

AMTECH SYSTEMS INC  
Form 10-Q  
August 13, 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: June 30, 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

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 [ X ]

Shares of Common Stock outstanding as of August 8, 2008: 9,095,798

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**ITEM 1. Condensed Consolidated Financial Statements**

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

	<b>June 30, 2008</b>	<b>September 30, 2007</b>
	(Unaudited)	
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 36,788	\$ 18,370
Restricted cash	108	443
Accounts receivable		
Trade (less allowance for doubtful accounts of \$192 and \$126 at June 30, 2008 and September 30, 2007, respectively)	16,273	9,952
Unbilled and other	5,624	3,127
Inventories	20,664	7,289
Deferred income taxes	3,786	1,690
Other	2,452	1,339
Total current assets	85,695	42,210
<b>Property, Plant and Equipment - Net</b>	8,828	6,245
<b>Deferred Income Taxes - Long Term</b>	-	30
<b>Intangible Assets - Net</b>	4,549	1,364
<b>Goodwill</b>	3,077	817
<b>Restricted cash - non-current</b>	1,383	-
<b>Total Assets</b>	\$ 103,532	\$ 50,666

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

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

	<b>June 30, 2008</b>	<b>September 30, 2007</b>
	(Unaudited)	
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 9,976	\$ 4,150
Bank loans and current maturities of long-term debt	184	224
Accrued compensation and related taxes	3,581	2,139
Accrued warranty expense	1,022	256
Deferred profit	4,440	2,144
Customer deposits	5,591	1,824
Other accrued liabilities	998	562
Income taxes payable	1,209	419
Total current liabilities	27,001	11,718
<b>Income Taxes Payable Long-term</b>	227	-
<b>Deferred Income Taxes Long-term</b>	791	-
<b>Long-Term Obligations</b>	326	744
Total liabilities	28,345	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: 9,085,298 and 6,517,923 at June 30, 2008 and September 30, 2007	91	65
Additional paid-in capital	69,941	35,610
Accumulated other comprehensive income	2,344	813
Retained Earnings	2,811	1,716
Total stockholders' equity	75,187	38,204
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 103,532</b>	<b>\$ 50,666</b>

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

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2008	2007	2008	2007
Revenues, net of returns and allowances	\$ 24,147	\$ 12,874	\$ 53,479	\$ 32,864
Cost of sales	17,069	9,450	38,714	24,180
Gross profit	7,078	3,424	14,765	8,684
Selling, general and administrative	4,847	2,700	12,115	7,336
Restructuring Charge	344	-	344	-
Research and development	210	117	686	376
Operating income	1,677	607	1,620	972
Interest and other income, net	248	170	749	313
Income before income taxes	1,925	777	2,369	1,285
Income tax expense (benefit)	765	(233)	940	7
<b>Net income</b>	<b>\$ 1,160</b>	<b>\$ 1,010</b>	<b>\$ 1,429</b>	<b>\$ 1,278</b>

**Earnings Per Share:**

Basic earnings per share	\$ 0.13	\$ 0.16	\$ 0.17	\$ 0.25
Weighted average shares outstanding	9,081	6,498	8,593	5,050
Diluted earnings per share	\$ 0.13	\$ 0.15	\$ 0.16	\$ 0.25
Weighted average shares outstanding	9,197	6,575	8,732	5,104

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

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

	<b>Nine Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Operating Activities</b>		
Net income	\$ 1,429	\$ 1,278
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	1,095	524
Deferred income taxes	(1,790)	(1,029)
Non-cash share based compensation expense	355	228
Other	240	160
Changes in operating assets and liabilities:		
Accounts receivable	(5,222)	(4,734)
Inventories	(10,776)	(1,855)
Accrued income taxes	577	258
Prepaid expenses and other assets	(685)	(602)
Accounts payable	4,110	(199)
Accrued liabilities and customer deposits	4,872	1,225
Deferred profit	1,615	659
Net cash used in operating activities	(4,180)	(4,087)
<b>Investing Activities</b>		
Purchases of property, plant and equipment	(2,434)	(3,505)
Decrease in restricted cash	362	-
Payment for licensing agreement	(400)	(300)
Investment in R2D	(8,071)	-
Net cash used in investing activities	(10,543)	(3,805)
<b>Financing Activities</b>		
Proceeds from issuance of common stock, net	33,934	19,440
Payments on long-term obligations	(702)	(155)
Borrowings on long-term obligations	-	355
Net short term borrowings (payments)	-	(111)
Excess tax benefit of stock options	69	-
Net cash provided by financing activities	33,301	19,529
<b>Effect of Exchange Rate Changes on Cash</b>	(160)	(198)
<b>Net Increase in Cash and Cash Equivalents</b>	18,418	11,439
<b>Cash and Cash Equivalents, Beginning of Period</b>	18,370	6,433
<b>Cash and Cash Equivalents, End of Period</b>	\$ 36,788	\$ 17,872
<b>Supplemental Cash Flow Information:</b>		
Interest paid	\$ 189	\$ 228
Income tax payments	\$ 2,188	\$ 778

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 AND NINE MONTHS ENDED June 30, 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 industry. 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 nine month periods ended June 30, 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:

	<b>June 30, 2008</b>	<b>September 30, 2007</b>
	<b>(dollars in thousands)</b>	
Deferred revenues	\$ 6,042	\$ 3,894
Deferred costs	1,602	1,750
Deferred profit	\$ 4,440	\$ 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 June 30, 2008, accounts receivable from one customer accounted for 38% 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 June 30, 2008 current restricted cash is \$0.1 million due to a certificate of deposit collateralizing a letter of credit issued on our behalf as required by a customer deposit.

**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. Costs 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:

	<b>June 30, 2008</b>	<b>September 30, 2007</b>
	<b>(dollars in thousands)</b>	
Purchased parts and raw materials	\$ 13,849	\$ 5,291
Work-in-process	5,492	1,456
Finished goods	1,323	542
	\$ 20,664	\$ 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 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.

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

	June 30, 2008	September 30, 2007
	(dollars in thousands)	
Land, building and leasehold improvements	\$ 7,279	\$ 5,105
Equipment and machinery	3,770	2,874
Furniture and fixtures	3,312	2,570
	14,361	10,549
Accumulated depreciation and amortization	(5,533)	(4,304)
	\$ 8,828	\$ 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, customer lists, 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	June 30, 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	700	300
Backlog and other	1-2 years	226	-
		5,210	1,620
Accumulated amortization		(661)	(256)
		\$ 4,549	\$ 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:

	<b>Nine Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>(dollars in thousands)</b>		
Beginning balance	\$ 256	\$ 289
Warranty expenditures	(441)	(61)
Provision	960	55
Acquired through business acquisitions	247	-
Ending balance	\$ 1,022	\$ 283

**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	Shares	Options Outstanding	Plan
	Authorized	Available		Expiration
2007 Employee Stock Incentive Plan	500,000	382,187	87,313	Apr. 2017
1998 Employee Stock Option Plan	500,000	-	346,740	Jan. 2008
Non-Employee Directors Stock Option Plan	200,000	58,600	64,000	Jul. 2015
		440,787	498,053	

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

	<b>Three Months Ended June 30,</b>		<b>Nine Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>(dollars in thousands, except per share amounts)</b>				
Effect on income before income taxes (1)	\$ (125)	\$ (118)	\$ (355)	\$ (228)
Effect on net income	\$ (98)	\$ (99)	\$ (291)	\$ (195)
Effect on basic income per share	\$ (0.01)	\$ (0.02)	\$ (0.03)	\$ (0.05)
Effect on diluted income per share	\$ (0.01)	\$ (0.02)	\$ (0.03)	\$ (0.04)

(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 2007 Employee Stock Incentive Plan, nonqualified stock options and restricted stock may also be granted. Options issued by the Company vest over 1 to 5 years.

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



In September 2006, the FASB issued SFAS No. 157, [Fair Value Measurements]. SFAS No. 157 defines fair value, establishes a formal framework for measuring fair value and expands disclosures about fair value measurements. The Company has not yet determined the impact, if any, that SFAS No. 157 will have on its consolidated financial statements. SFAS No. 157 is effective for the Company's fiscal year beginning October 1, 2009.

In December 2007, the FASB issued SFAS No. 141(R), [Business Combinations]. This Statement replaces SFAS No. 141, Business Combinations. This Statement retains the fundamental requirements in Statement 141 that the acquisition method of accounting (which Statement 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. This Statement also establishes principles and requirements for how the acquirer: a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase and c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) will apply prospectively to business combinations for which the acquisition date is on or after Company's fiscal year beginning October 1, 2009. While the Company has not yet evaluated this statement for the impact, if any, that SFAS No. 141(R) will have on its consolidated financial statements, the Company will be required to expense costs related to any acquisitions after September 30, 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] and Interpretation Number 48 ([FIN 48]) requires recognition of a valuation allowance if, based on the weight of available evidence, it is more likely than not that the company will have sufficient future taxable income to realize its deferred tax asset. Each quarter the valuation allowance is re-evaluated. The Company intends to maintain a valuation allowance until evidence supports the conclusion that it is more likely than not that the company will have sufficient future taxable income to realize its deferred tax asset. The amount of the valuation allowance at June 30, 2008 and September 30, 2007 was \$350,000 and \$450,000, respectively.

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. At June 30, 2008, and October 1, 2007, the total amount of unrecognized tax benefits was \$446,000 and \$409,000, respectively, and 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 June 30, 2008, \$133,000 was accrued for the payment of interest and penalties relative to these uncertain positions.

The Company and one or more of its subsidiaries file income tax returns in the US, The Netherlands, Germany, 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.

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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 and nine months ended June 30, 2008, options for 130,000 shares, respectively, are excluded from the diluted EPS calculations based on the exercise price and the treasury stock method. For the three and nine months ended June 30, 2007, options for 190,750 and 196,272 shares, respectively, are excluded from the diluted EPS calculations because they are antidilutive.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2008 (in thousands, except per share amounts)	2007 per share	2008 (in thousands, except per share amounts)	2007 per share
<b>Basic Earnings Per Share Computation</b>				
Net income available to common stockholders	\$ 1,160	\$ 1,010	\$ 1,429	\$ 1,278
Weighted Average Shares Outstanding:				
Common stock	9,081	6,498	8,593	5,050
Basic earnings per share	\$ 0.13	\$ 0.16	\$ 0.17	\$ 0.25
<b>Diluted Earnings Per Share Computation</b>				
Net income	\$ 1,160	\$ 1,010	\$ 1,429	\$ 1,278
Weighted Average Shares Outstanding:				
Common stock	9,081	6,498	8,593	5,050
Common stock equivalents (1)	116	77	139	54
Diluted shares	9,197	6,575	8,732	5,104
Diluted earnings per share	\$ 0.13	\$ 0.15	\$ 0.16	\$ 0.25

(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 June 30,		Nine Months Ended June 30,	
	2008 (dollars in thousands)	2007 (dollars in thousands)	2008 (dollars in thousands)	2007 (dollars in thousands)
Net income, as reported	\$ 1,160	\$ 1,010	\$ 1,429	\$ 1,278
Foreign currency translation adjustment	32	26	1,531	125
Comprehensive income	\$ 1,192	\$ 1,036	\$ 2,960	\$ 1,403

#### 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.

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Information concerning our business segments is as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2008	2007	2008	2007
Net Revenues:	(dollars in thousands)		(dollars in thousands)	
Solar and semiconductor equipment	\$ 22,138	\$ 10,886	\$ 47,743	\$ 26,641
Polishing supplies	2,009	1,988	5,736	6,223
	\$ 24,147	\$ 12,874	\$ 53,479	\$ 32,864
Operating income (loss):				
Solar and semiconductor equipment	\$ 1,421	\$ 306	\$ 911	\$ (75)
Polishing supplies	256	301	709	1,047
	1,677	607	1,620	972
Interest and other income (expense), net	248	170	749	313
Income before income taxes	\$ 1,925	\$ 777	\$ 2,369	\$ 1,285

Identifiable Assets:	June 30,	September 30,
	2008	2007
	(dollars in thousands)	
Solar and semiconductor equipment	\$ 98,604	\$ 46,283
Polishing supplies	4,928	4,383
	\$ 103,532	\$ 50,666

## 6. Major Customers and Foreign Sales

During the three months ended June 30, 2008, two customers represented 34% and 11% of net revenues, individually. During the nine months ended June 30, 2008, two customers represented 25% and 10% of net revenues, individually. During the three and nine months ended June 30, 2007, two customers represented 14% and 11%, individually, and 12% and 10%, individually, of net revenue, respectively.

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

	Nine Months Ended June 30,	
	2008	2007
North America (1)	17%	29%
Asia (2) (3)	63%	48%
Europe	20%	23%
	100%	100%

(1) Includes 16% and 29% to the United States in 2008 and 2007, respectively

(2) Includes 39% and 17% to China in 2008 and 2007, respectively.

(3) Includes 15% and 19% to Taiwan in 2008 and 2007, respectively.

## 7. Commitments and Contingencies

**Purchase Obligations** □ As of June 30, 2008, we had purchase obligations in the amount of \$10.2 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 nine months ended June 30, 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 to the solar industry an integrated system under the Tempress brand.

The aggregate purchase price is based on the cash consideration paid at closing of \$5.5 million plus acquisition costs of \$1.0 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. As of June 30, 2008, approximately \$0.3 million of the \$1.6 million was paid to sellers in recognition of fulfilling certain requirements. The amount of contingent payments earned is allocated to goodwill. The assets of R2D principally consist of intellectual property and technology, customer lists, 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	\$ 4,907	
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	2,260	
Total assets acquired	10,591	

Liabilities Assumed:			
Current Liabilities		2,647	
Long-term liabilities		1,257	
Total liabilities assumed		3,904	
Net assets acquired	\$	6,687	

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The following consolidated pro forma financial information was prepared assuming that the acquisition had occurred at the beginning of the nine months ended June 30, 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):

	<b>Three Months Ended June 30, 2007</b>	<b>Nine Months Ended June 30, 2007</b>
	(dollars in thousands, except per share amounts)	
Revenues	\$ 14,087	\$ 36,147
Net income	\$ 1,147	\$ 1,649
Net income per share:		
Basic	\$ 0.18	\$ 0.33
Diluted	\$ 0.17	\$ 0.32

For purposes of the above pro forma presentation, the historical revenues and earnings of R2D for the three and nine months ended June 30, 2007 have been combined with the revenues and earnings of Amtech for the three and nine months ended June 30, 2007.

## 10. Restructuring Charge

In the third quarter of fiscal 2008, Bruce Technologies operations were reorganized to better position the company for profitability in light of lower plant utilization resulting from a slowdown in the semiconductor industry. As a result of this reorganization, the company notified certain personnel of their termination date and severance and recorded a restructuring charge of \$0.3 million, of which \$0.1 million had been paid as of June 30, 2008. These charges are presented as a separate line item on the Condensed Consolidated Statements of Operations.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and the related notes included in Item 1, "Condensed 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

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## **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.

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		Nine Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2008	2007	2008	2007
Net revenue	100%	100%	100%	100%
Cost of goods sold	71%	73%	72%	74%
Gross margin	29%	27%	28%	26%
Operating expenses:				
Selling, general and administrative	20%	21%	23%	22%
Restructuring Charge	1%	0%	1%	0%
Research and Development	1%	1%	1%	1%
Total operating expenses	22%	22%	25%	23%
Income from operations	7%	5%	3%	3%
Interest and other income (expense), net	1%	1%	2%	1%
Income before income taxes	8%	6%	5%	4%
Income taxes	3%	-2%	3%	0%
Net Income	5%	8%	2%	4%

## 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.

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	Three Months Ended				Nine Months Ended			
	June 30,	June 30,	Inc.	%	June 30,	June 30,	Inc.	%
	2008	2007	(Dec)		2008	2007	(Dec)	
	(dollars in thousands)				(dollars in thousands)			
<b>Net Revenue</b>	<b>2008</b>	<b>2007</b>	<b>(Dec)</b>	<b>%</b>	<b>2008</b>	<b>2007</b>	<b>(Dec)</b>	<b>%</b>
Solar and Semiconductor								
Equipment Segment	\$ 22,138	\$ 10,886	\$ 11,252	103%	\$ 47,743	\$ 26,641	\$ 21,102	79%
Polishing Supplies Segment	2,009	1,988	21	1%	5,736	6,223	(487)	(8%)
Total	\$ 24,147	\$ 12,874	\$ 11,273	88%	\$ 53,479	\$ 32,864	\$ 20,615	63%

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Net revenue for the quarter ended June 30, 2008 increased \$11.3 million, or 88%, compared to the quarter ended June 30, 2007. Revenue from the solar and semiconductor equipment segment increased \$11.3 million, or 103%, 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.

Net revenue for the nine months ended June 30, 2008 increased by \$20.6 million, or 63%, compared to the nine months ended June 30, 2007. Revenue from the solar and semiconductor equipment segment increased \$21.1 million, or 79%, due to higher solar product revenues, partially offset by decreased revenues from the semiconductor industry. The decrease of \$0.5 million, or 8%, in net revenue from the Polishing Supplies Segment is due primarily to lower shipments of insert carriers and polishing machines caused by higher competition in the insert carrier market and the current downturn in the semiconductor industry.

The following table reflects new orders <sup>(1)</sup>, shipments and net revenues for the third 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.

	Third Quarter			Year-to-Date		
	Solar and Semi-conductor	Polishing Supplies	Total	Solar and Semi-conductor	Polishing Supplies	Total
	Equipment Segment	Segment	Company	Equipment Segment	Segment	Company
	(dollars in thousands)			(dollars in thousands)		
<b>2008:</b>						
New orders <sup>(1)</sup>	\$ 17,215	\$ 2,920	\$ 20,135	\$ 81,057	\$ 7,923	\$ 88,980
Shipments	24,449	1,997	26,446	48,927	5,728	54,655
Net revenues	22,138	2,009	24,147	47,743	5,736	53,479
R2D purchased	-	-	-	1,779	-	1,779
Backlog 6/30/2008	57,076	3,070	60,146	57,076	3,070	60,146
<b>Book-to-bill ratio</b>	<b>0.7:1</b>	<b>1.5:1</b>	<b>0.8:1</b>	<b>1.7:1</b>	<b>1.4:1</b>	<b>1.6:1</b>
<b>2007</b>						
New orders <sup>(1)</sup>	\$ 15,020	\$ 2,314	\$ 17,334	\$ 33,477	\$ 6,440	\$ 39,917
Shipments	11,638	1,988	13,626	27,510	6,223	33,733
Net revenues	10,886	1,988	12,874	26,641	6,223	32,864
Backlog 6/30/2007 <sup>(2)</sup>	19,450	1,203	20,653	19,450	1,203	20,653
<b>Book-to-bill ratio</b>	<b>1.3:1</b>	<b>1.2:1</b>	<b>1.3:1</b>	<b>1.2:1</b>	<b>1.0:1</b>	<b>1.2:1</b>

(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 June 30, 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 June 30, 2008 and 2007 was \$60.1 million and \$20.7 million, respectively, a 191% increase. Our backlog as of June 30, 2008 includes approximately \$44.2 million of orders from our solar industry customers compared to \$11.5 million of orders from our solar industry customers at June 30, 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, the cost of customer support and field service 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.

	Three Months Ended				Nine Months Ended			
	June 30, 2008	June 30, 2007	Inc. (Dec)	%	June 30, 2008	June 30, 2007	Inc. (Dec)	%
Gross profit	(dollars in thousands)				(dollars in thousands)			
Solar and Semiconductor Equipment Segment	\$ 6,457	\$ 2,758	\$ 3,699	134%	\$ 12,971	\$ 6,533	\$ 6,438	99%
Polishing Supplies Segment	621	666	(45)	(7%)	1,794	2,151	(357)	(17%)
Total	\$ 7,078	\$ 3,424	\$ 3,654	107%	\$ 14,765	\$ 8,684	\$ 6,081	70%
Gross margin	29%	27%			28%	26%		

Gross profit for the quarter ended June 30, 2008 increased \$3.7 million or 107% from \$3.4 million in the third quarter of fiscal 2007 to \$7.1 million in the third quarter of fiscal 2008. Gross margin in the third quarter was 29% compared to 27% in the third quarter of fiscal 2007. Gross margin in the solar and semiconductor equipment segment improved to 29% in the third quarter compared to 25% in the same quarter of the prior year, due primarily to higher shipment volumes and the related efficiencies and economies of scale, offset by higher warranty costs and higher deferred profit. Gross profit and margins in the polishing supplies segment decreased due to increased competition in the insert carrier market. We deferred \$1.8 million profit for the quarter ended June 30, 2008, net of acceptances, compared to a net deferral of \$0.7 million for the quarter ended June 30, 2007.

Gross profit for the nine months ended June 30, 2008 increased \$6.1 million or 70% from \$8.7 million in the first nine months of fiscal 2007 to \$14.8 million in the first nine months of fiscal 2008. Gross margin increased from 26% in the first nine months of fiscal 2007 to 28% in the first nine months of fiscal 2008. This improvement resulted mainly from the efficiencies realized in fiscal 2008, offset by higher warranty costs and higher deferred profit as discussed above. We deferred \$1.6 million profit for the nine months ended June 30, 2008, net of acceptances, compared to a net deferral of \$0.7 million for the nine months ended June 30, 2007.

**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.

	Three Months Ended				Nine Months Ended			
	June 30, 2008	June 30, 2007	Inc. (Dec)	%	June 30, 2008	June 30, 2007	Inc. (Dec)	%
Selling, general and administrative	(dollars in thousands)				(dollars in thousands)			
Solar and Semiconductor Equipment Segment	\$ 4,482	\$ 2,335	\$ 2,147	92%	\$ 11,030	\$ 6,231	\$ 4,799	77%
Polishing Supplies Segment	365	365	-	0%	1,085	1,105	(20)	(2%)
Total	\$ 4,847	\$ 2,700	\$ 2,147	80%	\$ 12,115	\$ 7,336	\$ 4,779	65%
Percent of net revenue	20%	21%			23%	22%		

Selling, general and administrative (SG&A) expenses for the quarter ended June 30, 2008 increased \$2.1 million, or 80%, from \$2.7 million to \$4.8 million compared to the quarter ended June 30, 2007. SG&A expenses include \$0.1 million of stock-based compensation expense in the quarters ended June 30, 2008 and 2007. SG&A expenses for the quarter ended June 30, 2008, include \$0.1 million of costs related to compliance with the Sarbanes-Oxley Act. The increase in SG&A expenses was due primarily to \$1.1 million of increased selling expense related to higher revenues generated in regions where 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. 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 increased incentive compensation costs and costs incurred to comply with the Sarbanes-Oxley Act, improve internal financial and operational reporting and implement improvements in operational efficiencies.

For the nine months ended June 30, 2008, SG&A increased \$4.8 million or 65% compared to the nine month period ended June 30, 2007. SG&A expenses include \$0.4 million and \$0.2 million of stock-based compensation expense for the nine months ended June 30, 2008 and 2007, respectively. SG&A expenses for the nine months ended June 30, 2008 includes \$0.3 million of costs related to compliance with the Sarbanes-Oxley Act. The increase reflects \$0.9 million of costs incurred by R2D in fiscal 2008 for which there were no comparable expenses in the prior year period. Selling expenses increased \$2.1 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.

**Restructuring Charge**

In the third quarter of fiscal 2008, our Bruce Technologies operations were reorganized to better position the company for profitability in light of lower plant utilization resulting from a slowdown in the semiconductor industry. The reorganization resulted in a restructuring charge of \$0.3 million, consisting mainly of severance and placement costs for personnel affected by the reduction in force.

**Research and Development**

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

	Three Months Ended				Nine Months Ended			
	June 30, 2008	June 30, 2007	Inc. (Dec)	%	June 30, 2008	June 30, 2007	Inc. (Dec)	%
	(dollars in thousands)				(dollars in thousands)			
<b>Research and Development</b>								
Solar and Semiconductor								
Equipment Segment	\$ 210	\$ 117	\$ 93	80%	\$ 686	\$ 376	\$ 310	82%
Polishing Supplies Segment	-	-	-	0%	-	-	-	0%
Total	\$ 210	\$ 117	\$ 93	80%	\$ 686	\$ 376	\$ 310	82%

Research and development costs for the three and nine months ended June 30, 2008 increased \$0.1 million and \$0.3 million, respectively compared to the three and nine-month periods ended June 30, 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 leading solar research centers and 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.

	Three Months Ended			Nine Months Ended		
	June 30,	June 30,	Inc.	June 30,	June 30,	Inc.
Interest and other income (expense), net						

	2008	2007	(Dec)	2008	2007	(Dec)
	(dollars in thousands)			(dollars in thousands)		
Interest and other income						
(expense), net	\$ 169	\$ 155	\$ 14	\$ 673	\$ 324	\$ 349
Foreign currency gains (losses)	79	15	64	76	(11)	87
Total	\$ 248	\$ 170	\$ 78	\$ 749	\$ 313	\$ 436

Interest income represents earnings on invested funds. Interest expense primarily consists of interest incurred on our overdraft facility and equipment financing. Interest income on invested funds increased due to funds raised in the secondary public offerings of common stock during the second quarter of fiscal 2007 and the first quarter of fiscal 2008. Increases were offset by significantly lower interest rates in fiscal 2008 as compared to fiscal 2007. Foreign currency gains or losses were less than \$0.1 million in each reporting period.

### **Income Taxes**

During the three months ended June 30, 2008 we recorded an income tax provision of \$0.8 million, reflecting an effective tax rate of 40%. For the same period in fiscal 2007, we recorded a tax benefit of \$0.2 million, including a \$0.5 million reduction in the valuation allowance on deferred tax assets. During the nine months ended June 30, 2008 and 2007, we recorded income tax provisions of \$0.9 million and effectively zero, respectively. The effective tax rates used for calculating the income tax provisions for the nine months ended June 30, 2008 and 2007 were approximately 42% and 39%, respectively, excluding the favorable impact of reductions in the valuation allowance on deferred tax assets. These rates are based upon estimates of annual income, annual permanent differences, and statutory tax rates in the jurisdictions in which we operate. The effective tax rate including the change in the valuation allowance was 40% and less than 1% for the nine months ended June 30, 2008 and 2007, respectively.

The Company intends to maintain a valuation allowance on deferred tax assets related to 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 June 30, 2008 and September 30, 2007 was \$0.4 million and \$0.5 million, respectively.

As a result of the application of the provisions of FIN 48, we recognized as of October 1, 2007 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. The impact related to the provisions of Fin 48 was less than \$0.1 million for the nine months ended June 30, 2008. 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.

### **Liquidity and Capital Resources**

At June 30, 2008 and September 30, 2007, cash and cash equivalents and restricted cash were \$36.9 million and \$18.8 million, respectively. Our working capital increased \$28.2 million to \$58.7 million as of June 30, 2008, compared to \$30.5 million at September 30, 2007. The increase in cash and cash equivalents and working capital resulted primarily from the \$33.6 million of net proceeds from the secondary public offering of common stock during November 2007. The increase was partially offset by \$8.1 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.

We have a line of credit in the amount of Euro 1.0 million (approximately \$1.6 million) as of June 30, 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 June 30, 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 June 30, 2008, bank guarantees in the amount of Euro 0.8 million were secured by this line of credit leaving Euro 0.2 million available.

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 \$7.1 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 \$1.1 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 were deposited in an escrow account. As of June 30, 2008, approximately \$0.3 million of the \$1.6 million was paid to sellers in recognition of fulfilling certain requirements. 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.

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### ***Cash Flows from Operating Activities***

Cash used in our operating activities was \$4.2 million for the nine months ended June 30, 2008, compared to \$4.1 million used in such activities for the nine months ended June 30, 2007. During the nine months ended June 30, 2008 cash was primarily used to finance increases in inventory (\$10.8 million), accounts receivable (\$5.2 million), prepaid and other assets (\$0.7 million) and deferred income taxes of (\$1.8 million). This use of cash was partially offset by increases in accounts payable of \$4.1 million, accrued liabilities, customer deposits of \$4.9 million, deferred profit of \$1.6 million and \$1.1 million of depreciation and amortization, which are noncash expenses.

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

Our investing activities for the nine months ended June 30, 2008 and 2007 used \$10.5 million and \$3.8 million of cash, respectively. Our investing activities for the nine months ended June 30, 2008 used \$8.1 million of cash in the acquisition of R2D. Capital expenditures of \$2.4 million resulted primarily from improvements to the new building in The Netherlands. Restricted cash decreased \$0.4 million. Restricted cash represents funds securing customer deposits as well as bank guarantees in excess of our available credit facility in The Netherlands. During fiscal 2007, the most significant investing activity 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 nine months ended June 30, 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 \$0.7 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 nine months ended June 30, 2007 which primarily consists of the \$19.4 million, net of expenses, raised in a secondary public offering of the Company's common stock.

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

As of June 30, 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 September 30, 2007 have been changes in purchase obligations and long-term debt (See Note 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.

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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.

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 solar and semiconductor 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.

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**Inventory Valuation.** We value our inventory at the lower of cost or net realizable value. Costs for approximately 50% of inventory is determined on an average cost basis with the remainder determined on a first-in, first-out (FIFO) basis. 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. Changes in demand for our products and product mix could result in further write-downs.

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

**Warranty.** We provide a limited warranty, generally for 12 to 24 months, to our customers. A provision for the estimated cost of providing warranty coverage is recorded upon shipment of all systems. On occasion, we have been required and may be required in the future to provide additional warranty coverage to ensure that the systems are ultimately accepted or to maintain customer goodwill. While our warranty costs have historically been within our expectations and we believe that the amounts accrued for warranty expenditures are sufficient for all systems sold through June 30, 2008, 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 2008, 2007 or 2006. 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].

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## **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 solar and semiconductor 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 operations 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, 2007.

As of June 30, 2008, 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 and nine month periods ended June 30, 2008 and 2007. As of June 30, 2008, our foreign subsidiaries had \$1.7 million of assets (cash and receivables) denominated in currencies other than the functional currency. A 10% change in the value of the functional currency relative to the nonfunctional currency would result in gains or losses of \$0.2 million. As of June 30, 2008, we had \$2.8 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 functional currency relative to the non-functional currency would result in net gains or losses of \$0.3 million. Our net investment in and long-term advances to our foreign operations totaled \$33.6 million as of June 30, 2008. A 10% change in the value of the Euro relative to the U.S. dollar would cause an approximately \$3.4 million foreign currency translation adjustment, a type of other comprehensive income (loss), which would be a direct adjustment to our stockholders' equity.

During the nine months ended June 30, 2008, our European operations transacted U.S. dollar denominated sales and purchases of \$1.8 million and \$4.9 million, respectively. As of June 30, 2008, sales commitments denominated in a currency other than the function currency of our transacting operation totaled \$3.7 million. Our lead-times to fulfill these commitments generally range between 13 and 26 weeks. A 10% change in the relevant exchange rates between the time the order was taken and the time of shipment would cause our gross profit on such orders to be approximately \$0.4 million greater than or less than expected on the date the order was taken.

## **ITEM 4. CONTROLS AND PROCEDURES**

### ***Disclosure Controls and Procedures***

Our management, including the Chief Executive Officer ([CEO]) and the Chief Financial Officer ([CFO]), has carried out an evaluation of the effectiveness of our disclosure controls and procedures as of June 30, 2008, 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 nine months of fiscal 2008 that has materially affected, or is reasonably likely to materially affect, its internal control over

financial reporting.

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## PART II. OTHER INFORMATION

### Item 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.

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## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMTECH SYSTEMS, INC.

By /s/ Robert T. Hass

Dated: August 13, 2008

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

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## EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>	<u>Page or Method of Filing</u>
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	*
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