AMTECH SYSTEMS INC
Form 10-Q
February 06, 2014
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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: December 31, 2013
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. [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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). [X] 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 [ ]
	Smaller Reporting Company [ ]

Non-accelerated filer [x] (Do not check if a 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 January 30, 2014: 9,584,067

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)

	December 31, 2013 (Unaudited)	September 30, 2013
Assets		
Current Assets		
Cash and cash equivalents	$30,337	$37,197
Restricted cash	4,236	5,134
Accounts receivable		
Trade (less allowance for doubtful accounts of $683 and $638 at December 31, 2013, and September 30, 2013, respectively)	10,496	4,829
Unbilled and other	7,390	3,194
Inventories	16,712	22,001
Deferred income taxes	1,340	1,330
Refundable income taxes	7,170	7,580
Other	1,801	2,930
Total current assets	79,482	84,195
Property, plant and equipment - net	10,929	11,066
Deferred income taxes -long term	1,260	1,260
Intangible assets - net	3,360	3,502
Goodwill	8,527	8,481
Other assets - long term	2,526	2,443
Total Assets	$106,084	$110,947

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

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

	December 31, 2013 (Unaudited)	September 30, 2013
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$5,299	$5,472
Accrued compensation and related taxes	4,137	3,778
Accrued warranty expense	1,065	1,454
Deferred profit	6,692	3,067
Customer deposits	4,903	11,253
Other accrued liabilities	8,299	10,140
Income taxes payable	6,030	6,170
Total current liabilities	36,425	41,334
Income taxes payable long-term	2,900	2,810
Total liabilities	39,325	44,144
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: 9,583,867 and 9,550,809 at December 31, 2013, and September 30, 2013, respectively	96	96
Additional paid-in capital	79,794	79,610
Accumulated other comprehensive loss	(3,827)	(4,556)
Retained deficit	(8,800)	(8,004)
Total stockholders' equity	67,263	67,146
Noncontrolling interest	(504)	(343)
Total equity	66,759	66,803
Total Liabilities and Stockholders' Equity	$106,084	$110,947

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 December 31,	
	2013	2012
Revenues, net of returns and allowances	$14,772	$9,357
Cost of sales	10,237	7,979
Gross profit	4,535	1,378
Selling, general and administrative	4,124	4,272
Restructuring charges	—	697
Research and development	889	1,161
Operating loss	(478)	(4,752)
Interest and other income, net	106	4
Loss before income taxes	(372)	(4,748)
Income tax provision (benefit)	560	(480)
Net loss	(932)	(4,268)
Add: Net loss attributable to noncontrolling interest	138	74
Net loss attributable to Amtech Systems, Inc.	$(794)	$(4,194)
Loss Per Share:		
Basic loss per share attributable to Amtech shareholders	$(0.08)	$(0.44)
Weighted average shares outstanding	9,560	9,494
Diluted loss per share attributable to Amtech shareholders	$(0.08)	$(0.44)
Weighted average shares outstanding	9,560	9,494

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 Comprehensive Income (Loss)
(Unaudited)
(in thousands)

	Three Months Ended December 31,	
	2013	2012
Net loss	$(932)	$(4,268)
Foreign currency translation adjustment	705	1,391
Comprehensive loss	(227)	(2,877)
Comprehensive loss attributable to noncontrolling interest	161	86
Comprehensive loss attributable to Amtech Systems, Inc.	$(66)	$(2,791)

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

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

	Three Months Ended December 31,	
	2013	2012
Operating Activities		
Net loss	$(932)	$(4,268)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	623	699
Write-down of inventory	90	194
Deferred income taxes	—	15
Non-cash stock based compensation expense	176	433
Provision for allowance for doubtful accounts	33	33
Changes in operating assets and liabilities:		
Restricted cash	944	(905)
Accounts receivable	(9,748)	3,911
Inventories	5,498	1,117
Accrued income taxes	532	(500)
Prepaid expenses and other assets	1,078	484
Accounts payable	(237)	(3,127)
Accrued liabilities and customer deposits	(8,534)	(178)
Deferred profit	3,554	(2,460)
Net cash used in operating activities	(6,923)	(4,552)
Investing Activities		
Purchases of property, plant and equipment	(154)	(121)
Net cash used in investing activities	(154)	(121)
Financing Activities		
Proceeds from the issuance of common stock	9	—
Net cash provided by financing activities	9	—
Effect of Exchange Rate Changes on Cash	208	562
Net Decrease in Cash and Cash Equivalents	(6,860)	(4,111)
Cash and Cash Equivalents, Beginning of Period	37,197	46,726
Cash and Cash Equivalents, End of Period	$30,337	$42,615
Supplemental Cash Flow Information:		
Income tax refunds	$27	$—

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 MONTHS ENDED DECEMBER 31, 2013 AND 2012
(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 wafers, primarily for the solar and semiconductor industries. The Company is developing an ion implanter to provide its customers with a more complete solution for their next-generation high-efficiency solar cell production. The Company sells these products to manufacturers of solar cells, silicon wafers, and semiconductors worldwide, particularly in Asia, United States and Europe.

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 accounting principles generally accepted in the United States of America. In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements contain all adjustments necessary, all of which are of a normal and 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, 2013.

The consolidated results of operations for the three months ended December 31, 2013, are not necessarily indicative of the results to be expected for the full fiscal year.

Principles of Consolidation – The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and subsidiaries in which it has a controlling interest. The Company reports noncontrolling interests in consolidated entities as a component of equity separate from the Company's equity. All material intercompany accounts and transactions have been eliminated in consolidation.

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 consolidated 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 or (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 the completion of installation at the customers’ premises and acceptance of the product by the customer.

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.

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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:

	December 31, 2013	September 30, 2013
	(dollars in thousands)	
Deferred revenues	$13,027	$3,371
Deferred costs	6,335	304
Deferred profit	$6,692	$3,067

Concentrations of Credit Risk – Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of trade accounts receivable and cash. The Company's customers, located throughout the world, consist of manufacturers of solar cells, semiconductors, semiconductor wafers, light-emitting diodes (LEDs) and micro-electro-mechanical systems (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.

The Company maintains its cash, cash equivalents and restricted cash in multiple financial institutions. Balances in the United States (approximately 60% of total cash balances) are primarily invested in US Treasuries or are in financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). The remainder of the Company's cash is maintained in banks in The Netherlands, France and China that are uninsured.

As of December 31, 2013, two customers, individually, accounted for 40% and 16% of accounts receivable.

Restricted Cash – Restricted cash is $4.2 million and $5.1 million as of December 31, 2013, and September 30, 2013, respectively, includes collateral for bank guarantees required by certain customers from whom deposits have been received in advance of shipment and cash received from research and development grants related to our ion implant technology to be used for research and development projects.

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. For the majority of these amounts, a liability has been accrued in deferred profit.

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

	December 31, 2013	September 30, 2013
	(dollars in thousands)	
Purchased parts and raw materials	$11,101	$11,757
Work-in-process	2,908	7,104
Finished goods	2,703	3,140
	$16,712	$22,001

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 ten years; and for buildings twenty years.

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

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	December 31, 2013	September 30, 2013
	(dollars in thousands)	
Land, building and leasehold improvements	$11,129	$10,960
Equipment and machinery	7,854	7,630
Furniture and fixtures	5,785	5,685
	24,768	24,275
Accumulated depreciation and amortization	(13,839)	(13,209)
	$10,929	$11,066

Goodwill - Goodwill is not subject to amortization and is reviewed for impairment on an annual basis, typically at the end of the fiscal year, or more frequently if circumstances dictate.

The following is a summary of activity in goodwill:

	Solar and Semiconductor Equipment	Polishing Supplies and Equipment	Total
	(dollars in thousands)		
Balance at the beginning of year			
Goodwill	$12,563	$728	$13,291
Accumulated impairment losses	(4,810)	—	(4,810)
	7,753	728	8,481
Net exchange differences	46	—	46
Balance at the end of quarter			
Goodwill	12,635	728	13,363
Accumulated impairment losses	(4,836)	—	(4,836)
	$7,799	$728	$8,527

Intangibles – Intangible assets are capitalized and amortized over their useful life if the life is determinable. If the life is not determinable, amortization is not recorded.

The following is a summary of intangibles:

	Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		December 31, 2013			September 30, 2013		
		(dollars in thousands)					
Non-compete agreements	4-8 years	$1,068	$ (780)	$288	$1,065	$ (717)	$348
Customer lists	10 years	887	(561)	326	871	(532)	339
Technology	5-10 years	2,457	(1,514)	943	2,426	(1,422)	1,004
In-process research and development	(1)	1,600	—	1,600	1,600	—	1,600
Other	2-10 years	348	(145)	203	341	(130)	211
		$6,360	$ (3,000)	$3,360	$6,303	$ (2,801)	$3,502

(1) The in-process research and development will be amortized over its useful life when it has reached technological feasibility.

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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.

Warranty – A limited warranty is provided free of charge, generally for periods of 12 to 24 months, for all purchases of the Company's new products and systems. Accruals are recorded for estimated warranty costs at the time the system is accepted by the customer.

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

	Three Months Ended December 31,	
	2013	2012
	(dollars in thousands)	
Beginning balance	$1,454	$2,687
Warranty expenditures	(277)	(362)
Warranty provisions/(adjustment)	(112)	103
Ending balance	$1,065	$2,428

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 credited to additional paid-in capital and reported as cash flow from financing activities rather than as cash flow from operating activities.

Share-based compensation expense reduced the Company's results of operations by the following amounts:

	Three Months Ended December 31,	
	2013	2012
	(dollars in thousands)	
Effect on income before income taxes (1)	$(176)	$(433)
Effect on income taxes	40	62
Effect on net income	$(136)	$(371)

(1) Stock-based compensation 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 2023. Options issued by the Company vest over 2 to 4 years.

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

	Three Months Ended December 31,			
	2013		2012	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of period	1,059,417	$6.71	891,293	$9.37
Granted	220,000	7.01	312,850	2.95
Exercised	(2,230)	3.82	—	—
Forfeited	(2,114)	8.03	(1,085)	7.64
Outstanding at end of period	1,275,073	$6.76	1,203,058	$7.71
Exercisable at end of period	924,593	$7.04	597,545	$9.19
Weighted average fair value of options granted during the period	$4.38		$1.82	

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

	Three Months Ended December 31,	
	2013	2012
Risk free interest rate	2%	1%
Expected life	6 years	6 years
Dividend rate	0%	0%
Volatility	69%	70%

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. The Company uses historical stock prices to determine the volatility factor.

The Company awards restricted shares under the existing share-based compensation plans. Our restricted share awards vest in equal annual installments over a two to 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.

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Restricted stock transactions and awards outstanding are summarized as follows:

	Three Months Ended December 31,			
	2013		2012	
	Awards	Weighted Average Grant Date Fair Value	Awards	Weighted Average Grant Date Fair Value
Beginning Outstanding	69,154	$10.13	127,975	$9.06
Released	(30,828)	10.08	(55,646)	7.65
Forfeited	—	—	(50)	7.98
Ending Outstanding	38,326	$10.17	72,279	$10.15

Fair Value of Financial Instruments

In accordance with the requirements of the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification (ASC), the Company groups its financial assets and liabilities measured at fair value on a recurring basis in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:
Level 1 - Valuation is based upon quoted market price for identical instruments traded in active markets.
Level 2 - Valuation is based on quoted market prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
Level 3 - Valuation is generated from model-based techniques that use significant assumptions not observable in the market. Valuation techniques include use of discounted cash flow models and similar techniques.

In accordance with the requirements of the Fair Value Measurements and Disclosures Topic of the FASB ASC, it is the Company's policy to use observable inputs whenever reasonably practicable in order to minimize the use of unobservable inputs when developing fair value measurements. When available, the Company uses quoted market prices to measure fair value. If market prices are not available, the fair value measurement is based on models that use primarily market based parameters including interest rate yield curves, option volatilities and currency rates. In certain cases, where market rate assumptions are not available, the Company is required to make judgments about assumptions market participants would use to estimate the fair value of a financial instrument. Changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results of current or future values.

Cash Equivalents- Included in Cash and Cash Equivalents in the Condensed Consolidated Balance Sheet is $18.4 million and $18.5 million as of December 31, 2013 and September 30, 2013, respectively, of money market funds invested in treasury bills, notes and other direct obligations of the U.S. Treasury. The fair value of this cash equivalent is based on Level 1 inputs in the fair value hierarchy.

Receivables and Payables —The recorded amounts of these financial instruments, including accounts receivable and accounts payable, approximate their fair value because of the short maturities of these instruments. If measured at fair value in the financial statements, these financial instruments would be classified as Level 3 in the fair value hierarchy.

Pensions—The Company has retirement plans covering substantially all employees. The principal plans are the multiemployer defined benefit pension plans of the Company's operations in The Netherlands and France and the plan for hourly union employees in Pennsylvania. The multiemployer plans in the United States and France are insignificant. The Company's defined contribution plans cover substantially all of the employees in the United States. The Company matches employee funds on a discretionary basis.

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Shipping expense – Shipping expenses of $0.3 million and $0.2 million for the three months ended December 31, 2013 and 2012, respectively, are included in selling, general and administrative expenses.

Research and development expense – 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. The Company receives reimbursements through governmental research and development grants which are netted against these expenses when certain conditions have been met. The table below shows gross research and development expenses and grants earned:

	Three Months Ended	
	December 31, 2013	December 31, 2012
	(dollars in thousands)	
Research and development	$2,895	$2,458
Grants earned	(2,006)	(1,297)
Net research and development	$889	$1,161

Impact of Recently Issued Accounting Pronouncements

In July 2013, the FASB issued ASU No. 2013-11 "Income Taxes (Topic 740)." An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. The amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013.

In March 2013, the FASB issued ASU No. 2013-05 "Foreign Currency Matters (Topic 830)." The objective of the amendments in this Update is to resolve the diversity in practice about which codification subtopic applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity.

The amendments in this Update are effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. The Company will evaluate the impact of the Update as future transactions occur.

In February 2013, The FASB issued ASU No. 2013-04 "Liabilities (Topic 405)," The guidance in this Update requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, as the sum of the following:

a. The amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors.
b. Any additional amount the reporting entity expects to pay on behalf of its co-obligors.

The guidance in this Update also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company does not expect this Update to have a material impact on the Company's consolidated financial statements.

2. Income Taxes

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

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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 their tax basis. The Company records a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of a 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, expected future taxable income and available tax planning strategies. The Company maintains a valuation allowance with respect to certain state and foreign deferred tax assets that may not be recovered. Each quarter the valuation allowance is re-evaluated. The valuation allowance during the three months ended December 31, 2013, increased by $0.2 million for current period net operating losses in China and the Netherlands. The Accounting Standards Codification states that forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence such as cumulative losses in recent years. As a result, we continue recording a valuation allowance on operating losses incurred in China and the Netherlands.

The Company classifies uncertain tax positions as non-current income taxes payable unless expected to be paid within one year. At December 31, 2013 and September 30, 2013, the total amount of unrecognized tax benefits was approximately $1.6 million. If recognized, these amounts would favorably impact the effective tax rate. The Company classifies interest and penalties related to unrecognized tax benefits in income tax expense. As of December 31, 2013, and September 30, 2013, the Company has an accrual for potential interest and penalties of approximately $1.3 million and $1.2 million, respectively.

The Company and one or more of its subsidiaries file income tax returns in The Netherlands, Germany, France, China and Hong Kong, as well as the U.S. and various states in the U.S. The Company and its subsidiaries have a number of open tax years dictated by statute in each of the respective taxing jurisdictions, which are generally from 3 to 5 years.

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.

For the three months ended December 31, 2013, options for 1,275,000 shares and 38,000 restricted stock awards are excluded from the diluted EPS calculations because they are anti-dilutive. For the three months ended December 31, 2012, options for 1,205,000 shares and 72,000 restricted stock awards were excluded from the diluted EPS calculations because they were anti-dilutive.

	Three Months Ended December 31,	
	2013	2012
	(in thousands, except per share amounts)	
Basic Loss Per Share Computation		
Net loss attributable to Amtech Systems, Inc.	$(794)	$(4,194)
Weighted Average Shares Outstanding:		
Common stock	9,560	9,494
Basic loss per share attributable to Amtech shareholders	$(0.08)	$(0.44)

Diluted Loss Per Share Computation		
Net loss attributable to Amtech Systems, Inc.	$(794)	$(4,194)
Weighted Average Shares Outstanding:		
Common stock	9,560	9,494
Common stock equivalents (1)	—	—
Diluted shares	9,560	9,494
Diluted loss per share attributable to Amtech shareholders	$(0.08)	$(0.44)

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

4. Business Segment Information

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The Company’s products are classified into two business segments: the solar and semiconductor equipment segment and the polishing supplies segment. In the solar and semiconductor equipment segment, we are a leading supplier of thermal processing systems, including related automation, parts and services, to the solar/photovoltaic, semiconductor, silicon wafer and MEMS industries and also offer PECVD (plasma-enhanced chemical vapor deposition) equipment. In the polishing supplies segment, the Company produces consumables and machinery for lapping (fine abrading) and polishing of materials, such as sapphire substrates, optical components, silicon wafers, numerous types of crystal materials, ceramics and metal components.

Information concerning our business segments is as follows:

	Three Months Ended	
	December 31, 2013	December 31, 2012
	(dollars in thousands)	
Net Revenues:		
Solar and semiconductor equipment	$12,564	$7,034
Polishing supplies and equipment	2,208	2,323
	$14,772	$9,357
Operating income (loss):		
Solar and semiconductor equipment	$349	$(3,168)
Polishing supplies and equipment	418	155
Non-segment related	(1,245)	(1,739)
	$(478)	$(4,752)

	December 31, 2013	September 30, 2013
	(dollars in thousands)	
Identifiable Assets:		
Solar and semiconductor equipment	$101,056	$106,723
Polishing supplies and equipment	5,028	4,224
	$106,084	$110,947
Goodwill:		
Solar and semiconductor equipment	$7,799	$7,753
Polishing supplies and equipment	728	728
	$8,527	$8,481

5. Major Customers and Foreign Sales

During the three months ended December 31, 2013, two customers individually represented 33% and 23% of net revenues. During the three months ended December 31, 2012, one customer individually represented 14%.

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

	Three Months Ended December 31,	
	2013	2012
United States	42 %	22 %
China	11 %	31 %

Taiwan	11	%	9	%
Other	11	%	14	%
Total Asia	33	%	54	%
Total Europe	25	%	24	%
	100	%	100	%

6. Commitments and Contingencies

Purchase Obligations – As of December 31, 2013 we had purchase obligations in the amount of $10.7 million compared to $12.3 million as of September 30, 2013. 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 if any agreements are renegotiated, canceled or terminated.

Development project – In 2013, Shanghai Kingstone Semiconductor Company Ltd. ("Kingstone") entered into an agreement with certain government agencies in Shanghai, China for the purpose of developing ion implanters for a non-solar application. Kingstone has begun the first phase of this development project and received $3.6 million of grant funds for the project. Under the arrangement, Kingstone has agreed that by July 2014 it will have in place $6.1 million of its commitment to the project. The agreement will terminate upon the occurrence of certain events or if the project does not pass the first phase project evaluation. Otherwise, the remainder of Kingstone's commitment is to be in place by December 2015. Amtech owns 55% of Kingstone Technology Hong Kong Limited, which owns 100% of Shanghai Kingstone Semiconductor Company Ltd. Amtech has no obligation or plan to fund Kingstone's commitments under this agreement.

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.

7. Restructuring and Impairment Charges

Restructuring charges for the three months ended December 31, 2012 were $0.7 million. The restructuring charges in fiscal 2013 relate primarily to severance costs incurred as a result of the reductions-in-force at certain operations. There were no restructuring charges in fiscal 2014.

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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 Consolidated Financial Statements" 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, 2013.

Cautionary Statement Regarding Forward-Looking Statements

Certain information contained or incorporated by reference in this Quarterly Report on Form 10-Q is forward-looking in nature. All statements included or incorporated by reference in this Quarterly Report on Form 10-Q, or made by management of Amtech Systems, Inc. and its subsidiaries ("the Company" or "Amtech"), other than statements of historical fact, are hereby identified as "forward-looking statements" (as such term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended). In some cases, forward-looking statements can be identified by terminology such as "may," "will," "should," "would," "expects," "plan "anticipates," "intends," "believes," "estimates," "predicts," "potential," "continue," or the negative of these terms or other comparable terminology. Examples of forward-looking statements include statements regarding Amtech's future financial results, operating results, business strategies, projected costs, products under development, competitive positions and plans and objectives of the Company and its management for future operations.
We cannot guarantee that any forward-looking statement will be realized, although we believe that the expectations reflected in the forward-looking statements are reasonable. Achievement of future results is subject to risks, uncertainties and potentially inaccurate assumptions. The Form 10-K that we filed with the Securities and Exchange Commission for the year-ended September 30, 2013 listed various important factors that could affect Amtech's future operating results and financial condition and could cause actual results to differ materially from historical results and expectations based on forward-looking statements made in this document or elsewhere by Amtech or on its behalf. These factors can be found under the heading "Risk Factors" in the Form 10-K and investors should refer to them. Because it is not possible to predict or identify all such factors, any such list cannot be considered a complete set of all potential risks or uncertainties. Except as required by law, we undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events, or otherwise.

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
- Recently Issued Accounting Pronouncements

Overview

We operate in two segments: (i) the solar and semiconductor equipment segment and (ii) the polishing supplies segment. In our solar and semiconductor equipment segment, we are a leading supplier of thermal processing systems, including related automation, parts and services, to the solar/photovoltaic, semiconductor, silicon wafer and MEMS industries and also offer PECVD (plasma-enhanced chemical vapor deposition) equipment to the solar market. In our polishing supplies segment, we produce consumables and machinery for lapping (fine abrading) and polishing of materials, such as sapphire substrates, optical components, silicon wafers, numerous types of crystal materials, ceramics and metal components. Since the 2011 acquisition of Kingstone, we have advanced the development of an ion implanter to provide our solar customers with a more complete solution for their next-generation high-efficiency solar cell production.

Our customers are primarily manufacturers of solar cells and integrated circuits. The solar cell and semiconductor industries are cyclical and historically have experienced significant fluctuations. Our revenue is impacted by these broad industry trends. In 2012 and 2013, the solar cell industry experienced a structural imbalance between supply and demand and we expect this structural imbalance to continue into 2014. This imbalance has negatively impacted our results of operations and is expected to do so in the future.

Our strategy has been, and continues to be, to grow the Company through strategic product development and acquisitions. In addition to internal product development, we have acquired companies with complementary products or products that serve adjacent process steps. In October 2007, we acquired R2D Automation SAS, which allowed us to provide our diffusion furnaces with integrated automation that is also sold as a stand-alone product. In February 2011, we acquired a 55% ownership interest in Kingstone Technology Hong Kong, Limited ("Kingstone"), a holding company that owns 100% of Kingstone Semiconductor Company Ltd., a Shanghai-based technology company specializing in ion implant solutions for the solar industry.

Results of Operations

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

	Three Months Ended			
	December 31, 2013		December 31, 2012	
Net revenue	100	%	100	%
Cost of goods sold	69	%	85	%
Gross margin	31	%	15	%
Operating expenses:				
Selling, general and administrative	28	%	47	%
Restructuring charges	0	%	7	%
Research and development	6	%	12	%
Total operating expenses	34	%	66	%
Loss from operations	(3	)%	(51	)%
Interest income (expense), net	1	%	0	%
Loss before income taxes	(2	)%	(51	)%