in an escrow account related to contingent payments to be paid to the sellers of R2D upon fulfillment of certain requirements. The amount of future contingent payments earned will be allocated to goodwill.

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:

9

	Six Months Ended March 31,	
	2008	2007
	(dollars in thousands)	
Beginning balance	\$ 256	\$ 289
Warranty expenditures	(262)	(51)
Provision	350	43
Acquired through business acquisitions	247	-
Ending balance	\$ 591	\$ 281

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 stock-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	396,187	72,313	Apr. 2017
1998 Employee Stock Option Plan	500,000	-	356,615	Jan. 2008
Non-Employee Directors Stock Option Plan	200,000	58,600	69,000	Jul. 2015
		454,787	497,928	

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2008	2007	2008	2007
	(dollars in thousands, except per share amounts)			
Effect on income before income taxes (1)	\$ (128)	\$ (77)	\$ (229)	\$ (110)

Edgar Filing: AMTECH SYSTEMS INC - Form 10-Q

Effect on net income	\$ (104)	\$ (68)	\$ (193)	\$ (96)
Effect on basic income per share	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.02)
Effect on diluted income per share	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.02)

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

Qualified 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 2018. Under the terms of the 1998 Employee Stock Option Plan, nonqualified stock options may also be issued. Options issued by the Company vest over 1 to 5 years.

Stock option transactions and the options outstanding are summarized as follows:

10

	Six Months Ended March 31,			
	2008		2007	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of period	450,303	\$ 6.44	308,384	\$ 5.95
Granted	105,000	14.08	156,250	7.01
Exercised	(56,375)	5.22	(2,550)	3.15
Forfeited	(1,000)	7.00	(1,500)	7.00
Outstanding at end of period	497,928	\$ 8.19	460,584	\$ 6.32
Exercisable at end of period	265,726	\$ 6.48	251,007	\$ 5.97
Weighted average fair value of options granted during the period	\$ 8.23		\$ 4.57	

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

	Six Months Ended March 31,	
	2008	2007
Risk free interest rate	3.27%	4.69%
Expected life	6 years	6 years
Dividend rate	0%	0%
Volatility	61%	68%
Forfeiture rate	9%	7%

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.

There were 20,000 and 105,000 options granted during the three and six months ended March 31, 2008, respectively; and 86,250 and 156,250 options granted for the comparable periods of fiscal 2007. Total fair value of options granted was approximately \$124,000 and \$864,000 for the three and six months ended March 31 2008, respectively; and \$391,000 and \$714,000 for the comparable periods of fiscal 2007.

In December 2007, we began awarding restricted shares under the existing share-based compensation plans. Our restricted share-awards vest in equal annual installments over a four-year period. The total value of these awards is expensed on a ratable basis over the service period of the employees receiving the grants. The "service period" is the time during which the employees receiving grants must remain employees for the shares granted to fully vest. There were 31,500 restricted share awards granted during the six months ended March 31, 2008 with a fair value of \$14.79 per share and a total fair value of \$466,000. There were no restricted shares that vested or were cancelled in the six months ended March 31, 2008.

Impact of Recently Issued Accounting Pronouncements

In March 2008, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities" an amendment of FASB Statement No. 133 ("SFAS No. 161"). SFAS No. 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. At this time, the Company does not expect the adoptions of SFAS 161 to have an impact on its consolidated financial statements. SFAS No. 161 is effective for the Company's quarter beginning January 1, 2009.

2. Income Taxes

The quarterly income tax provision is calculated using an estimated annual effective tax rate, based upon expected annual income, permanent items, statutory tax rates and planned tax strategies in the various jurisdictions in which the Company operates.

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. Statement of Financial Accounting Standards ("SFAS") No. 109 "Accounting for Income Taxes" requires recognition of a valuation allowance 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 quarter ended December 31, 2007, the valuation allowance was increased by \$107,000 for net operating losses in certain state and foreign jurisdictions that may not be recovered.

The cumulative effect of the application of the provisions of FIN 48 as of October 1, 2007 resulted in the recognition of an additional tax liability of \$332,000 for uncertain tax positions and a decrease in the October 1, 2007 balance of retained earnings of an equal amount. Upon the adoption of FIN 48, the Company classified uncertain tax positions as non-current income taxes payable unless expected to be paid within one year. The Company intends to maintain a valuation allowance until evidence supports the conclusion that it is more likely than not that the deferred tax asset will be realized. The amount of the valuation allowance at March 31, 2008 and October 1, 2007 was \$560,000 and \$453,000, respectively. At March 31, 2008, and October 1, 2007, the total amount of unrecognized tax benefits was \$436,000 and \$409,000 if recognized these amounts would favorably impact the effective tax rate.

The Company recognizes interest accrued related to unrecognized tax benefits and penalties in the provision for income taxes. As of March 31, 2008, \$132,000 was accrued for the payment of interest and penalties.

The Company and one or more of its subsidiaries file income tax returns in The Netherlands, Germany, the U.S., France and other foreign jurisdictions, as well as various states in the U.S. The Company and its subsidiaries have open tax years primarily from fiscal year 2002 to fiscal 2007 with taxing foreign jurisdictions and the U.S. These open years contain certain matters that could be subject to differing interpretations of applicable tax laws and regulations as they relate to the amount, timing, or inclusion of revenues and expenses, or the sustainability

of income tax positions of the Company and its subsidiaries.

3. Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income 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.

Common shares relating to stock options where the exercise prices exceeded the average market price of our common shares during the period were excluded from the diluted earnings per share calculation as the related impact was antidilutive. For the three and six months ended March 31, 2008, options for 115,000 and 131,625 shares, respectively, are excluded from the diluted EPS calculations because they are antidilutive. For the three and six months ended March 31, 2008, restricted stock awards of 31,500 are excluded from the diluted EPS calculations because they are antidilutive. For the three and six months ended March 31, 2007, options for 20,000 and 39,100 shares, respectively, are excluded from the diluted EPS calculations because they are antidilutive.

12

	Three Months Ended March 31,		Six Months Ended March 31,	
	2008 (in thousands, except per share amounts)	2007 (in thousands, except per share amounts)	2008 (in thousands, except per share amounts)	2007 (in thousands, except per share amounts)
Basic Earnings Per Share Computation				
Net income available to common stockholders	\$ 161	\$ 262	\$ 269	\$ 268
Weighted Average Shares Outstanding:				
Common stock	9,072	5,193	8,350	4,325
Basic earnings per share	\$ 0.02	\$ 0.05	\$ 0.03	\$ 0.06
Diluted Earnings Per Share Computation				
Net income	\$ 161	\$ 262	\$ 269	\$ 268
Weighted Average Shares Outstanding:				
Common stock	9,072	5,193	8,350	4,325
Common stock equivalents (1)	113	62	151	46
Diluted shares	9,185	5,255	8,501	4,371
Diluted earnings per share	\$ 0.02	\$ 0.05	\$ 0.03	\$ 0.06

(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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2008 (dollars in thousands)	2007 (dollars in thousands)	2008 (dollars in thousands)	2007 (dollars in thousands)
Net income, as reported	\$ 161	\$ 262	\$ 269	\$ 268
Foreign currency translation adjustment	1,352	20	1,498	99
Comprehensive income	\$ 1,513	\$ 282	\$ 1,767	\$ 367

5. Business Segment Information

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

13

Information concerning our business segments is as follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2008 (dollars in thousands)	2007 (dollars in thousands)	2008 (dollars in thousands)	2007 (dollars in thousands)
Net Revenues:				
Solar and semiconductor equipment	\$ 15,608	\$ 8,234	\$ 25,605	\$ 15,755
Polishing supplies	1,983	2,305	3,727	4,235
	\$ 17,591	\$ 10,539	\$ 29,332	\$ 19,990
Operating Income (loss):				
Solar and semiconductor equipment	\$ (392)	\$ (126)	\$ (510)	\$ (380)
Polishing supplies	310	436	453	745
	(82)	310	(57)	365
Interest and other income (expense), net	348	122	501	143
Income before income taxes	\$ 266	\$ 432	\$ 444	\$ 508
Identifiable Assets:				
			March 31,	September 30,
			2008	2007
			(dollars in thousands)	
Solar and semiconductor equipment			\$ 89,701	\$ 46,283
Polishing supplies			5,092	4,383
			\$ 94,793	\$ 50,666

6. Major Customers and Foreign Sales

During the three months ended March 31, 2008, two customers represented 20% and 18% of net revenues, individually. During the six months ended March 31, 2008, two customers represented 18% and 13% of net revenues, individually. During the three and six months ended March 31, 2007, one customer represented 15% and 14% of net revenues, respectively.

Our net revenues were to customers in the following geographic regions:

	Six Months Ended March 31,	
	2008	2007
North America (1)	17%	32%
Asia (2) (3)	59%	46%
Europe	24%	22%

- (1) Includes 17% and 31% to the United States in 2008 and 2007, respectively
 (2) Includes 34% and 13% to China in 2008 and 2007, respectively.
 (3) Includes 12% and 19% to Taiwan in 2008 and 2007, respectively.

7. Commitments and Contingencies

Purchase Obligations □ As of March 31, 2008, we had purchase obligations in the amount of \$14.0 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 November 2007, the Company filed registration statements on Form S-1 with the Securities and Exchange Commission for the sale of 2,500,000 shares of its common stock in an underwritten public offering at a price to the public of \$14.41 per share. Net proceeds to the Company were approximately \$33.6 million, net of approximately \$0.3 million of offering expenses and \$2.2 million of underwriting commissions. We intend to use the net proceeds from this offering for working capital and other general corporate purposes. Pending application of these proceeds, we intend to invest the net proceeds in short-term, interest bearing investment grade securities. The Company received \$0.3 million from the exercise of stock options during the six months ended March 31, 2008.

9. Acquisition

Effective October 1, 2007, the Company acquired, through its wholly-owned subsidiary, Tempress Holding B.V., 100% of the voting equity, in R2D Ingenierie, or R2D, a solar cell and semiconductor automation equipment manufacturing company, located near Montpellier, France. R2D provides solutions to the solar and semiconductor industries. The purpose of the acquisition was to expand the Company's automation products which are used in the semiconductor manufacturing and solar diffusion processes. The acquisition of the technology and business of R2D enhances the growth strategy by allowing the Company to increase sales by offering an integrated system under the Tempress brand to the solar industry.

The aggregate purchase price is based on the cash consideration paid at closing of \$5.5 million plus acquisition costs of \$0.9 million, including cost of legal representation and due diligence. Cash contingent payments of \$1.6 million to be paid to sellers upon fulfillment of certain requirements have been deposited in an escrow account. The amount of future contingent payments earned will be allocated to goodwill. The assets of R2D principally consist of intellectual property and technology, reseller relationships, customer contracts, trademarks, non-compete agreements, inventories and other tangible property used in connection with the acquired business. Liabilities assumed include current liabilities, loans, obligations under certain contracts, leases, purchase orders and warranty claims for certain products and services under warranty as of the date of the acquisition.

The valuation of acquired assets is preliminary and dependent upon final valuation of assets acquired, including valuation of intangible assets which will be determined with the assistance of an independent third-party consultant. The fair value of intangible assets will be determined by a valuation approach that estimates the future economic benefit stream of the asset. This benefit stream will be discounted to present value with an appropriate risk-adjusted discount rate.

The allocation of the purchase price to the fair value of the assets acquired and liabilities assumed at the date of acquisition is as follows (dollars in thousands):

		Useful Life
Assets Acquired:		
Current Assets	\$ 4,590	
Property, plant & equipment	234	
Intangible assets:		
Non-compete agreements	176	8 years
Customer lists	1,216	10 years
Technology	1,572	10 years
Backlog and other	226	1-10 years

Goodwill	2,282
Total assets acquired	10,296
Liabilities Assumed:	
Current Liabilities	2,413
Long-term liabilities	1,218
Total liabilities assumed	3,631
Net assets acquired	\$ 6,665

15

The following consolidated pro forma financial information was prepared assuming that the acquisition had occurred at the beginning of the six months ended March 31, 2007. This pro forma information does not necessarily reflect the results of operations that would have occurred had the acquisition taken place at the beginning of the period and is not necessarily indicative of results that may be obtained in the future (unaudited):

	Three Months Ended March 31,	Six Months Ended March 31,
	2007	2007
	(dollars in thousands, except per share amounts)	
Revenues	\$ 11,077	\$ 22,060
Net income	\$ 296	\$ 502
Net income per share:		
Basic	\$ 0.06	\$ 0.12
Diluted	\$ 0.06	\$ 0.12

For purposes of the above pro forma presentation, the historical revenues and earnings of R2D for the three and six months ended March 31, 2007 have been combined with the revenues and earnings of Amtech for the three and six months ended March 31, 2007.

10. Subsequent Event

In April 2008, Amtech adopted a plan to reduce costs at its Bruce Technologies division which has been affected by the slowdown in the semiconductor industry. Certain personnel were notified of their termination of employment. The restructuring charge is estimated to be approximately \$360,000 and will be recorded in the results of the third quarter of fiscal 2008.

16

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 Financial Statement" 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, 2007.

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 solar and semiconductor 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, 2007, 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 solar and semiconductor equipment segment and the polishing supplies segment. Our solar and semiconductor equipment segment is a leading supplier of thermal processing systems, including related automation, parts and services, to the solar/photovoltaic, semiconductor, silicon wafer and MEMS industries.

Our polishing supplies and equipment 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 for fabricators of optics, quartz, ceramics and metal parts, and for manufacturers of medical equipment components.

Edgar Filing: AMTECH SYSTEMS INC - Form 10-Q

Our customers are primarily manufacturers of solar cells and integrated circuits. The solar cell and semiconductor 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, our revenues, gross margins and operating results have historically fluctuated on a quarterly basis. Our contracts typically include holdbacks of 10-20% of revenue, which are recognized at the time of customer acceptance.

Results of Operations

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

	Three Months Ended		Six Months Ended	
	March 31, 2008	March 31, 2007	March 31, 2008	March 31, 2007
Net revenue	100%	100%	100%	100%
Cost of goods sold	77%	73%	74%	74%
Gross margin	23%	27%	26%	26%
Operating expenses:				
Selling, general and administrative	22%	23%	24%	23%
Research and Development	1%	1%	2%	1%
Total operating expenses	23%	24%	26%	24%
Income (loss) from operations	(0%)	3%	(0%)	2%
Interest and other income (expense), net	2%	1%	1%	0%
Income before income taxes	2%	4%	1%	2%
Income taxes	1%	2%	0%	1%
Net Income	1%	2%	1%	1%

Net Revenue

Net revenue consists of 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 system sales. Timing of shipment, installation and customer acceptance can have a significant impact on our revenue and earnings in any given period. See Critical Accounting Policies □ Revenue Recognition.

	Three Months Ended				Six Months Ended			
	March 31, 2008	March 31, 2007	Inc. (Dec)	%	March 31, 2008	March 31, 2007	Inc. (Dec)	%
Net Revenue	(dollars in thousands)				(dollars in thousands)			
Solar and Semiconductor								
Equipment Segment	\$ 15,608	\$ 8,234	\$ 7,374	90%	\$ 25,605	\$ 15,755	\$ 9,850	63%
Polishing Supplies Segment	1,983	2,305	(322)	(14%)	3,727	4,235	(508)	(12%)
Total	\$ 17,591	\$ 10,539	\$ 7,052	67%	\$ 29,332	\$ 19,990	\$ 9,342	47%

Net revenue for the quarter ended March 31, 2008 increased by \$7.1 million, or 67%, compared to the quarter ended March 31, 2007. Revenue from the Solar and Semiconductor Equipment Segment increased \$7.4 million, or 90%, due to significantly higher shipments to the solar industry, partially offset by decreased shipments to the

semiconductor industry. The growth in solar shipments was driven by the continuing increase in demand for solar products from our customers and the success of our increased marketing and sales efforts in penetrating the solar market. The decrease in net revenue from the semiconductor industry was due primarily to the overall cyclical downturn in the semiconductor industry. The decrease of \$0.3 million, or 14%, in net revenue from the Polishing Supplies Segment was due primarily to lower insert carrier and polishing machines caused by higher competition in the insert carrier market and the current downturn in the semiconductor industry.

Net revenue for the six months ended March 31, 2008 increased by \$9.3 million, or 47%, compared to the six months ended March 31, 2007. Revenue from the Solar and Semiconductor Equipment Segment increased \$9.9 million, or 63%, due to higher solar product revenues, partially offset by decreased revenues to the semiconductor industry. The decrease of \$0.5 million, or 12%, in net revenue from the Polishing Supplies Segment is due to the factors discussed above.

The following table reflects new orders ⁽¹⁾, shipments and net revenues for the second quarter of 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.

	Second Quarter			Year-to-Date		
	Solar and Semi- conductor Equipment	Polishing Supplies Segment (dollars in thousands)	Total Company	Solar and Semi- conductor Equipment	Polishing Supplies Segment (dollars in thousands)	To Com
2008:						
New orders (1)	\$ 28,757	\$ 3,062	\$ 31,819	\$ 63,842	\$ 5,003	\$
Shipments	15,387	1,963	17,350	24,477	3,731	
Net revenues	15,608	1,983	17,591	25,605	3,727	
R2D purchased	-	-	-	1,779	-	
Backlog 3/31/2008	61,999	2,159	64,158	61,999	2,159	
Book-to-bill ratio	1.9:1	1.6:1	1.8:1	2.6:1	1.3:1	
2007						
New orders (1)	\$ 6,880	\$ 1,647	\$ 8,527	\$ 18,457	\$ 4,126	\$
Shipments	7,837	2,303	10,140	15,872	4,235	
Net revenues	8,234	2,305	10,539	15,755	4,235	
Backlog 3/31/2007 (2)	15,316	876	16,192	15,316	876	
Book-to-bill ratio	0.9:1	0.7:1	0.8:1	1.2:1	1.0:1	

- (1) Orders are net of cancellations and include the change in the U.S. dollar value of orders recorded in euros by our solar and semiconductor equipment segment.
- (2) The solar and semiconductor equipment segment backlog as of March 31, 2007 includes \$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 March 31, 2008 and 2007 was \$64.2 million and \$16.2 million, respectively, a 296% increase. Our backlog as of March 31, 2008 includes approximately \$52.6 million of orders from our solar industry customers compared to \$7.3 million of orders from our solar industry customers at March 31, 2007. The orders included in our backlog are generally credit approved customer purchase orders expected to ship within the next 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 and factory and field support to customers for warranty, installation and paid service calls. In addition, the cost of outsourcing the assembly or manufacturing of certain systems and subsystems to third parties and supplemental contract field service is included in cost of goods sold.

Gross profit	Three Months Ended				Six Months Ended			
	March 31, 2008	March 31, 2007	Inc. (Dec)	%	March 31, 2008	March 31, 2007	Inc. (Dec)	%
	(dollars in thousands)				(dollars in thousands)			
Solar and Semiconductor Equipment Segment	\$ 3,455	\$ 2,040	\$ 1,415	69%	\$ 6,514	\$ 3,775	\$ 2,739	73%
Polishing Supplies Segment	672	828	(156)	(19%)	1,173	1,485	(312)	(21%)
Total	\$ 4,127	\$ 2,868	\$ 1,259	44%	\$ 7,687	\$ 5,260	\$ 2,427	46%
Gross margin	23%	27%			26%	26%		

Gross profit for the quarter ended March 31, 2008 increased \$1.3 million or 44% from \$2.9 million in the second quarter of fiscal 2007 to \$4.1 million in the second quarter of fiscal 2008. Gross margin in the second quarter was 23% compared to 27% in the second quarter of fiscal 2007, reflecting the net impact of deferred revenue and deferred profit activity during the second quarter, which included the recognition of \$1.1 million of deferred revenue with no gross profit because there was an equal amount of revenue and cost previously deferred. Lower capacity utilization at Bruce Technologies also negatively impacted margins during the second quarter along with a ramp up of production personnel at our Tempress and R2D facilities. Excluding the net impact of deferred revenue and profit activity, gross margin in the solar and semiconductor equipment segment improved in the second quarter compared to the same quarter in the prior year, primarily due to higher shipment volumes. Gross profit and margins in the polishing supplies segment decreased due to lower revenues and increased competition in the insert carrier market.

Gross profit for the six months ended March 31, 2008 increased \$2.4 million or 46% from \$5.3 million in the first half of fiscal 2007 to \$7.7 million in the first half of fiscal 2008. Gross margin was 26% in both periods. As discussed above, in the second quarter of fiscal 2008 we recognized \$1.1 million of previously deferred revenue with no gross profit. Excluding this negative effect, gross margins improved in the first half of fiscal 2008 when compared to the first half of fiscal 2007. This improvement resulted mainly from the efficiencies realized in the second quarter of fiscal 2008 as discussed above.

Selling, General and Administrative

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

Selling, general and administrative	Three Months Ended				Six Months Ended			
	March 31, 2008	March 31, 2007	Inc. (Dec)	%	March 31, 2008	March 31, 2007	Inc. (Dec)	%
	(dollars in thousands)				(dollars in thousands)			
Solar and Semiconductor Equipment Segment	\$ 3,604	\$ 2,026	\$ 1,578	78%	\$ 6,547	\$ 3,896	\$ 2,651	68%
Polishing Supplies Segment	362	391	(29)	(7%)	721	740	(19)	(3%)
Total	\$ 3,966	\$ 2,417	\$ 1,549	64%	\$ 7,268	\$ 4,636	\$ 2,632	57%
Percent of net revenue	23%	23%			24%	23%		

Selling, general and administrative (SG&A) expenses for the quarter ended March 31, 2008 increased \$1.5 million, or 64%, from \$2.4 million to \$4.0 million compared to the quarter ended March 31, 2007. The increase was due primarily to \$0.6 million of increased selling expense for higher revenues generated in regions where

Edgar Filing: AMTECH SYSTEMS INC - Form 10-Q

third party sales agents are utilized. In addition, we incurred \$0.3 million of expense at R2D for which there were no comparable expenses in the prior year quarter. SG&A expenses include \$0.1 million of stock-based compensation expense in the quarters ended March 31, 2008 and 2007. The remainder of the increase in SG&A resulted from increased depreciation and operating costs for the new building in The Netherlands and increased personnel and consulting costs. The increased personnel and consulting costs include costs incurred to improve internal financial and operational reporting, to comply with the Sarbanes-Oxley Act, and to implement improvements in operational efficiencies.

For the six months ended March 31, 2008, SG&A increased \$2.6 million or 57% compared to the six month period ended March 31, 2007. The increase reflects \$0.6 million of costs incurred by R2D in fiscal 2008 for which there were no comparable expenses in the prior year period. Selling expenses increased \$1.0 million due to increased commissions and increased sales and marketing activity. As previously discussed, personnel costs and professional fees, including costs related to moving our Netherlands operations into our new building, increased as we continued to execute our growth strategies and manage the increasing compliance obligations of a growing multi-national public company.

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. .

Research and Development	Three Months Ended				Six Months Ended		
	March 31, 2008	March 31, 2007	Inc. (Dec)	%	March 31, 2008	March 31, 2007	Inc. (Dec)
	(dollars in thousands)				(dollars in thousands)		
Solar and Semiconductor Equipment Segment	\$ 243	\$ 141	\$ 102	72%	\$ 476	\$ 259	\$ 217
Polishing Supplies Segment	-	-	-	0%	-	-	-
Total	\$ 243	\$ 141	\$ 102	72%	\$ 476	\$ 259	\$ 217

Research and development costs for the three and six months ended March 31, 2008 increased \$0.1 million and \$0.2 million, respectively compared to the three and six-month periods ended March 31, 2007. The increase results from increased focus on the solar industry and reflects our partnering-based approach, in which our engineering and development teams work closely with our customers to ensure our products are tailored to meet our customers' specific requirements while at the same time minimizing research and development costs.

Interest and other income (expense), net

Interest and other income (expense), net includes mainly interest income, interest expense and gains and losses on foreign currency transactions.

Interest and other income (expense), net	Three Months Ended			Six Months Ended		
	March 31, 2008	March 31, 2007	Inc. (Dec)	March 31, 2008	March 31, 2007	Inc. (Dec)
	(dollars in thousands)			(dollars in thousands)		
Interest and other income (expense), net	\$ 298	\$ 107	\$ 191	\$ 504	\$ 130	\$ 374
Foreign currency gains (losses)	50	15	35	(3)	13	(16)
Total	\$ 348	\$ 122	\$ 226	\$ 501	\$ 143	\$ 358

Interest income represents earnings on invested funds. Interest expense primarily consists of interest incurred on our overdraft facility, revolving line of credit, equipment financing, and amortization of debt issuance costs. Due to an increase in cash and cash equivalents raised in the secondary public offerings of common stock during the

second quarter of fiscal 2007 and the first quarter of fiscal 2008, net interest income increased by \$0.2 million and \$0.4 million, respectively during the three and six months ended March 31, 2008, from the comparable periods in fiscal 2007.

Income Taxes

During the three months ended March 31, 2008 and 2007 we recorded income tax provisions of \$0.1 million and \$0.2 million, respectively for an effective tax rate of 39% in both periods. During the six months ended March 31, 2008 and 2007, we recorded income tax provisions of \$0.2 million. The effective tax rates used for calculating the income tax provisions for the six months ended March 31, 2008 and 2007 were approximately 39% and 47%, respectively, based upon estimates of annual income, annual permanent differences, changes in the valuation allowance and statutory tax rates for fiscal 2008 and 2007, respectively, in the various jurisdictions in which we operate. . The effective tax rate for the six months ended March 31, 2007 was negatively impacted by permanent differences between financial income and taxable income, which were higher in relation to pre-tax income.

As a result of the application of the provisions of FIN 48 as of October 1, 2007, we recognized an additional tax liability of \$0.3 million for uncertain tax positions and a decrease in the October 1, 2007 balance of retained earnings of an equal amount. Upon the adoption of FIN 48, the Company classified uncertain tax positions as non-current income taxes payable unless expected to be paid within one year. The Company intends to maintain a valuation allowance for state and foreign net operating losses until evidence supports the conclusion that it is more likely than not that those deferred tax assets may be realized. The amount of the valuation allowance at March 31, 2008 and October 1, 2007 was \$0.6 million and \$0.5 million respectively.

Liquidity and Capital Resources

At March 31, 2008 and September 30, 2007, cash and cash equivalents and restricted cash were \$37.8 million and \$18.8 million, respectively. Our working capital increased \$27.5 million to \$58.0 million as of March 31, 2008, compared to \$30.5 million at September 30, 2007. Our ratio of current assets to current liabilities increased to 4.0:1 at March 31, 2008, from 3.6:1 at September 30, 2007. The increase in cash and cash equivalents and working capital and the improvement in the current ratio resulted primarily from the \$33.6 million of net proceeds after deducting expenses raised from the secondary public offering of common stock during November 2007. The increase was partially offset by \$8.0 million invested in the acquisition of R2D and capital expenditures made primarily to improve the manufacturing facility in The Netherlands, which increased the capacity of our solar and semiconductor equipment segment.

At March 31, 2008, our principal sources of liquidity consisted of \$37.8 million of cash and cash equivalents and the \$2.0 million in domestic credit facilities to provide additional liquidity to support future growth. 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 March 31, 2008. The Silicon Valley Bank line of credit expired in April, 2008 and was not immediately renewed.

We have a line of credit in the amount of Euro 1.0 million (approximately \$1.6 million) as of March 31, 2008. The line of credit accrues interest at a rate of 1.75% over a Netherlands bank's basic interest rate (5.5% as of March 31, 2008). The line of credit has no fixed expiration date. The line of credit is secured by trade account receivable in the Netherlands. As of March 31, 2008, bank guarantees in the amount of Euro 0.9 million were secured by this line of credit leaving Euro 0.1 million available. Effective May 1, 2008 the line of credit was reduced to Euro 0.6 million.

The success of our growth strategy is dependent upon the availability of additional capital resources on terms satisfactory to management. Our sources of capital in the past have included capital leases, long-term debt and the sale of equity securities, which include common and preferred stock sold in private transactions and public offerings. In the first quarter of fiscal 2008, we utilized approximately \$7.0 million of cash to acquire R2D Ingenierie and made a working capital infusion to R2D of \$1.0 million that was used to satisfy certain outstanding obligations. Cash of \$5.5 million was paid at closing plus acquisition costs of \$0.9 million, including cost of legal representation and due diligence. Cash contingent payments of \$1.6 million to be paid to sellers upon fulfillment of certain requirements have been deposited in an escrow account. R2D is a solar cell and semiconductor automation equipment manufacturing company located near Montpellier, France. Also, in the first quarter of fiscal 2008, we completed the sale of 2,500,000 shares of common stock in a public offering for \$14.41 per share.

The net proceeds of the sale of common stock after offering expenses and underwriting fees was approximately \$33.6 million. The availability of such capital resources in the future depends on the condition of the relevant debt or equity markets and our long-term and recent operating performance and financial condition. There can be no assurance that we can raise such additional capital resources on satisfactory terms. We intend to use the net proceeds from this offering for working capital and other general corporate purposes. Pending application of these proceeds, we intend to invest the net proceeds in short-term, interest bearing investment grade securities.

Cash Flows from Operating Activities

Cash used in our operating activities was \$4.1 million for the six months ended March 31, 2008, compared to \$1.4 million used in such activities for the six months ended March 31, 2007. During the six months ended March 31, 2008 cash was primarily used to finance increases in accounts receivable (0.9 million), inventory (\$6.6 million), prepaid and other assets (\$0.8 million) and deferred profit of (\$0.2 million). This use of cash was partially offset by increases in accounts payable of \$2.8 million and accrued liabilities and customer deposits of \$0.8 million.

Cash Flows from Investing Activities

Our investing activities for the six months ended March 31, 2008 and 2007 used \$9.5 million and \$3.2 million of cash, respectively. Our investing activities for the six months ended March 31, 2008 used \$8.0 million of cash in the acquisition of R2D. Capital expenditures of \$1.9 million resulted primarily from improvements to the new building in The Netherlands. Restricted cash decreased \$0.4 million. Restricted cash represents bank guarantees in excess of our available credit facility in The Netherlands. 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.

Cash Flows from Financing Activities

Cash provided by financing activities for the six months ended March 31, 2008 was \$33.3 million. Cash of \$33.6 million was provided by the sale of 2,500,000 shares of common stock in an underwritten public offering at a price to the public of \$14.41 per share. An additional \$0.3 million was provided by the exercise of stock options. These sources of cash were offset by the payment of long-term debt of \$0.6 million. In the second quarter of 2008, we paid the remaining balance of the mortgage on our building in Heerde, The Netherlands in the amount of \$0.5 million. This compares to \$19.5 million of cash provided by financing activities during the six months ended March 31, 2007 which primarily consists of the \$19.4 million, net of expenses, raised in the secondary public offering of the Company's common stock.

Off-Balance Sheet Arrangements

As of March 31, 2008, 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

The only significant changes in contractual obligations since the end of fiscal 2007 have been changes in purchase obligations and long-term debt (See Notes 1 and 7 of the Condensed Consolidated Financial Statements). Refer to Amtech's annual report on Form 10-K for the year ended September 30, 2007, 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 the Annual Report on Form 10-K for the year ended September 30, 2007. 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.