AMTECH SYSTEMS INC
Form 10-Q
August 14, 2007

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, 2007

OR

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

For the transition period from _______________ to _______________

Commission File Number: 0-11412

AMTECH SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

Arizona (State or other jurisdiction of incorporation or organization)	86-0411215 (I.R.S. Employer Identification No.)
131 South Clark Drive, Tempe, Arizona (Address of principal executive offices)	85281 (Zip Code)

Registrant's telephone number, including area 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 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 [X]

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 10, 2007: 6,515,923

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, 2007 (Unaudited)	September 30, 2006
Assets		
Current Assets		
Cash and cash equivalents	$ 17,872	$ 6,433
Accounts receivable		
Trade (less allowance for doubtful accounts of $190 and $223 at June 30, 2007 and September 30, 2006, respectively)	10,384	6,545
Unbilled and other	2,131	849
Inventories	6,814	4,979
Deferred income taxes	1,029	-
Other	1,030	414
Total current assets	39,260	19,220
Property, Plant and Equipment - Net	5,533	2,382
Intangible Assets - Net	1,383	1,144
Goodwill	817	817
Total Assets	$ 46,993	$ 23,563
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 3,579	$ 3,631
Bank loans and current maturities of long-term debt	219	258
Accrued compensation and related taxes	1,121	1,187
Accrued warranty expense	283	289
Deferred profit	1,781	1,071
Customer deposits	990	-
Accrued commissions	593	203
Other accrued liabilities	381	379
Income taxes payable	592	319
Total current liabilities	9,539	7,337
Long-Term Obligations	774	617

Total liabilities	10,313	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: 6,502,842 and 3,476,042 at June 30, 2007 and September 30, 2006, respectively	65	35
Additional paid-in capital	35,412	15,774
Accumulated other comprehensive income	626	501
Retained earnings (deficit)	577	(701)
Total stockholders' equity	36,680	15,609
Total Liabilities and Stockholders' Equity	$ 46,993	$ 23,563

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,**	
	2007	**2006**	**2007**	**2006**
Revenues, net of returns and allowances	$ 12,874	$ 10,351	$ 32,864	$ 29,157
Cost of sales	9,450	7,708	24,180	21,240
Gross profit	3,424	2,643	8,684	7,917
Selling, general and administrative	2,700	2,238	7,336	6,299
Restructuring Charge	-	140	-	140
Research and development	117	65	376	372
Operating income	607	200	972	1,106
Interest and other income (expense), net	170	(29)	313	(4)
Income before income taxes	777	171	1,285	1,102
Income tax expense (benefit)	(233)	3	7	280
Net income	$ 1,010	$ 168	$ 1,278	$ 822
Earnings Per Share:				
Basic earnings per share	$ .16	$ .05	$ .25	$ .25
Weighted average shares outstanding	6,498,100	3,436,629	5,049,517	2,980,020
Diluted earnings per share	$ .15	$ .05	$ .25	$ .24
Weighted average shares outstanding	6,575,110	3,521,173	5,103,775	3,445,112

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, 2007	2006
Operating Activities		
Net income	$ 1,278	$ 822
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	524	461
Write-down of inventory	194	183
Provision for doubtful accounts	(41)	40
Deferred income taxes	(1,029)	-
Non-cash share based compensation expense	228	154
Other	7	-
Changes in operating assets and liabilities:		
Accounts receivable	(4,734)	(3,462)
Inventories	(1,855)	(1,673)
Accrued income taxes	258	847
Prepaid expenses and other assets	(602)	274
Accounts payable	(199)	1,154
Accrued liabilities and customer deposits	1,225	836
Deferred profit	659	777
Net cash provided by (used in) operating activities	(4,087)	413
Investing Activities		
Purchases of property, plant and equipment	(3,505)	(602)
Payment for licensing agreement	(300)	-
Net cash used in investing activities	(3,805)	(602)
Financing Activities		
Proceeds from issuance of common stock	19,440	709
Preferred stock cash dividends paid	-	(83)
Payments on long-term obligations	(155)	(103)
Borrowings on long-term obligations	355	-
Net short term borrowings (payments)	(111)	-
Excess tax benefit of stock options	-	27
Net cash provided by financing activities	19,529	550
Effect of Exchange Rate Changes on Cash	(198)	(96)
Net Increase in Cash and Cash Equivalents	11,439	265
Cash and Cash Equivalents, Beginning of Period	6,433	3,309
Cash and Cash Equivalents, End of Period	$ 17,872	$ 3,574

Supplemental Cash Flow Information:				
Interest paid	$	228	$	88
Income tax refunds	$	-	$	370
Income tax payments	$	778	$	16
Supplemental Non-cash Financing Activities:				
Stock issued for preferred stock dividend	$	-	$	74
Preferred stock converted to common stock	$	-	$	1,859

AMTECH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE AND NINE MONTHS ENDED JUNE 30, 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 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 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 the Companys Annual Report on Form 10-K for the fiscal year ended September 30, 2006.

The consolidated results of operations for the three and nine month periods ended June 30, 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 Companys results of operations.

Use of Estimates The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

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

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

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

	June 30, 2007	September 30, 2006
	(dollars in thousands)	
Deferred revenues	$ 3,434	$ 2,493
Deferred costs	(1,653)	(1,422)
Deferred profit	$ 1,781	$ 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, microelectromechanical systems, or 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 June 30, 2007, accounts receivable from two customers exceeded 10% of accounts receivable; one customer accounted for 14% and the other customer accounted for 12% 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:

	June 30, 2007	September 30, 2006
	(dollars in thousands)	
Purchased parts and raw materials	$ 4,346	$ 3,400

Work-in-process		1,788		1,159
Finished goods		680		420
	$	6,814	$	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:

		June 30, 2007		September 30, 2006
		(dollars in thousands)		
Land, building and leasehold improvements	$	4,383	$	1,094
Equipment and machinery		2,760		2,676
Furniture and fixtures		2,464		2,514
		9,607		6,284
Accumulated depreciation and amortization		(4,074)		(3,902)
	$	5,533	$	2,382

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.

In April 2007, the company entered into a license agreement with PST Co., LTD (PST) to market, sell, install, service and, under certain circumstances, manufacture machinery and equipment for the manufacturing of photovoltaic cells that employs PECVD Technology (Licensed Product) developed by PST. Under the terms of this agreement the Company paid $0.3 million to PST in April, with an additional payment due of $0.7 million upon successful development of the Licensed Product. Under the terms of the agreement PST is required to return the original payment if the development of the Licensed Product is unsuccessful within six months. The license agreement expires in April 2017. These payments will be amortized over the life of the agreement beginning with the successful development of the Licensed Product.

The following is a summary of intangibles:

	Useful Life		June 30, 2007		September 30, 2006
			(dollars in thousands)		
Patents	7 years	$	-	$	74
Trademarks	Indefinite		592		592
Non-compete agreements	10 years		350		350

Customer lists	15 years	276	276
Technology	4 years	102	102
Licenses	10 years	300	