

AMTECH SYSTEMS INC
Form 10-Q
February 09, 2009

**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, 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 February 5, 2009: 9,103,673

AMTECH SYSTEMS, INC. AND SUBSIDIARIES TABLE OF CONTENTS

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Condensed Consolidated Financial Statements	
Condensed Consolidated Balance Sheets	
December 31, 2008 (Unaudited) and September 30, 2008	3
Condensed Consolidated Statements of Operations (Unaudited)	
Three Months Ended December 31, 2008 and 2007	5
Condensed Consolidated Statements of Cash Flows (Unaudited)	
Three Months Ended December 31, 2008 and 2007	6
Notes to Condensed Consolidated Financial Statements (Unaudited)	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	
Caution Regarding Forward-Looking Statements	16
Overview	17
Results of Operations	17
Liquidity and Capital Resources	20
Off-Balance Sheet Arrangements	20
Contractual Obligations	20
Critical Accounting Policies	21
Impact of Recently Issued Accounting Pronouncements	22
Item 3. Quantitative and Qualitative Disclosures About Market Risk	23
Item 4. Controls and Procedures	23
PART II. OTHER INFORMATION	
Item 6. Exhibits	24
SIGNATURES	25
EXHIBIT INDEX	26

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

	December 31, 2008	September 30, 2008
	(Unaudited)	
Assets		
Current Assets		
Cash and cash equivalents	\$ 38,411	\$ 37,501
Restricted cash	489	970
Accounts receivable		
Trade (less allowance for doubtful accounts of \$639 and \$588 at December 31, 2008 and September 30, 2008, respectively)	14,299	17,639
Unbilled and other	7,200	5,376
Inventories	16,358	15,902
Deferred income taxes	4,700	4,500
Income taxes receivable	-	-
Other	2,210	1,511
Total current assets	83,667	83,399
Property, Plant and Equipment - Net	8,314	8,409
Intangible Assets - Net	5,076	4,384
Goodwill	4,450	4,450
Restricted cash - non-current	677	1,713
Total Assets	\$ 102,184	\$ 102,355

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

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

	December 31, 2008	September 30, 2008
	(Unaudited)	
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	\$ 6,791	\$ 6,529
Bank loans and current maturities of long-term debt	113	148
Accrued compensation and related taxes	3,912	4,553
Accrued warranty expense	1,331	1,155
Deferred profit	6,009	5,352
Customer deposits	4,040	4,859
Other accrued liabilities	1,548	2,503
Income taxes payable	1,730	1,060

Edgar Filing: AMTECH SYSTEMS INC - Form 10-Q

Total current liabilities	25,474	26,159
Income Taxes Payable Long-term	460	440
Deferred Income Taxes Long-term	900	940
Long-Term Obligations	251	283
Total liabilities	27,085	27,822
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: 9,103,673 and 9,096,048 at December 31, 2008 and September 30, 2008, respectively	91	91
Additional paid-in capital	70,300	70,135
Accumulated other comprehensive income	(392)	67
Retained Earnings	5,100	4,240
Total stockholders' equity	75,099	74,533
Total Liabilities and Stockholders' Equity	\$ 102,184	\$ 102,355

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

4

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

	Three Months Ended December 31,	
	2008	2007
Revenues, net of returns and allowances	\$ 17,872	\$ 11,741
Cost of sales	11,786	8,181
Gross profit	6,086	3,560
Selling, general and administrative	4,483	3,302
Research and development	224	233
Operating income	1,379	25
Interest and other income, net	61	153
Income before income taxes	1,440	178
Income tax provision	580	70
Net income	\$ 860	\$ 108
Earnings Per Share:		
Basic income per share	\$ 0.09	\$ 0.01

Weighted average shares outstanding	9,098	7,636
Diluted income per share	\$ 0.09	\$ 0.01
Weighted average shares outstanding	9,109	7,818

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

5

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

	Three Months Ended December 31,	
	2008	2007
Operating Activities		
Net income	\$ 860	\$ 108
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	363	313
Write-down of inventory	119	24
Deferred income taxes	(374)	(398)
Non-cash share based compensation expense	166	102
Other	66	53
Changes in operating assets and liabilities:		
Restricted cash	1,466	(786)
Accounts receivable	890	3,063
Inventories	(935)	(2,745)
Accrued income taxes	623	276
Prepaid expenses and other assets	(687)	(5)
Accounts payable	(135)	(772)
Accrued liabilities and customer deposits	(2,019)	(87)
Deferred profit	736	(833)
Net cash provided by (used in) operating activities	1,139	(1,687)
Investing Activities		
Purchases of property, plant and equipment	(222)	(1,193)
Increase in restricted cash long-term	-	(1,952)
Payment for licensing agreement	(300)	-
Investment in R2D	-	(6,415)
Net cash used in investing activities	(522)	(9,560)
Financing Activities		
Proceeds from issuance of common stock	-	33,827
Payments on long-term obligations	(62)	(59)
Excess tax benefit of stock options	-	80
Net cash provided by (used in) financing activities	(62)	33,848
Effect of Exchange Rate Changes on Cash	355	(225)

Net Increase in Cash and Cash Equivalents	910	22,376
Cash and Cash Equivalents, Beginning of Period	37,501	18,370
Cash and Cash Equivalents, End of Period	\$ 38,411	\$ 40,746
Supplemental Cash Flow Information:		
Interest paid	\$ 8	\$ 118
Income tax refunds	\$ 131	\$ -
Income tax payments	\$ 345	\$ 104
Supplemental Non-cash Investing Activities:		
Transfer inventory to capital equipment	\$ 116	\$ -
Intangible assets funded with current liabilities	\$ 500	\$ -

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, 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 solar and semiconductor industries. The Company sells these products worldwide, particularly in Asia, the United States 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, 2008.

The consolidated results of operations for the three months ended December 31, 2008, are not necessarily indicative of the results to be expected for the full fiscal year.

Reclassifications - Certain reclassifications have been made in the accompanying consolidated financial statements for fiscal 2008 conform to the 2009 presentation. These reclassifications did not have a material effect on the Company's financial statements.

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.

7

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, 2008	September 30, 2008
	(dollars in thousands)	
Deferred revenues	\$ 8,846	\$ 6,934
Deferred costs	2,837	1,582
Deferred profit	\$ 6,009	\$ 5,352

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, located throughout the world, consist of manufacturers of solar cells, semiconductors, semiconductor wafers and MEMS. 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, 2008, receivables from two customers individually accounted for 18% and 12% of total accounts receivable.

Restricted Cash □ Current restricted cash of \$0.5 million as of December 31, 2008 consists of bank guarantees. The bank guarantees are required by certain customers from whom deposits have been received in advance of shipment. Current restricted cash of \$1.0 million as of September 30, 2008 consists of bank guarantees in excess of our European overdraft facility that was terminated in the first quarter of fiscal 2009.

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 or net realizable value. Costs for approximately 80% 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:

	December 31, 2008	September 30, 2008
	(dollars in thousands)	
Purchased parts and raw materials	\$ 10,448	\$ 9,776
Work-in-process	5,069	5,057
Finished goods	841	1,069
	\$ 16,358	\$ 15,902

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, 2008	September 30, 2008
	(dollars in thousands)	
Land, building and leasehold improvements	\$ 6,860	\$ 6,916
Equipment and machinery	3,788	3,654
Furniture and fixtures	3,300	3,306
	13,948	13,876
Accumulated depreciation and amortization	(5,634)	(5,467)
	\$ 8,314	\$ 8,409

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.

In November the Company entered into a license agreement with PST Co., LTD (□PST□), based in Korea, to market PST□s existing and future proprietary PSG (phosphorus silicate glass) dry etch systems.

The royalty free, 10-year license agreement grants Amtech exclusive marketing rights throughout the world, with the exception of Korea and one Japanese customer with respect to which PST retains marketing rights. In consideration for the licensed rights, Amtech will pay \$0.5 million and enter into a manufacturing agreement with PST.

The following is a summary of intangibles:

Useful Life	December 31, 2008	September 30, 2008
	(dollars in thousands)	

Edgar Filing: AMTECH SYSTEMS INC - Form 10-Q

Trademarks	Indefinite	\$ 592	\$ 592
Non-compete agreements	8-10 years	524	524
Customer lists	10-15 years	1,195	1,195
Technology	4-10 years	1,822	1,924
Licenses	10 years	1,500	700
Other	2-10 years	94	94
		5,727	5,029
Accumulated amortization		(651)	(645)
		\$ 5,076	\$ 4,384

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:

	Three Months Ended December 31,	
	2008	2007
	(dollars in thousands)	
Beginning balance	\$ 1,155	\$ 256
Warranty expenditures	(151)	(110)
Provision	327	81
Acquired through business acquisitions	-	247
Ending balance	\$ 1,331	\$ 474

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:

Name of Plan	Shares Authorized	Shares Available	Options Outstanding	Plan Expiration
2007 Employee Stock Incentive Plan	500,000	119,187	250,313	Apr. 2017
1998 Employee Stock Option Plan	500,000	-	335,490	Jan. 2008
Non-Employee Directors Stock Option Plan	200,000	58,600	64,000	Jul. 2015
		177,787	649,803	

Edgar Filing: AMTECH SYSTEMS INC - Form 10-Q

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

	Three Months Ended December 31,	
	2008	2007
	(dollars in thousands, except per share amounts)	
Effect on income before income taxes (1)	\$ (166)	\$ (102)
Effect on net income	\$ (135)	\$ (89)
Effect on basic income per share	\$ (0.01)	\$ (0.01)
Effect on diluted income per share	\$ (0.01)	\$ (0.01)

(1) Stock-based compensation expense is included in selling, general and administrative expenses.

Qualified stock options issued under the terms of the plans have, or will have, an exercise price equal to or greater than the fair market value of the common stock at the date of the option grant and expire no later than 10 years from the date of grant, with the most recent grant expiring in 2018. Under the terms of the 1998 Employee Stock Option Plan, nonqualified stock options may also be issued. Options issued by the Company vest over 1 to 5 years.

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

	Three Months Ended December 31, 2008		2007	
		Weighted Average Exercise Price		Weighted Average Exercise Price
	Options		Options	
Outstanding at beginning of period	487,053	\$ 8.39	450,303	\$ 6.44
Granted	163,000	3.80	85,000	14.79
Exercised	-	-	(50,875)	5.15
Forfeited	(250)	7.00	(500)	7.00
Outstanding at end of period	649,803	\$ 7.24	483,928	\$ 8.04
Exercisable at end of period	296,892	\$ 7.15	222,809	\$ 6.35
Weighted average fair value of options granted during the period	\$ 2.29		\$ 8.70	

10

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,	
	2008	2007
Risk free interest rate	1.82%	3.45%
Expected life	6 years	6 years
Dividend rate	0%	0%
Volatility	66%	61%
Forfeiture rate	8%	9%

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 163,000 and 85,000 options granted during the three months ended December 31, 2008 and 2007, respectively. Total fair value of options granted was approximately \$373,000 and \$740,000 for the three months ended December 31, 2008 and 2007, respectively.

In December 2007, we began awarding restricted shares under the existing share-based compensation plans. Our restricted share-awards vest in equal annual installments over a four-year year period. The total value of these awards is expensed on a ratable basis over the service period of the employees receiving the grants. The "service period" is the time during which the employees receiving grants must remain employees for the shares granted to fully vest.

Three Months Ended December 31,
2008 **2007**

		Weighted Average Grant Date Fair Value		Weighted Average Grant Date Fair Value
	Awards		Options	
Beginning Outstanding	30,500	\$ 14.79	-	\$ -
Awarded	100,000	3.80	31,500	14.79
Released	(7,625)	14.79	-	-
Forfeited	-	-	-	-
Ending Outstanding	122,875	\$ 7.24	31,500	\$ 14.79

Impact of Recently Issued Accounting Pronouncements

In April 2008, the Financial Accounting Standards Board (FASB) issued Staff Position ("FSP") No. 142-3 "Determination of the Useful Life of Intangible Assets" ("FSP No. 142-3"). FSP No. 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142 "Goodwill and Other Intangible Assets". FSP No. 142-3 is effective for the Company's quarter beginning October 1, 2009. The Company is currently evaluating the impact that FSP No. 142-3 will have on its consolidated financial statements.

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. SFAS No. 157 was effective for the Company's fiscal year beginning October 1, 2008. The effect of implementing SFAS 157 did not have a material impact on the Company's financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations". This Statement replaces SFAS No. 141, (Statement 141) Business Combinations. SFAS No. 141(R) 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. SFAS No. 141(R) 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 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 and liabilities reflect the tax effects of temporary differences between the carrying value of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. SFAS No. 109 [Accounting for Income Taxes] requires that a valuation allowance is recognized if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized. The company maintains a valuation allowance with respect to certain state and foreign net operating losses that may not be recovered. Each quarter the valuation allowance is re-evaluated. During the quarter ended December 31, 2008, no change was made to the valuation allowance.

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 December 31, 2008, and September 30, 2008, the total amount of unrecognized tax benefits was \$460,000 and \$440,000. If recognized, these amounts would favorably impact the effective tax rate.

The Company recognizes interest accrued related to unrecognized tax benefits and penalties in the provision for income taxes. As of December 31, 2008 and September 30, 2008, the Company accrued \$90,000 and \$70,000 for potential interest and penalties.

The Company and one or more of its subsidiaries file income tax returns in The Netherlands, Germany, the U.S., France and other foreign jurisdictions, as well as various states in the U.S. The Company and its subsidiaries have open tax years primarily from fiscal 2004 to fiscal 2008 with taxing foreign jurisdictions and the U.S. These open years contain certain matters that could be subject to differing interpretations of applicable tax laws and regulations as they relate to the amount, timing, or inclusion of revenues and expenses, or the sustainability of income tax positions of the Company and its subsidiaries.

3. Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted EPS is computed similarly to basic EPS except that the denominator is increased to include the number of additional common shares that would have been outstanding if potentially dilutive common shares had been issued.

Common shares relating to stock options where the exercise prices exceeded the average market price of our common shares during the period were excluded from the diluted earnings per share calculation as the related impact was anti-dilutive. For the three months ended December 31, 2008, options for 630,000 shares and 30,500 restricted stock award shares are excluded from the diluted EPS calculations because they are anti-dilutive. For the three months ended December 31, 2007, options for 85,000 shares and 31,500 restricted stock award shares are excluded from the diluted EPS calculations because they are anti-dilutive.

12

**Three Months Ended
December 31,
2008 2007
(in thousands, except per share
amounts)**

Basic Earnings Per Share Computation

Net income	\$ 860	\$ 108
------------	-------------------	-------------------

Weighted Average Shares Outstanding:		
Common stock	9,098	7,636

Basic earnings per share	\$ 0.09	\$ 0.01
--------------------------	---------	---------

Diluted Earnings Per Share Computation

Net income	\$ 860	\$ 108
------------	--------	--------

Weighted Average Shares Outstanding:		
Common stock	9,098	7,636
Common stock equivalents (1)	11	182
Diluted shares	9,109	7,818

Diluted earnings per share	\$ 0.09	\$ 0.01
----------------------------	---------	---------

- (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,
2008 2007
(dollars in thousands)**

Net income, as reported	\$ 860	\$ 108
Foreign currency translation adjustment	(459)	146
Comprehensive income	\$ 401	\$ 254

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 portion of corporate expenses that is allocated to the polishing supplies segment. The polishing supplies segment designs, manufactures and markets carriers, templates and equipment used in the lapping and polishing of wafer-thin materials, including silicon wafers used in the production of semiconductors.

Information concerning our business segments is as follows:

**Three Months Ended
December 31,**

	2008	2007
Net Revenues:		
	(dollars in thousands)	
Solar and semiconductor equipment	\$ 16,132	\$ 9,997
Polishing supplies	1,740	1,744

Edgar Filing: AMTECH SYSTEMS INC - Form 10-Q

	\$	17,872		\$	11,741
Operating Income:					
Solar and semiconductor equipment	\$	1,407		\$	(118)
Polishing supplies		(28)			143
		1,379			25
Interest and other income (expense), net		61			153
Income before income taxes	\$	1,440		\$	178

	December 31, 2008	September 30, 2008
(dollars in thousands)		
Identifiable Assets:		
Solar and semiconductor equipment	\$ 97,615	\$ 97,545
Polishing supplies	4,569	4,810
	\$ 102,184	\$ 102,355

6. Major Customers and Foreign Sales

During the three month period ended December 31, 2008, two customers individually represented 33% and 12% of net revenues. During the three months ended December 31, 2007, one customer represented 15% of net revenues.

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

	Three Months Ended December 31,	
	2008	2007
North America (1)	18%	21%
Asia (2) (3)	69%	44%
Europe	13%	35%
	100%	100%

(1) Includes 18% and 21% to the United States in fiscal 2009 and 2008, respectively

(2) Includes 17% and 25% to China in fiscal 2009 and 2008, respectively.

(3) Includes 48% and 6% to Taiwan in fiscal 2009 and 2008, respectively.

7. Commitments and Contingencies

Purchase Obligations □ As of December 31, 2008, we had purchase obligations in the amount of \$6.1 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. Stockholders Equity

Shareholder Rights Plan □ On December 15, 2008, the Company and Computershare Trust Company, N.A., as Rights Agent (the "Rights Agent"), entered into an Amended and Restated Rights Agreement (the "Restated Rights

Agreement) which amends and restates the terms governing the previously authorized shareholder rights (each a "Right") to purchase fractional shares of the Company's Series A Participating Preferred Stock ("Series A Preferred") currently attached to each of the Company's outstanding Common Shares, par value \$0.01 per share ("Common Shares"). As amended, each Right entitles the registered holder to purchase from the Company one one-thousandth of a share of Series A Preferred at an exercise price of \$51.60 (the "Exercise Price"), subject to adjustment. The Final Expiration Date (as defined in the Restated Rights Agreement) is now December 14, 2018.

Other than extending the Final Expiration Date (as defined in the Restated Rights Agreement) of the Rights to December 14, 2018 and adjusting the Exercise Price, there were no material changes to the principal terms of the Rights. The Restated Rights Agreement also contains certain other changes in order to address current law and practice with respect to shareholder rights plans.

Stock Repurchase Program In December the Board of Directors approved a stock repurchase program authorizing the repurchase of up to \$4 million of its common stock. Under the program, shares may be repurchased from time to time in open market transactions at prevailing market prices or in privately negotiated purchases. The timing and actual number of shares purchased will depend on a variety of factors, such as price, corporate and regulatory requirements, alternative investment opportunities, and other market and economic conditions. The program may be commenced, suspended or terminated at any time, or from time-to-time at management's discretion without prior notice.

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, 2008, 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, 2008, 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

16

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 to fabricators of optics, quartz, ceramics and metal parts, and to 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, 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.

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, 2008	December 31, 2007
Net revenue	100%	100%
Cost of goods sold	66%	70%
Gross margin	34%	30%
Operating expenses:		
Selling, general and administrative	25%	28%
Research and Development	1%	2%
Total operating expenses	26%	30%

Income from operations	8%	0%
Interest income (expense), net	0%	2%
Income before income taxes	8%	2%
Income taxes	3%	1%
Net Income	5%	1%

Net Revenue

Net revenue consists of revenue recognized upon shipment or installation of products using proven technology and upon acceptance of products using new technology. In addition, spare parts sales are recognized upon shipment. Service revenue is recognized upon completion of the service activity or ratably over the term of the service contract. The majority of our revenue is generated from large furnace 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.

17

Segment	Three Months Ended		Increase (Decrease)	%
	December 31, 2008	December 31, 2007		
	(dollars in thousands)			
Solar and Semiconductor Equipment Segment	\$ 16,132	\$ 9,997	\$ 6,135	61%
Polishing Supplies Segment	1,740	1,744	(4)	(0%)
Total Net Revenue	\$ 17,872	\$ 11,741	\$ 6,131	52%

Net revenue for the quarter ended December 31, 2008 increased by \$6.1 million, or 52%, from the quarter ended December 31, 2007. Revenue increases in the solar and semiconductor equipment segment resulted from higher shipment volumes to the solar industry, partially offset by an increase in deferred revenue. Net revenue from the solar market was \$11.1 million for the three months ended December 31, 2008, a \$5.9 million or 113% increase from the three months ended December 31, 2007. Net revenue of the polishing supplies segment for the three months ended December 31, 2008 remained at the same level as net revenue for the three months ended December 31, 2007. The recent global credit crisis and related downturn in the global economy has caused many of our customers to delay or suspend their capacity expansion plans, which has resulted in lower orders. In addition, some of our customers have and others may request delays in the shipment of their orders. As a result, future revenues from both the solar and semiconductor markets are likely to be negatively impacted.

Backlog and Orders

Our order backlog as of December 31, 2008 and 2007 was \$42.4 million and \$49.9 million, respectively. Our backlog as of December 31, 2008 includes approximately \$35.8 million of orders from our solar industry customers compared to \$42.2 million at December 31, 2007. New orders booked in our most recent quarter ended December 31, 2008 were \$9.3 million compared to \$37.0 million in the first quarter of fiscal 2008 and \$17.6 million in the fourth quarter of fiscal 2008. The decrease in new orders and backlog is due primarily to the recent global credit crisis and related economic downturn. This has caused many of our customers to delay or suspend their capacity expansion plans. Total bookings for the next several quarters are expected to remain noticeably lower than prior year quarters as a result of the lingering global economic downturn.

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. Our backlog as of December 31, 2008

and 2007, respectively, include \$1.1 million and \$0.9 million of deferred revenue for which there is an equal amount of deferred costs, i.e. with no gross profit to be realized.

Gross Profit and Gross Margin

Gross profit is the difference between net revenue and cost of goods sold. Cost of goods sold consists of purchased material, labor and overhead to manufacture equipment and spare parts and the cost of service and support to customers for warranty, installation and paid service calls. Gross margin is gross profit as a percent of net revenue.

Segment	Three Months Ended		Increase (Decrease)	%
	December 31, 2008	December 31, 2007		
(dollars in thousands)				
Solar and Semiconductor Equipment Segment	\$ 5,778	\$ 3,059	\$ 2,719	89%
Polishing Supplies Segment	308	501	(193)	(39%)
Total Gross Profit	\$ 6,086	\$ 3,560	\$ 2,526	71%
Gross Margin	34%	30%		

For the three months ended December 31, 2008, gross profit in the solar and semiconductor equipment segment increased 89% versus the three months ended December 31, 2007. The increase was driven primarily by higher volumes and improved capacity utilization, including improvements at R2D, the company acquired in the first quarter of fiscal 2008. Improvements in gross profit were partially offset by a \$0.8 million increase in deferred profit during the three months ended December 31, 2008. In the comparable period ended December 31, 2007, deferred profit decreased \$0.8 million. Gross margins in the polishing supplies segment were negatively impacted by product mix as volumes of higher-margin insert carriers decreased while sales of polishing machines, which generally carry a lower gross margin, increased.

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.

18

Segment	Three Months Ended		Increase (Decrease)	%
	December 31, 2008	December 31, 2007		
(dollars in thousands)				
Solar and Semiconductor Equipment Segment	\$ 4,147	\$ 2,944	\$ 1,203	41%
Polishing Supplies Segment	336	358	(22)	(6%)
Total SG&A	\$ 4,483	\$ 3,302	\$ 1,181	36%
Percent of net revenue	25%	28%		

Total selling, general and administrative (SG&A) expense for the three months ended December 31, 2008 increased \$1.2 million, or 36%, over the three months ended December 31, 2007. Commission expense increased \$0.8 million for the three months ended December 31, 2008 versus the three months ended December 31, 2007 due to increased commissionable sales, primarily in the solar market. The remainder of the increase results from increases in stock-based and incentive compensation expense and professional fees, including costs related to compliance with the provisions of the Sarbanes-Oxley Act.

Research and Development

Edgar Filing: AMTECH SYSTEMS INC - Form 10-Q

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.

Segment	Three Months Ended		Increase (Decrease)	%
	December 31, 2008	December 31, 2007		
(dollars in thousands)				
Semiconductor and Solar Equipment Segment	\$ 224	\$ 233	\$ (9)	(4%)
Polishing Supplies Segment	-	-	-	0%
Total Research and Development	\$ 224	\$ 233	\$ (9)	(4%)
Percent of net revenue	1%	2%		

Research and development costs for the three months ended December 31, 2008 remained consistent with the levels for the three months ended December 31, 2007.

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 December 31, 2008	December 31, 2007	Increase (Decrease)
Interest and other income (expense), net	(dollars in thousands)		
Interest and other income (expense), net	\$ 51	\$ 207	\$ (156)
Foreign currency gains (losses)	10	(54)	64
Total	\$ 61	\$ 153	\$ (92)

Interest income represents earnings on invested funds. Interest expense primarily consists of interest incurred on our overdraft facility, capital equipment borrowings and mortgage on Amtech's land and building in the Netherlands. Interest and other income decreased \$0.2 million due to lower interest rates for the three months ended December 31, 2008.

Income Taxes

During the three months ended December 31, 2008, we recorded income taxes of \$0.6 million. The effective tax rate used for calculating the income tax provision for the three months ended December 31, 2008 and December 31, 2007 were approximately 40% and 39%, respectively. The rates are estimates based upon projected annual income, estimated annual permanent differences and statutory tax rates in the various jurisdictions in which we operate.

Liquidity and Capital Resources

At December 31, 2008 and September 30, 2008, cash and cash equivalents and restricted cash were \$38.9 million and \$38.5 million, respectively. Our working capital as of December 31, 2008 and September 30, 2008 was \$58.2 million and \$57.2 million, respectively. The increase in cash and cash equivalents resulted primarily from cash provided by operations, partially offset by purchases of property, plant and equipment as well as a payment for our licensing agreement with PST. In the first quarter of fiscal 2009 we terminated our line of credit in the amount of Euro 1.0 million (approximately \$1.4 million). We believe that our principal sources of liquidity discussed above are sufficient to support operations.

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. There can be no assurance that we can raise such additional capital resources on satisfactory terms.

In December, the Board of Directors approved a stock repurchase program authorizing the repurchase of up to \$4 million of its common stock. Under the program, shares may be repurchased from time to time in open market transactions at prevailing market prices or in privately negotiated purchases. The timing and actual number of shares purchased will depend on a variety of factors, such as price, corporate and regulatory requirements, alternative investment opportunities, and other market and economic conditions. Repurchases under the program will be funded from available working capital. The program may be commenced, suspended or terminated at any time, or from time-to-time at management's discretion without prior notice.

Cash Flows from Operating Activities

Cash provided by our operating activities was \$1.1 million for the three months ended December 31, 2008, compared to \$1.7 million used in such activities for the three months ended December 31, 2007. In the first quarter of fiscal 2009, cash was primarily generated by earnings from operations, partially offset by increases in inventory and prepaid expenses and other assets as well as decreases in accrued liabilities and customer deposits. In the first quarter of fiscal 2008, cash was primarily used to finance increases in inventory and decreases in accounts payable, other current liabilities and deferred profit. This was partially offset by a decrease in accounts receivable.

Cash Flows from Investing Activities

Our investing activities for the three months ended December 31, 2008 and 2007 used \$0.5 million and \$9.6 million respectively. For the three months ended December 31, 2008, we had capital expenditures of \$0.2 million primarily for machinery and equipment and we made a payment of \$0.3 million for our licensing agreement with PST. For three months ended December 31, 2007, we used cash of \$8.0 million related to the acquisition of R2D. Capital expenditures in the same period were \$1.2 million, primarily related to the improvements of our facilities in The Netherlands.

Cash Flows from Financing Activities

For the three months ended December 31, 2008, \$0.1 million of cash was used in financing activities for the payment of long-term debt. This compares to cash of \$33.6 million 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 in the first quarter of fiscal 2008. An additional \$0.2 million was provided by the exercise of stock options in the first quarter of fiscal 2008.

Off-Balance Sheet Arrangements

As of December 31, 2008, Amtech had no off-balance sheet arrangements as defined in Item 303(a) (4) of Regulation S-K promulgated by the Securities and Exchange Commission.

Contractual Obligations

The only significant changes in contractual obligations since the end of fiscal 2008 have been purchase obligations (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, 2008, 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 for the year ended September 30, 2008. 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 net operating loss carryforwards in certain state and foreign jurisdictions available to 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. Since 2004, we have sustained increasing profitability and utilized all of our federal net operating loss carry forwards. Each quarter, we analyze 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 adjust the valuation allowance to the amount of deferred taxes that do not meet the criteria for recognition under SFAS No. 109. Currently, we only maintain a valuation allowance with respect to certain state and foreign net operating losses that may not be recovered.

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. 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, 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 "Part 1. Financial Information" in Note 1 to the financial statements 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 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 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, 2008.

As of December 31, 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 months ended December 31, 2008 and 2007. As of December 31, 2008, our foreign subsidiaries had \$1.9 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 non-functional currency would result in a gain or loss of \$0.2 million. As of December 31, 2008, we had \$1.5 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 \$0.2 million. Our net investment in and advances to our foreign operations totaled \$36.7 million as of December 31, 2008. A 10% change in the value of the euro relative to the U.S. dollar would cause an approximately \$3.7 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, 2008 and 2007, our European operations transacted U.S. dollar denominated sales and purchases of \$1.3 million and \$1.3 million, respectively. As of December 31, 2008, sales commitments denominated in a currency other than the function currency of our transacting operation totaled \$2.8 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 less than \$0.3 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, 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 quarter of fiscal 2009 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		*

Edgar Filing: AMTECH SYSTEMS INC - Form 10-Q

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.

24

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 9, 2009

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

25

EXHIBIT INDEX

Exhibit Number	Description	Page or Method of Filing
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.

26