

AMTECH SYSTEMS INC
Form 10-Q
May 15, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: **March 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

86-0411215

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

131 South Clark Drive, Tempe, Arizona

85281

(Address of principal executive offices)

(Zip Code)

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

Indicate by a check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

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

Shares of Common Stock outstanding as of May 2, 2007: 6,497,342

AMTECH SYSTEMS, INC. AND SUBSIDIARIES
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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)

| | March 31, 2007 | September 30, 2006 |
|--|-------------------|-----------------------|
| | (Unaudited) | |
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 21,193 | \$ 6,433 |
| Accounts receivable | | |
| Trade (less allowance for doubtful accounts of \$234 and \$223 at March 31, 2007 and September 30, 2006, respectively) | 7,232 | 6,545 |
| Unbilled and other | 1,510 | 849 |
| Inventories | 7,748 | 4,979 |
| Deferred income taxes | 560 | |
| Other | 726 | 414 |
| | <hr/> | <hr/> |
| Total current assets | 38,969 | 19,220 |
| Property, Plant and Equipment - Net | 5,427 | 2,382 |
| Intangible Assets - Net | 1,103 | 1,144 |
| Goodwill | 817 | 817 |
| | <hr/> | <hr/> |
| Total Assets | \$ 46,316 | \$ 23,563 |
| | <hr/> | <hr/> |
| Liabilities and Stockholders' Equity | | |
| Current Liabilities | | |
| Accounts payable | \$ 4,095 | \$ 3,631 |
| Bank loans and current maturities of long-term debt | 216 | 258 |
| Accrued compensation and related taxes | 1,180 | 1,187 |
| Accrued warranty expense | 281 | 289 |
| Deferred profit | 1,060 | 1,071 |
| Customer deposits | 1,613 | |
| Accrued commissions | 529 | 203 |
| Other accrued liabilities | 423 | 379 |
| Income taxes payable | 603 | 319 |
| | <hr/> | <hr/> |
| Total current liabilities | 10,000 | 7,337 |
| Long-Term Obligations | 825 | 617 |
| | <hr/> | <hr/> |
| Total liabilities | 10,825 | 7,954 |
| Commitments and Contingencies | | |
| Stockholders' Equity | | |
| Preferred stock; 100,000,000 shares authorized; none issued | | |
| Common stock; \$0.01 par value; 100,000,000 shares authorized; shares issued and outstanding: 6,497,342 and 3,476,042 at March 31, 2007 and September 30, 2006, respectively | 65 | 35 |
| Additional paid-in capital | 35,259 | 15,774 |
| Accumulated other comprehensive income | 600 | 501 |
| Accumulated deficit | (433) | (701) |
| | <hr/> | <hr/> |
| Total stockholders' equity | 35,491 | 15,609 |

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| | | |
|--|------------------|------------------|
| Total Liabilities and Stockholders Equity | <u>\$ 46,316</u> | <u>\$ 23,563</u> |
|--|------------------|------------------|

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

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

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|--|------------------------------|---------------|----------------------------|---------------|
| | 2007 | 2006 | 2007 | 2006 |
| Revenues, net of returns and allowances | \$ 10,539 | \$ 10,892 | \$ 19,990 | \$ 18,807 |
| Cost of sales | 7,671 | 8,155 | 14,730 | 13,533 |
| Gross profit | 2,868 | 2,737 | 5,260 | 5,274 |
| Selling, general and administrative | 2,417 | 2,172 | 4,636 | 4,061 |
| Research and development | 141 | 138 | 259 | 308 |
| Operating income | 310 | 427 | 365 | 905 |
| Interest and other income (expense), net | 122 | (19) | 143 | 25 |
| Income before income taxes | 432 | 408 | 508 | 930 |
| Income tax expense | 170 | 226 | 240 | 277 |
| Net income | \$ 262 | \$ 182 | \$ 268 | \$ 653 |
| Earnings Per Share: | | | | |
| Basic earnings per share | \$.05 | \$.05 | \$.06 | \$.20 |
| Weighted average shares outstanding | 5,193,279 | 2,880,858 | 4,325,225 | 2,793,668 |
| Diluted earnings per share | \$.05 | \$.05 | \$.06 | \$.19 |
| Weighted average shares outstanding | 5,255,099 | 3,480,616 | 4,371,446 | 3,437,855 |

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

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

| | Six Months Ended March 31, | |
|---|----------------------------|-----------------|
| | 2007 | 2006 |
| Operating Activities | | |
| Net income | \$ 268 | \$ 653 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation and amortization | 329 | 312 |
| Write-down of inventory | 83 | 77 |
| Deferred income taxes | (560) | |
| Non-cash share based compensation expense | 110 | 128 |
| Other | 20 | 35 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,112) | (5,248) |
| Inventories | (2,690) | (2,490) |
| Accrued income taxes | 272 | 606 |
| Prepaid expenses and other assets | (299) | 258 |
| Accounts payable | 344 | 2,303 |
| Accrued liabilities and customer deposits | 1,883 | 424 |
| Deferred profit | (46) | 1,004 |
| Net cash used in operating activities | (1,398) | (1,938) |
| Investing Activities | | |
| Purchases of property, plant and equipment | (3,240) | (349) |
| Net cash used in investing activities | (3,240) | (349) |
| Financing Activities | | |
| Proceeds from issuance of common stock | 19,403 | 564 |
| Preferred stock cash dividends paid | | (83) |
| Payments on long-term obligations | (103) | (69) |
| Borrowings on long-term obligations | 355 | |
| Net short term borrowings (payments) | (111) | 93 |
| Excess tax benefit of stock options | | 27 |
| Net cash provided by financing activities | 19,544 | 532 |
| Effect of Exchange Rate Changes on Cash | (146) | (84) |
| Net Increase (Decrease) in Cash and Cash Equivalents | 14,760 | (1,839) |
| Cash and Cash Equivalents, Beginning of Period | 6,433 | 3,309 |
| Cash and Cash Equivalents, End of Period | \$ 21,193 | \$ 1,470 |
| Supplemental Cash Flow Information: | | |
| Interest paid | \$ 107 | \$ 46 |
| Income tax refunds | \$ | \$ 370 |
| Income tax payments | \$ 529 | \$ 16 |
| Supplemental Non-cash Financing Activities: | | |
| Stock issued for preferred stock dividend | \$ | \$ 74 |

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| | | | |
|---|----|----|-------|
| Preferred stock converted to common stock | \$ | \$ | 1,859 |
|---|----|----|-------|

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

AMTECH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE AND SIX MONTHS ENDED MARCH 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 semiconductors, solar cells, and wafers of various materials, primarily for the semiconductor and solar industries. The Company sells these products worldwide, particularly in the United States, Asia and Europe. In addition, the Company provides semiconductor manufacturing support services.

The Company serves niche markets in industries that are experiencing rapid technological advances, and which historically have been very cyclical. Therefore, future profitability and growth depend on the Company's ability to develop or acquire and market profitable new products, and on its ability to adapt to cyclical trends.

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC), and consequently do not include all disclosures normally required by U.S. generally accepted accounting principles. In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements contain all adjustments necessary, all of which are of a normal recurring nature, to present fairly our financial position, results of operations and cash flows. Certain information and note disclosures normally included in financial statements have been condensed or omitted pursuant to the rules and regulations of the SEC. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2006.

The consolidated results of operations for the three and six month periods ended March 31, 2007, are not necessarily indicative of the results to be expected for the full year.

Reclassifications - Certain reclassifications have been made in the accompanying consolidated financial statements for fiscal 2006 to conform to the 2007 presentation. These reclassifications did not have a material effect on the Company's results of operations.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition Revenue is recognized upon shipment of the Company's proven technology equal to the sales price less the greater of (i) the fair value of undelivered services and (ii) the contingent portion of the sales price, which is generally 10-20% of the total contract price. The entire cost of the equipment relating to proven technology is recorded upon shipment. The remaining contractual revenue, deferred costs and installation costs are recorded upon successful installation of the product.

For purposes of revenue recognition, proven technology means the Company has a history of at least two successful installations. New technology systems are those systems with respect to which the Company cannot demonstrate that it can meet the provisions of customer acceptance at the time of shipment.

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

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

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Deferred Profit Revenue deferred pursuant to the Company's revenue recognition policy, net of the related deferred costs, if any, is recorded as deferred profit in current liabilities. The components of deferred profit are as follows:

| | March 31, 2007 | September 30, 2006 |
|-------------------|------------------------|-----------------------|
| | (dollars in thousands) | |
| Deferred revenues | \$ 2,664 | \$ 2,493 |
| Deferred costs | (1,604) | (1,422) |
| Deferred profit | \$ 1,060 | \$ 1,071 |

Concentrations of Credit Risk Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of trade accounts receivable. The Company's customers consist of manufacturers of semiconductors, semiconductor wafers, MEMS and solar cells located throughout the world. Credit risk is managed by performing ongoing credit evaluations of the customers' financial condition, by requiring significant deposits where appropriate, and by actively monitoring collections. Letters of credit are required of certain customers depending on the size of the order, type of customer or its creditworthiness, and its country of domicile. Reserves for potentially uncollectible receivables are maintained based on an assessment of collectibility.

As of March 31, 2007, accounts receivable from one customer accounted for 23% of total accounts receivable.

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

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

The components of inventories are as follows:

| | March 31, 2007 | September 30, 2006 |
|-----------------------------------|------------------------|-----------------------|
| | (dollars in thousands) | |
| Purchased parts and raw materials | \$ 4,212 | \$ 3,400 |
| Work-in-process | 2,924 | 1,159 |
| Finished goods | 612 | 420 |
| | \$ 7,748 | \$ 4,979 |

Property, Plant and Equipment Property, plant and equipment are recorded at cost. Maintenance and repairs are charged to expense as incurred. The cost of property retired or sold and the related accumulated depreciation are removed from the applicable accounts when disposition occurs and any gain or loss is recognized. Depreciation is computed using the straight-line method. Useful lives for equipment, machinery and leasehold improvements range from three to seven years; for furniture and fixtures from five to 10 years; and for buildings 20 years.

In March 2007, the Company purchased a manufacturing facility in The Netherlands for a purchase price of approximately \$3.1 million. The following is a summary of property, plant and equipment:

| | March 31, 2007 | September 30, 2006 |
|---|------------------------|-----------------------|
| | (dollars in thousands) | |
| Land, building and leasehold improvements | \$ 4,303 | \$ 1,094 |
| Equipment and machinery | 2,595 | 2,676 |
| Furniture and fixtures | 2,403 | 2,514 |

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| | | |
|---|--------------|--------------|
| | 9,301 | 6,284 |
| Accumulated depreciation and amortization | (3,874) | (3,902) |
| | <u>5,427</u> | <u>2,382</u> |
| | \$ | \$ |

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Goodwill - Goodwill and intangible assets with indefinite lives are not subject to amortization, but are tested for impairment at least annually. The Company accounts for goodwill under the provisions of Statement of Financial Accounting Standards (SFAS) No. 142. Accordingly, goodwill is reviewed for impairment on an annual basis, typically at the end of the fiscal year, or more frequently if circumstances dictate.

Intangibles Intangible assets are capitalized and amortized over 4 to 15 years if the life is determinable. If the life is not determinable, amortization is not recorded.

The following is a summary of intangibles:

| | Useful Life | March 31, 2007 | September 30, 2006 |
|--------------------------|-------------|-------------------|-----------------------|
| (dollars in thousands) | | | |
| Patents | 7 years | \$ 74 | \$ 74 |
| Trademarks | Indefinite | 592 | 592 |
| Non-compete agreements | 10 years | 350 | 350 |
| Customer lists | 15 years | 276 | 276 |
| Technology | 4 years | 102 | 102 |
| | | 1,394 | 1,394 |
| Accumulated amortization | | (291) | (250) |
| | | \$ 1,103 | \$ 1,144 |

Warranty A limited warranty is provided free of charge, generally for periods of 12 to 24 months to all purchasers of the Company's new products and systems. Accruals are recorded for estimated warranty costs at the time revenue is recognized.

The following is a summary of activity in accrued warranty expense:

| | Six Months Ended March 31, | |
|------------------------|----------------------------|--------|
| | 2007 | 2006 |
| (dollars in thousands) | | |
| Beginning balance | \$ 289 | \$ 248 |
| Warranty expenditures | (51) | (27) |
| Provision | 43 | 61 |
| | \$ 281 | \$ 282 |

Long-Term Debt - In October 2006, the Company received \$0.4 million of additional long-term financing secured by new equipment acquired prior to the end of fiscal 2006. This debt has an interest rate of 7.43% per annum and will be repaid over five years with interest at 7.43% per annum.

Share-Based Compensation - On October 1, 2005, the Company adopted SFAS No. 123 (R), Share-Based Payment (SFAS 123 (R)) and Staff Accounting Bulletin 107, Share-Based Payment. SFAS 123 (R) requires the Company to measure compensation costs relating to share-based payment transactions based upon the grant-date fair value of the award. Those costs are recognized as expense over the requisite service period, which is generally the vesting period. The Company elected the modified prospective application method of reporting; therefore, prior periods were not restated. Under the modified prospective method, this statement was applied to new awards granted after the time of adoption, as well as to the unvested portion of previously granted awards for which the requisite service had not been rendered as of October 1, 2005. SFAS 123 (R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as cash flow from financing activities rather than as cash flow from operating activities. Our share-based compensation plans are summarized in the table below:

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| Name of Plan | Shares Authorized | Shares Available | Options Outstanding |
|---|-------------------|------------------|---------------------|
| 1998 Employee Stock Option Plan | 500,000 | 11,487 | 414,084 |
| Amended and Restated 1995 Stock Option Plan and 1995 Stock Bonus Plan | 160,000 | | 2,500 |
| Non-Employee Directors Stock Option Plan | 200,000 | 89,600 | 44,000 |
| | | 101,087 | 460,584 |

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

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|--------------------------------|--|---------|----------------------------|---------|
| | 2007 | 2006 | 2007 | 2006 |
| | (dollars in thousands, except per share amounts) | | | |
| Income before income taxes (1) | \$ 77 | \$ 87 | \$ 110 | \$ 128 |
| Net income | \$ 68 | \$ 82 | \$ 96 | \$ 109 |
| Basic income per share | \$ 0.01 | \$ 0.03 | \$ 0.02 | \$ 0.04 |
| Diluted income per share | \$ 0.01 | \$ 0.02 | \$ 0.02 | \$ 0.03 |

(1) Stock option expense is included in selling, general and administrative expenses. Qualified stock options issued under the terms of the plans have, or will have, an exercise price equal to or greater than the fair market value of the common stock at the date of the option grant and expire no later than 10 years from the date of grant, with the most recent grant expiring in 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 3 to 5 years.

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

| | Six Months Ended March 31, | | | |
|--|----------------------------|---------------------------------|-----------|---------------------------------|
| | 2007 | | 2006 | |
| | Options | Weighted Average Exercise Price | Options | Weighted Average Exercise Price |
| Outstanding at beginning of period | 308,384 | \$ 5.95 | 468,206 | \$ 4.78 |
| Granted | 156,250 | 7.01 | 20,022 | 7.30 |
| Exercised | (2,550) | 3.15 | (109,269) | 2.74 |
| Forfeited | (1,500) | 7.00 | (4,898) | 4.38 |
| Outstanding at end of period | 460,584 | \$ 6.32 | 374,061 | \$ 5.51 |
| Exercisable at end of period | 251,007 | \$ 5.97 | 284,452 | \$ 5.61 |
| Weighted average fair value of options granted during the period | \$ 4.57 | | \$ 5.39 | |

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

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| | Six Months Ended March 31, | |
|-------------------------|----------------------------|----------------|
| | 2007 | 2006 |
| Risk free interest rate | 4.55% to 4.80% | 4.38% to 4.64% |
| Expected life | 5 to 6 years | 3 to 7.5 years |
| Dividend rate | 0% | 0% |
| Volatility | 61% to 69% | 63% to 101% |
| Forfeiture rate | 5.67% to 7.45% | 7.45% |

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 86,250 and 156,250 options granted during the three and six months ended March 31, 2007, respectively; and 10,022 and 20,022 options granted for the comparable periods of fiscal 2006. Total fair value of options granted was approximately \$391,000 and \$714,000 for the three and six months ended March 31 2007, respectively; and \$41,000 and \$108,000 for the comparable periods of fiscal 2006.

The following tables summarize information for stock options outstanding and exercisable at March 31, 2007:

| Range of Exercise Prices | Options Outstanding | | | |
|--|---------------------|---------------------------------------|---------------------------------|--|
| | Number Outstanding | Remaining Contractual Life (in years) | Weighted Average Exercise Price | Aggregate Intrinsic Value (in thousands) |
| \$ 2.00 - 4.00 | 18,112 | 6.3 | \$ 3.12 | \$ 76 |
| 4.01 - 5.00 | 49,700 | 5.3 | 4.58 | 135 |
| 5.01 - 6.00 | 68,022 | 5.7 | 5.76 | 104 |
| 6.01 - 7.00 | 272,750 | 6.6 | 6.69 | 166 |
| 7.01 - 10.00 | 52,000 | 9.6 | 7.87 | |
| | 460,584 | 6.6 | \$ 6.32 | \$ 481 |
| Vested and expected to vest as of March 31, 2007 | 436,445 | 6.5 | \$ 6.30 | \$ 462 |

| Range of Exercise Prices | Options Exercisable | | | |
|--------------------------|---------------------|---------------------------------------|---------------------------------|--|
| | Number Exercisable | Remaining Contractual Life (in years) | Weighted Average Exercise Price | Aggregate Intrinsic Value (in thousands) |
| \$ 2.00 - 4.00 | 10,001 | 4.9 | \$ 3.06 | \$ 42 |
| 4.01 - 5.00 | 35,867 | 4.8 | 4.53 | 99 |
| 5.01 - 6.00 | 51,805 | 5.1 | 5.79 | 78 |
| 6.01 - 7.00 | 150,000 | 4.0 | 6.50 | 120 |
| 7.01 - 10.00 | 3,334 | 8.9 | 9.05 | |
| | 251,007 | 4.4 | \$ 5.97 | \$ 339 |

Impact of Recently Issued Accounting Pronouncements

In June 2006, the FASB published FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. SFAS No. 109 does not prescribe a recognition threshold or measurement attributable for the financial statement recognition and measurement of a tax position taken in a tax return. Diversity in practice exists in the accounting for income taxes. To address that diversity this Interpretation clarifies the application of SFAS No. 109 by defining a criterion that an individual tax position must meet for any part of the benefit of that position to be recognized in an enterprise's financial statements. Additionally, this Interpretation provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition for such uncertain tax transactions. This Interpretation is effective for the Company's 2008 fiscal year (beginning October 1, 2007). The Company has not yet determined the impact, if any, that the adoption of Interpretation No. 48 will have on its financial statements.

In September 2006, the Financial Accounting Standards Board issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a formal framework for measuring fair value and expands disclosures about fair value measurements. The Company has not yet determined the impact, if any, that SFAS No. 157 will have on its financial statements. SFAS No. 157 is effective for the Company's fiscal year beginning October 1, 2008.

In February 2007, the Financial Accounting Standards Board 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 financial statements. SFAS No. 159 is effective for the Company's fiscal year beginning October 1, 2009.

2. Deferred Taxes

Deferred tax assets reflect the tax effects of temporary differences between the carrying value of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Statement of Financial Accounting Standards (SFAS) No. 109 *Accounting for Income Taxes* requires that a valuation allowance is recognized if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized. Each quarter the valuation allowance is re-evaluated. During the six months ended March 31 2007, the valuation allowance was increased by \$21,000 for state net operating losses that may not be recovered. Tax payments of \$529,000 were made during the six months ended March 31, 2007. The Company also recorded a net deferred tax asset of \$560,000 for items that meet the more likely than not criteria for recognition under SFAS No. 109.

The tax effects of temporary book-tax differences that give rise to significant portions of the deferred tax asset and deferred tax liability are as follows:

| | March 31, 2007 | September 30, 2006 |
|--|------------------------|-----------------------|
| | (dollars in thousands) | |
| Deferred tax assets - current: | | |
| Capitalized inventory costs | \$ 359 | \$ 205 |
| Inventory write-downs | 380 | 412 |
| Deferred profit | 362 | 377 |
| Accruals and reserves not currently deductible | 912 | 467 |
| | <u>2,013</u> | <u>1,461</u> |
| Deferred tax assets - non-current: | | |
| Stock option expense | 34 | 17 |
| State net operating losses | 194 | 172 |
| | <u>228</u> | <u>189</u> |
| Deferred tax liabilities - non-current: | | |
| Book vs. tax depreciation and amortization | (28) | (17) |

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| | | |
|--|---------|---------|
| Total deferred tax assets - net | 2,213 | 1,633 |
| Valuation allowance | (1,653) | (1,633) |
| Deferred tax assets net of valuation allowance | \$ 560 | \$ |

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 and six months ended March 31, 2007, options for 20,000 and 39,100 shares, respectively, are excluded from the diluted EPS calculations because they are antidilutive as they have an exercise price greater than the average market price during the period. For the three and six months ended March 31, 2006, options for 3,683 and 2,008 shares, respectively, are excluded from the diluted EPS calculations because they are antidilutive as they have an exercise price greater than the average market price during the period.

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|--|---------|--|---------|
| | 2007 | 2006 | 2007 | 2006 |
| | (in thousands, except per share amounts) | | (in thousands, except per share amounts) | |
| Basic Earnings Per Share Computation | | | | |
| Net income | \$ 262 | \$ 182 | \$ 268 | \$ 653 |
| Preferred stock dividends | | (37) | | (81) |
| Net income available to common stockholders | \$ 262 | \$ 145 | \$ 268 | \$ 572 |
| Weighted Average Shares Outstanding: | | | | |
| Common stock | 5,193 | 2,881 | 4,325 | 2,794 |
| Basic earnings per share | \$ 0.05 | \$ 0.05 | \$ 0.06 | \$ 0.20 |
| Diluted Earnings Per Share Computation | | | | |
| Net income | \$ 262 | \$ 182 | \$ 268 | \$ 653 |
| Weighted Average Shares Outstanding: | | | | |
| Common stock | 5,193 | 2,881 | 4,325 | 2,794 |
| Common stock equivalents (1) | 62 | 600 | 46 | 644 |
| Diluted shares | 5,255 | 3,481 | 4,371 | 3,438 |
| Diluted earnings per share | \$ 0.05 | \$ 0.05 | \$ 0.06 | \$ 0.19 |

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

4. Comprehensive Income

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---------------------------------|---------------|-------------------------------|---------------|
| | 2007 | 2006 | 2007 | 2006 |
| | (dollars in thousands) | | (dollars in thousands) | |
| Net income, as reported | \$ 262 | \$ 182 | \$ 268 | \$ 653 |
| Foreign currency translation adjustment | 20 | 19 | 99 | (25) |
| Comprehensive income | \$ 282 | \$ 201 | \$ 367 | \$ 628 |

5. Business Segment Information

The Company's products are classified into two core business segments; the semiconductor and solar equipment segment and the polishing supplies segment. The semiconductor and solar equipment segment designs, manufactures and markets semiconductor wafer processing and handling equipment used in the fabrication of integrated circuits, solar cells and MEMS. Also included in the semiconductor and solar equipment segment are the manufacturing support service operations and corporate expenses, except for a small portion that is allocated to the polishing supplies segment. The polishing supplies segment designs, manufactures and markets carriers, templates and equipment used in the lapping and polishing of wafer-thin materials, including silicon wafers used in the production of semiconductors.

Information concerning our business segments is as follows:

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|--|---------------------------------|------------------|-------------------------------|-------------------------------|
| | 2007 | 2006 | 2007 | 2006 |
| | (dollars in thousands) | | (dollars in thousands) | |
| Net Revenues: | | | | |
| Semiconductor and solar equipment | \$ 8,234 | \$ 9,046 | \$ 15,755 | \$ 15,280 |
| Polishing supplies | 2,305 | 1,846 | 4,235 | 3,527 |
| | \$ 10,539 | \$ 10,892 | \$ 19,990 | \$ 18,807 |
| Operating Income (loss): | | | | |
| Semiconductor and solar equipment | \$ (126) | \$ 173 | \$ (380) | \$ 377 |
| Polishing supplies | 436 | 254 | 745 | 528 |
| | 310 | 427 | 365 | 905 |
| Interest and other income (expense), net | 122 | (19) | 143 | 25 |
| Income before income taxes | \$ 432 | \$ 408 | \$ 508 | \$ 930 |
| | | | March 31, 2007 | September 30, 2006 |
| | | | (dollars in thousands) | |
| Identifiable Assets: | | | | |
| Semiconductor and solar equipment | | | \$ 42,123 | \$ 19,564 |
| Polishing supplies | | | 4,193 | 3,999 |
| | | | \$ 46,316 | \$ 23,563 |

6. Major Customers and Foreign Sales

During the three and six months ended March 31, 2007, one customer represented 15% and 14% of net revenues, respectively. During the three and six months ended March 31, 2006, one customer represented 48% and 28% of net revenues, respectively.

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

| | Six Months Ended March 31, | |
|-------------------|-------------------------------|------|
| | 2007 | 2006 |
| North America (1) | 32% | 30% |
| Asia (2) (3) (4) | 46% | 50% |
| Europe | 22 % | 20 % |
| | 100% | 100% |

(1) Includes 31% and 30% to the United States in 2007 and 2006, respectively

(2) Includes 13% and 6% to China in 2007 and 2006, respectively.

(3) Includes 19% and 9% to Taiwan in 2007 and 2006, respectively.

(4) Includes 6% and 23% to Malaysia in 2007 and 2006, respectively.

7. Commitments and Contingencies

Purchase Obligations As of March 31, 2007, we had purchase obligations in the amount of \$5.6 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 February 2007, the Company filed registration statements on Form S-1 with the Securities and Exchange Commission for the sale of 2,625,000 shares of its common stock in an underwritten public offering at a price to the public of \$7.05 per share. The Company also granted the underwriters a 30-day option to purchase up to 393,750 additional shares of common stock to cover over-allotments. Net proceeds to the Company were approximately \$19.4 million including the exercise of the over-allotment, net of \$0.4 million of offering expenses and after deducting \$1.5 million of underwriting commissions.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and the related notes included in Item 1, "Condensed Financial Statement" in this quarterly report on Form 10-Q and our consolidated financial statements and related notes included in Item 8, "Financial Statements and Supplementary Data" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2006, as amended.

Cautionary Statement Regarding Forward-Looking Statements

The statements in this report include forward-looking statements. These forward-looking statements are based on our management's current expectations and beliefs and involve numerous risks and uncertainties that could cause actual results to differ materially from expectations. You should not rely upon these forward-looking statements as predictions of future events because we cannot assure you that the events or circumstances reflected in these statements will be achieved or will occur. You can identify forward-looking statements by the use of forward-looking terminology, including the words believes, expects, may, will, should, seeks, intends, plans, estimates or anticipates or the negative of these words and phrases or other variations of these words and phrases or comparable terminology. These forward-looking statements relate to, among other things: our sales, results of operations and anticipated cash flows; capital expenditures; depreciation and amortization expenses; research and development expenses; selling, general and administrative expenses; the development and timing of the introduction of new products and technologies; our ability to maintain and develop relationships with our existing and potential future customers and our ability to maintain the level of investment in research and development and capacity that is required to remain competitive. Many factors could cause our actual results to differ materially from those projected in these forward-looking statements, including, but not limited to: whether we will be able to complete acquisitions and integrate such businesses successfully and achieve anticipated synergies; variability of our revenues and financial performance; risks associated with product development and technological changes; the acceptance of our products in the marketplace by existing and potential future customers; disruption of operations or increases in expenses caused by civil or political unrest or other catastrophic events; general economic conditions and conditions in the semiconductor and solar industries in particular; the continued employment of our key personnel and risks associated with competition.

For a discussion of the factors that could cause actual results to differ materially from the forward-looking statements, see the "Risk Factors" set forth in Item 1A of Part I of Amtech Systems, Inc.'s Annual Report on Form 10-K for the fiscal year ended September 30, 2006, the "Liquidity and Capital Resources" section under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this item of this report and the other risks and uncertainties that are set forth elsewhere in this report or detailed in our other Securities and Exchange Commission reports and filings. We assume no obligation to update these forward-looking statements.

Introduction

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

Overview

Results of Operations

Liquidity and Capital Resources

Off-Balance Sheet Arrangements

Contractual Obligations

Critical Accounting Policies

Impact of Recently Issued Accounting Pronouncements

Overview

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

Our polishing supplies and equipment segment is a leading supplier of wafer carriers to manufacturers of silicon wafers. The polishing segment also manufactures polishing templates, steel carriers and double-sided polishing and lapping machines to fabricators of optics, quartz, ceramics and metal parts, and to manufacturers of medical equipment components.

Our customers are primarily manufacturers of integrated circuits and solar cells, and suppliers of silicon to those manufacturers. The semiconductor and solar cell industries are cyclical and historically have experienced significant fluctuations. Our revenue is impacted by these broad industry trends.

Due to the nature of the capital equipment markets that we serve and due to the nature of our contracts, which, include holdbacks of 10-20% of revenue that are recognized at the time of customer acceptance, revenues, gross margins, and operating results have historically fluctuated on a quarterly basis.

As our automation products are often sold in conjunction with new diffusion furnaces, to increase efficiency and reduce costs, we adopted a plan to consolidate the manufacturing of our automation product line into facilities already used to manufacture diffusion furnaces in June 2006. This consolidation was completed during January 2007.

Results of Operations

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

| | Three Months Ended | | Six Months Ended | |
|-------------------------------------|--------------------|-------------------|-------------------|-------------------|
| | March 31, 2007 | March 31, 2006 | March 31, 2007 | March 31, 2006 |
| Net revenue | 100% | 100% | 100% | 100% |
| Cost of goods sold | 73% | 75% | 74% | 72% |
| Gross margin | 27% | 25% | 26% | 28% |
| Operating expenses: | | | | |
| Selling, general and administrative | 23% | 20% | 23% | 21% |
| Research and Development | 1% | 1% | 1% | 2% |
| Total operating expenses | 24% | 21% | 24% | 23% |
| Income from operations | 3% | 4% | 2% | 5% |
| Interest income (expense), net | 1% | 0% | 0% | 0% |
| Income before income taxes | 4% | 4% | 2% | 5% |
| Income taxes | 2% | 2% | 1% | 2% |
| Net Income | 2% | 2% | 1% | 3% |

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

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service activity or ratably over the term of the service contract. The majority of our revenue is generated from large furnace systems sales which, depending on the timing of shipment and installation, can have a significant impact on our revenue and earnings in any given period. *See* Critical Accounting Policies Revenue Recognition.

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| Net Revenue | Three Months Ended | | | | Six Months Ended | | | |
|---|------------------------|------------------|-----------------|-------------|------------------------|------------------|-----------------|-----------|
| | March 31, 2007 | March 31, 2006 | Inc. (Dec) | % | March 31, 2007 | March 31, 2006 | Inc. (Dec) | % |
| | (dollars in thousands) | | | | (dollars in thousands) | | | |
| Semiconductor and Solar Equipment Segment | \$ 8,234 | \$ 9,046 | \$ (812) | (9)% | \$ 15,755 | \$ 15,280 | \$ 475 | 3% |
| Polishing Supplies Segment | 2,305 | 1,846 | 459 | 25% | 4,235 | 3,527 | 708 | 20% |
| Total | \$ 10,539 | \$ 10,892 | \$ (353) | (3)% | \$ 19,990 | \$ 18,807 | \$ 1,183 | 6% |

Net revenue for the quarter ended March 31, 2007 decreased by \$0.4 million, or 3%, compared to the quarter ended March 31, 2006. In the second quarter of fiscal 2006, we shipped a \$5.2 million semiconductor, multi-furnace order, resulting in the recognition of \$4.2 million of net revenue, with no corresponding shipment of similar magnitude in the second quarter of fiscal 2007. That decline was primarily offset by: (i) a \$1.2 million increase in solar revenue; (ii) a \$2.2 million revenue increase from other semiconductor shipments, excluding the fiscal 2006 multi-furnace shipment; and (iii) a \$0.5 million increase in revenue for our polishing supplies segment.

The increase in solar shipments was driven by the continuing increase in demand for solar products from our customers and the success of our increased marketing and sales efforts in penetrating the solar market. The increase in other semiconductor revenue was primarily due to the timing of shipments representing typical quarterly fluctuation of the low-volume, high value equipment products in our semiconductor and solar cell product line, while the 25% increase in polishing supplies was primarily caused by fluctuating demand for polishing machines and increased sales of templates.

Net revenue for the six months ended March 31, 2007 increased by \$1.2 million, or 6%, compared to the six months ended March 31, 2006. The 6% increase was primarily driven by \$4.2 million of solar revenue, a \$2.7 million increase over the same period in fiscal 2006, a \$2.0 million increase in other semiconductor revenue, excluding the \$4.2 million of 2006 revenue from the multi-system order discussed above and a \$0.7 million, or 20%, increase for our polishing supplies segment.

The following table reflects new orders ⁽¹⁾, shipments and net revenues for the second quarter during the current and prior fiscal year, and the backlog as of the end of those periods, on a consolidated basis, as well as for each of our two business segments.

| | Second Quarter | | | Year-to-Date | | |
|---------------------------|--|----------------------------|---------------|--|----------------------------|---------------|
| | Semi-conductor and Solar Equipment Segment (2) | Polishing Supplies Segment | Total Company | Semi-conductor and Solar Equipment Segment (2) | Polishing Supplies Segment | Total Company |
| | (dollars in thousands) | | | (dollars in thousands) | | |
| 2007: | | | | | | |
| New orders (1) | \$ 6,880 | \$ 1,647 | \$ 8,527 | \$ 18,457 | \$ 4,126 | \$ 22,583 |
| Shipments | 7,837 | 2,303 | 10,140 | 15,872 | 4,235 | 20,107 |
| Net revenues | 8,234 | 2,305 | 10,539 | 15,755 | 4,235 | 19,990 |
| Backlog 3/31/2007 | 15,316 | 876 | 16,192 | 15,316 | 876 | 16,192 |
| Book-to-bill ratio | 0.9:1 | 0.7:1 | 0.8:1 | 1.2:1 | 1.0:1 | 1.1:1 |
| 2006: | | | | | | |
| New orders (1) | \$ 4,941 | \$ 1,564 | \$ 6,505 | \$ 14,376 | \$ 3,365 | \$ 17,741 |
| Shipments | 9,525 | 1,853 | 11,378 | 16,263 | 3,535 | 19,798 |
| Net revenues | 9,046 | 1,846 | 10,892 | 15,280 | 3,527 | 18,807 |
| Backlog 3/31/2006 | 12,496 | 826 | 13,322 | 12,496 | 826 | 13,322 |
| Book-to-bill ratio | 0.5:1 | 0.8:1 | 0.6:1 | 0.9:1 | 1.0:1 | 0.9:1 |

(1) Orders are net of cancellations and include the change in the U.S. dollar value of orders recorded in euros by our semiconductor and solar equipment segment.

(2)

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The backlog as of March 31, 2007 and 2006, respectively, includes \$1.0 million and \$0.9 million of deferred revenue for which there is an equal amount of deferred costs, i.e. with no gross profit to be realized.

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Backlog

Our order backlog as of March 31, 2007 and 2006 was \$16.2 million and \$13.3 million, respectively, a 22% increase. Our backlog as of March 31, 2007 includes approximately \$7.4 million of orders from our solar industry customers compared to \$1.8 million at March 31, 2006. The orders included in our backlog are generally credit approved customer purchase orders expected to ship within the next twelve months. Because our orders are typically subject to cancellation or delay by the customer, our backlog at any particular point in time is not necessarily representative of actual sales for succeeding periods, nor is backlog any assurance that we will realize profit from completing these orders. We believe the orders included in backlog are probable of being filled and not cancelled. Our backlog also includes revenue deferred pursuant to our revenue recognition policy, derived from orders that have already been shipped, but which have not met the criteria for revenue recognition.

Gross Profit and Gross Margin

Cost of goods sold consists of purchased material, labor and overhead to manufacture equipment and spare parts and the cost of service and factory and field support to customers for warranty, installation and paid service calls. In addition, the cost of outsourcing the assembly or manufacturing of certain systems and subsystems to third parties and supplemental contract field service is included in cost of goods sold. The timing of recognizing the revenue components of an order may have a particularly significant effect on gross margin when the component attributed to equipment is recognized in one period and the remaining component attributed to installation, generally 10% to 20% of the order, is recognized in a later period because the latter revenue has a significantly higher gross margin percentage.

| | Three Months Ended | | | | Six Months Ended | | | |
|--|------------------------|-------------------|---------------|-----------|------------------------|-------------------|----------------|-------------|
| | March 31, 2007 | March 31, 2006 | Inc. (Dec) | % | March 31, 2007 | March 31, 2006 | Inc. (Dec) | % |
| | (dollars in thousands) | | | | (dollars in thousands) | | | |
| Semiconductor and Solar Equipment Segment | \$ 2,040 | \$ 2,157 | \$ (117) | (5)% | \$ 3,775 | \$ 4,124 | \$ (349) | (8)% |
| Polishing Supplies Segment | 828 | 580 | 248 | 43% | 1,485 | 1,150 | 335 | 29% |
| Total | \$ 2,868 | \$ 2,737 | \$ 131 | 5% | \$ 5,260 | \$ 5,274 | \$ (14) | (0)% |
| Gross margin | 27% | 25% | | | 26% | 28% | | |

Gross profit for the quarter ended March 31, 2007 increased 5%, from \$2.7 million to \$2.9 million, with an increase in the gross margin of two percentage points, from 25% to 27%, compared to the quarter ended March 31, 2006. The 5% gross profit increase was driven by a 43% increase in gross profit from our polishing supplies segment as a result of increased volume without any significant increase in labor and overhead costs. The increase in gross profit of the polishing supplies segment was partially offset by a 5% gross profit decrease from our semiconductor and solar cell equipment segment. The decline in the gross profit of the semiconductor and solar equipment segment primarily resulted from the decline in sales volume and increases in labor and overhead needed to provide the added capacity to produce the higher volume of orders received. These increased costs were partially offset by higher margins from previously deferred profit recognized from installations and customer acceptances.

Gross profit for the six months ended March 31, 2007 was comparable to the gross profit for the six months ended March 31, 2006. The improvements in gross margin in the second quarter of fiscal 2007 were offset by a 7% decline in gross margin in the first quarter of fiscal 2007, when compared to the same period in fiscal 2006, primarily as a result of changes in the mix of the products we sold in our semiconductor and solar equipment segment. In the first quarter of fiscal 2006, we shipped a significantly higher number of semiconductor automation systems and etching machines, which typically carry a higher gross margin than the products we shipped in the corresponding quarter in fiscal 2007.

The continued growth of our sales to the solar industry created capacity constraints at our European operations. Consequently, we purchased a new operating plant in March of 2007, which will significantly increase our capacity and is expected to incrementally improve the operating efficiencies in our semiconductor and solar cell equipment manufacturing segment.

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.

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| Selling, general and administrative | Three Months Ended | | | | Six Months Ended | | | |
|---|------------------------|-----------------|---------------|------------|------------------------|-----------------|---------------|------------|
| | March 31, 2007 | March 31, 2006 | Inc. (Dec) | % | March 31, 2007 | March 31, 2006 | Inc. (Dec) | % |
| | (dollars in thousands) | | | | (dollars in thousands) | | | |
| Semiconductor and Solar Equipment Segment | \$ 2,026 | \$ 1,846 | \$ 180 | 10% | \$ 3,896 | \$ 3,439 | \$ 457 | 13% |
| Polishing Supplies Segment | 391 | 326 | 65 | 20% | 740 | 622 | 118 | 19% |
| Total | \$ 2,417 | \$ 2,172 | \$ 245 | 11% | \$ 4,636 | \$ 4,061 | \$ 575 | 14% |
| Percent of net revenue | 23% | 20% | | | 23% | 22% | | |

Selling, general and administrative expenses for the quarter ended March 31, 2007 increased \$0.2 million, or 11%, from \$2.2 million to \$2.4 million compared to the quarter ended March 31, 2006 and \$0.6 million, or 14%, for the six months ended March 31, 2007 compared to the corresponding period in fiscal 2006. The increase of 11% for the quarter resulted primarily from increases in commissions due to the increase in revenues generated in regions where sales agents are utilized. Contributing to the increase for the quarter were increased personnel and consulting costs. The year-to-date increase of 14% was primarily due to increased personnel and consulting costs, and, due, in smaller part, to the above-mentioned increase in commissions. The increased personnel and consulting costs were a result of the need to (i) improve internal financial and operational reporting, (ii) identify potential improvements in operational efficiencies, (iii) assist in developing and executing our growth strategies and (iv) manage the increasing compliance obligations of a growing multi-national public company.

Research and Development

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

| Research and Development | Three Months Ended | | | | Six Months Ended | | | |
|---|------------------------|----------------|-------------|-----------|------------------------|----------------|----------------|--------------|
| | March 31, 2007 | March 31, 2006 | Inc. (Dec) | % | March 31, 2007 | March 31, 2006 | Inc. (Dec) | % |
| | (dollars in thousands) | | | | (dollars in thousands) | | | |
| Semiconductor and Solar Equipment Segment | \$ 141 | \$ 138 | \$ 3 | 2% | \$ 259 | \$ 308 | \$ (49) | (16)% |
| Polishing Supplies Segment | | | | 0% | | | | 0% |
| Total | \$ 141 | \$ 138 | \$ 3 | 2% | \$ 259 | \$ 308 | \$ (49) | (16)% |

Research and development costs for the three and six months ended March 31, 2007 are relatively comparable to the three and six-month periods ended March 31, 2006 reflecting our partnering-based approach, in which our engineering and development teams work closely with our customers to ensure our products are tailored to meet our customers' specific requirements while at the same time minimizing research and development costs.

Interest and other income (expense), net

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

| Interest and other income (expense), net | Three Months Ended | | | Six Months Ended | | |
|--|------------------------|----------------|------------|------------------------|----------------|------------|
| | March 31, 2007 | March 31, 2006 | Inc. (Dec) | March 31, 2007 | March 31, 2006 | Inc. (Dec) |
| | (dollars in thousands) | | | (dollars in thousands) | | |
| Interest and other income (expense), net | \$ 107 | \$ 6 | \$ 101 | \$ 130 | \$ 20 | \$ 110 |
| Foreign currency gains (losses) | 15 | (25) | 40 | 13 | 5 | 8 |

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| | | | | | | | | | | | | |
|-------|----|-----|----|------|----|-----|----|-----|----|----|----|-----|
| Total | \$ | 122 | \$ | (19) | \$ | 141 | \$ | 143 | \$ | 25 | \$ | 118 |
|-------|----|-----|----|------|----|-----|----|-----|----|----|----|-----|

Interest income represents earnings on invested funds. Interest expense primarily consists of interest incurred on our overdraft facility, revolving line of credit, equipment financing, a mortgage, which is secured by a mortgage on Amtech's land and buildings in the Netherlands, and amortization of debt issuance costs. Due to an increase in cash and cash equivalents raised in the secondary public offering of common stock during the second quarter of fiscal 2007, net interest income increased by \$0.1 million during the three and six months ended March 31, 2007, from the comparable period in 2006.

Income Taxes

During the three months ended March 31, 2007 and 2006 we recorded income tax provisions of \$0.2 million for an effective tax rate of 39% and 55%, respectively. During the six months ended March 31, 2007 and 2006, we recorded income tax provisions of \$0.2 million and \$0.3 million, respectively, for an effective tax rate of 47% and 30%, respectively. The decline in the effective tax rate during the quarter ended March 31, 2007, is based upon the expected effective tax rate for fiscal 2007, during which we expect permanent differences between financial income and taxable income to be smaller in relation to pre-tax income. During the six months ended March 31, 2007, the valuation allowance was increased by \$20,000 for state net operating losses that may not be recovered, and we made \$529,000 of tax payments. We also recorded a net deferred tax asset of \$560,000 for items that meet the more likely than not criteria for recognition under SFAS No. 109. (See Note 2 to the condensed consolidated financial statements).

Liquidity and Capital Resources

In February 2007, we completed the sale of 3,018,750 shares of common stock in a public offering for \$7.05 per share. The net proceeds of the sale after offering expenses and underwriting fees was \$19.4 million. We intend to use the net proceeds from this offering for working capital and other general corporate purposes, including possible future product or business acquisitions in connection with the planned expansion of our solar and semiconductor businesses.

At March 31, 2007 and September 30, 2006, cash and cash equivalents were \$21.2 million and \$6.4 million, respectively. Our working capital increased \$17.1 million to \$29.0 million as of March 31, 2007, compared to \$11.9 million at September 30, 2006. Our ratio of current assets to current liabilities increased to 3.9:1 at March 31, 2007, from 2.6:1 at September 30, 2006. The increase in cash and cash equivalents and working capital and the improvement in the current ratio resulted primarily from the \$19.4 million of net proceeds after deducting expenses raised from the secondary public offering of common stock during February 2007. The increase was partially offset by \$3.2 million of capital expenditures, primarily a building acquired in the Netherlands, which will increase the capacity of our semiconductor and solar equipment segment. We intend to mortgage the new facility once improvements have been made and operations have been transferred.

At March 31, 2007, our principal sources of liquidity consisted of \$21.2 million of cash and cash equivalents and the \$3.3 million in available credit facilities to provide additional liquidity to support future growth. Amtech's revolving line of credit with Silicon Valley Bank contains certain financial and other covenants. Amtech was in compliance with these covenants as of March 31, 2007. We believe that our principal sources of liquidity discussed above and the increased capital and liquidity resulting from the February 2007 secondary public offering are sufficient to support operations and will allow us to pursue our growth strategies, which include possible acquisitions.

Cash Flows from Operating Activities

Cash used in our operating activities was \$1.4 million for the six months ended March 31, 2007, compared to \$1.9 million used in such activities for the six months ended March 31, 2006. During the six months ended March 31, 2007 cash was primarily used to finance increases in accounts receivable (\$1.1 million), inventory (\$2.7 million), prepaid and other assets (\$0.3 million). This use of cash was partially offset by increases in accounts payable of \$0.3 million, accrued liabilities and customer deposits of \$1.9 million, deferred profit of \$0.1 million and accrued income taxes of \$0.3 million.

Cash Flows from Investing Activities

Our investing activities for the six months ended March 31, 2007 and 2006 used \$3.2 million and \$0.3 million of cash, respectively. During fiscal 2007, the most significant investment was the purchase of a 48,000 sq. ft. manufacturing facility located in Vaassen, The Netherlands for approximately \$2.9 million. Other investments in both periods consisted primarily of purchases of equipment.

Cash Flows from Financing Activities

Cash provided by financing activities for the six months ended March 31, 2007 was \$19.5 million, which primarily consists of the \$19.4 million, net of expenses, raised in the secondary public offering of the Company's common stock. Other financing activities during the first half of fiscal 2007 include the October 2006 equipment financing of \$0.4 million and \$0.2 million of payments on debt. This compares to \$0.5 million of cash provided by financing activities during the six months ended March 31, 2006, primarily from the exercise of stock options.

Off-Balance Sheet Arrangements

As of March 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 2006 have been changes in purchase obligations and long-term debt (See Notes 1 and 7 of the Condensed Consolidated Financial Statements). Refer to Amtech's annual report on Form 10-K for the year ended September 30, 2006, for information on the Company's other contractual obligations.

Critical Accounting Policies

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

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

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

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

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

For the semiconductor and solar equipment segment, transactions where legal title passes to the customer upon shipment, we recognize revenue upon shipment for those products where the customer's defined specifications have been met with at least two similarly configured systems and processes for a comparably situated customer. However, a portion of the revenue associated with certain installation-related tasks, equal to the greater of the relative fair value of those tasks or the portion of the contract price contingent upon their completion, generally 10%-20% of the system's selling price (the holdback), and directly related costs, if any, are deferred and recognized into income when the tasks are completed. Since we defer only those costs directly related to installation or other unit of accounting not yet delivered and that portion of the contract price is often considerably greater than the fair market value of those items, our policy at times will result in deferral of profit that is disproportionately greater than the deferred revenue. When this is the case, the gross profit recognized in one period will be lower and the gross profit reported in a subsequent period will improve.

For products where the customer's defined specifications have not been met with at least two similarly configured systems and processes, the revenue and directly related costs are deferred at the time of shipment and recognized into income at the time of customer acceptance or when this criterion has been met. We have, on occasion, experienced longer than expected delays in receiving cash from certain customers pending final installation or system acceptance. If some of our customers refuse to pay the final payment, or otherwise delay final acceptance or installation, the deferred revenue would not be recognized, adversely affecting our future operating results.

Equipment sold by the polishing supplies segment does not include process guarantees, acceptance criteria or holdbacks; therefore, the related revenue is recorded upon transfer of title which is generally at time of shipment. Our shipping terms for both segments are customarily FOB our shipping point or equivalent terms.

For all segments, sales of spare parts and consumables are recognized upon shipment, as there are no post shipment obligations other than standard warranties.

Service revenue is recognized upon performance of the services requested by the customer. Revenue related to service contracts is recognized ratably over the period of the contract or in accordance with the terms of the contract, which generally coincides with the performance of the services requested by the customer.

Deferred Tax Asset Valuation Allowance. We currently have significant deferred tax assets resulting from expenses not currently deductible for tax purposes, revenue recognized for tax purposes but deferred for financial statement purposes and state net operating loss carryforwards that will reduce taxable income in future periods.

During fiscal 2004, we recorded a valuation allowance for the total of our deferred tax assets. SFAS No. 109 requires a valuation allowance be established when it is more likely than not that all or a portion of deferred tax assets will not be realized. It also states that it is difficult to conclude that a valuation allowance is not needed when there is negative evidence such as cumulative losses in recent years. Therefore, the cumulative losses weigh heavily in the overall assessment. Each quarter, Amtech analyzes each deferred tax asset to determine the amount that is more likely than not to be realized, based upon the weight of available evidence, and adjusts the valuation allowance to the amount of deferred taxes that do not meet the criteria for recognition under SFAS No. 109.

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

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

Warranty. We provide a limited warranty, generally for 12 to 24 months, to our customers. A provision for the estimated cost of providing warranty coverage is recorded upon shipment of all systems. On occasion, we have been required and may be required in the future to provide additional warranty coverage to ensure that the systems are ultimately accepted or to maintain customer goodwill. While our warranty costs have historically been within our expectations and we believe that the amounts accrued for warranty expenditures are sufficient for all systems sold through March 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 2007, 2006 or 2005. Future adverse changes could be caused by, among other factors, a downturn in the semiconductor industry, a general economic slowdown, reduced demand for our products in the marketplace, poor operating results, the inability to protect intellectual property or changing technologies and product obsolescence.

Impact of Recently Issued Accounting Pronouncements

For discussion of the impact of recently issued accounting pronouncements, see [Item 1: Financial Information](#) under [Impact of Recently Issued Accounting Pronouncements](#) .

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to financial market risks, including changes in foreign currency exchange rates and interest rates. Our operations in the United States are conducted in U.S. dollars. Our operations in Europe, a component of the semiconductor and solar equipment segment, conduct business primarily in the Euro, but also sell products in Asia in the U.S. dollar. The functional currency of our European operation is the Euro. Nearly all of the transactions, assets and liabilities of all other operating units are denominated in the U.S. dollar, their functional currency. The following disclosures about market risk should be read in conjunction with the more in depth discussion in Item 7A, Quantitative and Qualitative Disclosures About Market Risk in our Annual Report on Form 10-K for the fiscal year ended September 30, 2006.

As of March 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 March 31, 2007 and 2006. As of March 31, 2007, our foreign subsidiaries had \$8.5 million of assets (cash and receivables) denominated in currencies other than the functional currency. As of March 31, 2007, we had \$7.8 million of accounts payable, consisting primarily of amounts owed by our foreign subsidiaries to our U.S. companies, denominated in U.S. dollars. Although the intercompany accounts are eliminated in consolidation, we have \$0.7 million of net assets denominated in a currency other than the functional currency of our foreign operations. A 10% change in the value of the functional currency relative to the non-functional currency would result in net gains or losses of \$0.1 million. Our net investment in and long-term advances to our foreign operations totaled \$2.3 million as of March 31, 2007. A 10% change in the value of the Euro relative to the U.S. dollar would cause an approximately \$0.2 million foreign currency translation adjustment, a type of other comprehensive income (loss), which would be a direct adjustment to our stockholders equity.

During the six months ended March 31, 2007, our European operations transacted U.S. dollar denominated sales and purchases of \$3.5 million and \$2.5 million, respectively. As of March 31, 2007, sales commitments denominated in a currency other than the function currency of our transacting operation totaled \$3.9 million. Our lead-times to fulfill these commitments generally range between 13 and 20 weeks. A 10% change in the relevant exchange rates between the time the order was taken and the time of shipment would cause our gross profit on such orders to be approximately \$0.4 million greater than or less than expected on the date the order was taken.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), has carried out an evaluation of the effectiveness of our disclosure controls and procedures as of March 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 2007 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

PART II. OTHER INFORMATION

Item 5. Other Information

(a) On May 10, 2007, the Board of Directors of the Company approved an amendment (the "Amendment") to the Company's Bylaws to provide that, unless otherwise required by the Company's Articles of Incorporation or by applicable law, approval by the shareholders of the adoption or amendment of an equity based compensation plan for employees will require only the minimum vote required under Arizona law. As of the date hereof, Arizona law provides that a matter submitted to the shareholders for approval, other than with respect to the election of directors, will be approved if the votes cast in favor of such matter exceed the votes cast opposing such matter. Prior to the adoption of the Amendment, the Company's Bylaws provided that any question submitted to the shareholders would be resolved by a majority of the votes cast thereon, provided that such votes constitute a majority of the quorum of that particular meeting of shareholders.

Item 6. Exhibits

- | | | |
|------|--|---|
| 3.1 | Bylaws as of April 17, 1991 | * |
| 3.2 | First amendment to Bylaws dated May 10, 2007 | * |
| 10.1 | Sale Agreement, dated March 15, 2007, for purchase of manufacturing facility located in Vaassen, The Netherlands by Tempres Holdings B.V. from Mr. F.H. van Berlo, | * |
| 10.2 | Employment Agreement with J.S. Whang dated April 13, 2007 | * |
| 31.1 | Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as Amended | * |
| 31.2 | Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as Amended | * |
| 32.1 | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | * |
| 32.2 | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | * |

* Filed herewith.

SIGNATURES

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

AMTECH SYSTEMS, INC.

By /s/ Robert T. Hass

Dated: May 15, 2007

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

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