

AMTECH SYSTEMS INC
Form 10-Q
August 13, 2008

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: June 30, 2008

OR

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

For the transition period from _____ to _____

Commission File Number: 0-11412

AMTECH SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Arizona
(State or other jurisdiction of
incorporation or organization)

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

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

85281
(Zip Code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller Reporting Company

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

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

**AMTECH SYSTEMS, INC. AND SUBSIDIARIES
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ITEM 1. Condensed Consolidated Financial Statements

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

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

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

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

	June 30, 2008	September 30, 2007
	(Unaudited)	
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	\$ 9,976	\$ 4,150
Bank loans and current maturities of long-term debt	184	224
Accrued compensation and related taxes	3,581	2,139
Accrued warranty expense	1,022	256
Deferred profit	4,440	2,144
Customer deposits	5,591	1,824
Other accrued liabilities	998	562
Income taxes payable	1,209	419
Total current liabilities	27,001	11,718
Income Taxes Payable Long-term	227	-
Deferred Income Taxes Long-term	791	-
Long-Term Obligations	326	744
Total liabilities	28,345	12,462

Commitments and Contingencies**Stockholders' Equity**

Preferred stock; 100,000,000 shares authorized; none issued	-	-
Common stock; \$0.01 par value; 100,000,000 shares authorized; shares issued and outstanding: 9,085,298 and 6,517,923 at June 30, 2008 and September 30, 2007	91	65
Additional paid-in capital	69,941	35,610
Accumulated other comprehensive income	2,344	813
Retained Earnings	2,811	1,716
Total stockholders' equity	75,187	38,204
Total Liabilities and Stockholders' Equity	\$ 103,532	\$ 50,666

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

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

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

Earnings Per Share:

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

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

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

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

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

AMTECH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE AND NINE MONTHS ENDED June 30, 2008 AND 2007
(UNAUDITED)

1. Basis of Presentation

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

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

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"), and consequently do not include all disclosures normally required by U.S. generally accepted accounting principles. In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements contain all adjustments necessary, all of which are of a normal recurring nature, to present fairly our financial position, results of operations and cash flows. Certain information and note disclosures normally included in financial statements have been condensed or omitted pursuant to the rules and regulations of the SEC. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2007.

The consolidated results of operations for the three and nine month periods ended June 30, 2008, are not necessarily indicative of the results to be expected for the full year.

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

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

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

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

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

	June 30, 2008	September 30, 2007
	(dollars in thousands)	
Deferred revenues	\$ 6,042	\$ 3,894
Deferred costs	1,602	1,750
Deferred profit	\$ 4,440	\$ 2,144

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

As of June 30, 2008, accounts receivable from one customer accounted for 38% of total accounts receivable.

Restricted Cash □ Current restricted cash of \$0.4 million as of September 30, 2007 consists of bank guarantees of certain customer deposits in excess of our European line of credit. As of June 30, 2008 current restricted cash is \$0.1 million due to a certificate of deposit collateralizing a letter of credit issued on our behalf as required by a customer deposit.

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

Inventories □ Inventories are stated at the lower of cost or net realizable value. Costs for approximately 50% of inventory are determined on an average cost basis with the remainder determined on a first-in, first-out (FIFO) basis. The components of inventories are as follows:

	June 30, 2008	September 30, 2007
	(dollars in thousands)	
Purchased parts and raw materials	\$ 13,849	\$ 5,291
Work-in-process	5,492	1,456
Finished goods	1,323	542
	\$ 20,664	\$ 7,289

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

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

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	June 30, 2008	September 30, 2007
	(dollars in thousands)	
Land, building and leasehold improvements	\$ 7,279	\$ 5,105
Equipment and machinery	3,770	2,874
Furniture and fixtures	3,312	2,570
	14,361	10,549
Accumulated depreciation and amortization	(5,533)	(4,304)
	\$ 8,828	\$ 6,245

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

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

On October 8, 2007, the Company acquired, through its wholly-owned subsidiary, Tempres Holding B.V., 100% of the voting equity, in R2D Ingenierie, or R2D, a solar cell and semiconductor automation equipment manufacturing company, located near Montpellier, France.

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

The following is a summary of intangibles:

	Useful Life	June 30, 2008	September 30, 2007
		(dollars in thousands)	
Trademarks	Indefinite	\$ 592	\$ 592
Non-compete agreements	8-10 years	526	350
Customer lists	10-15 years	1,492	276
Technology	4-10 years	1,674	102
Licenses	10 years	700	300
Backlog and other	1-2 years	226	-
		5,210	1,620
Accumulated amortization		(661)	(256)