

AMTECH SYSTEMS INC  
Form 10-Q  
February 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: December 31, 2007

OR

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

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

Commission File Number: 0-11412

**AMTECH SYSTEMS, INC.**

(Exact name of registrant as specified in its charter)

Arizona  
(State or other jurisdiction of  
incorporation or organization)

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

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

85281  
(Zip Code)

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Shares of Common Stock outstanding as of February 5, 2008: 9,071,048

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**PART I FINANCIAL INFORMATION**

**ITEM 1. Condensed Consolidated Financial Statements**

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

|   | December 31,<br>2007<br>(Unaudited) | September 30,<br>2007 |
|---|-------------------------------------|-----------------------|
| <b>Assets</b>   |                                     |                       |
| <b>Current Assets</b>   |                                     |                       |
| Cash and cash equivalents   | \$ 40,746                           | \$ 18,370             |
| Restricted cash   | 1,248                               | 443                   |
| Accounts receivable   |                                     |                       |
| Trade (less allowance for doubtful accounts of \$190 and \$126 at December 31, 2007 and September 30, 2007, respectively) | 8,741                               | 9,952                 |
| Unbilled and other  | 3,578                               | 3,127                 |
| Inventories   | 12,018                              | 7,289                 |
| Deferred income taxes   | 2,194                               | 1,690                 |
| Other   | 1,684                               | 1,339                 |
| Total current assets  | 70,209                              | 42,210                |
| <b>Property, Plant and Equipment - Net</b>  | 7,648                               | 6,245                 |
| <b>Deferred Income Taxes - Long Term</b>  | -                                   | 30                    |
| <b>Intangible Assets - Net</b>  | 4,419                               | 1,364                 |
| <b>Goodwill</b>   | 1,974                               | 817                   |
| <b>Restricted cash - non-current</b>  | 1,631                               | -                     |
| <b>Total Assets</b>   | \$ 85,881                           | \$ 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)

|   | December 31,<br>2007<br>(Unaudited) | September 30,<br>2007 |
|---|-------------------------------------|-----------------------|
| <b>Liabilities and Stockholders' Equity</b>         |                                     |                       |
| <b>Current Liabilities</b>                          |                                     |                       |
| Accounts payable                                    | \$ 4,647                            | \$ 4,150              |
| Bank loans and current maturities of long-term debt | 269                                 | 224                   |
| Accrued compensation and related taxes              | 2,233                               | 2,139                 |
| Accrued warranty expense                            | 474                                 | 256                   |
| Deferred profit                                     | 1,760                               | 2,144                 |
| Customer deposits                                   | 1,817                               | 1,824                 |
| Other accrued liabilities                           | 908                                 | 562                   |
| Income taxes payable                                | 274                                 | 419                   |
| Total current liabilities                           | 12,382                              | 11,718                |
| <b>Income Taxes Payable Long-term</b>               | 428                                 | -                     |
| <b>Deferred Income Taxes Long-term</b>              | 76                                  | -                     |
| <b>Long-Term Obligations</b>                        | 860                                 | 744                   |
| Total liabilities                                   | 13,746                              | 12,462                |

| <b>Commitments and Contingencies</b>  |  |                  |                  |
|---|--|------------------|------------------|
| <b>Stockholders' Equity</b>   |  |                  |                  |
| Preferred stock; 100,000,000 shares authorized; none issued   |  | -                | -                |
| Common stock; \$0.01 par value; 100,000,000 shares authorized;<br>shares issued and outstanding: 9,068,798 and 6,517,923<br>at December 31, 2007 and September 30, 2007 |  | 91               | 65               |
| Additional paid-in capital  |  | 69,593           | 35,610           |
| Accumulated other comprehensive income  |  | 959              | 813              |
| Retained Earnings   |  | 1,492            | 1,716            |
| Total stockholders' equity  |  | 72,135           | 38,204           |
| <b>Total Liabilities and Stockholders' Equity</b>   |  | <b>\$ 85,881</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)

|   | <b>Three Months Ended December 31,</b> |             |
|---|--|-------------|
|   | <b>2007</b>                            | <b>2006</b> |
| Revenues, net of returns and allowances | \$ 11,741                              | \$ 9,451    |
| Cost of sales                           | 8,181                                  | 7,059       |
| Gross profit                            | 3,560                                  | 2,392       |
| Selling, general and administrative     | 3,302                                  | 2,219       |
| Research and development                | 233                                    | 118         |
| Operating income                        | 25                                     | 55          |
| Interest and other income, net          | 153                                    | 21          |
| Income before income taxes              | 178                                    | 76          |
| Income tax provision                    | 70                                     | 70          |
| <b>Net income</b>                       | <b>\$ 108</b>                          | <b>\$ 6</b> |
| <b>Earnings Per Share:</b>              |  |             |
| Basic income per share                  | \$ 0.01                                | \$ 0.00     |
| Weighted average shares outstanding     | 7,636                                  | 3,476       |
| Diluted income per share                | \$ 0.01                                | \$ 0.00     |
| Weighted average shares outstanding     | 7,818                                  | 3,511       |

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 Cash Flows**  
(Unaudited)  
(in thousands)

|   | Three Months Ended December 31, |          |
|---|---------------------------------|----------|
|   | 2007                            | 2006     |
| <b>Operating Activities</b>   |                                 |          |
| Net income  | \$ 108                          | \$ 6     |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                                 |          |
| Depreciation and amortization   | 313                             | 168      |
| Write-down of inventory   | 24                              | 43       |
| Deferred income taxes   | (398)                           | (360)    |
| Non-cash share based compensation expense   | 102                             | 33       |
| Other   | 53                              | 17       |
| Changes in operating assets and liabilities:  |                                 |          |
| Accounts receivable   | 3,063                           | (813)    |
| Inventories   | (2,745)                         | (1,002)  |
| Accrued income taxes  | 276                             | 132      |
| Prepaid expenses and other assets   | (5)                             | (462)    |
| Accounts payable  | (772)                           | (677)    |
| Accrued liabilities and customer deposits   | (408)                           | 1,262    |
| Deferred profit   | (833)                           | 351      |
| Net cash used in operating activities   | (1,222)                         | (1,302)  |
| <b>Investing Activities</b>   |                                 |          |
| Purchases of property, plant and equipment  | (1,193)                         | (76)     |
| Increase in restricted cash   | (786)                           | -        |
| Investment in R2D   | (8,046)                         | -        |
| Net cash used in investing activities   | (10,025)                        | (76)     |
| <b>Financing Activities</b>   |                                 |          |
| Proceeds from issuance of common stock  | 33,827                          | -        |
| Payments on long-term obligations   | (59)                            | (114)    |
| Borrowings on long-term obligations   | -                               | 355      |
| Excess tax benefit of stock options   | 80                              | -        |
| Net cash provided by financing activities   | 33,848                          | 241      |
| <b>Effect of Exchange Rate Changes on Cash</b>  | (225)                           | (83)     |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>                                 | 22,376                          | (1,220)  |
| <b>Cash and Cash Equivalents, Beginning of Period</b>                                       | 18,370                          | 6,433    |
| <b>Cash and Cash Equivalents, End of Period</b>   | \$ 40,746                       | \$ 5,213 |
| <b>Supplemental Cash Flow Information:</b>  |                                 |          |
| Interest paid   | \$ 118                          | \$ 46    |
| Income tax payments   | \$ 104                          | \$ 299   |

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

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**AMTECH SYSTEMS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE MONTHS ENDED DECEMBER 31, 2007 AND 2006**  
**(UNAUDITED)**

**1. Basis of Presentation**

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

Effective October 1, 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. R2D provides solutions to the solar and semiconductor industries. The purpose of the acquisition was to expand the Company's automation products which are used in the semiconductor manufacturing and solar diffusion processes. The acquisition of the technology and business of R2D enhances the growth strategy by allowing the Company to increase sales by offering an integrated system under the Tempres brand to the solar industry.

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 months ended December 31, 2007, are not necessarily indicative of the results to be expected for the full fiscal 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.

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

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

**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,<br>2007   | September 30,<br>2007 |
|-------------------|------------------------|-----------------------|
|                   | (dollars in thousands) |                       |
| Deferred revenues | \$ 3,488               | \$ 3,894              |
| Deferred costs    | 1,728                  | 1,750                 |
| Deferred profit   | \$ 1,760               | \$ 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 semiconductors, semiconductor wafers, MEMS and solar cells located throughout the world. Credit risk is managed by performing ongoing credit evaluations of the customers' financial condition, by requiring significant deposits where appropriate, and by actively monitoring collections. Letters of credit are required of certain customers depending on the size of the order, type of customer or its creditworthiness, and its country of domicile. Reserves for potentially uncollectible receivables are maintained based on an assessment of collectibility.

As of December 31, 2007, receivables from one customer individually accounted for 17% of total accounts receivable.

**Restricted Cash** □ Current restricted cash of \$1.2 million and \$0.4 million as December 31, 2007 and September 30, 2007, respectively, consists of bank guarantees in excess of our European overdraft facility. The bank guarantees are required by certain customers from whom amounts have been received in advance of shipment.

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

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

The components of inventories are as follows:

|                                   | December 31,<br>2007   | September 30,<br>2007 |
|-----------------------------------|------------------------|-----------------------|
|                                   | (dollars in thousands) |                       |
| Purchased parts and raw materials | \$ 6,332               | \$ 5,291              |
| Work-in-process                   | 4,810                  | 1,456                 |
| Finished goods                    | 876                    | 542                   |
|                                   | \$ 12,018              | \$ 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.

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

|   | December 31,<br>2007   | September 30,<br>2007 |
|---|------------------------|-----------------------|
|   | (dollars in thousands) |                       |
| Land, building and leasehold improvements | \$ 6,510               | \$ 5,105              |
| Equipment and machinery                   | 3,239                  | 2,874                 |
| Furniture and fixtures                    | 2,886                  | 2,570                 |
|   | 12,635                 | 10,549                |
| Accumulated depreciation and amortization | (4,987)                | (4,304)               |
|   | \$ 7,648               | \$ 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.

Effective October 1, 2007, the Company acquired, through its wholly-owned subsidiary, Tempres Holding B.V., 100% of the voting equity, in R2D Ingenierie, or R2D, a solar cell and semiconductor automation equipment manufacturing company, located near Montpellier, France.

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

The following is a summary of intangibles:

|                          | Useful Life | December 31,<br>2007   | September 30,<br>2007 |
|--------------------------|-------------|------------------------|-----------------------|
|                          |             | (dollars in thousands) |                       |
| Trademarks               | Indefinite  | \$ 592                 | \$ 592                |
| Non-compete agreements   | 8-10 years  | 526                    | 350                   |
| Customer lists           | 10-15 years | 1,492                  | 276                   |
| Technology               | 4-10 years  | 1,674                  | 102                   |
| Licenses                 | 10 years    | 300                    | 300                   |
| Backlog and other        | 1-2 years   | 226                    | -                     |
|                          |             | 4,810                  | 1,620                 |
| Accumulated amortization |             | (391)                  | (256)                 |
|                          |             | \$4,419                | \$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.

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**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>Three Months Ended December 31,</b> |             |
|--|--|-------------|
|  | <b>2007</b>                            | <b>2006</b> |
|  | <b>(dollars in thousands)</b>          |             |
| Beginning balance                      | \$ 256                                 | \$ 289      |
| Warranty expenditures                  | (110)                                  | (16)        |
| Provision                              | 81                                     | 22          |
| Acquired through business acquisitions | 247                                    | -           |
| Ending balance                         | \$ 474                                 | \$ 295      |

**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:

| <b>Name of Plan</b>                      | <b>Shares<br/>Authorized</b> | <b>Shares<br/>Available</b> | <b>Options Outstanding</b> | <b>Plan<br/>Expiration</b> |
|--|------------------------------|-----------------------------|----------------------------|----------------------------|
| 2007 Employee Stock Incentive Plan       | 500,000                      | 396,187                     | 72,313                     | Apr. 2017                  |
| 1998 Employee Stock Option Plan          | 500,000                      | -                           | 362,615                    | Jan. 2008                  |
| Non-Employee Directors Stock Option Plan | 200,000                      | 78,600                      | 49,000                     | Jul. 2015                  |
|  |                              | 474,787                     | 483,928                    |                            |

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

|  | <b>Three Months Ended December 31,</b>                  |             |
|--|---|-------------|
|  | <b>2007</b>   | <b>2006</b> |
|  | <b>(dollars in thousands, except per share amounts)</b> |             |
| Effect on income before income taxes (1) | \$ (102)  | \$ (33)     |
| Effect on net income                     | \$ (89)   | \$ (28)     |
| Effect on basic income per share         | \$ (0.01)   | \$ (0.01)   |
| Effect on diluted income per share       | \$ (0.01)   | \$ (0.01)   |

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(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 2017. 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:

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|  | Three Months Ended December 31, |                                 | 2006    |                                 |
|--|---------------------------------|---------------------------------|---------|---------------------------------|
|  | Options                         | Weighted Average Exercise Price | Options | Weighted Average Exercise Price |
| Outstanding at beginning of period                               | 450,303                         | \$ 6.44                         | 308,384 | \$ 5.95                         |
| Granted  | 85,000                          | 14.79                           | 70,000  | 6.09                            |
| Exercised  | (50,875)                        | 5.15                            | -       | -                               |
| Forfeited  | (500)                           | 7.00                            | -       | -                               |
| Outstanding at end of period                                     | 483,928                         | \$ 8.04                         | 378,384 | \$ 6.13                         |
| Exercisable at end of period                                     | 222,809                         | \$ 6.35                         | 244,557 | \$ 5.91                         |
| Weighted average fair value of options granted during the period | \$ 8.70                         |                                 | \$ 4.62 |                                 |

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, |         |
|-------------------------|---------------------------------|---------|
|                         | 2007                            | 2006    |
| Risk free interest rate | 3.45%                           | 4.55%   |
| Expected life           | 6 years                         | 6 years |
| Dividend rate           | 0%                              | 0%      |
| Volatility              | 61%                             | 69%     |
| Forfeiture rate         | 9%                              | 7%      |

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

There were 85,000 and 70,000 options granted during the three months ended December 31, 2007 and 2006, respectively. Total fair value of options granted was approximately \$740,000 and \$324,000 for the three months ended December 31, 2007 and 2006, 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. There were 31,500 restricted share awards granted during the three months ended December 31, 2007 with a fair value of \$14.79 per share and a total fair value of \$466,000. There were no restricted shares that vested or were cancelled in the three months ended December 31, 2007.

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

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, 2008.

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

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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. The former rules followed a cost accumulation model that allocated acquisition costs to the net assets acquired, whereas SFAS No. 141(R) follows a fair value model in which acquisition costs will be expensed. 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 beginning October 1, 2009.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements". This Statement amends ARB 51 to establish accounting and reporting standards for the noncontrolling (minority) interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. The Company has not yet determined the impact, if any, that SFAS No. 160 will have on its consolidated financial statements. SFAS No. 160 is effective for the Company's fiscal year beginning October 1, 2009.

## **2. Income Taxes**

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

Deferred tax assets reflect the tax effects of temporary differences between the carrying value of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Statement of Financial Accounting Standards (SFAS) No. 109 "Accounting for Income Taxes" requires that a valuation allowance is recognized if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized. Each quarter the valuation allowance is re-evaluated. During the quarter ended December 31, 2007, the valuation allowance was increased by \$107,000 for net operating losses in certain state and foreign jurisdictions that may not be recovered.

The cumulative effect of the application of the provisions of FIN 48 as of October 1, 2007 resulted in the recognition of an additional tax liability of \$332,000 for uncertain tax positions and a decrease in the October 1, 2007 balance of retained earnings of an equal amount. Upon the adoption of FIN 48, the Company classified uncertain tax positions as non-current income taxes payable unless expected to be paid within one year. The Company intends to maintain a valuation allowance for state net operating losses until evidence supports the conclusion that it is more likely than not that this deferred tax asset may be realized. The amount of the valuation allowance at December 31, 2007 and October 1, 2007 was \$560,000 and \$453,000, respectively. At December 31, 2007, and October 1, 2007, the total amount of unrecognized tax benefits was \$428,000 and \$409,000. If recognized these amounts would favorably impact the effective tax rate.

The Company recognizes interest accrued related to unrecognized tax benefits and penalties in the provision for income taxes. As of December 31, 2007 and October 1, 2007, \$115,000 and \$96,000, respectively, were accrued for the payment of interest and penalties.

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

### 3. Earnings Per Share

Earnings per share (EPS) is computed by dividing net income available to common shareholders (net income less accrued preferred stock dividends) by the weighted average number of common shares outstanding for the period. Diluted EPS is computed similarly to basic EPS except that the denominator is increased to include the number of additional common shares that would have been outstanding if potentially dilutive common shares had been issued, and the numerator is based on net income available to common shareholders. Common shares relating to stock options where the exercise prices exceeded the average market price of our common shares during the period were excluded from the diluted earnings per share calculation as the related impact was antidilutive. For the three months ended December 31, 2007, options for 85,000 shares and 31,500 restricted stock award shares are excluded from the diluted EPS calculations because they are antidilutive. For the three months ended December 31, 2006, options for 38,261 shares are excluded from the diluted EPS calculations because they are antidilutive.

|  | <b>Three Months Ended</b>                       |             |
|--|---|-------------|
|  | <b>December 31,</b>                             |             |
|  | <b>2007</b>                                     | <b>2006</b> |
|  | <b>(in thousands, except per share amounts)</b> |             |
| <b><u>Basic Earnings Per Share Computation</u></b>   |   |             |
| Net income   | \$ 108  | \$ 6        |
| Weighted Average Shares Outstanding:                 |   |             |
| Common stock   | 7,636   | 3,476       |
| Basic earnings per share                             | \$ 0.01   | \$ 0.00     |
| <b><u>Diluted Earnings Per Share Computation</u></b> |   |             |
| Net income   | \$ 108  | \$ 6        |
|  |   |             |
|  |   |             |

|                                      |         |         |
|--------------------------------------|---------|---------|
| Weighted Average Shares Outstanding: |         |         |
| Common stock                         | 7,636   | 3,476   |
| Common stock equivalents (1)         | 182     | 35      |
| Diluted shares                       | 7,818   | 3,511   |
| Diluted earnings per share           | \$ 0.01 | \$ 0.00 |

- (1) The number of common stock equivalents is calculated using the treasury stock method and the average market price during the period.

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#### 4. Comprehensive Income

|   | Three Months Ended     |       |
|---|------------------------|-------|
|   | December 31,           |       |
|   | 2007                   | 2006  |
|   | (dollars in thousands) |       |
| Net income, as reported                 | \$ 108                 | \$ 6  |
| Foreign currency translation adjustment | 146                    | 78    |
| Comprehensive income                    | \$ 254                 | \$ 84 |

#### 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 integrated circuits, solar cells and MEMS. Also included in the solar and semiconductor equipment segment are the R2D operations, the manufacturing support service operations and corporate expenses, except for a small portion that is allocated to the polishing supplies segment. The polishing supplies segment designs, manufactures and markets carriers, templates and equipment used in the lapping and polishing of wafer-thin materials, including silicon wafers used in the production of semiconductors.

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Information concerning our business segments is as follows:

|  | Three Months Ended     |          |
|--|------------------------|----------|
|  | December 31,           |          |
|  | 2007                   | 2006     |
|  | (dollars in thousands) |          |
| Net Revenues:                            |                        |          |
| Solar and semiconductor equipment        | \$ 9,997               | \$ 7,521 |
| Polishing supplies                       | 1,744                  | 1,930    |
|  | \$ 11,741              | \$ 9,451 |
| Operating Income:                        |                        |          |
| Solar and semiconductor equipment        | \$ (118)               | \$ (253) |
| Polishing supplies                       | 143                    | 308      |
|  | 25                     | 55       |
| Interest and other income (expense), net | 153                    | 21       |
| Income before income taxes               | \$ 178                 | \$ 76    |

|                                   | December 31,<br>2007   | September<br>30,<br>2007 |
|-----------------------------------|------------------------|--------------------------|
| Identifiable Assets:              | (dollars in thousands) |                          |
| Solar and semiconductor equipment | \$ 81,749              | \$ 46,283                |
| Polishing supplies                | 4,263                  | 4,383                    |
|                                   | \$ 86,013              | \$ 50,666                |

## 6. Major Customers and Foreign Sales

During the three month period ended December 31, 2007, one customer represented 15% of net revenues. During the three months ended December 31, 2006, two customers individually represented 15% and 11% of net revenues.

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

|                   | Three Months Ended<br>December 31, |      |
|-------------------|------------------------------------|------|
|                   | 2007                               | 2006 |
| North America (1) | 21%                                | 34%  |
| Asia (2) (3)      | 44%                                | 49%  |
| Europe (4)        | 35%                                | 17%  |
|                   | 100%                               | 100% |

- (1) Includes 21% and 33% to the United States in fiscal 2008 and 2007, respectively  
(2) Includes 25% and 21% to China in fiscal 2008 and 2007, respectively.  
(3) Includes 6% and 12% to Taiwan in fiscal 2008 and 2007, respectively.  
(4) Includes 15% to Switzerland in fiscal 2008.

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## 7. Commitments and Contingencies

**Purchase Obligations** □ As of December 31, 2007, we had purchase obligations in the amount of \$10.5 million. These purchase obligations consist of outstanding purchase orders for goods and services. While the amount represents purchase agreements, the actual amounts to be paid may be less in the event that any agreements are renegotiated, cancelled or terminated.

## 8. 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.

## 9. Acquisition

Effective October 1, 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. 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

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technology and business of R2D enhances the growth strategy by allowing the Company to increase sales by offering an integrated system under the Tempres brand to the solar industry.

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

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

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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 |
|-----------------------------|----------|-------------|
| <b>Assets Acquired:</b>     |          |             |
| Current Assets              | \$ 4,411 |             |
| Property, plant & equipment | 234      |             |
| <b>Intangible assets:</b>   |          |             |
| 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                    | 1,158    |             |
| Total assets acquired       | 8,993    |             |
| <b>Liabilities Assumed:</b> |          |             |
| Current Liabilities         | 2,413    |             |
| Long-term liabilities       | 165      |             |
| Total liabilities assumed   | 2,578    |             |
| Net assets acquired         | \$ 6,415 |             |

The following consolidated pro forma financial information was prepared assuming that the acquisition had occurred at the beginning of the three months ended December 31, 2006. This pro forma information does not necessarily reflect the results of operations that would have occurred had the acquisition taken place at the beginning of the period and is not necessarily indicative of results that may be obtained in the future (unaudited):

**Three Months  
Ended  
December 31,  
2006  
(in thousands  
except  
per share  
amounts)**

|                       |    |        |
|-----------------------|----|--------|
| Revenues              | \$ | 10,822 |
| Net income            | \$ | 206    |
| Net income per share: |    |        |
| Basic                 | \$ | 0.06   |
| Diluted               | \$ | 0.06   |

For purposes of the above pro forma presentation, the historical revenues and earnings of R2D for the three months ended December 31, 2006 have been combined with the revenues and earnings of Amtech for the three months ended December 31, 2006.

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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, 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, 2007, the "Liquidity and Capital Resources" section under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this item of this report and the other risks and uncertainties that are set forth elsewhere in this report or detailed in our other Securities and Exchange Commission reports and filings. We assume no obligation to update these forward-looking statements.*

### Introduction

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



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

## Overview

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

Our polishing supplies and equipment segment is a leading supplier of wafer carriers to manufacturers of silicon wafers. The polishing segment also manufactures polishing templates, steel carriers and double-sided polishing and lapping machines 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:

|                                     | <b>Three Months Ended</b>    |                              |
|-------------------------------------|------------------------------|------------------------------|
|                                     | <b>December 31,<br/>2007</b> | <b>December 31,<br/>2006</b> |
| Net revenue                         | 100%                         | 100%                         |
| Cost of goods sold                  | 70%                          | 75%                          |
| Gross margin                        | 30%                          | 25%                          |
| Operating expenses:                 |                              |                              |
| Selling, general and administrative | 28%                          | 23%                          |
| Research and Development            | 2%                           | 1%                           |
| Total operating expenses            | 30%                          | 24%                          |
| Income from operations              | 0%                           | 1%                           |
| Interest income (expense), net      | 2%                           | 0%                           |
| Income before income taxes          | 2%                           | 1%                           |
| Income taxes                        | 1%                           | 1%                           |
| Net Income                          | 1%                           | 0%                           |

**Net Revenue**

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

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|   | <b>Three Months Ended</b>     |                              | <b>Increase<br/>(Decrease)</b> |
|---|-------------------------------|------------------------------|--------------------------------|
|   | <b>December 31,<br/>2007</b>  | <b>December 31,<br/>2006</b> |                                |
| <b>Net Revenue</b>                        | <b>(dollars in thousands)</b> |                              |                                |
| Solar and Semiconductor Equipment Segment | \$ 9,997                      | \$ 7,521                     | \$ 2,476                       |
| Polishing Supplies Segment                | 1,744                         | 1,930                        | (186)                          |
| <b>Total</b>                              | <b>\$ 11,741</b>              | <b>\$ 9,451</b>              | <b>\$ 2,290</b>                |

Net revenue for the quarter ended December 31, 2007 increased by \$2.3 million, or 24%, from the quarter ended December 31, 2006. Revenue from our new subsidiary, R2D, contributed \$0.7 million to this segment's revenue. Revenue increases in the solar and semiconductor equipment segment resulted from higher shipments to the solar industry and recognition of deferred revenue. Net revenue to the solar industry was \$5.2 million for the three months ended December 31, 2007, a \$2.7 million or 108% increase from the three months ended December 31, 2006. These increases were partially offset by lower shipments to the semiconductor industry. Net revenue of the polishing supplies segment decreased 10% primarily as a result of lower sales volumes of insert carriers caused by increased competition in this market segment.

The following table reflects new orders **(1)**, shipments and net revenues for the first quarter of the current and prior fiscal years, and the backlog as of the end of those periods.

|                           | <b>Solar and<br/>Semi-<br/>conductor<br/>Equipment<br/>(2)</b> | <b>Polishing<br/>Supplies</b> | <b>Total<br/>Company</b> |
|---------------------------|--|-------------------------------|--------------------------|
|                           | (dollars in thousands)   |                               |                          |
| <b>2008:</b>              |  |                               |                          |
| New orders (1)            | \$ 35,085  | \$ 1,941                      | \$ 37,026                |
| Shipments                 | 9,091  | 1,767                         | 10,858                   |
| Net revenues              | 9,997  | 1,744                         | 11,741                   |
| Backlog 12/31/07          | 48,850   | 1,080                         | 49,930                   |
| <b>Book-to-bill ratio</b> | <b>3.9:1</b>   | <b>1.1:1</b>                  | <b>3.4:1</b>             |
| <b>2007:</b>              |  |                               |                          |
| New orders (1)            | \$ 11,577  | \$ 2,479                      | \$ 14,056                |
| Shipments                 | 8,035  | 1,932                         | 9,967                    |
| Net revenues              | 7,521  | 1,930                         | 9,451                    |
| Backlog 12/31/06          | 16,670   | 1,535                         | 18,205                   |
| <b>Book-to-bill ratio</b> | <b>1.4:1</b>   | <b>1.3:1</b>                  | <b>1.4:1</b>             |

- (1) Orders are net of cancellations and include the change in the U.S. dollar value of orders recorded in euros by our semiconductor and solar equipment segment.
- (2) The backlog as of December 31, 2007 and 2006, respectively, includes \$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.

**Backlog**

Our order backlog as of December 31, 2007 and 2006 was \$49.9 million and \$18.2 million, respectively. In the first quarter of fiscal 2008, we acquired \$1.8 million of backlog in the acquisition of R2D. Our backlog as of December 31, 2007 includes approximately \$42.2 million of orders from our solar industry customers compared to \$5.3 million at December 31, 2006. The orders included in our backlog are generally credit approved customer purchase orders expected to ship within the next twelve months. 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. 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

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**Gross Profit and Gross Margin**

Cost of goods sold consists of purchased material, labor and overhead to manufacture equipment and spare parts and the cost of service and factory and field support to customers for warranty, installation and paid service calls. In addition, the cost of outsourcing the assembly or manufacturing of certain systems and subsystems to third parties and supplemental contract field service is included in cost of goods sold.

|   | <b>Three Months Ended</b>         |                                  | <b>Increase<br/>(Decrease)</b> | <b>%</b> |
|---|-----------------------------------|----------------------------------|--------------------------------|----------|
|   | <b>December<br/>31,<br/>2007</b>  | <b>December<br/>31,<br/>2006</b> |                                |          |
|   | <b>(dollars in<br/>thousands)</b> |                                  |                                |          |
| Gross profit                              |                                   |                                  |                                |          |
| Solar and Semiconductor Equipment Segment | \$ 3,059                          | \$ 1,735                         | \$ 1,324                       | 76%      |
| Polishing Supplies Segment                | 501                               | 657                              | (156)                          | (24%)    |
| Total                                     | \$ 3,560                          | \$ 2,392                         | \$ 1,168                       | 49%      |
| Gross margin                              | 30%                               | 25%                              |                                |          |

For the three months ended December 31, 2007, gross profit in the solar and semiconductor equipment segment increased 76% versus the three months ended December 31, 2006. Gross profit increased \$1.2 million during the three months ended December 31, 2007 due to an excess of previously-deferred revenue recognition over current period deferrals. Improvements in gross margins were partially offset by lower gross margins on semiconductor equipment which were negatively impacted by lower sales volumes as well as costs resulting from the integration and ramp-up of the R2D acquisition. Gross margins in the polishing supplies segment were negatively impacted by product mix as well as increased price competition for insert carriers.

**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.

|   | <b>Three Months Ended</b>         |                                  | <b>Increase<br/>(Decrease)</b> | <b>%</b> |
|---|-----------------------------------|----------------------------------|--------------------------------|----------|
|   | <b>December<br/>31,<br/>2007</b>  | <b>December<br/>31,<br/>2006</b> |                                |          |
|   | <b>(dollars in<br/>thousands)</b> |                                  |                                |          |
| Selling, general and administrative       |                                   |                                  |                                |          |
| Solar and Semiconductor Equipment Segment | \$ 2,944                          | \$ 1,870                         | \$ 1,074                       | 57%      |

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|                            |          |          |          |     |
|----------------------------|----------|----------|----------|-----|
| Polishing Supplies Segment | 358      | 349      | 9        | 3%  |
| Total                      | \$ 3,302 | \$ 2,219 | \$ 1,083 | 49% |
| Percent of net revenue     | 28%      | 23%      |          |     |

The increase in selling, general and administrative expense of \$1.1 million, or 49%, over the three months ended December 31, 2006 was due, in part to \$0.3 million of costs incurred by R2D, including \$0.1 million of amortization of intangible assets. Selling expenses increased an additional \$0.2 million due to increased commissionable sales and increased sales and marketing activity. Stock-based compensation expense increased \$0.1 million. Personnel costs and professional fees, including costs related to moving our Netherlands operations into our new building, also increased as we continued to execute our growth strategies and manage the increasing compliance obligations of a growing multi-national public company.

**Research and Development**

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

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|   | Three Months Ended      |                         | Increase<br>(Decrease) | %   |
|---|-------------------------|-------------------------|------------------------|-----|
|   | December<br>31,<br>2007 | December<br>31,<br>2006 |                        |     |
|   | (dollars in thousands)  |                         |                        |     |
| Solar and Semiconductor Equipment Segment | \$ 233                  | \$ 118                  | \$ 115                 | 97% |
| Polishing Supplies Segment                | -                       | -                       | -                      | 0%  |
| Total                                     | \$ 233                  | \$ 118                  | \$ 115                 | 97% |
| Percent of net revenue                    | 2%                      | 1%                      |                        |     |

Research and development costs increased \$0.1 million during the three months ended December 31, 2007 as compared to the three months ended December 31, 2006 primarily due to increased personnel costs for research and development activity on our solar equipment products.

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

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

|  | Three Months Ended      |                         | Increase<br>(Decrease) |
|--|-------------------------|-------------------------|------------------------|
|  | December<br>31,<br>2007 | December<br>31,<br>2006 |                        |
|  | (dollars in thousands)  |                         |                        |
| Interest and other income (expense), net | \$ 207                  | \$ 23                   | \$ 184                 |
| Foreign currency gains (losses)          | (54)                    | (2)                     | (52)                   |

|       |    |     |    |    |    |     |
|-------|----|-----|----|----|----|-----|
| Total | \$ | 153 | \$ | 21 | \$ | 132 |
|-------|----|-----|----|----|----|-----|

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 buildings in the Netherlands. Due to an increase in cash and cash equivalents, interest expense was more than offset by interest earned on invested cash during the three months ended December 31, 2007 and 2006.

### **Income Taxes**

During the three months ended December 31, 2007 and 2006 we recorded income taxes of \$0.1 million. The effective tax rate used for calculating the income tax provision for the three months ended December 31, 2007 was approximately 40%, an estimate based upon projected annual income, estimated annual permanent differences and statutory tax rates in the various jurisdictions in which we operate. The effective tax rate for the three months ended December 31, 2006 was 92%, which was negatively impacted by the permanent differences between financial income and taxable income, which were high in relation to pre-tax income. During the quarter ended December 31, 2007 and 2006, the valuation allowance was increased by \$107,000 and \$14,000, respectively, for net operating losses in certain state and foreign jurisdictions that may not be recovered. (See Note 2 to the financial statements).

As a result of the application of the provisions of FIN 48 as of October 1, 2007, we recognized an additional tax liability of \$332,000 for uncertain tax positions and a decrease in the October 1, 2007 balance of retained earnings of an equal amount. Upon the adoption of FIN 48, the Company classified uncertain tax positions as non-current income taxes payable unless expected to be paid within one year. The Company intends to maintain a valuation allowance for state net operating losses until evidence supports the conclusion that it is more likely than not that this deferred tax asset may be realized. The amount of the valuation allowance at December 31, 2007 and October 1, 2007 was \$560,000 and \$453,000, respectively. At December 31, 2007, and October 1, 2007, the total amount of unrecognized tax benefits was \$428,000 and \$409,000. If recognized these amounts would favorably impact the effective tax rate.

### **Liquidity and Capital Resources**

At December 31, 2007 and September 30, 2007, cash and cash equivalents and restricted cash were \$42.0 million, and \$18.8 million, respectively. Our working capital increased to \$57.8 million as of December 31, 2007, compared to \$30.5 million at September 30, 2006. Our ratio of current assets to current liabilities increased to 5.7:1 at December 31, 2007, from 3.6:1 at September 30, 2007, primarily as a result of the cash provided by the sale of common stock in an underwritten public offering during the current period.

At December 31, 2007, our principal sources of liquidity consisted of cash and cash equivalents and restricted cash and the \$2.0 million in domestic credit facilities to provide additional liquidity to support future growth. Amtech's revolving line of credit with Silicon Valley Bank contains certain financial and other covenants. Amtech was in compliance with these covenants as of December 31, 2007.

The success of our growth strategy is dependent upon the availability of additional capital resources on terms satisfactory to management. Our sources of capital in the past have included capital leases, long-term debt and the sale of equity securities, which include common and preferred stock sold in private transactions and public offerings. In the first quarter of fiscal 2008, we utilized approximately \$7.0 million of cash to acquire R2D Ingenierie and made a working capital infusion to R2D of \$1.0 million that was used to satisfy certain outstanding obligations. Cash of \$5.5 million was paid at closing plus acquisition costs of \$0.9 million, including cost of legal representation and due diligence. Cash contingent payments of \$1.6 million to be paid to sellers upon fulfillment of certain requirements have been deposited in an escrow account. R2D is a solar cell and semiconductor automation equipment manufacturing company located near Montpellier, France. Also, in the first quarter of fiscal 2008, we completed the sale of 2.5 million shares of common stock in a public offering for \$14.41 per share. The net proceeds of the sale of common stock after offering expenses and underwriting fees was approximately \$33.6 million. The availability of such capital resources in the future depends on the condition of the relevant debt or equity markets and our long-term and recent operating performance and financial condition. There can

be no assurance that we can raise such additional capital resources on satisfactory terms. We intend to use the net proceeds from this offering for working capital and other general corporate purposes. Pending application of these proceeds, we intend to invest the net proceeds in short-term, interest bearing investment grade securities.

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

Cash used in our operating activities was \$1.2 million for the three months ended December 31, 2007, compared to \$1.3 million used in such activities for the three months ended December 31, 2006. During the quarter ended December 31, 2007 \$3.1 million of cash generated by a decrease in accounts receivable was offset by financing of increases in other working capital, including increased inventory (\$2.7 million), and lower accounts payables and other current liabilities (\$1.2 million), as well as lower deferred profit.

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

Our investing activities for the three months ended December 31, 2007 used \$8.0 million of cash in the acquisition of R2D. Capital expenditures of \$1.2 million resulted primarily from improvements to the new building in The Netherlands. Restricted cash increased \$0.8 million. Restricted cash represents bank guarantees in excess of our available credit facility in The Netherlands.

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

For the three months ended December 31, 2007, \$33.8 million of cash was provided by financing activities. 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 \$0.2 million was provided by the exercise of stock options. This compares to \$0.2 million of net long-term borrowings during the three months ended December 31, 2006.

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

As of December 31, 2007, Amtech had no off-balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K promulgated by the Securities and Exchange Commission.

### ***Contractual Obligations***

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

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

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

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

A critical accounting policy is one that is both important to the presentation of our financial position and results of operations, and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. These uncertainties are discussed in "Item 1A. Risk Factors" of this Annual Report on Form 10-K. We believe the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our consolidated financial statements.

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

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

- For the 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.

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

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

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

**Warranty.** We provide a limited warranty, generally for 12 to 24 months, to our customers. A provision for the estimated cost of providing warranty coverage is recorded upon shipment of all systems. On occasion, we have been required and may be required in the future to provide additional warranty coverage to ensure that the systems are ultimately accepted or to maintain customer goodwill. While our warranty costs have historically been within our expectations and we believe that the amounts accrued for warranty expenditures are sufficient for all systems sold through December 31, 2007, we cannot guarantee that we will continue to experience a similar level of predictability with regard to warranty costs. In addition, technological changes or previously unknown defects in raw materials or components may result in more extensive and frequent warranty service than anticipated, which could result in an increase in our warranty expense.

**Impairment of Long-lived Assets.** We periodically evaluate whether events and circumstances have occurred that indicate the estimated useful lives of long-lived assets or intangible assets may warrant revision or that the remaining balance may not be recoverable. Goodwill is also tested for impairment at least annually. When factors indicate that an asset should be evaluated for possible impairment, we use an estimate of the related undiscounted net cash flows generated by the asset over the remaining estimated life of the asset in measuring whether the asset is recoverable. We make judgments and estimates used in establishing the carrying value of long-lived or intangible assets. Those judgments and estimates could be modified if adverse changes occurred in the future resulting in an inability to recover the carrying value of these assets. We have not experienced any impairment to long-lived assets during fiscal 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".



We are exposed to financial market risks, including changes in foreign currency exchange rates and interest rates. Our operations in the United States are conducted in U.S. dollars. Our operations in Europe, a component of the semiconductor and solar equipment segment, conduct business primarily in the Euro, but also sell products in Asia in the U.S. dollar. The functional currency of our European operation is the Euro. Nearly all of the transactions, assets and liabilities of all other operating units are denominated in the U.S. dollar, their functional currency. The following disclosures about market risk should be read in conjunction with the more in depth discussion in Item 7A, Quantitative and Qualitative Disclosures About Market Risk in our Annual Report on Form 10-K for the fiscal year ended September 30, 2007.

As of December 31, 2007, we did not hold any stand-alone or separate derivative instruments. We incurred net foreign currency transaction gains or losses of less than \$0.1 million during the three months ended December 31, 2007 and 2006. As of December 31, 2007, our foreign subsidiaries had \$3.1 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 \$0.3 million. As of December 31, 2007, we had \$3.0 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 \$0.3 million. Our net investment in and advances to our foreign operations totaled \$24.4 million as of December 31, 2007. A 10% change in the value of the Euro relative to the U.S. dollar would cause an approximately \$2.4 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, 2007, our European operations transacted U.S. dollar denominated sales and purchases of \$0.8 million and \$1.1 million, respectively. As of December 31, 2007, sales commitments denominated in a currency other than the function currency of our transacting operation totaled \$0.8 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 \$0.1 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, 2007, pursuant to Exchange Act Rules 13a-15(e) and 15(d)-15(e). Based upon that evaluation, our CEO and CFO have concluded that as of such date, our disclosure controls and procedures in place are effective.

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

There has been no change in Amtech's internal control over financial reporting during the first quarter 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\*

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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\*

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

Dated: February 13, 2008

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### EXHIBIT INDEX

| <b>Exhibit Number</b> | <b>Description</b>  | <b>Page or Method of Filing</b> |
|-----------------------|---|---------------------------------|
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