AMTECH SYSTEMS INC
Form 10-Q
August 06, 2009

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: June 30, 2009

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 code480-967-5146

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. [X] Yes [ ] No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). [ ] Yes [ ] No.

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

Large accelerated filer [ ]	Accelerated filer [X]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller Reporting Company [ ]

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

Shares of Common Stock outstanding as of August 4, 2009: 8,959,994

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)

	June 30, 2009	September 30, 2008

		(Unaudited)	
Assets			
Current Assets			
Cash and cash equivalents	$	39,905	$ 37,501
Restricted cash		448	2,005
Accounts receivable			
Trade (less allowance for doubtful accounts of $618 and $588 at June 30, 2009 and September 30, 2008, respectively)		9,236	17,639
Unbilled and other		6,076	5,376
Inventories		12,436	15,902
Deferred income taxes		2,500	4,500
Other		1,963	1,511
Total current assets		72,564	84,434
Property, Plant and Equipment - Net		8,421	8,409
Intangible Assets - Net		3,835	4,384
Goodwill		4,480	4,450
Restricted cash - non-current		492	678
Total Assets	$	89,792	$ 102,355

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)

	June 30, 2009 (Unaudited)	**September 30, 2008**
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 2,039	$ 6,529
Bank loans and current maturities of long-term debt	117	148
Accrued compensation and related taxes	2,915	4,553
Accrued warranty expense	1,367	1,155
Deferred profit	4,883	5,352
Customer deposits	2,962	4,859
Other accrued liabilities	1,515	2,503
Income taxes payable	400	1,060
Total current liabilities	16,198	26,159
Income Taxes Payable Long-term	500	440
Deferred Income Taxes Long-term	430	940
Other Long-Term Obligations	191	283
Total liabilities	17,319	27,822
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock; 100,000,000 shares authorized; none issued	-	-
Common stock; $0.01 par value; 100,000,000 shares authorized; shares issued and outstanding: 8,959,994 and 9,096,048 at June 30, 2009 and September 30, 2008, respectively	90	91
Additional paid-in capital	70,187	70,135
Accumulated other comprehensive income (loss)	(656)	67

Retained Earnings		2,852		4,240
Total stockholders' equity		72,473		74,533
Total Liabilities and Stockholders' Equity	$	89,792	$	102,355

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 June 30,				Nine Months Ended June 30,			
		2009		**2008**		**2009**		**2008**
Revenues, net of returns and allowances	$	12,528	$	24,147	$	41,304	$	53,479
Cost of sales		8,946		17,069		29,279		38,714
Gross profit		3,582		7,078		12,025		14,765
Selling, general and administrative		3,733		4,847		11,318		12,115
Impairment and restructuring charges		-		344		1,682		344
Research and development		151		210		527		686
Operating income (loss)		(302)		1,677		(1,502)		1,620
Interest and other income (expense), net		(33)		248		14		749
Income (loss) before income taxes		(335)		1,925		(1,488)		2,369
Income tax expense (benefit)		(100)		765		(100)		940
Net income (loss)	$	(235)	$	1,160	$	(1,388)	$	1,429
Earnings (Loss) Per Share:								
Basic earnings (loss) per share	$	(0.03)	$	0.13	$	(0.15)	$	0.17
Weighted average shares outstanding		8,960		9,081		9,038		8,593
Diluted earnings (loss) per share	$	(0.03)	$	0.13	$	(0.15)	$	0.16
Weighted average shares outstanding		8,960		9,197		9,038		8,732

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)

	Nine Months Ended June 30,			
		2009		**2008**
Operating Activities				
Net income (loss)	$	(1,388)	$	1,429
Adjustments to reconcile net income (loss) to net				

cash provided by (used in) operating activities:		
Depreciation and amortization	1,138	1,095
Write-down of inventory	392	-
Deferred income taxes	1,374	(1,790)
Impairment of long-lived assets	1,062	-
Non-cash share based compensation expense	498	355
Other	129	240
Changes in operating assets and liabilities:		
Restricted cash	1,773	362
Accounts receivable	6,683	(5,222)
Inventories	2,618	(10,776)
Accrued income taxes	(659)	577
Prepaid expenses and other assets	(458)	(685)
Accounts payable	(4,161)	4,110
Accrued liabilities and customer deposits	(3,920)	4,872
Deferred profit	(309)	1,615
Net cash provided by (used in) operating activities	4,772	(3,818)
Investing Activities		
Purchases of property, plant and equipment	(1,046)	(2,434)
Decrease in restricted cash long-term	184	(1,382)
Payment for licensing agreement	(800)	(400)
Investment in R2D	(167)	(6,689)
Net cash used in investing activities	(1,829)	(10,905)
Financing Activities		
Proceeds from issuance of common stock, net	-	33,934
Purchase of common stock under repurchase program	(448)	-
Payments on long-term obligations	(117)	(702)
Excess tax benefit of stock options	-	69
Net cash provided by (used in) financing activities	(565)	33,301
Effect of Exchange Rate Changes on Cash	26	(160)
Net Increase in Cash and Cash Equivalents	2,404	18,418
Cash and Cash Equivalents, Beginning of Period	37,501	18,370
Cash and Cash Equivalents, End of Period	$ 39,905	$ 36,788
Supplemental Cash Flow Information:		
Interest paid	$ 20	$ 189
Income tax refunds	$ 1,473	$ -
Income tax payments	$ 550	$ 2,188
Supplemental Non-cash Financing Activities:		
Transfer inventory to capital equipment	$ 116	$ -

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

AMTECH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE AND NINE MONTHS ENDED June 30, 2009 AND 2008
(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, primarily in Asia, the United States and Europe. In addition, the Company provides semiconductor manufacturing support services.

The Company serves niche markets in industries that are experiencing rapid technological advances, and which historically have been very cyclical. Therefore, future profitability and growth depend on the Companys 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 in nature, to present fairly our financial position, results of operations and cash flows. Certain information and note disclosures normally included in financial statements have been condensed or omitted pursuant to the rules and regulations of the SEC. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2008.

The consolidated results of operations for the three and nine month periods ended June 30, 2009, 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 2008 to conform to the 2009 presentation. These reclassifications did not have a material effect on the Companys financial statements.

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

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

For purposes of revenue recognition, proven technology means the Company has a history of at least two successful installations. New technology systems are those systems with respect to which the Company cannot demonstrate that it can meet the provisions of customer acceptance at the time of shipment. The full amount of revenue and costs of new technology shipments is recognized upon the completion of installation at the customers premises and acceptance of the product by the customer.

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

Deferred Profit Revenue deferred pursuant to the Companys 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:

	June 30, 2009	September 30, 2008
	(dollars in thousands)	
Deferred revenues	$ 6,913	$ 6,934
Deferred costs	2,030	1,582
Deferred profit	$ 4,883	$ 5,352

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

As of June 30, 2009, three customers accounted for 17%, 14% and 10% of accounts receivable, individually.

Restricted Cash Current restricted cash of $0.4 million as of June 30, 2009 consists of bank guarantees. The bank guarantees are required by certain customers from whom deposits have been received in advance of shipment. Restricted cash - current of $2.0 million as of September 30, 2008 consisted of bank guarantees of $1.0 million in excess of our European overdraft facility that was terminated in the first quarter of fiscal 2009 and cash in an escrow account related to contingent payments paid in the first quarter of fiscal 2009 to the sellers of R2D due to the fulfillment of certain requirements.

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

Inventories Inventories are stated at the lower of cost or net realizable value. Costs for approximately 80% of inventory are determined on an average cost basis with the remainder determined on a first-in, first-out (FIFO) basis. The components of inventories are as follows:

	June 30, 2009	September 30, 2008
	(dollars in thousands)	
Purchased parts and raw materials	$ 8,580	$ 9,776
Work-in-process	2,949	5,057
Finished goods	907	1,069
	$ 12,436	$ 15,902

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

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

	June 30, 2009	September 30, 2008
	(dollars in thousands)	
Land, building and leasehold improvements	$ 6,872	$ 6,916
Equipment and machinery	4,214	3,654
Furniture and fixtures	3,380	3,306
	14,466	13,876
Accumulated depreciation and amortization	(6,045)	(5,467)
	$ 8,421	$ 8,409

Goodwill — Goodwill and intangible assets with indefinite lives are not subject to amortization, but are tested for impairment at least annually. The Company accounts for goodwill under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142. Accordingly, goodwill is reviewed for impairment on an annual basis, typically at the end of the fiscal year, or more frequently if circumstances dictate. Circumstances in the quarter ended March 31, 2009 required the Company to test long-lived assets for recoverability and impairment. See Note 9, "Impairment and Restructuring Charge" for a description of the facts and circumstances leading to the interim impairment test and the amount and method of calculating the impairment charge.

In October 2007, the Company acquired the R2D Automation business ("R2D"), a solar cell and semiconductor automation equipment manufacturing company located near Montpellier, France. Cash contingent payments of approximately $1.6 million were deposited in an escrow account with the agreement to pay the sellers upon fulfillment of certain requirements. As of June 30, 2009, approximately $1.1 million of the $1.6 million has been paid to the sellers in recognition of fulfilling certain requirements. The amount of future contingent payments earned will be allocated to goodwill.

Intangibles — Intangible assets are capitalized and amortized over 2 to 15 years if the life is determinable. If the life is indefinite, amortization is not recorded.

As required by SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," long-lived assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Circumstances in the quarter ended March 31, 2009 required the Company to test long-lived assets for recoverability and impairment. See Note 9, "Impairment and Restructuring Charge" for a description of the facts and circumstances leading to the interim impairment test and the amount and method of calculating the impairment charge.

In November 2008, the Company entered into a license agreement with PST Co., LTD ("PST"), based in Korea, to market PST's existing and future proprietary PSG (phosphorus silicate glass) dry etch systems for the manufacture of photovoltaic cells. The royalty-free, 10-year license agreement grants Amtech exclusive marketing rights throughout the world, with the exception of Korea and one Japanese customer with respect to which PST retains marketing rights. In consideration for the licensed rights, the Company paid $0.5 million.

On April 9, 2009, the Company entered into amendments with PST to both the PSG license discussed above and the PECVD license to expand the licenses to include one future model of the PSG dry etch systems and three future models of the PECVD system. These amendments to the licenses require the Company to pay additional license fees upon successful achievement of the agreed upon specifications of each of the four new models. The four payments range from three hundred million South Korean Won (KRW), approximately $230,000, to one billion KRW, approximately $780,000, for maximum total payments of approximately $1,420,000. Such payments will be recorded as additional intangibles, the cost of which will be amortized over the life of the license.

The following is a summary of intangibles:

	Useful Life	**June 30, 2009**	**September 30, 2008**
		(dollars in thousands)	
Trademarks	Indefinite	$ -	$ 592
Non-compete agreements	8-10 years	171	524
Customer lists	10-15 years	905	1,195
Technology	4-10 years	1,793	1,924
Licenses	10 years	1,500	700
Other	2-10 years	93	94
		4,462	5,029
Accumulated amortization		(627)	(645)
		$ 3,835	$ 4,384

Restricted Cash Non-current Restricted cash non-current consists of cash in an escrow account related to contingent payments to be paid to the sellers of R2D upon fulfillment of certain requirements. The amount of future contingent payments earned will be allocated to goodwill.

Warranty A limited warranty is provided free of charge, generally for periods of 12 to 24 months to all purchasers of the Companys 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:

	Nine Months Ended June 30, 2009	2008
	(dollars in thousands)	
Beginning balance	$ 1,155	$ 256
Warranty expenditures	(433)	(441)
Provision	645	960
Acquired through business acquisitions	-	247
Ending balance	$ 1,367	$ 1,022

Stock-Based Compensation The Company measures 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 benefits of tax deductions in excess of recognized compensation cost are reported as cash flow from financing activities rather than as cash flow from operating activities. Our stock-based compensation plans are summarized in the table below:

Name of Plan	Shares Authorized	Shares Available	Options Outstanding	Plan Expiration
2007 Employee Stock Incentive Plan	500,000	121,387	248,113	Apr. 2017
1998 Employee Stock Option Plan	500,000	-	325,490	Jan. 2008
Non-Employee Directors Stock Option Plan	200,000	32,600	90,000	Jul. 2015
		153,987	663,603	

Share-based compensation expense reduced the Companys results of operations by the following amounts:

	Three Months Ended June 30, 2009	2008	Nine Months Ended June 30, 2009	2008
	(dollars in thousands, except per share amounts)			
Effect on income (loss) before income taxes (1)	$ (165)	$ (125)	$ (498)	$ (335
Effect on net income (loss)	$ (128)	$ (98)	$ (391)	$ (291

(1) Stock option expense is included in selling, general and administrative expenses.

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 2019. Options issued by the Company vest over 1 to 5 years.

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

	Nine Months Ended June 30, 2009 Options	Weighted Average Exercise Price	2008 Options	Weighted Average Exercise Price
Outstanding at beginning of period	486,803	$ 8.39	450,303	$ 6.44
Granted	189,000	3.79	120,000	13.65

Exercised	-	-	(67,375)	5.34
Forfeited	(12,200)	7.41	(4,875)	6.35
Outstanding at end of period	663,603	$ 7.10	498,053	$ 8.33
Exercisable at end of period	319,877	$ 7.27	263,171	$ 6.51
Weighted average fair value of options granted during the period	$ 2.27		$ 8.01	

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

	Nine Months Ended June 30,	
	2009	**2008**
Risk free interest rate	1.86%	3.27%
Expected life	6 years	6 years
Dividend rate	0%	0%
Volatility	66%	62%
Forfeiture rate	7%	9%

To estimate expected lives for this valuation, it was assumed that options will be exercised at varying schedules after becoming fully vested. 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 6,000 and 189,000 options granted during the three and nine months ended June 30, 2009, respectively; and 15,000 and 120,000 options granted for the comparable periods of fiscal 2008. Total fair value of options granted was approximately $18,000 and $429,000 for the three and nine months ended June 30, 2009, respectively; and $98,000 and $961,000 for the comparable periods of fiscal 2008.

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 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.

Restricted stock transactions and outstanding are summarized as follows:

	Nine Months Ended June 30,			
	2009		**2008**	
	Awards	**Weighted Average Grant Date Fair Value**	**Awards**	**Weighted Average Grant Date Fair Value**
Beginning Outstanding	30,500	$ 14.79	-	$ -
Awarded	100,000	3.80	31,500	14.79
Released	(7,625)	14.79	-	-
Forfeited	-	-	-	-
Ending Outstanding	122,875	$ 5.85	31,500	$ 14.79

Fair Value of Financial Instruments The carrying values of the Companys current financial instruments approximate fair value due to the short term in which these instruments mature. The carrying values of the Companys long-term debt approximate fair value because their variable interest rates approximate the prevailing interest rates for similar debt instruments.

Impact of Recently Issued Accounting Pronouncements

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

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a formal framework for measuring fair value and expands disclosures about fair value measurements. 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 Companys fiscal year beginning October 1, 2009.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations. This Statement replaces SFAS No. 141, Business Combinations. SFAS No. 141(R) retains the fundamental requirements in Statement 141 that the acquisition method of accounting (which Statement 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. SFAS No. 141(R) also establishes principles and requirements for how the acquirer: a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase and c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) will apply prospectively to business combinations of the Company for which the acquisition date is on or after October 1, 2009. While the Company has not yet evaluated this statement for the impact, if any, that SFAS No. 141(R) will have on its consolidated financial statements, the Company will be required to expense costs related to any acquisitions after September 30, 2009.

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2. Income Taxes

The income tax provision (benefit) included in the condensed consolidated statements of operations for the nine months ended June 30, 2009 and June 30, 2008 is based on the estimated annual effective tax rate for the entire year and changes in the valuation allowance on deferred tax assets in existence at the beginning of the fiscal year. These estimated annual effective tax rates are adjusted at the end of each interim quarter based on our estimates for the fiscal year of pretax income or loss, permanent differences, statutory tax rates and changes in those deferred tax assets for which we have established a valuation allowance, and tax planning strategies in the various jurisdictions in which the Company operates.

Deferred tax assets and liabilities reflect the tax effects of temporary differences between the carrying value of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Statement of Financial Accounting Standards (SFAS) No. 109 Accounting for Income Taxes requires a valuation allowance to be 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. Our expectations regarding realization of our deferred tax assets is based upon the weight of all available evidence, including such factors as our recent earnings history and expected future taxable income. The Company maintains a valuation allowance with respect to certain state deferred tax assets and foreign net operating losses that may not be recovered. Each quarter the valuation allowance is re-evaluated. During the nine months ended June 30, 2009, the valuation allowance was increased by approximately $304,000 for certain state deferred tax assets, including $141,000 for net operating losses in those states, that may not be recovered.

Upon the adoption of FIN 48, the Company classified uncertain tax positions as non-current income taxes payable unless expected to be paid within one year. At June 30, 2009 and September 30, 2008, the total amount of unrecognized tax benefits was $500,000 and $440,000, respectively. 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. The accrual for potential interest and penalties for the nine months ended June 30, 2009 and June 30, 2008 was $64,000 and $36,000, respectively.

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

3. Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income (loss) 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. In the case of a net loss, diluted earnings per share is calculated in the same manner as basic EPS.

Common shares relating to stock options where the exercise prices exceeded the average market price of our common shares during the period were excluded from the diluted earnings per share calculation as the related impact was anti-dilutive. For the three and nine months ended June 30, 2009, options for 665,000 and 666,000 shares, respectively, and 23,000 restricted stock award shares are excluded from the diluted EPS calculations because they are anti-dilutive. For the three and nine months ended June 30, 2008, options for 130,000 shares are excluded from the diluted EPS calculations because they are anti-dilutive. For the three and nine months ended June 30, 2008, 31,500 restricted stock award shares are excluded from the diluted EPS calculations because they are anti-dilutive.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2009	2008	2009	2008
	(in thousands, except per share amounts)		(in thousands, except per share amounts)	
Basic Earnings Per Share Computation				
Net income (loss) available to common stockholders	$ (235)	$ 1,160	$ (1,388)	$ 1,429
Weighted Average Shares Outstanding:				
Common stock	8,960	9,081	9,038	8,593
Basic earnings (loss) per share	$ (0.03)	$ 0.13	$ (0.15)	$ 0.17
Diluted Earnings Per Share Computation				
Net income (loss)	$ (235)	$ 1,160	$ (1,388)	$ 1,429
Weighted Average Shares Outstanding:				
Common stock	8,960	9,081	9,038	8,593
Common stock equivalents (1)	-	116	-	139
Diluted shares	8,960	9,197	9,038	8,732
Diluted earnings (loss) per share	$ (0.03)	$ 0.13	$ (0.15)	$ 0.16

(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 (Loss)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2009	2008	2009	2008
	(dollars in thousands)		(dollars in thousands)	
Net income (loss), as reported	$ (235)	$ 1,160	$ (1,388)	$ 1,429
Foreign currency translation adjustment	2,005	32	(723)	1,531
Comprehensive income (loss)	$ 1,770	$ 1,192	$ (2,111)	$ 2,960

5. Business Segment Information

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

Information concerning our business segments is as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2009	2008	2009	2008
	(dollars in thousands)		(dollars in thousands)	
Net Revenues:				
Solar and semiconductor equipment	$ 11,458	$ 22,138	$ 36,931	$ 47,743
Polishing supplies	1,070	2,009	4,373	5,736
	$ 12,528	$ 24,147	$ 41,304	$ 53,479
Operating income (loss):				
Solar and semiconductor equipment (1)	$ (300)	$ 1,421	$ (1,430)	$ 911
Polishing supplies	(2)	256	(72)	709
	(302)	1,677	(1,502)	1,620
Interest and other income (expense), net	(33)	248	14	749
Income (loss) before income taxes	$ (335)	$ 1,925	$ (1,488)	$ 2,369

(1) The nine months ended June 30, 2009 includes the impairment losses of $1.1 million related to intangible assets and goodwill and $0.6 million of restructuring costs at Bruce Technologies. See Note 9, "Impairment and Restructuring Charge." The three and nine months ended June 30, 2008 include restructuring costs of $0.3 million at Bruce Technologies.

	June 30, 2009	September 30, 2008
	(dollars in thousands)	
Identifiable Assets:		
Solar and semiconductor equipment	$ 85,359	$ 97,545
Polishing supplies	4,433	4,810
	$ 89,792	$ 102,355

6. Major Customers and Foreign Sales

During the three months ended June 30, 2009, three customers represented 30%, 17% and 15% of net revenues, individually. During the nine months ended June 30, 2009, one customer represented 19% of net revenues. During the three months ended June 30, 2008, two customers represented 34% and 11% of net revenues, individually. During the nine months ended June 30, 2008, two customers represented 25% and 10% of net revenues, individually.

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

	Nine Months Ended June 30,	
	2009	**2008**
United States	20%	16%
Other	0%	1%
Total North America	**20%**	**17%**
China	32%	39%
Taiwan	27%	15%
Other	5%	9%
Total Asia	**64%**	**63%**
Total Europe	**16%**	**20%**
	100%	**100%**

7. Commitments and Contingencies

Purchase Obligations — As of June 30, 2009, we had purchase obligations in the amount of $4.8 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.

License Fees —The license fees resulting from the amendments to the license agreements discussed in Note 1 are expected to be paid in 2010 ($0.6 million) and 2011 ($0.8 million).

Litigation — The Company is a party to various claims arising in the normal course of business. Management believes the resolution of these matters will not have a material impact on the Company’s results of operations or financial condition.

8. Stockholders Equity

Shareholder Rights Plan —On December 15, 2008, the Company and Computershare Trust Company, N.A., as Rights Agent (the “Rights Agent”), entered into an Amended and Restated Rights Agreement (the “Restated Rights Agreement”) which amends and restates the terms governing the previously authorized shareholder rights (each a “Right”) to purchase fractional shares of the Company’s Series A Participating Preferred Stock (“Series A Preferred”) currently attached to each of the Company’s outstanding Common Shares, par value $0.01 per share (“Common Shares”). As amended, each Right entitles the registered holder to purchase from the Company one one-thousandth of a share of Series A Preferred at an exercise price of $51.60 (the “Exercise Price”), subject to adjustment. The Final Expiration Date (as defined in the Restated Rights Agreement) is December 14, 2018.

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

Stock Repurchase Program —In December 2008, the Board of Directors approved a stock repurchase program authorizing the repurchase of up to $4 million of its common stock. Under the program, shares may be repurchased from time to time in open market transactions at prevailing market prices or in privately negotiated purchases. The timing and actual number of shares purchased will depend on a variety of factors, such as price, corporate and regulatory requirements, alternative investment opportunities, and other market and economic conditions. The program may be commenced, suspended or terminated at any time, or from time-to-time at management's discretion without prior notice. During the nine months ended June 30, 2009, the Company repurchased 144,000 shares for $0.4 million in cash at an average cost of $3.09 per share. During the three months ended June 30, 2009 there were no repurchases. The repurchased shares were retired immediately after the repurchases were complete. Retirement of the repurchased shares is recorded as a reduction of common stock and additional paid-in-capital.

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9. Impairment and Restructuring Charge

The Bruce operations are primarily dependent upon a mature segment of the semiconductor industry which is experiencing a significant downturn. The industry downturn resulted in recent operating losses and deterioration in forecasted revenue and earnings at Bruce. It is uncertain when, and to what extent, the markets served by Bruce will recover. Therefore, the Bruce operations were restructured in the second quarter of fiscal 2009 to focus primarily on a parts supply business instead of its prior focus, the sale of furnace systems. The restructuring included a reduction in the number of employees and a reduction in the amount of space required to operate the business. The restructuring resulted in a charge of $620,000, which includes a $350,000 charge for unutilized leased space, a $160,000 write-off of furnace-related inventory parts that are not expected to be utilized in the future and $110,000 of severance and outplacement costs.

Due to the circumstances related to the Bruce operations discussed above, the Company determined it was necessary to conduct an assessment of the ability to recover the carrying amount of long-lived assets of the Bruce operations. Recoverability is based upon the Company's judgments and estimates of undiscounted cash flows during the estimated remaining useful life of the assets. It was determined that the carrying value of the net assets subject to amortization or depreciation was not fully recoverable; therefore, an impairment charge of $373,000 was recorded for the excess of carrying value over the fair value of the customer list and non-compete agreement.

As a result of the impairment of long-lived assets described above, it was necessary to conduct an interim review of the goodwill and Bruce trademark for impairment. The fair value of the assets group was determined through estimates of the present value of future cash flows based upon the anticipated future use of the assets. As the carrying value of the Bruce assets exceeded their estimated fair value, the carrying values of goodwill ($89,000) and the Bruce trademark ($592,000) were also recorded as an impairment charge in the second quarter of fiscal 2009.

The total amount of the impairment charge was $1.1 million. Details of the impairment charge are as follows:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(dollars in thousands)		
Goodwill	$ 89	$ -	$ 89
Trademark	592	-	592
Customer list	276	87	189
Non-compete agreement	350	166	184
Impairment Charge			$ 1,054

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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, 2008.

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,” “goal,” “predicts,” “projects,” “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, technological changes and our dependence on our technology partners for the delivery and confirmation of the technological advantage of new products; development of superior technologies by our competitors; the acceptance of our products in the marketplace by existing and potential future customers; disruption of operations or increases in expenses caused by civil or political unrest or other catastrophic events; general economic conditions and conditions in the solar and semiconductor industries in particular; the continued employment of our key personnel and risks associated with competition.

For a discussion of the factors that could cause actual results to differ materially from the forward-looking statements, see the “Risk Factors” set forth in Item 1A of Part I of Amtech Systems, Inc.’s Annual Report on Form 10-K for the fiscal year ended September 30, 2008, the “Liquidity and Capital Resources” section under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this item of this report and the other risks and uncertainties that are set forth elsewhere in this report or detailed in our other Securities and Exchange Commission reports and filings. We assume no obligation to update these forward-looking statements.

Introduction

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

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

Overview

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

MEMS industries.

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

Our customers are primarily manufacturers of solar cells and integrated circuits. The solar cell and semiconductor industries are cyclical and historically have experienced significant fluctuations. O