

AMTECH SYSTEMS INC
Form 10-Q
February 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: **December 31, 2006**

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 | 86-0411215 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 131 South Clark Drive, Tempe, Arizona | 85281 |
| (Address of principal executive offices) | (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.

YesNo

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).

YesNo

Shares of Common Stock outstanding as of February 7, 2007: 6,101,042

AMTECH SYSTEMS, INC. AND SUBSIDIARIES
TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| <u>PART I. FINANCIAL INFORMATION</u> | |
| <u>Item 1. Condensed Consolidated Financial Statements</u> | |
| <u>Condensed Consolidated Balance Sheets December 31, 2006 (Unaudited) and September 30, 2006</u> | 3 |
| <u>Condensed Consolidated Statements of Operations (Unaudited) Three Months Ended December 31, 2006 and 2005</u> | 4 |
| <u>Condensed Consolidated Statements of Cash Flows (Unaudited) Three Months Ended December 31, 2006 and 2005</u> | 5 |
| <u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u> | 6 |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | |
| <u>Caution Regarding Forward-Looking Statements</u> | 16 |
| <u>Overview</u> | 17 |
| <u>Results of Operations</u> | 17 |
| <u>Liquidity and Capital Resources</u> | 20 |
| <u>Off-Balance Sheet Arrangements</u> | 21 |
| <u>Contractual Obligations</u> | 21 |
| <u>Critical Accounting Policies</u> | 21 |
| <u>Impact of Recently Issued Accounting Pronouncements</u> | 23 |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | 24 |
| <u>Item 4. Controls and Procedures</u> | 24 |
| <u>PART II. OTHER INFORMATION</u> | |
| <u>Item 6. Exhibits</u> | 25 |
| <u>SIGNATURES</u> | 26 |
| <u>EXHIBIT INDEX</u> | 27 |

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

| | December 31, 2006 | September 30, 2006 |
|---|----------------------|-----------------------|
| | (Unaudited) | |
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 5,213 | \$ 6,433 |
| Accounts receivable | | |
| Trade (less allowance for doubtful accounts of \$232 and \$223 at December 31, 2006 and September 30, 2006, respectively) | 6,929 | 6,545 |
| Unbilled and other | 1,479 | 849 |
| Inventories | 6,051 | 4,979 |
| Deferred income taxes | 360 | |
| Other | 887 | 414 |
| | <hr/> | <hr/> |
| Total current assets | 20,919 | 19,220 |
| Property, Plant and Equipment - Net | 2,339 | 2,382 |
| Intangible Assets - Net | 1,122 | 1,144 |
| Goodwill | 817 | 817 |
| | <hr/> | <hr/> |
| Total Assets | \$ 25,197 | \$ 23,563 |
| | <hr/> | <hr/> |
| Liabilities and Stockholders' Equity | | |
| Current Liabilities | | |
| Accounts payable | \$ 3,037 | \$ 3,631 |
| Bank loans and current maturities of long-term debt | 260 | 258 |
| Accrued compensation and related taxes | 1,688 | 1,390 |
| Accrued warranty expense | 295 | 289 |
| Deferred profit | 1,453 | 1,071 |
| Customer deposits | 1,098 | |
| Other accrued liabilities | 301 | 379 |
| Income taxes payable | 461 | 319 |
| | <hr/> | <hr/> |
| Total current liabilities | 8,593 | 7,337 |
| Long-Term Obligations | 876 | 617 |
| | <hr/> | <hr/> |
| Total liabilities | 9,469 | 7,954 |
| 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: 3,476,042 at December 31, 2006 and September 30, 2006 | 35 | 35 |
| Additional paid-in capital | 15,808 | 15,774 |
| Accumulated other comprehensive income | 579 | 501 |
| Accumulated deficit | (694) | (701) |
| | <hr/> | <hr/> |
| Total stockholders' equity | 15,728 | 15,609 |
| | <hr/> | <hr/> |

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| | | | | |
|--|----|--------|----|--------|
| Total Liabilities and Stockholders Equity | \$ | 25,197 | \$ | 23,563 |
|--|----|--------|----|--------|

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

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

| | Three Months Ended December 31, | |
|--|--|---------------|
| | 2006 | 2005 |
| Revenues, net of returns and allowances | \$ 9,451 | \$ 7,915 |
| Cost of sales | 7,059 | 5,378 |
| Gross profit | 2,392 | 2,537 |
| Selling, general and administrative | 2,219 | 1,889 |
| Research and development | 118 | 170 |
| Operating income | 55 | 478 |
| Interest and other income (expense), net | 21 | 43 |
| Income before income taxes | 76 | 521 |
| Income tax provision | 70 | 50 |
| Net income | \$ 6 | \$ 471 |
| Earnings Per Share: | | |
| Basic income per share | \$ 0.00 | \$ 0.16 |
| Weighted average shares outstanding | 3,476 | 2,708 |
| Diluted income per share | \$ 0.00 | \$ 0.14 |
| Weighted average shares outstanding | 3,511 | 3,387 |

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)

| | Three Months Ended December 31, | |
|---|--|-----------------|
| | 2006 | 2005 |
| Operating Activities | | |
| Net income | \$ 6 | \$ 471 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 168 | 158 |
| Write-down of inventory | 43 | 57 |
| Deferred income taxes | (360) | |
| Non-cash share based compensation expense | 33 | 41 |
| Other | 17 | 1 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (813) | (1,901) |
| Inventories | (1,002) | (2,467) |
| Accrued income taxes | 132 | 421 |
| Prepaid expenses and other assets | (462) | 38 |
| Accounts payable | (677) | 2,191 |
| Accrued liabilities and customer deposits | 1,262 | 620 |
| Deferred profit | 351 | 722 |
| Net cash provided by (used in) operating activities | (1,302) | 352 |
| Investing Activities | | |
| Purchases of property, plant and equipment | (76) | (66) |
| Net cash used in investing activities | (76) | (66) |
| Financing Activities | | |
| Proceeds from issuance of common stock | | 35 |
| Preferred stock cash dividends paid | | (83) |
| Payments on long-term obligations | (114) | (3) |
| Borrowings on long-term obligations | 355 | |
| Net cash provided by (used in) financing activities | 241 | (51) |
| Effect of Exchange Rate Changes on Cash | (83) | (60) |
| Net Increase (Decrease) in Cash and Cash Equivalents | (1,220) | 175 |
| Cash and Cash Equivalents, Beginning of Period | 6,433 | 3,309 |
| Cash and Cash Equivalents, End of Period | \$ 5,213 | \$ 3,484 |
| Supplemental Cash Flow Information: | | |
| Interest paid | \$ 46 | \$ 23 |
| Income tax payments | \$ 299 | \$ 1 |
| Supplemental Non-cash Financing Activities: | | |
| Preferred stock dividend accrual | \$ | \$ 44 |

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

AMTECH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED DECEMBER 31, 2006 AND 2005
(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 our Annual Report on Form 10-K for the fiscal year ended September 30, 2006.

The consolidated results of operations for the three months ended December 31, 2006, 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 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.

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.

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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:

| | December 31, 2006 | September 30, 2006 |
|------------------------|------------------------|-----------------------|
| | (dollars in thousands) | |
| Deferred revenues | \$ 3,049 | \$ 2,493 |
| Deferred costs | (1,596) | (1,422) |
| Deferred profit | \$ 1,453 | \$ 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, 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 December 31, 2006, receivables from three customers individually accounted for 17%, 16%, and 10% 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:

| | December 31, 2006 | September 30, 2006 |
|-----------------------------------|------------------------|-----------------------|
| | (dollars in thousands) | |
| Purchased parts and raw materials | \$ 3,789 | \$ 3,400 |
| Work-in-process | 1,828 | 1,159 |
| Finished goods | 434 | 420 |
| | \$ 6,051 | \$ 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.

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

| | December 31, 2006 | September 30, 2006 |
|---|------------------------|-----------------------|
| | (dollars in thousands) | |
| Land, building and leasehold improvements | \$ 1,137 | \$ 1,094 |
| Equipment and machinery | 2,657 | 2,676 |
| Furniture and fixtures | 2,612 | 2,514 |
| | 6,406 | 6,284 |

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| | | |
|---|-----------------|-----------------|
| Accumulated depreciation and amortization | (4,067) | (3,902) |
| | <u>\$ 2,339</u> | <u>\$ 2,382</u> |

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.

The following is a summary of intangibles:

| | Useful Life | December 31, 2006 | September 30, 2006 |
|--------------------------|-------------|----------------------|-----------------------|
| (dollars in thousands) | | | |
| Patents | 7 years | \$ 74 | \$ 74 |
| Trademarks | Indefinite | 592 | 592 |
| Non-compete agreements | 10 years | 350 | 350 |
| Customer lists | 15 years | 276 | 276 |
| Technology | 4 years | 102 | 102 |
| | | 1,394 | 1,394 |
| Accumulated amortization | | (272) | (250) |
| | | \$ 1,122 | \$ 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:

| | Three Months Ended December 31, | |
|------------------------|---------------------------------|--------|
| | 2006 | 2005 |
| (dollars in thousands) | | |
| Beginning balance | \$ 289 | \$ 248 |
| Warranty expenditures | (16) | (18) |
| Provision | 22 | 23 |
| Ending balance | \$ 295 | \$ 253 |

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 will be repaid in sixty (60) equal monthly payments of \$7,000, which includes interest at 7.43% per annum.

Stock-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 has 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:

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| Name of Plan | Shares Authorized | Shares Available | Options Outstanding |
|---|----------------------|---------------------|------------------------|
| 1998 Employee Stock Option Plan | 500,000 | 84,237 | 343,634 |
| Amended and Restated 1995 Stock Option Plan and 1995 Stock Bonus Plan | 160,000 | | 2,750 |
| Non-Employee Directors Stock Option Plan | 200,000 | 101,600 | 32,000 |
| | | <u>185,837</u> | <u>378,384</u> |

Stock-based compensation expense recognized under SFAS 123 (R) reduced the Company's results of operations as follows:

| | Three Months Ended December 31, | |
|--------------------------------|---|---------|
| | 2006 | 2005 |
| | (dollars in thousands, except per share amounts) | |
| Income before income taxes (1) | \$ 33 | \$ 41 |
| Net income | \$ 28 | \$ 27 |
| Basic income per share | \$ 0.01 | \$ 0.01 |
| Diluted income per share | \$ 0.01 | \$ 0.01 |

(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 2016. Under the terms of the 1998 Employee Stock Option Plan, nonqualified stock options may also be issued. Options issued by the Company vest over 3 to 5 years.

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

| | Three Months Ended December 31, | | | |
|--|---------------------------------|---------------------------------------|----------------|---------------------------------------|
| | 2006 | | 2005 | |
| | Options | Weighted Average Exercise Price | Options | Weighted Average Exercise Price |
| Outstanding at beginning of period | 308,384 | \$ 5.95 | 468,206 | \$ 4.83 |
| Granted | 70,000 | 6.09 | 6,000 | 5.41 |
| Exercised | | | (10,000) | 3.47 |
| Forfeited | | | | |
| Outstanding at end of period | <u>378,384</u> | <u>\$ 6.13</u> | <u>464,206</u> | <u>\$ 4.81</u> |
| Exercisable at end of period | <u>244,557</u> | <u>\$ 5.91</u> | <u>340,284</u> | <u>\$ 4.68</u> |
| Weighted average fair value of options granted during the period | \$ 4.62 | | \$ 1.52 | |

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

| | Three Months Ended December 31, | |
|-------------------------|------------------------------------|---------|
| | 2006 | 2005 |
| Risk free interest rate | 4.55% | 4.55% |
| Expected life | 6 years | 3 years |
| Dividend rate | 0% | 0% |
| Volatility | 69% | 33% |
| Forfeiture rate | 7.45% | 0% |

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 70,000 and 6,000 options granted during the three months ended December 31, 2006 and 2005, respectively. Total fair value of options granted was approximately \$324,000 and \$9,000 for the three months ended December 31, 2006 and 2005, respectively.

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The following tables summarize information for stock options outstanding and exercisable at December 31, 2006:

| Options Outstanding | | | | |
|---|---------------------------|-----------------------------------|--|----------------------------------|
| Range of Exercise Prices | Number Outstanding | Remaining Contractual Life | Weighted Average Exercise Price | Aggregate Intrinsic Value |
| | | (in years) | | (in thousands) |
| \$ 1.13 - 3.00 | 2,250 | 2.3 | \$ 1.79 | \$ 13 |
| 3.01 - 4.00 | 17,612 | 6.9 | 3.24 | 78 |
| 4.01 - 5.00 | 50,500 | 5.6 | 4.58 | 155 |
| 5.01 - 6.00 | 68,022 | 6.0 | 5.76 | 128 |
| 6.01 - 7.00 | 220,000 | 6.0 | 6.63 | 225 |
| 7.01 - 8.00 | | | | |
| 8.01 - 9.00 | 10,000 | 9.3 | 8.51 | |
| 9.01 - 10.00 | 10,000 | 9.2 | 9.05 | |
| | 378,384 | 6.1 | \$ 6.13 | \$ 599 |
| Vested and expected to vest as of December 31, 2006 | 355,158 | 6.0 | \$ 6.10 | \$ 569 |

| Options Exercisable | | | | |
|---------------------------------|---------------------------|-----------------------------------|--|----------------------------------|
| Range of Exercise Prices | Number Exercisable | Remaining Contractual Life | Weighted Average Exercise Price | Aggregate Intrinsic Value |
| | | (in years) | | (in thousands) |
| \$ 1.13 - 3.00 | 2,250 | 2.3 | \$ 1.79 | \$ 13 |
| 3.01 - 4.00 | 8,501 | 6.9 | 3.25 | 37 |
| 4.01 - 5.00 | 36,667 | 5.6 | 4.53 | 115 |
| 5.01 - 6.00 | 47,139 | 6.0 | 5.78 | 88 |
| 6.01 - 7.00 | 150,000 | 6.0 | 6.50 | 173 |
| | 244,557 | 4.55 | \$ 5.91 | \$ 426 |

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 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 financial statements.

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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 is in the process of analyzing the impact of SFAS No.157, which 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. Statement of Financial Accounting Standards (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 quarter ended December 31, 2006, the valuation allowance was increased by \$14,000 for state net operating losses that may not be recovered. Estimated tax payments of \$299,000 were made based upon estimated taxable income. The Company also recorded a net deferred tax asset of \$360,000 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:

| | <u>December 31, 2006</u> | <u>September 30, 2006</u> |
|--|------------------------------|-------------------------------|
| (dollars in thousands) | | |
| Deferred tax assets - current: | | |
| Capitalized inventory costs | \$ 281 | \$ 205 |
| Inventory write-downs | 382 | 412 |
| Deferred profit | 504 | 377 |
| Accruals and reserves not currently deductible | 649 | 467 |
| | <u>1,816</u> | <u>1,461</u> |
| Deferred tax assets - non-current: | | |
| Stock option expense | 23 | 17 |
| State net operating losses | 186 | 172 |
| | <u>209</u> | <u>189</u> |
| Deferred tax liabilities - non-current | | |
| Book vs. tax depreciation and amortization | (18) | (17) |
| Total deferred tax assets - net | 2,007 | 1,633 |
| Valuation allowance | (1,647) | (1,633) |
| Deferred tax assets net of valuation allowance | <u>\$ 360</u> | <u>\$</u> |

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.

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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 months ended December 31, 2006 and 2005, options for 38,261 and 12,000 shares, respectively, are excluded from the diluted EPS calculations because they are antidilutive as they have an exercise price greater than the average market price during the period.

| | Three Months Ended December 31, | |
|---|--|---------|
| | 2006 | 2005 |
| | (in thousands, except per share amounts) | |
| Basic Earnings Per Share Computation | | |
| Net income | \$ 6 | \$ 471 |
| Preferred stock dividends | | (44) |
| Net income available to common stockholders | \$ 6 | \$ 427 |
| Weighted Average Shares Outstanding: | | |
| Common stock | 3,476 | 2,708 |
| Basic earnings per share | \$ 0.00 | \$ 0.16 |
| Diluted Earnings Per Share Computation | | |
| Net income | \$ 6 | \$ 471 |
| Weighted Average Shares Outstanding: | | |
| Common stock | 3,476 | 2,708 |
| Common stock equivalents (1) | 35 | 679 |
| Diluted shares | 3,511 | 3,387 |
| Diluted earnings per share | \$ 0.00 | \$ 0.14 |

(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 December 31, | |
|---|------------------------------------|--------|
| | 2006 | 2005 |
| | (dollars in thousands) | |
| Net income, as reported | \$ 6 | \$ 471 |
| Foreign currency translation adjustment | 78 | (45) |
| Comprehensive income | \$ 84 | \$ 426 |

5. Business Segment Information

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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 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.

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Information concerning our business segments is as follows:

| | Three Months Ended December 31, | |
|--|------------------------------------|-----------------------|
| | 2006 | 2005 |
| | (dollars in thousands) | |
| Net Revenues: | | |
| Semiconductor and solar equipment | \$ 7,521 | \$ 6,233 |
| Polishing supplies | 1,930 | 1,682 |
| | <u>\$ 9,451</u> | <u>\$ 7,915</u> |
| Operating Income: | | |
| Semiconductor and solar equipment | \$ (253) | \$ 203 |
| Polishing supplies | 308 | 275 |
| | <u>55</u> | <u>478</u> |
| Interest and other income (expense), net | 21 | 43 |
| | <u>\$ 76</u> | <u>\$ 521</u> |
| | | |
| | December 31, 2006 | September 30, 2006 |
| | (dollars in thousands) | |
| Identifiable Assets: | | |
| Semiconductor and solar equipment | \$ 21,238 | \$ 19,564 |
| Polishing supplies | 3,959 | 3,999 |
| | <u>\$ 25,197</u> | <u>\$ 23,563</u> |

6. Major Customers and Foreign Sales

During the three month period ended December 31, 2006, two customers individually represented 15% and 11% of net revenues. During the three months ended December 31, 2005, three customers individually represented 13%, 13% and 11% of net revenues.

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

| | Three Months Ended December 31, | |
|-------------------|------------------------------------|-------------|
| | 2006 | 2005 |
| North America (1) | 34% | 35% |
| Asia (2) (3) | 49% | 42% |
| Europe (4) | 17% | 23% |
| | <u>100%</u> | <u>100%</u> |

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- (1) Includes 33% and 35% to the United States in 2006 and 2005, respectively
- (2) Includes 21% and 1% to China in 2006 and 2005, respectively.
- (3) Includes 12% and 14% to Taiwan in 2006 and 2005, respectively.
- (4) Includes 2% and 13% to France in 2006 and 2005, respectively.

14

7. Commitments and Contingencies

Purchase Obligations As of December 31, 2006, we had purchase obligations in the amount of \$6.5 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. Subsequent Event

In February, 2007, the Company filed registration statements on Form S-1 with the SEC 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, if any.

Net proceeds to the Company were approximately \$17.2 million and will be \$19.8 million if the over-allotment option is exercised, before estimated offering expenses and after deducting underwriting commissions payable by the Company.

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, 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, solar/photovoltaic, 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 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. 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, revenues, gross margins, and operating results have historically fluctuated on a quarterly basis. Our contracts include holdbacks of 10-20% of revenue, which are recognized at the time of customer acceptance.

In June 2006, we adopted a plan to consolidate the manufacturing of our automation product line into facilities already used to manufacture diffusion furnaces. Our automation products are often sold in conjunction with new diffusion furnaces. 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 | |
|-------------------------------------|------------------------------|------------------------------|
| | December 31, 2006 | December 31, 2005 |
| Net revenue | 100% | 100% |
| Cost of goods sold | 75% | 68% |
| Gross margin | 25% | 32% |
| Operating expenses: | | |
| Selling, general and administrative | 23% | 24% |
| Research and Development | 1% | 2% |
| Total operating expenses | 24% | 26% |
| Income from operations | 1% | 6% |
| Interest income (expense), net | 0% | 1% |
| Income before income taxes | 1% | 7% |
| Income taxes | 1% | 1% |
| Net Income | 0% | 6% |

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 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.

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| Net Revenue | Three Months Ended | | Increase (Decrease) | % |
|---|------------------------|----------------------|------------------------|------------|
| | December 31, 2006 | December 31, 2005 | | |
| | (dollars in thousands) | | | |
| Semiconductor and Solar Equipment Segment | \$ 7,521 | \$ 6,234 | \$ 1,287 | 21% |
| Polishing Supplies Segment | 1,930 | 1,681 | 249 | 15% |
| Total | \$ 9,451 | \$ 7,915 | \$ 1,536 | 19% |

Net revenue for the quarter ended December 31, 2006 increased by \$1.5 million, or 19%, from the quarter ended December 31, 2005. This increase is primarily attributed to a 21% increase in the semiconductor and solar equipment segment revenue, with the majority of the increase comprised of horizontal diffusion furnace systems sold to the solar industry. Net revenue to the solar industry was \$2.6 million and \$1.0 million for the three months ended December 31, 2006 and 2005, respectively. The net revenue of the polishing supplies segment increased 15% primarily as a result of increased sales of templates and polishing machines, which was partially offset by a decline in insert carrier sales.

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

| | First Quarter | | |
|---------------------------|---|----------------------------|---------------|
| | Semi-conductor and Solar Equipment Segment (2) | Polishing Supplies Segment | Total Company |
| | (dollars in thousands) | | |
| 2007: | | | |
| New orders (1) | \$ 11,577 | \$ 2,479 | \$ 14,056 |
| Shipments | 8,035 | 1,932 | 9,967 |
| Net revenues | 7,521 | 1,930 | 9,451 |
| Backlog 12/31/06 | 16,670 | 1,535 | 18,205 |
| Book-to-bill ratio | 1.4:1 | 1.3:1 | 1.4:1 |
| 2006: | | | |
| New orders (1) | \$ 9,433 | \$ 1,802 | \$ 11,235 |
| Shipments | 6,739 | 1,681 | 8,420 |
| Net revenues | 6,234 | 1,681 | 7,915 |
| Backlog 12/31/05 | 16,601 | 1,108 | 17,709 |
| Book-to-bill ratio | 1.4:1 | 1.1:1 | 1.3:1 |

(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 December 31, 2006 and 2005, respectively, includes \$0.9 million and \$0.7 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 December 31, 2006 and 2005 was \$18.2 million and \$17.7 million, respectively. Our backlog as of December 31, 2006 includes approximately \$5.3 million of orders from our solar industry customers compared to \$2.0 million of orders from our solar industry customers at December 31, 2005. Our backlog as of December 31, 2005 included a \$5.2 million multi-furnace order from a single customer. 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. 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. The backlog as of December 31, 2006 and 2005 includes \$0.9 million and \$0.7 million of open orders or deferred revenue, respectively, on which we anticipate no gross margin.

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 | | Increase (Decrease) | % |
|---|------------------------------|------------------------------|--------------------------------|-------------|
| | December 31, 2006 | December 31, 2005 | | |
| | (dollars in thousands) | | | |
| Semiconductor and Solar Equipment Segment | \$ 1,735 | \$ 1,966 | \$ (231) | (12)% |
| Polishing Supplies Segment | 657 | 571 | 86 | 15% |
| Total | \$ 2,392 | \$ 2,537 | \$ (145) | (6)% |
| Gross margin | 25% | | 32% | |

The decrease in gross margin of 7% was primarily a result of changes in the mix of the products we sold and increased overhead burden. In the quarter ended December 31, 2005 we shipped a significantly higher number of semiconductor automation systems and etching machines, which typically carry a higher gross margin, than the most recent quarter ended December 31, 2006. The decrease was also impacted by a change in segment product mix, as the polishing supplies segment (which typically has higher gross margins) declined as a percentage of consolidated revenue. The continued growth of our sales to the solar industry has created capacity constraints at our European operations. We expect to relocate our European operations to expand capacity and improve operational efficiencies.

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 | | Increase (Decrease) | % |
|--|------------------------------|------------------------------|--------------------------------|------------|
| | December 31, 2006 | December 31, 2005 | | |
| | (dollars in thousands) | | | |
| Semiconductor and Solar Equipment Segment | \$ 1,870 | \$ 1,593 | \$ 277 | 17% |
| Polishing Supplies Segment | 349 | 296 | 53 | 18% |
| Total | \$ 2,219 | \$ 1,889 | \$ 330 | 17% |
| Percent of net revenue | 23% | | 24% | |

The increase in selling, general and administrative expense of \$0.3 million, or 17%, over the quarter ended December 31, 2005 was primarily due to increased personnel and consulting costs. The increased personnel and consulting costs were 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, (iv) and manage the increasing compliance obligations of a growing multi-national public company. The increases to our infrastructure were initiated in the third quarter of fiscal 2006 and further enhanced in the quarter ended December 31, 2006.

Research and Development

Research and development expenses consist of the cost of employees, consultants and contractors who design, engineer and develop new products; materials and supplies used in product prototyping, including wafers, chemicals and process gases; depreciation and amortization expense; charges for repairs to research equipment; and costs of outside services for facilities, process engineering support and wafer analytical services. We also include in research and development expenses amortization of costs associated with the preparation and filing of patents and other intellectual property. Any reimbursements of these costs in the form of governmental research and development grants are netted against these expenses.

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| Research and Development | Three Months Ended | | Increase (Decrease) | % |
|---|------------------------------|------------------------------|--------------------------------|--------------|
| | December 31, 2006 | December 31, 2005 | | |
| | (dollars in thousands) | | | |
| Semiconductor and Solar Equipment Segment | \$ 118 | \$ 170 | \$ (52) | (31)% |
| Polishing Supplies Segment | | | | 0 % |
| Total | \$ 118 | \$ 170 | \$ (52) | (31)% |
| Percent of net revenue | 1% | 2% | | |

Research and development costs declined during the three months ended December 31, 2006, respectively, as compared to the three months ended December 31, 2005 primarily due to lower research and development spending on our products.

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 | | Increase (Decrease) | % |
|---|------------------------------|------------------------------|--------------------------------|--------------|
| | December 31, 2006 | December 31, 2005 | | |
| | (dollars in thousands) | | | |
| Interest and other income (expense), net | \$ 23 | \$ 13 | \$ 10 | 77% |
| Foreign currency gains (losses) | (2) | 30 | (32) | (107)% |
| Total | \$ 21 | \$ 43 | \$ (22) | (51)% |

Interest income represents earnings on invested funds. Interest expense primarily consists of interest incurred on our overdraft facility, revolving line of credit, mortgage, which is secured by 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, interest expense was more than offset by interest earned on invested cash during the three months ended December 31, 2006 and 2005.

Income Taxes

During the three months ended December 31, 2006 and 2005 we recorded income taxes of less than \$0.1 million. The effective tax rate for the three months ended December 31, 2006 and 2005 was 91% and 10%, respectively. The increased effective tax rate in the more recent quarter was caused by permanent differences between financial income and taxable income which are proportionately higher due to the decline in pre-tax income. Also, we were unable to recognize a tax benefit for losses incurred in certain jurisdictions. During the quarter ended December 31, 2006, the valuation allowance was increased by \$14,000 for state net operating losses that may not be recovered. We made estimated tax payments of \$299,000 based upon estimated taxable income. We also recorded a net deferred tax asset of \$360,000 for items that meet the more likely than not criteria for recognition under SFAS No. 109. (See Note 2 to the financial statements).

Liquidity and Capital Resources

At December 31, 2006 and September 30, 2006, cash and cash equivalents were \$5.2 million, and \$6.4 million, respectively. Our working capital remained relatively unchanged at \$12.3 million as of December 31, 2006, compared to \$11.9 million at September 30, 2006. Our ratio of current assets to current liabilities declined to 2.4:1 at December 31, 2006, from 2.6:1 at September 30, 2006, as a result of the increase in current assets and current liabilities required to support the increased revenue base and backlog during the current period.

At December 31, 2006, our principal sources of liquidity consisted of \$5.2 million of cash and cash equivalents and the \$3.3 million in 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 December 31, 2006.

Since December 31, 2006, we received \$17.2 million in proceeds from the sale of 2,625,000 shares of common stock \$.01 par value, net of the underwriter's discount and before estimated offering expenses. We believe that our principal sources of liquidity discussed above and the increased capital and liquidity resulting from this 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 by our operating activities was \$1.3 million for the three months ended December 31, 2006, compared to \$0.4 million provided by such activities for the three months ended December 31, 2005. During the quarter ended December 31, 2006 cash was primarily used to finance increases in accounts receivable (\$0.8 million), inventory (\$1.0 million), prepaid and other assets (\$0.5 million), and to reduce accounts payables (\$0.7 million). This use of cash was partially offset by increases in accrued liabilities and customer deposits of \$1.3 million, deferred profit of \$0.4 million and accrued income taxes of \$0.1 million.

Cash Flows from Investing Activities

Our investing activities for the three months ended December 31, 2006 and 2005 used \$0.1 million of cash primarily to purchase equipment.

Cash Flows from Financing Activities

Cash provided by financing activities for the three months ended December 31, 2006 was \$0.2 million. This resulted from the October, 2006 equipment financing of \$0.4 million less \$0.2 million of payments on long-term debt. This compares to \$0.1 million of cash used by financing activities during the three months ended December 31, 2005, primarily from the payment of dividends on then outstanding preferred stock, offset by proceeds from the exercise of stock options.

Off-Balance Sheet Arrangements

As of December 31, 2006, 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 2006 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, 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 this 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.

During fiscal 2004, we recorded a valuation allowance for the total of our deferred tax assets. 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 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 December 31, 2006, 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 sell products in Asia in the U.S. dollar. 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 December 31, 2006, 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 December 31, 2006 and 2005. As of December 31, 2006, our foreign subsidiaries had \$4.1 million of assets (cash and receivables) denominated in currencies other than the functional currency. As of December 31, 2006, we had \$4.6 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, a 10% change in the value of the euro relative to the U.S. dollar would result in a gain or loss of \$0.5 million. A 10% change in the value of the functional currency relative to the non-functional currency would result in a gain or loss of \$0.4 million. Our net investment in and advances to our foreign operations totaled \$2.3 million as of December 31, 2006. A 10% change in the value of the Euro relative to the U.S. dollar would cause an approximately \$0.2 million foreign currency translation adjustment, a type of other comprehensive income (loss), which would be a direct adjustment to our stockholders' equity.

During three months ended December 31, 2006, our European operations transacted U.S. dollar denominated sales and purchases of \$1.4 million and \$1.2 million, respectively. As of December 31, 2006, sales commitments denominated in a currency other than the function currency of our transacting operation totaled \$4.8 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 \$0.5 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 December 31, 2006, 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 first quarter of fiscal 2007 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

PART II. OTHER INFORMATION

| Item 6. | Exhibits | |
|----------------|---|---|
| 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.

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

Dated: February 14, 2007

Robert T. Hass
Chief Accounting Officer
(Principal Accounting Officer)

EXHIBIT INDEX

| Exhibit Number | Description | Page or Method of Filing |
|-----------------------|---|---------------------------------|
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