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

FORM 10-K

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: September 30, 1999

OR

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

For the transition period from _______________ to _______________

Commission File Number: 0-11412

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

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

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $.01 Par Value
(Title of Class)

Redeemable Public Warrant
(Title of Class)

Indicate by 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X] Yes

The aggregate market value of voting stock held by non-affiliates of the registrant: $6,665,000 as of December 16, 1999

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE (5) YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. [ ] Yes [ ] No

APPLICABLE ONLY TO CORPORATE REGISTRANTS

Indicate the number of shares outstanding of each of the registrant's classes of Common Stock, as of the latest practicable date: 2,108,679 shares of Common Stock, $.01 par value, outstanding as of December 16, 1999.

DOCUMENTS INCORPORATED BY REFERENCE

PART III (Items 9-13) is incorporated by reference to the registrant's proxy statement for the registrant's Annual Meeting of Shareholders to be held on or about February 25, 2000.

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PART I

ITEM 1. BUSINESS

BACKGROUND

Amtech Systems, Inc. (the "Company") was incorporated in Arizona in October 1981, under the name Quartz Engineering & Materials, Inc., and changed to its present name in 1987. The Company also conducts operations through two wholly owned subsidiaries, Tempress Systems, Inc., a Texas corporation with all its operations in the Netherlands ("Tempress Systems"), and P.R. Hoffman Machine Products, Inc., an Arizona corporation ("P.R. Hoffman").

The Company's initial business was the manufacture of quartzware implements for sale to and use by manufacturers of semiconductor chips. The Company is currently, and has been since 1987, engaged in the manufacture and marketing of several items of capital equipment used by customers in the manufacture of semiconductors, two of which are patented. The Company's Processing/Robotic product line (Atmoscan(R), IBAL and load stations) is designed to enable its customers to increase the degree of control over their semiconductor chip manufacturing environment, to reduce exposure to contaminants by limiting human contact during the manufacturing process and improve employee safety. In fiscal 1995, the Company began the complementary business of producing and selling horizontal diffusion furnaces for use in semiconductor fabrication, through its wholly owned subsidiary, Tempress Systems. In fiscal 1998, the Company, through its Tempress operations, began producing and selling conveyor diffusion furnaces for use in precision thermal processing of electronic parts.

In fiscal 1994, the Company added research and product development of new technologies to its on-going development of new products and product improvements based on existing technologies. From fiscal 1994 through the end of fiscal 1998, the new technology under investigation consisted of photo-assisted CVD (chemical vapor deposition) research conducted by and in conjunction with the University of California at Santa Cruz (the "University"). In this regard, the University studied several generations of higher intensity light sources, none of which have yielded results that would enable the Company to produce a commercially viable product. While this research was partially successful, it was suspended indefinitely effective September 30, 1998, until such time as reliable higher intensity lamps are available and success appears more probable.

In July 1997, the Company acquired substantially all of the assets of P.R. Hoffman Machine Products Corporation and began developing, manufacturing, marketing and selling double sided precision lapping and polishing machines, replacement parts and related products including carriers and semiconductor polishing templates through its wholly owned subsidiary, P.R. Hoffman. These products are high throughput precision surface processing systems used in the manufacture of semiconductor wafers, precision optics and other thin wafer materials, such as computer disk media and ceramic components for wireless communication devices.

In the fourth quarter of fiscal 1997, the Company began offering manufacturing support services to one of its Texas-based customers. These services consist of wet and dry cleaning of semiconductor machine processing parts. The Company intends to offer manufacturing support services to other customers and third parties as such opportunities become available.

Beginning in fiscal 1999, the Company began research on a new technology asher. In November 1999, the Company announced a joint product development agreement with PSK Tech, Inc. to develop a new technology ashing machine using the Company's damage-free technology and PSK Tech's expertise in the design of ashers and asher processes.

Unless the context otherwise requires, the "Company" refers to Amtech Systems, Inc., an Arizona corporation, and its wholly owned subsidiaries. The Company's principal executive offices are located at 131 South Clark Drive, Tempe, Arizona 85281 and its telephone number is (480) 967-5146.

FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

For information about industry segments see Note 7 of the Notes to the Financial Statements included herein.

OPERATING STRATEGY AND INDUSTRY OVERVIEW

The Company is engaged primarily in the design, manufacture and marketing of several items of capital equipment and related consumables and spare parts used by customers in the manufacture and fabrication of semiconductors. Semiconductors, or semiconductor "chips," are fabricated on a silicon wafer substrate and are part of the circuitry or electronic components of many products, including computers, telecommunication systems, automotive products, consumer goods and industrial automation and control systems. The manufacture of semiconductors involves repeating a complex series of process steps to a semiconductor wafer. The three broad categories of wafer processing steps are deposition, photolithography and etching. The Company's products currently address deposition steps, the fabrication of silicon wafers, and the reclaiming of semiconductor test wafers. See proposed new product regarding ashers, which perform a step within the broad category of photolithography. The Company's products within the deposition area perform oxidation/diffusion and low-pressure deposition ("LPCVD") steps. During these steps silicon wafers (the substrates from which chips are made) are inserted in a diffusion furnace and subjected to the precise flow of gases under very intense heat.

The Company manufactures and sells horizontal and conveyor diffusion furnaces through its wholly owned subsidiary, Tempress Systems. In addition, the Company manufactures and sells a Processing/Robotic product line designed to enable customers using horizontal diffusion furnaces to increase their degree of control over the manufacturing environment, to reduce exposure to contaminants by reducing the amount of human contact during the manufacturing process and to improve employee safety. Following an industry trend, the size of individual semiconductor chips has tended to decrease while the size of the wafers from which chips are made has tended to increase. As a result, the value of each wafer has increased because each is the source of an increased number of chips.

As the value of wafers increase, so too does the importance of control over the manufacturing environment.

There also is a trend in the semiconductor industry, related to the trend to produce smaller chips, toward the use in semiconductor manufacturing facilities of newer technology, vertical diffusion furnaces. Vertical diffusion furnaces are more efficient to use than the horizontal diffusion furnaces in certain manufacturing processes of smaller chips on larger wafers, however, such furnaces are significantly more expensive to purchase than horizontal diffusion furnaces. The Company's Processing/Robotic product line is useable with horizontal diffusion furnaces only.

The July 1997 addition of P.R. Hoffman's product line of double sided precision lapping and polishing machines and related products has broadened and expanded the markets served by the Company, which now include fabricators of semiconductor devices to the producers of the silicon wafers used by those fabricators. Following the P.R. Hoffman acquisition, the Company began marketing the P.R. Hoffman product line through the Company's larger and more established distribution network. Similarly, the Company began marketing its existing products to the markets being served by P.R. Hoffman.

The Company's target market for its Processing/Robotic product line consists of customers who wish to increase the efficiency and safety (or ergonomics) of their existing semiconductor manufacturing facilities equipped with horizontal diffusion systems. Through its Tempress System operations, the Company also provides its customers with efficient integrated horizontal diffusion furnace systems for use in semiconductor fabrication, and, to a lesser extent, conveyor diffusion furnace systems for use in precision thermal processing of electronic parts. The Company's target market also includes customers who do not require or cannot justify the higher priced vertical diffusion furnace systems. Based on market information obtained through customer and market contacts, the Company believes that a majority of worldwide semiconductor manufacturing facilities is equipped with horizontal diffusion furnaces, as compared with vertical diffusion furnaces. While the Company estimates that each year the percentage of facilities in the world equipped with vertical systems will become closer to and eventually surpass that of horizontal systems, it believes that a significant demand for its present product line will continue to exist, although there can be no assurance in that regard. The Company plans to increase its share of the diffusion furnace market by expanding its manufacture and sales of horizontal diffusion furnaces. In 1996, Tempress Systems acquired a modern, high-tech manufacturing facility in Heerde, The Netherlands, for its European operations, and moved its operations into this new facility.

The Company's target market for its lapping and polishing machines and related consumables and spare parts are producers of silicon wafers, silicon test wafer reclaiming businesses, manufacturers that use silicon wafers in the fabrication of semiconductors and producers of thin wafers made of other materials, such as quartz, ceramics and metals used in the manufacture of optics, computer storage disks and ceramic components for wireless communication products. Sales to customers processing optics and ceramics were 13% of consolidated sales in fiscal 1998 and in fiscal 1999. The long-term demand for silicon wafer lapping and polishing machines and related products has been fueled by the inherent need of semiconductor device manufacturers to continually meet the growing demand for such semiconductors caused by the rapid increase in the uses for such devices. In order to produce today's higher density chips, semiconductor manufacturers must maintain tighter tolerances with respect to the surface finish, flatness and planerization of the bare silicon wafer, which in turn is requiring more polishing steps and thus more surface processing equipment and supplies. A similar trend is occurring in the computer disk industry as manufacturers strive to produce higher density drives in order to satisfy end user demand for greater storage capacity and reduced size.

INDUSTRY CYCLES AND TRENDS. Sales of the Company's products depend in large part upon the capital equipment expenditures and/or operating levels of semiconductor manufacturers, which depend on current and/or anticipated market demand for integrated circuits and products utilizing integrated circuits. The semiconductor industry is highly cyclical and has historically experienced periodic downturns, which often have had a material adverse effect on capital and operating expenditures by semiconductor manufacturers. Semiconductor industry downturns have and will in the future adversely affect the sales, gross profit and operating results of suppliers that serve the industry, including the Company. The industry is also experiencing the consolidation of semiconductor manufacturing operations through mergers and the subcontracting out of the production of semiconductors to foundries. The Company believes that growth in its sales and profitability will depend upon increased demand for semiconductors. During the second half of fiscal 1998 and the first half of fiscal 1999, the Company experienced lower sales volume and profitability, as a result of an industry slowdown. The industry and the Company are now experiencing a period of cyclical recovery.

PRODUCTS

DIFFUSION FURNACES

Through its wholly owned subsidiary, Tempress Systems, the Company produces and sells horizontal and conveyor diffusion furnace systems, which generally include a Tempress(R) load station, with the Tempress(R) trademark. These furnaces utilize existing industry technology for sale to customers who do not require the advanced automation of, or can not justify the significantly higher expense of, vertical diffusion furnaces. While the major advantage of vertical diffusion furnaces is their susceptibility to increased automation, which decreases the degree of human intervention in the manufacturing process, the use of horizontal diffusion furnaces, with less automation, is more economical for larger size chips and multi-model semiconductor manufacturing. While industry forecasts indicate that overall market demand for horizontal diffusion furnaces will decline, the Company believes that a significant niche market will persist for such furnaces.

The Company started the horizontal diffusion furnace business utilizing certain acquired assets previously owned by a bankrupt company, Tempress B.V., located in The Netherlands, including the right to use the trade name "Tempress(R)" in connection with such furnaces. Tempress B.V. was involved in the development, manufacture and sale of a number of different products, including a horizontal diffusion furnace. The right to use the trade name "Tempress" is also held by three subsidiaries of the former Tempress B.V. in connection with the sale of other Tempress products and services unrelated to the horizontal diffusion furnace. The Company believes, and sales volume would appear to support, that the diffusion furnace products it designs and sells under the "Tempress" name have gained acceptance by the Company's targeted market.

In fiscal 1998, the Company began producing and selling conveyor diffusion furnace systems used to produce thick films for the electronics industry. Conveyor furnace systems provide for precision thermal processing of electronic parts for thick film applications, anneal, sealing, soldering, silvering, curling, brazing, alloying, gloss-metal sealing and component packaging.

PROCESSING/ROBOTIC EQUIPMENT

ATMOSCAN(R)

The Company's "Atmoscan(R)" is a patented controlled environment wafer processing system for use with horizontal diffusion furnaces. When in use, it is loaded with wafers and inserted into the diffusion furnace under a nitrogen-controlled environment. The Atmoscan(R) technology is a processing method that includes a cantilever tube used to load silicon wafers into a diffusion furnace and through which a purging inert gas flows during the loading and unloading processes.

The Company believes that among the major advantages afforded by the Atmoscan(R) product are increased control of the environment of the wafers during the gaseous and heating process, thereby increasing yields and decreasing manufacturing costs, and a decreased need for the cleaning of diffusion furnace tubes, which ordinarily involves substantial expense and equipment down time. Additional significant economies in the manufacturing process are also believed to result.

The Company has manufactured and sold Atmoscan(R) units to major semiconductor manufacturers in the United States, the Pacific Rim and Europe, including at various times to International Business Machines, Intel Corporation, Samsung, Motorola, SGS-Thompson, SVG-Thermco and others. Sales of Atmoscan(R) have declined from their peak in 1989, due to an industry trend toward use of vertical diffusion furnaces.

The Company also has designed and sells an open cantilever paddle system, which remains the most commonly used horizontal wafer loading system in the semiconductor industry. Similar systems have been used by the industry since the introduction of the Atmoscan(R), the Company's alternative to the cantilevered processing system.

IBAL AUTOMATION

"IBAL" is an acronym for "Individual Boats with Automated Loading." The Company's IBAL automation system is a patented integrated automation system composed of several modules, with the base module being called simply IBAL. Boats are quartz trays that hold silicon wafers while they are being processed in diffusion furnaces. IBAL Trolley is comprised of hardware and software, which automatically places boats into Atmoscan(R) tubes or onto a cantilever paddle system before they are inserted in the diffusion furnace and automatically removes the trays after completion of the process.

IBAL Butler is a robotics device which further automates the loading of wafers into the diffusion furnace by automatically transferring wafer carriers onto the IBAL Trolley for loading into the Atmoscan(R) or on the cantilever paddle system for the appropriate furnace tube. IBAL Queue provides a convenient staging area for the operator to place boats on a load station and automates the loading of those boats onto the IBAL Butler. The first IBAL Queue unit was shipped during the second quarter of fiscal 1994. Use of the IBAL products reduces human handling and, therefore, reduces exposure of wafers to contaminants during the loading and unloading of the process tubes and improves safety in manufacturing facilities. All of the IBAL modules have been designed by the Company.

The Company continues to develop automation solutions for robotic wafer handling in connection with horizontal diffusion furnaces. It has received its first orders for IBAL Shuttle for delivery in January 2000. The IBAL Shuttle transfers wafers between the IBAL Queue and wafer transfer machines manufactured by third parties, providing customers with complete cassette-to-cassette wafer handling.

LOAD STATIONS

The IBAL automation products described above are offered and sometimes sold as a complete system, mounted on a device called a "load station," which also includes an ultra-clean environment for wafer loading by filtering and controlling the flow of air. The Company began shipping such high-end load stations in fiscal 1992. Those stations are assembled and tested in the Company's Tempe, Arizona facility. Further, almost all diffusion furnaces,

described above, are sold with either a Tempress(R) load station, manufactured in The Netherlands, or a high-end load station described in the preceding sentence.

Sales volume of the Company's robotic product line is affected more by the semiconductor industry cycles, both favorably and unfavorably, than diffusion furnace sales. The reason for the greater affect of the industry cycles is primarily attributable to the fact that the wafer handling performed by this robotic equipment can be performed manually, as opposed to diffusion furnaces for which there are no practical lower cost alternatives.

DOUBLE SIDED PLANETARY LAPPING AND POLISHING MACHINES

Through its wholly owned subsidiary, P.R. Hoffman, the Company develops, manufactures, markets and sells double sided precision lapping and polishing machines and complementary products including carriers, semiconductor polishing templates and parts. Double sided lapping and polishing machines are designed to process wafer type products such as semiconductor silicon wafers, precision optics, computer disk media and ceramic components for wireless communication devices to exact tolerances of thickness, flatness, parallelism and surface finish. The polishing process is used to change the characteristics of the surface of a semiconductor wafer and a variety of other wafer materials. Polishing is a complex science, often involving multiple steps, each at a specified set of process parameters such as polishing speed, pressure, time and temperature. Polishing improves the flatness (planarity), smoothness and optical properties of a surface.

Processes similar to polishing include lapping (a process where no polishing pad is used and the workpiece is pressed into a polishing liquid (slurry) which is applied to a cast-iron lapping wheel). Lapping results in higher removal rates than polishing but produces rougher surface finishes. Dimensional tolerance, surface finish, quantity of material to be removed along with production rates required and cost of operation are the primary variables considered in the determination of the best process for a specific application. Polishing and other surface treatment processes are typically followed by a cleaning process.

The following table summarizes the various models of surface processing machines produced by the Company and the markets for each of these products:

DOUBLE SIDED LAPPING AND POLISHING MACHINES

MODEL	YEAR INTRODUCED	MARKETS
PR-1	1938	Quartz
PR-2	1940	Quartz
1500	1990	Quartz, ceramics, medical
1900	1992	Ceramics, optics, computer disks
3100	1995/96	Computer disks, optics, metal working, ceramics
4800	1981	Silicon semiconductor, optics, metal working, ceramics

On average, the Company's surface processing systems are priced lower than competing systems offered by SpeedFam, Peter Wolters of America and Lapmaster. The systems offered by the Company's competitors tend to feature more sophisticated controls and user interfaces, and thus in some applications can be operated by less skilled employees.

CARRIERS

Carriers are workholders where wafers are nested during the lapping and polishing processes. Carriers are produced for the Company's line of lapping and polishing machines as well as for competitors' systems. Substantially all of the

carriers are customized for specific applications. The Company produces custom carriers in a variety of sizes, configurations and materials. A significant and expanding category of the Company's steel carriers contain plastic inserts molded into the work-holes of the carrier and are referred to as insert carriers. Although standard steel carriers are preferred in many applications because of their durability, rigidity and precise dimensions, they are typically not suited for applications involving softer materials or when metal contamination is an issue. Steel carriers can cause damage (edge chipping) to delicate parts (i.e. larger semiconductor wafers). Insert carriers provide the advantages of steel carriers while reducing the potential of damage to the edges of sensitive materials.

The Company licenses the design for its steel carrier with plastic inserts from Wacker GmbH in Germany ("Wacker"). Under a non-exclusive license agreement with Wacker, the Company pays Wacker a 5% royalty for carriers sold by the Company based on this design. The royalty fee does not apply to sales to the licensor. The Company believes that the licensor, despite patenting the design, is currently unable to consistently manufacture insert carriers that properly hold the wafer in place and that the Company's proprietary manufacturing process provides a competitive barrier to entry.

SEMICONDUCTOR POLISHING TEMPLATES

The Company's single sided polishing templates are used to polish silicon wafers. Since the Company does not manufacture surface processing machines for single sided applications, templates are designed to work with machines manufactured by leading suppliers in this market segment such as SpeedFam, IPEC, Gigamet and Strasbaugh. Polishing templates are customized for specific applications and are manufactured to such exacting tolerances that even a change in humidity of 10% can result in unacceptable mechanical defects, performance and durability.

PLATES, GEARS, WEAR ITEMS AND OTHER PARTS

The Company produces a wide assortment of plates, gears, parts and wear items for both its own as well as for competitors' machines. The Company manufactures approximately eighty percent (80%) of the parts that are used in its machines. In addition to producing standard off-the-shelf parts, the Company has the ability to produce highly customized parts.

PROPOSED NEW PRODUCTS

During fiscal 1999, the Company began investigating an alternative to the energy sources currently used in ashing processes. Ashers are used by the semiconductor industry to remove photoresist materials from silicon wafers after each lithography step. Plasma is the most common energy source used in current ashers. While stripping the photoresist material from the wafers, plasma causes damage to the silicon substrate, which the industry does not believe will be acceptable as the line-width of the circuitry is reduced in future generations of leading-edge semiconductors. In November 1999, Amtech Systems, Inc. ("Amtech") announced that it had reached an agreement with PSK Tech Inc. regarding the joint development of a new ashing machine, using Amtech's damage-free ashing technology (a "New Asher"). Amtech and PSK Tech believe that, if successful, the New Asher under development will be damage free and thus will receive strong demand from the high-end semiconductor manufacturers.

The joint product development agreement provides that Amtech will provide its patent pending, damage-free ashing technology and know-how and PSK Tech Inc. will provide its expertise in the design and manufacture of ashers and asher processes. The two companies will jointly own any resulting technology. Under the agreement, Amtech will have exclusive selling and marketing rights to the resulting New Asher for all of North America and Europe and PSK Tech will have exclusive selling and marketing rights for all of Asia. Each company has agreed to pay to the other a license fee of between two and five percent (2%-5%) of its New Asher sales. Amtech has also agreed to sell the energy source assemblies to PSK Tech for PSK's New Asher sales into Asia. Amtech will purchase from PSK Tech ashers without the energy source assembly, for the platform of its New Asher to be sold in the United States and Europe. The assemblies that each company sells to the other will be at a price to be mutually agreed upon, but shall not exceed 1.334 times its cost of manufacturing. Development work has begun, with first shipments projected to occur in fiscal year 2001.

Ashing equipment manufactured by PSK Tech is currently being selected almost exclusively by the world's present #1 semiconductor memory chip producers for their ashing processes. PSK Tech, located near Seoul, South Korea, is publicly owned and listed on the Korean stock market.

MANUFACTURING AND SUPPLIERS

The Company assembles its equipment and systems from components and fabricated parts manufactured and supplied by others, including quartz and metal components. Certain parts are fabricated in the Company's machine shops. Certain of the items manufactured by others are made to the Company's specifications. All final assembly and system tests are performed within the Company's manufacturing/assembly facilities. Quality control is maintained through incoming inspection of materials and components, in-process inspection during equipment assembly and final inspection and operation of manufactured equipment prior to shipment. The Company's Processing/Robotic product line is manufactured at its Tempe, Arizona plant. The Company conducts similar engineering, purchasing and assembly operations in the manufacture of its diffusion furnace line in a building owned and located in Heerde, The Netherlands.

The Company's operations in Carlisle, Pennsylvania are equipped to perform a high percentage of its manufacturing processes. Manufacturing at this facility includes the following: metal stamping, milling, painting, assembling, welding, punching, cutting, heat treating, machining and laminating. Manufacturing processes that are typically subcontracted out by this location include plastic injection, laser cutting and wire EDM machining, and complex electrical wiring. Key suppliers include two steel mills capable of holding the type and tolerances the Company requires, an injection molder that provides plastic insets for steel carriers, a pad supplier that produces a unique material used to attach semiconductor wafers to the polishing template (sole sourced from a Japanese company), and adhesive manufacturer that supplies the critical glue used in the production of the semiconductor polishing templates.

ORDER BACKLOG

As of November 30, 1999, the Company's order backlog for semiconductor equipment was approximately $4,124,000, compared to approximately $4,800,000 at the same date in the previous year. The Company includes in its backlog all credit approved customer purchase orders. Orders in the backlog may be canceled by the customer upon payment of mutually acceptable cancellation charges. The Company anticipates that substantially all of its current backlog will be shipped in fiscal 2000. Orders generally are shipped within three to six months of receipt. Accordingly, the backlog may not be a valid measure of revenue for a future period. In addition, a backlog does not provide any assurance that the Company will realize a profit from the order.

RESEARCH, DEVELOPMENT AND ENGINEERING

The markets served by the Company are characterized by evolving industry standards and rapid technological change. To compete effectively in its markets, the Company must continually improve its products and its process technologies and develop new technologies and products that compete effectively on the basis of price and performance and that adequately address current and future customer requirements. The Company's research and development expenditures during fiscal 1997, 1998 and 1999 were approximately $280,000, $438,000 and $268,000, respectively. Due to the suspension of the photo-assisted CVD project and the general slowdown in the semiconductor industry, the Company reduced its research and development expenditures in fiscal 1999. With the research and development work on a new technology asher and the current industry recovery, the Company expects to expend approximately $409,000 in fiscal year 2000.

The Atmoscan(R) was acquired in 1983 through a licensing arrangement with its inventor, who was not employed by the Company. The Company's other products (excluding the Company's products acquired in the P.R. Hoffman acquisition) were developed by Company personnel. The Company presently employs at its Tempe, Arizona plant, three engineers, including one with a Ph.D. and one in the sales department, and six technicians. The Company presently employs eight engineers, one with a Ph.D., and seven technicians in its Netherlands operation. These employees design and support the horizontal diffusion furnace and conveyor

furnace product lines manufactured in The Netherlands. Two engineers and one technician are employed in the Company's Carlisle, Pennsylvania operation. They design wafer lapping machines and carriers to meet the customers' processing requirements.

Historically, the Company's product development has been accomplished through cooperative efforts with two key customers. While there can be no assurance that such relationships will continue, such cooperation is expected to continue to be a significant element in the Company's future development efforts. The Company's relationship with one of these customers is substantially dependent on the personal relations established by the Company's President, Mr. Jong S. Whang.

PATENTS

Generally, the effect of a patent is that the courts will grant to the patent holder the right to prevent others from making, using and selling the combination of elements or combination of steps covered by the patent. The Company has several United States patents on the Atmoscan(R) system, each reflecting an improvement to or modification of the previous patent. The two Japanese patents on the Atmoscan(R) cover the first two U.S. patents listed in the table below.

The Company has two United States patents on its photo-assisted CVD method, the second being an improvement on the first, and the Japanese patent is pending on the photo-assisted CVD method. In 1998, the Company was granted a patent on it's IBAL Cantilever Trolley and has a second patent pending which is an improvement on the first. The cantilever, itself, load stations, the diffusion furnaces, lapping and polishing machines, carriers and semiconductor polishing templates are not protected by patents.

The following table shows the patents granted and the expiration date thereof and the material patents pending for the Company's products in each of the countries listed below:

PRODUCT	COUNTRY	EXPIRATION DATE OR PENDING APPROVAL
Atmoscan(R)	United States	July 10, 2001
Atmoscan(R)	United States	July 2, 2002
Atmoscan(R)	United States	August 30, 2005
Atmoscan(R)	Japan	June 1, 2004
Atmoscan(R)	Japan	July 18, 2005
Atmoscan(R)	European Patent Community	
	- France	July 18, 2004
	- Germany	July 18, 2004
	- United Kingdom	July 18, 2004
	- Italy	July 18, 2004
	- Netherlands	July 18, 2004
IBAL Cantilever Trolley	United States	July 10, 2015
IBAL Cantilever Trolley	United States	June 12, 2018
Photo CVD	United States	June 1, 2010
Photo CVD	United States	November 15, 2011
Photo CVD	Japan	Pending Approval
IBAL Model S-300	United States	Pending Approval
Proposed damage-free asher	United States	Pending Approval

The Company's ability to compete may be enhanced by its ability to protect its proprietary information, including the issuance of patents and trademarks. While no intellectual property right of the Company has been invalidated or declared unenforceable, there can be no assurance that such rights will be upheld in the future. There can be no assurance that in the future products, processes or technologies owned by others, necessary to the conduct of the Company's business, can be licensed on commercially reasonable terms.

In the normal course of business, the Company from time to time receives and makes inquiries with regard to possible patent infringement. In dealing with such inquiries, it may become necessary or useful for the Company to obtain and grant licenses or other rights. However, there can be no assurance that such license rights will be available to the Company on commercially reasonable terms. Although there can be no assurance about the outcome of such inquiries, the Company believes that it is unlikely that their resolution will have a material adverse effect on its results of operations or financial condition.

SALES AND MARKETING

The market for the Company's Processing/Robotic and diffusion furnace product line consists of semiconductor manufacturers in the United States, Korea, Western Europe, Taiwan, Japan, India, Australia and the People's Republic of China. This market is comprised of two major segments, customers who are installing new semiconductor manufacturing facilities and customers who wish to install new equipment systems in existing facilities. The Company's products have been sold in both market segments. The Company has increased and intends to continue to increase its share of that market by expanding sales of horizontal diffusion furnaces manufactured by the Company in its Netherlands facility and increasing its sales, marketing and manufacturing capabilities in Europe. This plan has and is expected to increase revenue not only through added sales of horizontal furnaces or Processing/Robotic products, but also by making each of the products more competitive by offering them as part of a broader complement of diffusion products with greater capabilities. For example, the Company expects to generate increased sales of diffusion furnaces by offering them together with Atmoscan(R) and IBAL products. One element of this strategy is to sell these products under the Amtech/Tempress name, where appropriate. The Company also expects to obtain orders for its new horizontal diffusion furnace from former Tempress customers as well as customers in the United States, a large market that had not been effectively penetrated by Tempress in recent years.

The Company has historically marketed its polishing machines and related parts and expendables to manufacturers of silicon wafers for the semiconductor industry, equipment with optical components, disk media for the computer industry, and ceramic components for wireless communication products. The Company also sells diffusion furnace and processing/robotic products to some of these customers, as it did prior to the P.R. Hoffman acquisition. Further, the Company believes the process of sales lead generation will be enhanced by the sharing of leads among its increased number of product lines, including those acquired in the P.R. Hoffman acquisition transaction.

The Company's installed base of customers (facilities at which the Company's products are installed and operating) includes Intel, Lucent Technologies, Motorola, Texas Instruments, Phillips, SGS-Thomson, Samsung, Hyundai, ITT Night Vision, UMC and BP Solar. Of these corporations, Motorola, Intel Corporation, SGS-Thomson and Samsung have been customers of the Company for approximately 15 years.

The Company markets its products by direct customer contact through Company sales personnel, which consists of eight persons based in the United States, including the President, three other outside salespersons and an inside sales and marketing staff of four persons. The Company employs five sales and marketing personnel in The Netherlands. The Company also markets its products through a network of domestic and international independent sales representatives and distributors. The Company's promotional activities have consisted of advertising in trade magazines and the distribution of product brochures. The Company also participates in trade shows, including Semicon West, Semicon Europa, Diskcon and one large optical show per year. The Company is dependent on its President, Jong S. Whang, for its sales and marketing activities in Asia and its sales are enhanced by his active involvement with the accounts of certain other key customers.

During fiscal 1999, one customer accounted for 14% of sales from continuing operations. No other customers accounted for 10% or more of sales. For a more complete analysis of significant equipment customers, see Note 6 of the Notes to Consolidated Financial Statements included herein (the "Financial Statements").

There are presently 18 independent sales representatives and seven international distributors, each covering a specified geographical area on an exclusive basis. The areas now covered by representatives are the New England area, Pennsylvania, Texas, Washington, Oregon, the United Kingdom, Central Europe (including Germany, Switzerland and Austria), India, Italy, Japan, Korea, Singapore, Malaysia, Taiwan, Thailand and the People's Republic of China. Representatives are paid a commission as specified from time to time in the Company's commission schedule, which at present is generally higher for complete systems and lower for spare parts and accessories. Further, a discount has been granted to a customer who is a manufacturer of diffusion furnaces.

Semiconductor equipment sales generally fluctuate with the level of capital spending in the semiconductor industry. The semiconductor business is cyclical.

COMPETITION

The Company is not aware of any significant product that directly competes with the Atmoscan(R); however, there are several processing systems and various configurations of existing manufacturing products that provide advantages similar to those that the Company believes the Atmoscan(R) provides to semiconductor manufacturers. Notwithstanding this competition, the Company believes that Atmoscan(R) provides better results in terms of more uniform wafer temperature and dispersion of heated gases in the semiconductor manufacturing process, less exposure of semiconductor wafers to contaminants, and other technical advantages which afford to its users a higher yield and, therefore, a lower per item cost in the manufacture of semiconductors. While the industry trend is toward the use of vertical diffusion furnaces (with which Atmoscan(R) is not useable), the Company believes that a number of customers are and will continue to be willing to buy Atmoscan(R) units and horizontal diffusion furnaces because for all but very large production runs of smaller geometry chips there is a higher productivity with horizontal furnaces and because many applications do not involve the processing of smaller devices on larger silicon wafers and thus do not require the much more expensive vertical furnaces.

The Company believes that there are several products in the market that perform the same functions as the IBAL automation products, IBAL Atmoscan(R) Trolley, IBAL Cantilever Trolley, IBAL Butler and IBAL Queue, however, such products require more expensive clean room floor space and are generally more expensive. The IBAL products are intended for customers who do not have or can not justify the additional clean room space required for competing, more complex systems. Load stations are sold to customers that are upgrading their existing facilities with other products of the Company or as part of a larger equipment package to customers starting-up new facilities. These load stations provide a cleaner environment than those they replace and the higher-end models can reduce the down-time for the upgrade or installation as these load stations were specifically designed to accept the Company's Processing/Robotic products without further modification. Products competitive with the Company's load station are sold by several well-established firms, larger than the Company. The cantilever paddle system is designed for easy assembly and disassembly to minimize downtime during maintenance. The Company expects to sell its horizontal diffusion furnaces to customers who purchase them in small quantities and that it will maintain a competitive position through its policy of providing competitive prices and product support services designed for the customer's specific requirements.

There are competitors for the carriers, wafer lapping and polishing machines and related replacement parts and semiconductor polishing templates that are larger than the Company. The Company believes that it is able to effectively compete with other manufacturers of carriers by continually updating its product line to keep pace with the rapid changes in its customers' requirements. The Company is able to capture a small share of the semiconductor polishing template market primarily by meeting the industry's perceived need for a second source so as avoid continued dependence upon the dominant industry leader. The Company believes that its ability to compete for sales of all of its products, including machines, is enhanced by the reputation of its double sided planetary lapping and polishing machines, which are highly regarded for applications involving delicate and thin (approximately 100 microns) wafers made of various materials. The Company believes these products compare favorably to the competition with respect to the following factors: durability, maintaining close thickness tolerances of wafers and other parts and quality, reliability, performance and price.

EMPLOYEES

At November 30, 1999, the Company employed 92 people (including corporate officers); 53 in manufacturing, 15 in engineering, 10 in administration and 14 in sales. Of these employees, 20 are based at the Company's offices and plant in Tempe, Arizona, 29 are employed at its facility in Carlisle, Pennsylvania, 33 at its facility in Heerde, The Netherlands, and 10 in the Company's contract semiconductor manufacturing support services business located in Austin, Texas. Of the 29 people employed at the Company's Carlisle, Pennsylvania facility, 16 are represented by the United Auto Workers Union - Local 1443. The Company has never experienced a work stoppage or strike. The Company considers its employee relations to be good.

FINANCIAL INFORMATION ABOUT FOREIGN
AND DOMESTIC OPERATIONS AND EXPORT SALES

The following table shows the amounts of revenue attributable to the Company's foreign sales for the past three fiscal years (the sales to customers in the United States are included in the table for comparison purposes). All foreign sales were associated with non-affiliates.

	1999		1998		1997	
United States (1)	$ 8,728,000	59%	$ 9,029,000	55%	$ 4,227,000	38%
Far East (2)	754,000	5	1,228,000	8	3,044,000	27
Europe (3)	4,216,000	29	5,030,000	31	3,840,000	35
Australia	1,068,000	7	927,000	6	--	--
TOTAL	$14,766,000	100%	$16,214,000	100%	$11,111,000	100%

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(1) Includes sales in Canada and less than 1% in Central and South America.
(2) Includes Korea, Singapore, Taiwan, Japan, the People's Republic of China, Hong Kong, Indonesia, India and Malaysia.
(3) Includes sales in Israel and Africa, which are not material.

For a further description of foreign sales, see Note 6 of the Notes to the Financial Statements included herein.

ITEM 2. PROPERTIES

The Company's semiconductor equipment business and corporate offices are located in 9,000 square feet of office and manufacturing space at its principal address. These facilities are leased at a current rate of $4,400 per month, on a triple net basis, for a term to expire on August 31, 2001. Manufacturing support is performed in customer facilities.

The Company also owns a 9,900 square foot building located in Heerde, The Netherlands. This facility is expected to provide adequate space for the Company's assembly operations for its furnace line for the foreseeable future.

The Company subleases a 21,740 square foot building located in Carlisle, Pennsylvania from John R. Krieger, the former owner of that business and current Director of Corporate Development for the Company. These facilities are leased at a current rate of $9,860, on a triple net basis, for a term to expire on June 30, 2004. The Company has the option to renew the lease for five successive terms of one year each.

The Company considers the above facilities suitable and adequate to meet the Company's requirements.

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDERS' MATTERS

MARKET INFORMATION

The Company's common stock, par value $.01 per share (Common Stock") is traded in the over-the-counter market and is quoted under the symbol "ASYS" in the automated quotation system of the National Association of Securities Dealers Small Cap Market ("NASDAQ").

The following table sets forth the range of the high and low bid price for the shares of the Company's Common Stock for each quarter of fiscal years 1999 and 1998 as reported by the NASDAQ Small Cap Market.

QUARTER ENDED	HIGH	LOW
Fiscal 1999:		
December 31, 1998	$ 2.13	$ 1.00
March 31, 1999	1.75	.94
June 30, 1999	3.06	1.25
September 30, 1999	3.00	1.69
Fiscal 1998:		
December 31, 1997	$ 7.63	$ 4.00
March 31, 1998	6.00	3.25
June 30, 1998	5.25	2.25
September 30, 1998	2.69	1.00

In order to maintain listing of its Common Stock on the Nasdaq SmallCap Market, the Company is required to satisfy certain quantitative and qualitative requirements. Effective with the close of business on March 15, 1999, each two shares of the Company's Common Stock were combined and reclassified into one share of the Common Stock. All shares and per share amounts have been restated to give effect to this one for two reverse stock split. Any fractional shares resulting from the reverse split were rounded to the next highest whole number.

HOLDERS

As of December 16, 1999, there were approximately 1,466 shareholders of record of the Company's Common Stock.

DIVIDENDS

The Company has never paid dividends. Its present policy is to apply cash to investment in product development, acquisition or expansion; consequently, it does not expect to pay dividends within the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data set forth with respect to the Company's operations for each of the years in the three year period ended September 30, 1999 and with respect to the balance sheets at September 30, 1999 and 1998 are derived from audited financial statements that have been audited by Arthur Andersen LLP, independent public accountants, which are included elsewhere in this Report and are qualified by reference to such financial statements. Data from the statements of operations for the fiscal years ended September 30, 1996 and 1995 and the balance sheet data at September 30, 1997, 1996 and 1995 are derived from financial statements not included in this Report. The selected financial data should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the Company's financial statements (including the related notes thereto) contained elsewhere in this Report.

<TABLE>
<CAPTION>

	FISCAL YEARS ENDED SEPTEMBER 30,				
	1999	1998	1997	1996	1995
<S>	<C>	<C>	<C>	<C>	<C>
OPERATING DATA:					
From Continuing Operations:					
Revenues	$ 14,766,075	$ 16,213,904	$ 11,111,142	$ 8,414,005	$ 6,864,068
Operating Profit (Loss)(1)(5)	567,776	(904,334)	215,420	120,813	

					39,582
Income (Loss) from Continuing Operations(1)(5)	362,307	(589,887)	237,709	197,591	171,053
Net Income (Loss)(1)(4)(5)	$ 362,307	$ (589,887)	$ 237,709	$ 508,683	$ 226,568
Diluted Earnings (Loss) Per Share: (1)(2)(5)					
Continuing Operations (Loss)	$ .17	$ (.28)	$ .10	$ .07	$ .09
Net Income (Loss) (4)	$ .17	$ (.28)	$ .10	$ .19	$ .12
BALANCE SHEET DATA:					
Cash and Short-Term Investments	$ 1,124,685	$ 1,351,542	$ 1,975,040	$ 4,458,337	$ 4,505,389
Working Capital	5,374,231	4,993,455	5,271,320	5,480,452	6,163,304
Total Assets	8,744,558	9,325,479	9,355,092	8,458,614	8,365,519
Total Current Liabilities	1,747,513	2,530,723	2,108,165	1,568,994	1,363,291
Long-Term Obligations	286,828	347,667	318,721	265,355	--
Accumulated Deficit	(401,958)	(764,265)	(174,378)	(412,087)	(920,770)
Shareholders' Equity(3)	6,710,217	6,447,089	6,928,206	6,624,265	7,002,228

</TABLE>

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(1) The results for the fiscal years 1998, 1997, and 1996 include approximately $170,000, $85,000, and $132,000, respectively, expensed for amounts paid or payable to the University under the Research Agreement described elsewhere herein. In addition, in fiscal 1998 the Company took a charge of $184,000 for the write-off of certain long-lived assets.

(2) The results shown have been restated to reflect the one-for-two reverse split of Common Stock which was effective March 15, 1999.

(3) The decline in Shareholders' Equity in 1996 resulted from the Company's receipt of 98,017 shares of its Common Stock upon disposition of the stock of Echelon Services Company.

(4) The results for fiscal 1996 include $311,092 of income from and gain on the disposal of discontinued operations.

(5) Income from continuing operations for fiscal 1997 includes a $115,487 gain from the disposition of the Company's interest in the Seil Semicon joint venture. Income from continuing operations for fiscal 1996 includes the Company's $65,063 equity in the losses of the Seil Semicon joint venture.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the financial statements and notes thereto set forth elsewhere herein and the "Forward-Looking Statements" explanation included herein.

PLANS FOR EXPANSION AND CAPITAL RESOURCES

The Company is engaged primarily in the manufacture and marketing of several items of capital equipment, spare parts and related consumables used in the fabrication of semiconductor chips. The business is comprised of two segments. The polishing supplies and equipment segment serves fabricators of silicon wafers, the raw material used in the manufacture of semiconductors. The semiconductor production equipment segment supplies equipment to semiconductor chip fabricators. Some of these products, amounting to an estimated 13% of consolidated sales in both fiscal 1999 and 1998, are also sold for use in the production of optics, wireless communications, memory disk media, ceramics and other products. The Company also provides contract semiconductor manufacturing support services, accounting for an estimated 3% and 6% of consolidated sales in fiscal 1999 and 1998, respectively. The Company intends to focus on expanding its revenue and operating profits derived from the sale of semiconductor production equipment and polishing supplies and equipment sold to semiconductor fabricators and manufacturers of silicon wafers used in the fabrication of such semiconductors, respectively. The Company is seeking to expand its revenue and operating profits through the development of new products that serve these markets and to further penetrate these markets with existing and new products.

ACQUISITIONS. As a part of the above strategy, the Company acquired substantially all of the assets and assumed certain of the related liabilities of P.R. Hoffman Machine Products Corporation on July 1, 1997. The total cost of the acquisition, including the liabilities assumed and related transaction costs, was $3,192,000. See Note 3 to the Consolidated Financial Statements, included herein, for further details of the acquisition and pro forma revenues and earnings for fiscal 1997, reflecting the assumption that the acquisition had occurred at the beginning of such fiscal year. During fiscal 1999, the acquired operations accounted for 40% of consolidated revenue and 50% of consolidated operating profit, which includes allocated corporate expenses.

During the fourth quarter of fiscal 1997, the Company began providing contract semiconductor manufacturing support services, which is included in the semiconductor production equipment (and services) segment. Although the Company is currently providing such services to only one customer, its fiscal 1999 revenue was $435,000 and the operation is making a positive contribution to operating profit.

During fiscal 1996, the Company entered into a joint venture agreement pursuant to which it acquired a 45% ownership interest and a 50% voting interest in Seil Semicon, Inc. (the "Korean Joint Venture") in return for a commitment to invest $500,000 in cash. The purpose of the joint venture was to develop and operate a silicon test wafer reclaiming business. In fiscal 1997, the Company sold its interest in the joint venture for $478,000, because the requirements of continuing in that business, without obtaining majority control, were determined to involve more risk than was appropriate for the Company. See Note 11 to the Consolidated Financial Statements, included herein. As a result, the Company recorded a gain in fiscal 1997 of $115,487, largely representing recovery of related costs and expenses recorded in the previous year.

The Company participated in the Korean Joint Venture in calendar year 1996 and acquired P.R. Hoffman on July 1, 1997, but temporarily shifted its focus to internal product development in June 1998, due to a slowdown in the semiconductor industry at that time. Presently, the industry is experiencing a period of rapid recovery. Accordingly, the Company has returned its focus to the evaluation of other potential product or business acquisitions that might complement its existing business. Based upon the Company's acquisition criteria, such an acquisition could require more capital resources than used to acquire P.R. Hoffman. The determination of the appropriateness of a potential acquisition is expected to take into consideration many factors, including the status and potential capital requirements for developing a new technology asher, the economic terms of the acquisition under review, and the potential synergy of

the business opportunity with the Company's existing business. However, until the market price of the Company's common stock equals management's estimate of its intrinsic value, any acquisitions will likely be limited to those that can be financed with debt.

RESEARCH AND DEVELOPMENT. In fiscal 1994, the Company added research and development of new technologies to its on-going development of new products and product improvements based on existing technologies. From fiscal 1994 through the end of fiscal 1998, the new technology under investigation consisted of photo-assisted CVD (chemical vapor deposition) research conducted by and in conjunction with the University of California at Santa Cruz (the "University"). In this regard, the University studied several generations of higher intensity light sources, none of which have yielded results that would enable the Company to produce a commercially viable product. The Company's aggregate expenditures on photo-assisted CVD development from fiscal 1994 through September 30, 1998 were $743,000. While this research was partially successful, it was suspended indefinitely effective September 30, 1998, until such time as reliable higher intensity lamps are available and success appears more probable. Before the suspension, fiscal 1998 expenditures to the University were $170,000, an increase of $85,000 over fiscal 1997.

Beginning in fiscal 1999, the Company began research on a new technology asher. In November 1999, the Company announced a joint product development agreement with PSK Tech, Inc., to develop a new technology ashing machine using Amtech's damage-free technology and PSK Tech's expertise in the design of ashers and asher processes. The Company expended $268,000 in both fiscal years 1999 and 1998, respectively, on research and development of new semiconductor production equipment products and improvement to current products, based on new and existing technologies. The Company will continue to make these types of expenditures in the foreseeable future. For fiscal 2000, the Company has budgeted a total of $409,000 for research and development expenses. The Company may approve other projects of that nature, depending on their merit and anticipated effect on earnings. Any expenditure for currently unplanned development of products and services, if any, will negatively impact the Company's future operating results until such project achieves profitability.

The Company's currently available cash and short-term investments are expected to be sufficient to service the inter-period liquidity requirements of the already expanded operations of the Company. Therefore, any funds required for significant unplanned development of new products or acquisitions are expected to be obtained from one or more sources of financing, such as working capital loans or term loans from banks or other financial institutions, equipment leasing, mortgage financing and internally generated cash flow from operations. There can be no assurance of the availability or sufficiency of these or any other source of funding for those purposes.

RESULTS OF OPERATIONS

FISCAL 1999 COMPARED TO FISCAL 1998

REVENUES. Consolidated revenues decreased by $1,448,000, or 9%, to $14,766,000 in fiscal 1999 from $16,214,000 in fiscal 1998. Revenues of the semiconductor production equipment segment decreased by $1,413,000, or 14%, to $8,853,000 in fiscal 1999 from $10,266,000 in fiscal 1998. The decline in sales of capital equipment by the semiconductor production equipment segment accounted for nearly all of the reduction in consolidated revenues and was caused by the industry slowdown that began in fiscal 1998. During fiscal years 1999 and 1998, revenues of the polishing supplies and equipment segment were $5,913,000 and $5,948,000, respectively, for a decline of less than 1%. The polishing supplies and equipment segment was the first to be effected by the industry slowdown and the first to benefit from the recovery the industry is currently experiencing. The Company believes revenue growth will resume in fiscal 2000, as the industry is now experiencing rapid recovery.

GROSS MARGINS. Despite a 9% decline in consolidated revenues, the consolidated gross margin increased by $443,000, or 12%. All of the increase in gross margin was attributable to the semiconductor production equipment segment. The gross margin as a percentage of semiconductor equipment product sales increased to 30% in fiscal 1999, from 22% in fiscal 1998, as a result of decreased labor and overhead costs and product mix. In fiscal 1999, the revenues and gross margin of the polishing supplies and equipment segment remained at nearly the same levels as in fiscal 1998. As a percentage of sales, the consolidated gross margin was 28% of sales in fiscal 1999, compared to 23% in fiscal 1998, which also is attributable to improved profitability of the semiconductor production equipment segment, discussed above.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Consolidated selling, general and administrative expenses decreased by $859,000, or 21%, to $3,330,000 in fiscal 1999, from $4,189,000 in fiscal 1998. The selling, general and administrative expenses of the semiconductor production equipment segment decreased $648,000 as a result of the following factors: (i) the reduction of personnel and other costs; (ii) reduction of expenses related to evaluating potential acquisitions; and (iii) no fiscal 1999 charge comparable to the $184,000 charge taken by the Company in fiscal 1998 for the write-off of a demonstration unit. The selling, general and administrative expenses of the polishing supplies and equipment segment decreased $211,000 as a result of the Company's cost reduction program implemented in the last quarter of fiscal 1998. As a result of these cost reductions, consolidated selling and general expenses declined to 23% of revenue in fiscal 1999 as compared to 26% of revenue in fiscal 1998. Research and development expenses are discussed separately above.

OPERATING PROFIT (LOSS). The semiconductor equipment industry is experiencing a cyclical recovery. As a result of this recovery and other factors discussed above, the Company had an operating profit of $568,000 in fiscal 1999, compared to an operating loss of $904,000 in fiscal 1997. Revenues declined for both of the Company's operating segments in fiscal 1999, but operating income increased in both segments due to a cost reduction program implemented by the Company in the last quarter of fiscal 1998 and the first quarter of fiscal 1999. Income (loss) from continuing operations before income taxes includes operating income (loss), discussed above, and net interest income. Net interest income was $20,000 lower in fiscal 1999, as compared to fiscal 1998, due to a decline in cash balances during fiscal 1999. As a result of the above items, income from continuing operations before income taxes increased by $1,452,000 to $602,000 in fiscal 1999.

NET INCOME (LOSS). The income tax provision is $240,000 in fiscal 1999, compared to an income tax benefit of $260,000 in fiscal 1998, which resulted from the Company's net loss in 1998. The effective tax rate for fiscal 1999 is 40%, which is higher than the 34% statutory rate due to the provision for state income taxes and items that are not deductible for federal income taxes. See Note 10 to the Consolidated Financial Statements for further details including an analysis of the differences between the statutory rate and the effective rate for fiscal 1999 and 1998. After taking into consideration the income tax provision (benefit), the fiscal 1999 net income is $362,000, or $.17 per share, compared to a net loss of $590,000, or $(.28) per share, in fiscal 1998.

TRENDS. As a result of the cyclical recovery in the semiconductor industry, consolidated revenue for the second half of fiscal 1999, $15,588,000 on an annualized basis, was higher than the $13,944,000 of annualized revenue in the first half of the fiscal year. Sales for fiscal 2000 are expected to continue to recover from the industry downturn experienced in the second half of fiscal 1998 and the first half of fiscal 1999. The Company believes that the cyclical improvement in the industry will continue into fiscal 2001, however, no assurance can be given regarding how long the current trend will continue.

During fiscal 1999, approximately $168,000 of net income was earned in the second quarter, $28,000 in the third, and $219,000 in the fourth fiscal quarter, compared to a loss $53,000 in the first quarter of fiscal 1999. In light of the rapid recovery currently being experienced by the semiconductor industry and the Company's trend of improving earnings in fiscal 1999, the Company believes there will be continued improvement in net income during fiscal 2000.

The Company's semiconductor production equipment segment has been and will continue to be affected by industry trends. The use and installed base of vertical furnaces is increasing throughout the industry on a worldwide basis, particularly for the fabrication of leading edge semiconductor devices, and each year it is expected to increase in usage to and eventually surpass that of horizontal furnaces. However, the Company believes that there will continue to be demand for horizontal diffusion furnaces, notwithstanding other advantages of vertical systems (e.g. the capability to produce more sophisticated semiconductors more efficiently through more advanced automation), because generally production runs, other than those for high volume production of small chips on larger wafers, are more efficiently produced in horizontal furnaces as compared to vertical furnaces.

The Company's semiconductor production equipment products may be used to upgrade, retro-fit or replace existing horizontal furnaces in order to extend their useful lives or otherwise avoid the necessity for the customer to acquire more expensive vertical furnaces. Horizontal furnaces are also sold for use in new facilities that do not require vertical furnaces for the particular process. Another important factor is the growth of semiconductor manufacturing using the

less capital-intensive horizontal diffusion furnaces in the manufacturer of solar cells, and for other less demanding processes, which could further prolong the commercial life of the Company's existing semiconductor production equipment products.

The market for the Company's products remains a small niche market. Accordingly, future revenues are and will continue to be dependent upon the introduction or acquisition of new products. Examples include the IBAL automation products introduced from fiscal 1991 to fiscal 1993, or improved versions of products that exist in the market, such as the Tempress(R) horizontal diffusion furnaces, conveyor ovens and "clean room" load stations. The Company intends to pursue both types of product introductions in the future. Product or business acquisitions are also a part of the Company's strategy for growth, as evidenced by the acquisition of P.R. Hoffman's product line of double sided precision lapping and polishing machines and related consumable products in the fourth quarter of fiscal 1997. The Company intends to again pursue acquisitions of other businesses or products that complement its existing product lines, but recognizes that its ability to do so is dependent upon a higher market price for the Company's Common Stock and/or the availability of other sources of capital.

FISCAL 1998 COMPARED TO FISCAL 1997

REVENUES. The consolidated revenues increased by $5,103,000, or 46%, to $16,214,000 in fiscal 1998, from $11,111,000 in fiscal 1997. During the same period, operating income decreased by $1,119,000 from $215,000 in fiscal 1997 to an operating loss of $904,000 in fiscal 1998. The polishing supplies and equipment segment, comprised of the P.R. Hoffman operations, and the Company's new manufacturing support services were included in the consolidated results of operations for four quarters in fiscal 1998 versus one quarter in fiscal 1997. As a result, these products and services accounted for substantially all of the increase in consolidated revenue and produced $554,000 greater operating profit, before corporate allocations, in fiscal 1998 compared to the fourth quarter of fiscal 1997.

GROSS MARGINS. Revenues of the semiconductor production equipment segment increased by $778,000, or 8%, to $10,266,000, while the gross margin from these products and services decreased by $371,000, or 14%. As a result of the cyclical downturn, the anticipated increase in sales of semiconductor production equipment did not materialize. The gross margin as a percentage of semiconductor production equipment segment revenue declined to 22% in fiscal 1998 from 27% in fiscal 1997, as a result of increased labor and overhead costs, price competition and product mix. The increases in labor and overhead costs were made in anticipation of increased sales of semiconductor production equipment, which did not materialize. The industry slowdown also increased the amount of price competition experienced during fiscal 1998. Finally, the addition of conveyor furnaces to the Company's semiconductor production equipment segment resulted in higher costs because of the short delivery schedule for such products, as well as higher re-work costs associated with adding a product not previously manufactured. Overall, the gross margin from consolidated sales increased by $646,000, or 21%, as a result of the polishing supplies and equipment segment and manufacturing support services contributing to all four quarters of fiscal 1998, compared to one quarter's gross margin in fiscal 1997. As a percentage of sales, the consolidated gross margin was 23% of sales in fiscal 1998, compared to 28% in fiscal 1997. The operations that were new in fiscal 1997 had lower gross margins as a percent of sales in fiscal 1998 as compared to fiscal 1997, contributing further to the decline in the consolidated gross margin percentages.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Consolidated selling, general and administrative expenses increased by $1,492,000, or 55%, to $4,189,000 in fiscal 1998, from $2,697,000 in fiscal 1997. The selling, general and administrative expenses of the polishing supplies and equipment segment and manufacturing support services directly contributed $1,173,000 of that increase. That portion of the increase in selling, general and administrative expenses was caused by those operations being included in the consolidated operating results for four quarters in fiscal 1998 compared to one quarter in fiscal 1997. The selling, general and administrative expenses of the semiconductor production equipment segment, excluding manufacturing support services and total corporate expenses, increased $319,000 as a result of the following factors: (i) the addition of personnel and other costs in anticipation of higher revenues; (ii) incurrence of expenses related to investigating and evaluating potential acquisitions, particularly before the industry slowdown affected operations; and (iii) a charge of $184,000 taken by the Company for the write-off of a demonstration unit that is no longer suitable for tradeshows. As a result, consolidated selling and general expenses increased to 26% of revenue in fiscal 1998 from 24% of revenue in fiscal 1997. Research and development expenses in

fiscal 1998 were $158,000 higher than in fiscal 1997 due to the increase in expenditures to the University discussed above and to increased development expenditures in an effort to improve existing semiconductor production equipment.

OPERATING PROFIT (LOSS). Primarily as a result of the cyclical downturn in the semiconductor equipment industry and other factors discussed above, the Company had an operating loss of $904,000 in fiscal 1998, compared to an operating profit of $215,000 in fiscal 1997. Income (loss) from continuing operations before income taxes includes operating income (loss), discussed above, and net interest income. Net interest income was $108,000 lower in fiscal 1998, as compared to fiscal 1997, due to cash used in the acquisition of the polishing supplies and equipment business and for increased inventories and furniture and equipment purchases associated with the expansion of the Company's semiconductor production equipment product line. As a result of these items, income from continuing operations before income taxes decreased by $1,228,000 to a loss of $850,000 in fiscal 1998.

NET INCOME (LOSS). As a result of the Company's net loss, the Company recognized an income tax benefit of $260,000 in fiscal 1998, compared to the fiscal 1997 provision for income taxes of $140,000. The effective tax rate for fiscal 1998 is 31%, which is lower than the 34% statutory rate due to the provision for state income taxes on the Company's new operations and services and items that are not deductible for federal income taxes. The effective rate for fiscal 1997 was 37%, 3% higher than the statutory rate, due to the same items as in fiscal 1998. See Note 10 to the Consolidated Financial Statements for further details including an analysis of the differences between the statutory rate and the effective rate for fiscal 1998 and 1997. After taking into consideration the provision for (benefit from) income taxes, the fiscal 1998 net loss is $590,000, or $(.28) per share, compared to net income of $238,000, or $.11 basic earnings per basic share ($.10 diluted earnings per share), in fiscal 1997.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 1999 and 1998, cash and cash equivalents were $1,125,000 and $1,352,000, respectively. The fiscal 1999 decrease in cash and cash equivalents of $227,000 was primarily attributable to $86,000 of cash used in operations and $158,000 for purchases of property and equipment. While the Company expects to invest up to $100,000 in equipment, software and furniture and fixtures during fiscal 2000, and up to $409,000 for research and development, the Company believes there is sufficient liquidity for these and current operations. However, see the disclosure under the caption "Plans for Expansion and Capital Resources," above, for an explanation of factors that would give rise to requirements for additional sources of liquidity and capital resources, and possible sources of such to meet those needs.

Working capital increased by $381,000 to $5,374,000 at September 30, 1999, from $4,993,000 as of September 30, 1998, an increase of 8%. The ratio of current assets to current liabilities increased to 4.1:1 from 3.0:1. Cash and cash equivalents comprise 13% of total assets and stockholders' equity accounts for 77% of total assets. These are measures of financial condition.

YEAR 2000 COMPLIANCE

Many currently installed computer systems and software products are coded to accept two digit entries in the date code field. These date code fields will need to accept four digit entries to distinguish 21st century dates from 20th century dates. Any programs that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in the computer shutting down or performing incorrect computations. As a result, computer systems and software used by many companies may need to be upgraded to comply with such "Year 2000" requirements. Certain of the Company's systems, including information and computer systems and automated equipment, will be affected by the Year 2000 issue.

READINESS AND RELATED RISKS. The Company believes it has identified the programs, infrastructure and products that could be affected by the Year 2000 issue and has taken steps to resolve the priority issues on a timely basis. Based on a review of the hardware and software components of its systems and products, the Company does not anticipate devoting a considerable amount of internal resources or otherwise hire substantial external resources to resolve the key Year 2000 issues.

COSTS. The costs incurred by the Company in connection with Year 2000 issues combined with the costs yet to be expended on such issues is not expected to be material, as most of the issues have been resolved through installation of regular software updates provided by licensors under standard maintenance agreements.

CONTINGENCY PLANS. The production processes of the Company and of its critical vendors are not significantly dependent upon hardware or software that is likely to be affected by Year 2000 problems. The Company does not anticipate that any problems encountered by suppliers and vendors in connection with the Year 2000 will have a material adverse effect on the Company's financial condition or results of operations.

ITEM 7 A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to financial market risks, including changes in foreign currency exchange rates and interest rates. Its operations in the United States are conducted in United States dollars. The Company's operation in The Netherlands, a component of the semiconductor production equipment segment, conducts business primarily in The Netherlands' guilder and, to a lesser extent, the United States dollar and other European currencies. As of January 1, 1999, the European Union, of which The Netherlands is a member, established a fixed conversion rate between their existing sovereign currencies and the Euro and adopted the Euro as their common legal currency. Most of the other European currencies in which the Company's Netherlands operation conducts business also have fixed exchange rates with the Euro. Currently, the functional currency of the Company's Netherlands operation is The Netherlands guilder. Thus, by the end of the three year transition period, the functional currency of that operation will be the Euro.

The Company estimates that more than 95% of its transactions are denominated in one of its two functional currencies or currencies that have fixed exchange rates with one of its functional currencies. As of September 30, 1999, the Company did not hold any derivative securities. The Company incurred net foreign currency losses of $83,000 and $11,000 in 1999 and 1998, respectively, and gains of $34,000 in 1997. As of September 30, 1999, a 10% change in the foreign currency rates would not have a material impact on the Company's financial condition. However, the Company's investment in and advances to its Netherlands' operation total $1,426,000. A 10% change in the value of The Netherlands guilder relative to the United States dollar would cause a $142,600 foreign currency translation adjustment, a type of other comprehensive income, which would be a direct adjustment to stockholders' equity.

When the value of The Netherlands guilder declines relative to the value of the United States dollar, operations in The Netherlands can be more competitive against the United States based equipment suppliers and the cost of purchases denominated in United States dollars become more expensive. When the value of The Netherlands guilder increases relative to the value of the United States dollar, operations in The Netherlands must raise prices to those customers that normally make purchases in United States dollars, in order to maintain the same profit margins. When this occurs, this operation attempts to have transactions denominated in The Netherlands guilder or the Euro and to increase its purchases denominated in United States dollars. The Company estimates that the annual purchases and sales of this operation that are denominated in currencies not linked to its functional currency, including United States dollars, British pounds and Swiss francs, are approximately $600,000 and $800,000, respectively. Most of those purchases and sales are denominated in United States dollars and those purchases equal approximately 75% of those sales, providing a partial hedge against fluctuations in exchange rates. Because it is difficult to predict the volume of dollar denominated transactions arising from The Netherlands operations, the Company does not hedge against the effects of exchange rate changes on future transactions, such as sales for which the Company has not yet received a purchase order. The Netherlands guilder is near its historically low value relative to the United States dollar, giving the Company's operation based in The Netherlands a competitive advantage over other suppliers based in the United States. However, a future increase in the relative value of The Netherlands guilder could have a materially adverse effect on future results of the Company's operations.

The polishing supplies and equipment segment makes annual purchases of approximately $650,000 through direct or indirect sources from Japan or Germany. While these purchases are denominated in United States dollars, the price of materials purchased from Japan is directly effected by the value of the yen relative to the dollar. The Company believes the price of steel produced in Germany is relatively unaffected by fluctuations in the value of German mark, as the supplier sets the price based on an average exchange rate. However, assuming the price of German sourced steel also fluctuated with currency exchange rates, a 10% change in the value of Japanese yen and the German mark relative to the United States dollar would effect the cost of this segment's purchases by $65,000.

The Company is also exposed to interest rate risk on its fixed debt obligations. At September 30, 1999, fixed rate debt obligations totaled $197,000 with a fixed interest rate of 6.95% through June 2001. Due to the relatively insignificant principal balance of outstanding debt, the Company does not actively manage the risk associated with these obligations. The impact of interest rate changes would not have a material impact on the Company's results of operations.

FORWARD-LOOKING STATEMENTS

The statements contained in this Annual Report on Form 10-K that are not historical fact are forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995). These statements can be

identified by the use of forward looking terminology such as "believes," "expects," "may," "will," "should," or "anticipates," or the negative thereof or other written variations thereof or comparable terminology. The forward-looking statements contained herein are based on current expectations that involve a number of risks and uncertainties. Among others, these forward-looking statements are based on assumptions that (a) the Company will not lose a significant customer or customers, (b) the Company will not experience significant further reductions in demand or rescheduling of customer purchase orders, (c) the Company's products will remain accepted within their respective markets and will not be significantly further replaced by newer technology equipment, (d) competitive conditions within the Company's markets will not materially deteriorate, (e) the Company's efforts to improve its products and maintain its competitiveness in the markets in which it competes will continue to progress and that the savings associated with these expenditures and/or the increased product demand resulting therefrom justifies such development costs, (f) the Company will be able to retain, and when needed, add key technical and management personnel, (g) business or product acquisitions, if any, will be successfully integrated and the results of operations therefrom will support the acquisition price, (h) that the Company's forecasts will accurately anticipate market demand, (i) there will be no material adverse changes in the Company's existing operations, (j) the Company will be able to obtain sufficient equity or debt funding to increase its capital resources by the amount needed for new business or product acquisitions, if any, (k) the semiconductor equipment industry will continue to recover from the recent slowdown, (l) the condition in the Asian markets will continue to improve, (m) the Company will be able to continue to control costs, (n) the Company will not, either directly or indirectly, incur any material Year 2000 issues and (o) demand for the Company's products will not be adversely and significantly influenced by trends within the semiconductor industries, including consolidation of semiconductor manufacturing operations through mergers and the subcontracting out of the production of semiconductors to foundries. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions, all of which are beyond the control of the Company. Although the Company believes that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, there can be no assurance that the results contemplated in forward-looking statements will be realized. In addition, the business and operations of the Company are subject to substantial risks, which increase the uncertainty inherent in such forward-looking statements. In light of the significant uncertainties inherent in the forward-looking information included herein, such information should not be regarded as a representation by the Company, or any other person, that the objectives or plans for the Company will be achieved.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Financial Statement Schedule for the years ended September 30, 1999, 1998 and 1997:

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All Schedules, other than the Schedule listed above, are omitted as the information is not required, is not material or is otherwise furnished.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To AMTECH SYSTEMS, INC.:

We have audited the accompanying consolidated balance sheets of AMTECH SYSTEMS, INC. (an Arizona corporation) and subsidiaries (the "Company") as of September 30, 1999 and 1998, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended September 30, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 1999 and 1998, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 1999, in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in the index of financial statements and supplementary data is presented for purposes of complying with the Securities and Exchange Commission's rules and is not a required part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Phoenix, Arizona,
December 15, 1999.

AMTECH SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 1999 AND 1998

	1999	1998
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,124,685	$ 1,351,542
Accounts receivable - net	3,208,488	2,894,217
Inventories	2,259,657	2,393,708
Deferred income taxes	421,000	393,000
Income taxes refundable	34,000	404,000
Prepaid expenses	73,914	87,711
Total current assets	7,121,744	7,524,178
PROPERTY, PLANT AND EQUIPMENT - net	1,098,313	1,243,016
GOODWILL AND OTHER ASSETS - net	524,501	558,285
TOTAL ASSETS	$ 8,744,558	$ 9,325,479
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 627,445	$ 1,229,451
Accrued compensation and related taxes	458,277	573,294
Accrued warranty expense	146,590	166,839
Accrued installation expense	196,349	183,909
Customer deposits	83,242	249,795

Other accrued liabilities	235,610	127,435
Total current liabilities	1,747,513	2,530,723
LONG-TERM OBLIGATIONS	286,828	347,667
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stock; no specified terms; 100,000,000 shares authorized; none issued	--	--
Common stock; $0.01 par value; 100,000,000 shares authorized; 2,108,679 (2,110,303 in 1998) shares issued and outstanding	21,087	21,103
Additional paid-in capital	7,400,152	7,406,589
Accumulated other comprehensive loss - Cumulative foreign currency translation adjustment	(309,064)	(216,338)
Accumulated deficit	(401,958)	(764,265)
Total stockholders' equity	6,710,217	6,447,089
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 8,744,558	$ 9,325,479

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

AMTECH SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS For
The Years Ended September 30, 1999, 1998 and 1997

	1999	1998	1997
Net product sales	$14,766,075	$16,213,904	$11,111,142
Cost of product sales	10,599,708	12,490,631	8,033,653
Gross margin	4,166,367	3,723,273	3,077,489
Selling, general and administrative	3,330,348	4,189,387	2,697,060
Equity in (income) of Korean joint venture	--	--	(115,487)
Photo-CVD project	--	170,306	84,883
Other research and development	268,243	267,914	195,613
Operating profit (loss)	567,776	(904,334)	215,420
Interest income,net	34,531	54,447	162,289
Income (loss) before income taxes	602,307	(849,887)	377,709
Income tax provision (benefit)	240,000	(260,000)	140,000
NET INCOME (LOSS)	$ 362,307	$ (589,887)	$ 237,709
EARNINGS (LOSS) PER SHARE			
Basic	$ .17	$ (.28)	$ .11
Weighted average shares outstanding	2,109,815	2,106,741	2,084,055
Diluted	$ .17	$ (.28)	$ .10
Weighted average shares outstanding	2,189,201	2,106,741	2,348,971

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

AMTECH SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED SEPTEMBER 30, 1999, 1998 AND 1997

<TABLE>
<CAPTION>

	COMMON STOCK NUMBER OF SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' EQUITY
<S>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE AT SEPTEMBER 30, 1996	2,054,834	$ 20,548	$7,064,352	$ (48,548)	$(412,087)	$6,624,265
Net income	--	--	--	--	237,709	237,709
Translation adjustment	--	--	--	(235,905)		(235,905)

Comprehensive income						1,804
Employee stock bonus - net of stock repurchases	8,025	80	34,657	--	--	34,737
Stock options exercised	13,500	135	35,065	--	--	35,200
Shares and warrants issued in connection with the acquisition of P.R. Hoffman assets	16,194	162	232,038	--	--	232,200
BALANCE AT SEPTEMBER 30, 1997	2,092,553	20,925	7,366,112	(284,453)	(174,378)	6,928,206
Net loss	--	--	--	--	(589,887)	(589,887)
Translation adjustment	--	--	--	68,115	--	68,115
Comprehensive loss						(521,772)
Stock options exercised	9,000	90	16,160	--	--	16,250
Employee stock bonus - net of stock repurchases	8,750	88	24,317	--	--	24,405
BALANCE AT SEPTEMBER 30, 1998	2,110,303	21,103	7,406,589	(216,338)	(764,265)	6,447,089
Net income	--	--	--	--	362,307	362,307
Translation adjustment	--	--	--	(92,726)	--	(92,726)
Comprehensive income						269,581
Employee stock bonus - net of stock repurchases	(1,624)	(16)	(6,437)	--	--	(6,453)
BALANCE AT SEPTEMBER 30, 1999	2,108,679	$ 21,087	$7,400,152	$(309,064)	$(401,958)	$6,710,217

</TABLE>

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

AMTECH SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 1999, 1998 AND 1997

<TABLE>
<CAPTION>

	1999	1998	1997
<S>	<C>	<C>	<C>
OPERATING ACTIVITIES:			
Net income (loss)	$ 362,307	$ (589,887)	$ 237,709
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation and amortization	312,371	361,046	233,938
Inventory and accounts receivable write-offs	142,490	135,642	76,123
Loss on disposals of long-lived assets	--	183,872	592
Equity in income from Korean joint venture	--	--	(115,487)
Deferred income taxes	(28,000)	(120,000)	(50,000)
(Increase) decrease in:			
Accounts receivable	(473,383)	160,719	(401,561)
Inventories, prepaid expenses and other assets	(60,958)	(429,450)	(421,270)
Increase (decrease) in:			
Accounts payable	(542,561)	240,963	191,544
Accrued liabilities and customer deposits	(155,788)	244,643	188,091
Income taxes payable/refundable	364,063	(522,059)	(21,000)
Net Cash Used In Operating Activities	(79,459)	(334,511)	(81,321)
INVESTING ACTIVITIES:			
Maturities of short-term investments - net	--	579,191	1,884,929
Proceeds from disposition of interest in Korean joint venture	--	--	475,047
Purchases of property, plant and equipment	(158,232)	(310,962)	(236,652)
Cash paid for net assets of P.R. Hoffman Machine Products Corporation	--	--	(2,569,580)
Net Cash Provided By (Used In) Investing Activities	(158,232)	268,229	(446,256)
FINANCING ACTIVITIES:			
Proceeds from stock options exercised	--	16,250	35,200
Employee stock bonus - net of stock repurchases	(6,453)	24,405	34,737

Payments on mortgage loan	(12,062)	(12,069)	(19,635)
Net Cash Provided By (Used In) Financing Activities	(18,515)	28,586	50,302
EFFECT OF EXCHANGE RATE CHANGES ON CASH	29,349	(6,611)	(121,093)
CASH AND EQUIVALENTS:			
Net decrease	(226,857)	(44,307)	(598,368)
Beginning of year	1,351,542	1,395,849	1,994,217
END OF YEAR CASH AND EQUIVALENTS	$ 1,124,685	$ 1,351,542	$ 1,395,849

</TABLE>

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

AMTECH SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED
For The Years Ended September 30, 1999, 1998 and 1997

	1999	1998	1997
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	$ 10,169	$ 15,731	$ 19,855
Income taxes paid (refunded)	(102,000)	387,411	216,000

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

AMTECH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 1999, 1998, AND 1997

(1) NATURE OF OPERATIONS:

Amtech Systems, Inc. (an Arizona corporation), P. R. Hoffman Machine Products, Inc., a wholly-owned subsidiary formed in July 1997, ("P. R. Hoffman") both based in the United States, and Tempress Systems, Inc., a wholly-owned subsidiary formed in September 1994 and based in The Netherlands ("Tempress"), comprise the "Company". The Company designs, assembles, sells and installs capital equipment and related consumables used in the manufacture of wafers of various materials, primarily silicon wafers for the semiconductor industry, and in certain semiconductor fabrication processes. These products are sold to manufacturers of silicon wafers and semiconductors worldwide, particularly in the United States, Korea, and Northern Europe. During fiscal 1997, the Company began providing semiconductor manufacturing support services. The Company serves a niche market in an industry which experiences rapid technological advances and which in the past has been very cyclical. Therefore, the Company's future profitability and growth depend on its ability to develop or acquire and market profitable new products and its ability to adapt to cyclical trends.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF PRESENTATION - The accompanying consolidated financial statements include the accounts of Amtech Systems, Inc. and its wholly owned subsidiaries, P. R. Hoffman Machine Products, Inc. since its acquisition date (see Note 3) and Tempress Systems, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to the September 30, 1998 and 1997 financial statements to conform to the September 30, 1999 presentation.

REVENUE RECOGNITION - Revenue is recognized on the accrual basis when the customer takes title to the product, generally upon shipment. On occasion, the Company will recognize revenue prior to shipment. When this occurs, the Company ensures that title has passed, the customer has committed to take delivery of the goods in a reasonable period of time, there is a legitimate business purpose requested by the customer not to ship the product, the product is complete and ready for shipment and is segregated from existing inventory and there are no material contingencies. As of September 30, 1999, the Company had recognized $736,000 of revenue for two furnace systems for which shipment had not occurred. In each case, the Company had received eighty-five percent (85%) of the selling price by September 30, 1999, and had met the revenue recognition criteria described above.

Service revenues are recognized as services are performed.

CASH EQUIVALENTS - Cash equivalents consist of time certificates of deposit and U.S. treasury bills. The Company considers certificates of deposit and treasury bills to be cash equivalents if their maturity is 90 days or less from date of purchase. Investments maturing in more than 90 days are considered to be "available-for-sale" (as defined by Statement of Financial Accounting Standards (SFAS) No. 115) and are recorded at fair value, which approximates cost. There were no available for sale securities or short-term investments at September 30, 1999 and 1998.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

INVENTORIES - Inventories are stated at the lower of cost (first-in, first-out method) or market. The components of inventory as of September 30, 1999 and 1998 are as follows:

	1999	1998
Purchased parts	$1,237,348	$1,174,570
Work-in-progress	605,769	612,646
Finished goods	416,540	606,492
	$2,259,657	$2,393,708

PROPERTY, PLANT AND EQUIPMENT - Maintenance and repairs are charged to expense as incurred. The costs of additions and improvements are capitalized. 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 expense for fiscal years 1999, 1998 and 1997 was approximately $256,000, $273,000 and $196,000, respectively.

Depreciation is computed using the straight-line method. Useful lives for equipment, machinery and leasehold improvements are from three to five years; for furniture and fixtures from five to ten years; and for buildings twenty years.

Long-lived assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount of the asset may not be recoverable. If the sum of the undiscounted expected cash flows from an asset to be held and used in operations is less than the carrying value of the asset, an impairment loss is recognized.

Due to model changes in 1998, the Company reviewed a Tempress diffusion furnace built for use at tradeshows and determined that the net present value of future cash flows it can expect from this furnace were less than the carrying value of the asset. Accordingly, a loss of $184,000, the cost of the furnace less accumulated depreciation, was included in selling, general and administrative expense in fiscal 1998.

The following is a summary of property, plant and equipment as of September 30, 1999 and 1998:

	1999	1998
Building and leasehold improvements	$ 588,324	$ 610,507
Equipment and machinery	1,046,247	935,280
Furniture and fixtures	471,884	498,634
	2,106,455	2,044,421
Accumulated depreciation	(1,008,142)	(801,405)
	$ 1,098,313	$ 1,243,016

GOODWILL - The purchase price in excess of net assets acquired, commonly referred to as goodwill, is being amortized over fifteen years using the straight-line method. Amortization expense for fiscal years 1999, 1998 and 1997 was approximately $37,000, $37,000, and $9,000, respectively.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

WARRANTY - The Company provides free of charge a limited warranty, generally twelve months, to all purchasers of its new products and systems. Current liabilities include approximately $147,000 and $167,000 for accrued warranty expense as of September 30, 1999 and 1998, respectively. Warranty expense for fiscal 1999, 1998 and 1997 amounted to approximately $190,000, $240,000, and $267,000, respectively. Management believes this amount is sufficient for all future warranty costs on systems sold through September 30, 1999.

RESEARCH AND DEVELOPMENT EXPENSES - The Company expenses product development costs as they are incurred. The Company incurred expenses of approximately $268,000 in 1999, $438,000 in 1998, and $280,000 in 1997, related to the development of a new ashing machine, research on photo-assisted CVD (chemical vapor deposition) equipment and processes, the development of diffusion furnaces and the improvement of IBAL and other products.

FOREIGN CURRENCY TRANSACTIONS AND TRANSLATION - Financial information relating to the Company's foreign subsidiary is reported in accordance with Statement of Accounting Financial Standards ("SFAS") No. 52, "Foreign Currency Translation". Income from continuing operations includes a loss from foreign currency transactions of $83,000 in 1999, $11,000 in 1998 and gains of $34,000 in 1997. The functional currency of Tempress is The Netherlands guilder. The gains or losses resulting from the translation of the financial statements of the Company's foreign-based operation have been included as a separate component of shareholders' equity.

INCOME TAXES - The Company files consolidated federal income tax returns and computes deferred income tax assets and liabilities based upon cumulative temporary differences between financial reporting and taxable income, carryforwards available and enacted tax law (see Note 10).

EARNINGS PER COMMON SHARE - The Company utilizes SFAS No. 128, "Earnings Per Share" ("EPS") to calculate basic and diluted EPS (see Note 11).

Effective with the close of business on March 15, 1999, each two shares of the $0.01 par value common stock of the Company were converted and reclassified into one share. All shares and per share amounts have been restated to give effect for this one-for-two reverse stock split. Any fractional shares resulting from the reverse split were rounded to the next highest whole number.

STOCK-BASED COMPENSATION - The Company accounts for its employee stock-based compensation plans under SFAS No.123, "Accounting for Stock-Based Compensation". SFAS No. 123 permits companies to record employee stock-based transactions under Accounting Principles Board Opinion (APB) No. 25, under which no compensation cost is recognized and to disclose the pro forma effects on earnings and earnings per share as if the fair value approach had been adopted. (See Note 12).

USE OF ESTIMATES - The preparation of financial statements in conformity with 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 year. Actual results could differ from those estimates.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

FAIR VALUE OF FINANCIAL INSTRUMENTS - The carrying values of the Company's current assets and current liabilities approximate fair value due to the short-term in which these instruments mature. The carrying value of the Company's long-term debt approximates fair value because the interest rate of the mortgage note payable (see Note 4) approximates prevailing interest rates for similar debt instruments.

ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED - In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133 - "Accounting for Derivative Instruments and Hedging Activities". This statement establishes accounting and reporting standards for derivative instruments, including derivative instruments embedded in other contracts, and for hedging activities. In June 1999, the FASB issued SFAS No. 137 "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of SFAS No. 133". This statement defers the effective date of SFAS No. 133 to the Company's quarter ending December 31, 2000. The Company does not expect the adoption of SFAS Nos. 133 and 137 to have a material impact on its future results of operations or financial position.

(3) PURCHASE OF P. R. HOFFMAN MACHINE PRODUCTS' ASSETS:

On July 1, 1997, the Company acquired substantially all of the assets and operating liabilities of P. R. Hoffman Machine Products Corporation. P. R. Hoffman specializes in the development, manufacture and marketing of double-sided lapping and polishing machines and related consumables used in the manufacture of semiconductor silicon wafers. This acquisition was accounted for under the purchase method of accounting; therefore, the accompanying statements include the results of the operations of P. R. Hoffman since the date of acquisition.

The cost of the acquisition is summarized as follows:

Cash	$2,308,000
Liabilities assumed	382,000
Acquisition transaction costs	270,000
Issuance of 16,194 shares of common stock	65,000
Issuance of 75,000 warrants (see Notes 11 and 12)	167,000
Total cost of acquisition	$3,192,000

The cost of the acquisition was allocated as follows:

Accounts receivable	$1,122,000
Inventory	1,060,000
Property	421,000
Other assets and liabilities	35,000
Goodwill	554,000
Total	$3,192,000

The valuation of the common stock issued in connection with this transaction was determined based on the fair market value of the common stock on the date of issuance, taking into account the illiquidity arising from restrictions on the sale of the stock. The goodwill is being amortized on a straight-line basis over a period of 15 years.

(3) PURCHASE OF P. R. HOFFMAN MACHINE PRODUCTS' ASSETS - (CONTINUED)

In addition to the above purchase price, the former owner of P. R. Hoffman Machine Products Corporation is entitled to additional payments equal to 50% of pretax income of the P. R. Hoffman operation in excess of $800,000 per year for a period of 5 years ending September 30, 2002, limited to a maximum aggregate of $2 million of such payments. The additional contingent purchase price of up to $2 million is payable in a combination of cash and unregistered and registered common stock of the Company, as defined in the Asset Purchase Agreement. This additional consideration will be treated as part of the purchase price to the extent earned and will be amortized over the remainder of the fifteen-year period that began on the July 1, 1997 acquisition date. No contingent consideration was earned in fiscal 1999, 1998 or 1997.

As a part of the transaction, the Company subleases a 21,740 square foot building, located in Carlisle, Pennsylvania, from John R. Krieger, the Company's Director of Corporate Development and former owner of the P. R. Hoffman operation. The lease requires monthly payments of $9,860 on a triple net basis, expires on June 30, 2004, and includes an option to renew the lease for five successive one-year terms. Monthly lease payments increase to $10,300, $10,700, $10,810 and $10,860 on July 1, 2000, 2001, 2002 and 2003, respectively. The Company also entered into an employment agreement with Mr. Krieger, which requires payments of $150,000 per year and expires on June 30, 2001.

The following unaudited consolidated pro forma financial information was prepared assuming that the acquisition had occurred at the beginning of fiscal 1997. This unaudited pro forma information does not necessarily reflect the results of operations that would have occurred had the acquisition taken place at the beginning of the fiscal year and is not necessarily indicative of results that may be obtained in the future.

	1997
Revenues	$16,121,577
Income from continuing operations	575,069
Net income	575,069
Earnings per share:	
Income from continuing operations	$ .22
Net income	$ .22

For purposes of the above unaudited pro forma presentation, the historical revenues and earnings of P.R. Hoffman for the twelve month period ended September 30, 1997 have been combined with the revenues and earnings of the Company for the year ended September 30, 1997.

(4) LONG-TERM OBLIGATIONS:

Long-term debt included in long-term obligations includes a twenty year mortgage secured by the Company's land and building located in The Netherlands. The non-current portion of the long-term debt was $185,000 and $215,000 as of September 30, 1999 and 1998, respectively. As of September 30, 1999, the collateral has a carrying value of $348,000. Principal payments of $13,000 per year are payable in The Netherlands guilder in 240 equal monthly payments, with the payments for fiscal 2000 included in accounts payable as of September 30, 1999. Interest is fixed at 6.95% through June 2001, after which the rate will be adjusted to the prevailing market rate. There is a penalty for prepayment of the loan prior to June 2001.

In October 1998, the Company was granted a line of credit in the amount of approximately $375,000, the equivalent of 750,000 of The Netherlands' guilders at an interest rate of 2% over a Netherlands bank's basic interest rate, 3.5% as of September 30, 1999. The line of credit is secured by a $125,000 second lien on the Company's land and building in the Netherlands, and certain accounts receivable, which amounted to $819,000 as of September 30, 1999.

(5) COMMITMENTS AND CONTINGENCIES:

Key suppliers include two (2) steel mills, one domestic and one German, capable of meeting the material specification the Company requires; an injection molder that provides plastic insets for steel carriers; a pad supplier that produces a unique material used to attach semiconductor wafers to the polishing template (sole sourced from a Japanese company); and an adhesive manufacturer that supplies the critical glue used in the production of the semiconductor polishing templates. As of September 30, 1999, the Company has unconditional commitments to purchase $190,000 of steel. Due to long lead-times, certain minimum order quantities and quantities of similar steel in inventory, it could take several years to use all of the steel commitments in production of the Company's products. However, these purchase commitments are not expected to result in any significant losses.

The Company has engaged an investment banker to assist it in identifying potential acquisition candidates and to assist with financing transactions. Upon closing any transaction(s) initiated prior to August 17, 2000 with proceeds and/or aggregate consideration equal to $1 million or more in which the investment banker has earned a contingent fee, the Company will issue to the investment banker 100,000 five year warrants to purchase the Company's common stock at an exercise price of $2.625 per share exercisable on the later of the date of issuance or August 16, 2000.

(6) MAJOR CUSTOMERS AND FOREIGN SALES:

The Company had major customers accounting for more than 10% of sales, which were different in each of the three years presented, as follows:

	1999	1998	1997
Customer 1	--	--	16%
Customer 2	--	--	16%
Customer 3	--	12%	--
Customer 4	--	12%	--
Customer 5	14%	--	--
	14%	24%	32%

(6) MAJOR CUSTOMERS AND FOREIGN SALES - (CONTINUED)

Receivables from the one customer comprise 16% of accounts receivable at September 30, 1999. Receivables from three customers comprised 43% of accounts receivable at September 30, 1998, representing a concentration of credit risk as defined by SFAS No. 105, "Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk".

The Company's sales were to customers in the following geographic regions:

	1999	1998	1997
United States & Canada (including 1% or less to Central and South America)	59%	55%	38%
Far East (Korea, People's Republic of China, Taiwan, Japan, Singapore, Indonesia, Malaysia and India)	5	8	27
Europe (including 1% or less to Israel and Africa)	29	31	35
Australia	7	6	--
	100%	100%	100%

(7) BUSINESS SEGMENT INFORMATION:

The Company classifies its products into two core business segments: (1) the semiconductor production equipment segment which designs, manufactures and markets semiconductor wafer processing equipment used in the fabrication of integrated circuits, and (2) the polishing supplies and equipment segment, which 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 the Company's business segments in 1999, 1998, and 1997 is as follows:

	1999	1998	1997
Revenues			
Semiconductor production equipment	$ 8,852,590	$10,266,265	$ 9,488,530
Polishing supplies and equipment	5,913,485	5,947,639	1,622,612
	$14,766,075	$16,213,904	$11,111,142
Operating profit (loss)			
Semiconductor production equipment	$ 281,789	$ (985,614)	$ (22,712)
Polishing supplies and equipment	285,987	81,280	238,132
Total segment operating profit	567,776	(904,334)	215,420
Interest income - net	34,531	54,447	162,289
Income (loss) before income taxes	$ 602,307	$ (849,887)	$ 377,709

(7) BUSINESS SEGMENT INFORMATION - (CONTINUED)

	1999	1998	1997
Identifiable assets			
Semiconductor production equipment	$5,236,460	$6,319,875	
Polishing supplies and equipment	3,508,098	3,005,604	
	$8,744,558	$9,325,479	
Capital expenditures			
Semiconductor production equipment	$ 90,036	$ 255,478	$ 236,652
Polishing supplies and equipment	68,196	55,484	--
	$ 158,232	$ 310,962	$ 236,652
Depreciation and amortization expense			
Semiconductor production equipment	$ 201,785	$ 259,117	$ 212,887
Polishing supplies and equipment	110,586	101,929	21,051
	$ 312,371	$ 361,046	$ 233,938

The Company has manufacturing operations in the United States and The Netherlands. Revenues, operating profit (loss) and identifiable assets by geographic region of the locations for the fiscal years ended 1999, 1998 and 1997 are as follows:

	1999	1998	1997
Revenues			
United States	$ 9,307,085	$ 10,481,408	$ 5,321,240
The Netherlands	5,458,990	5,732,496	5,789,902
	$ 14,766,075	$ 16,213,904	$ 11,111,142
Operating profit (loss)			
United States	$ 610,381	$ (376,754)	$ (146,742)
The Netherlands	(42,605)	(527,580)	362,162
	$ 567,776	$ (904,334)	$ 215,420
Identifiable assets			
United States	$ 6,528,205	$ 5,855,188	
The Netherlands	2,216,353	3,470,291	
	$ 8,744,558	$ 9,325,479	

(8) LEASES:

The Company leases buildings, vehicles and equipment. As of September 30, 1999 minimum rental commitments under noncancellable operating leases total $735,000, of which $193,000, $180,000, $134,000, $130,000 and $98,000 are payable in fiscal years 2000, 2001, 2002, 2003 and 2004, respectively.

Rental expense related to continuing operations, net of sublease income, for 1999, 1998 and 1997 was approximately $231,000, $234,000 and $98,000, respectively.

(9) PROPRIETARY PRODUCT RIGHTS:

The Company acquired the proprietary product rights to Atmoscan in 1983, which provides an improved method for the automatic loading of silicon wafers into diffusion furnaces. The Company has agreed to pay the inventor royalties for 17 years until November 22, 2000. Royalties are 4% on sales of complete Atmoscan systems and 2% on any related spare parts.

Through the acquisition of the net assets of P. R. Hoffman Machine Products Corporation (see Note 3), the Company acquired the license for the design of its steel carriers with plastic inserts for abrasive machining of silicon wafers. In 1995, P. R. Hoffman Machine Products Corporation licensed the patent rights from Wacker Siltronics. Royalties are 5% on net sales of insert carriers to third parties.

Royalty expense included in cost of product sales totaled approximately $73,000, $82,000 and $44,000 in 1999, 1998 and 1997, respectively.

(10) INCOME TAXES:

The provision for (benefit from) income taxes on continuing operations consists of:

	1999	1998	1997
Current			
Domestic federal	$ 250,000	$ (28,000)	$ (32,000)
Foreign	(25,000)	(133,000)	202,000
Domestic State	43,000	21,000	20,000
	268,000	(140,000)	190,000
Deferred			
Domestic federal	(31,000)	(70,000)	(125,000)
Foreign	13,000	(45,000)	77,000
Domestic State	(10,000)	(5,000)	(2,000)
	(28,000)	(120,000)	(50,000)
	$ 240,000	$(260,000)	$ 140,000

The provision for income taxes on continuing operations is different from the amount that would be computed by applying the United States corporate income tax rate to the income (loss) from continuing operations before income taxes. The differences as of September 30 are summarized as follows:

	1999	1998	1997
Provision (benefit) at the federal rate	$ 205,000	$(289,000)	$ 128,000
Effect of expenses not deductible for tax	15,000	19,000	19,000
State tax provision	42,000	(38,000)	23,000
Effect of losses of Korean joint venture	--	--	(22,000)
Change in valuation allowance	(22,000)	54,000	3,000
Other items	--	(6,000)	(11,000)
Income tax provision (benefit)	$ 240,000	$(260,000)	$ 140,000

10) INCOME TAXES - (CONTINUED)

The tax assets (liabilities) comprising the net deferred tax asset as of September 30, 1999 and 1998 are as follows:

	1999	1998

Allowance for doubtful accounts	$ 56,000	$ 54,000
Uniform capitalization of inventory costs	58,000	50,000
Inventory write-downs not currently deductible	125,000	71,000
Book vs. tax depreciation	7,000	(27,000)
Unrealized currency losses (gains)	(4,000)	35,000
State net operating loss carryforwards	50,000	72,000
Liabilities not currently deductible	222,000	253,000
Valuation allowance	(93,000)	(115,000)
	$ 421,000	$ 393,000

In evaluating the probability of realizing its deferred tax assets, the Company has limited its recognition of deferred tax assets to those tax assets which management believes are more likely than not to be realized. The remaining deferred tax assets have been offset by the valuation allowance.

(11) EARNINGS (LOSS) PER SHARE:

All EPS data presented have been restated as required by SFAS No. 128. EPS were calculated as follows:

	1999	1998	1997
Net income (loss)	$ 362,307	$ (589,887)	$ 237,709
Weighted average Shares outstanding:			
Common stock	2,109,815	2,106,741	2,084,055
Common stock equivalents issuable Upon exercise of warrants And stock options (1)	79,386	--	264,916
	2,189,201	2,106,741	2,348,971
Earnings (Loss) Per Share:			
Basic	$ .17	$ (.28)	$ .11
Diluted	$ .17	$ (.28)	$ .10

- ----------

(1) Number of common stock equivalents calculated using the treasury stock method and the average market price during the period. Options and warrants on 1,492,500 shares had an exercise price greater than the average market price during the year ended September 30, 1999 and therefore did not enter into the EPS calculation. In fiscal 1998 all options and warrants, totaling 1,685,792, were anti-dilutive due to the net loss and therefore did not enter into the EPS calculation. Of these options and warrants, 1,645,792 had an exercise price greater than the average market price during fiscal 1998.

(12) STOCK BASED COMPENSATION:

STOCK WARRANTS - In fiscal 1995, the Company issued an aggregate of 1,312,500 redeemable warrants to the public (1,207,500) and the underwriter (105,000) in connection with a secondary public offering, which have an exercise price of $5.50 per share and expire on December 15, 1999. The redeemable warrants are subject to the Company's right of redemption, under certain circumstances, at $.05 each during the period in which they are exercisable. On December 15, 1999, the Company's Board of Directors extended the expiration date of the publicly traded redeemable warrants to January 14, 2000.

In connection with the acquisition of the net assets of P.R. Hoffman Machine Products Corporation during fiscal 1997, the Company issued 75,000 warrants to purchase one share each of $.01 par value common stock at a per share exercise price of $6.00. These warrants have been valued at $167,000 using the Black-Scholes valuation method. The primary assumptions used in the valuation of these warrants were a risk free rate of 6.29%, expected dividend yield of 0%, average holding period of 2.5 years, and 69% volatility. The value of these warrants has been included in the acquisition cost associated with the purchase of the P. R. Hoffman net assets.

STOCK OPTION PLANS - The board of directors has reserved 25,000 shares of common stock for issuance upon exercise of the outstanding options issued to employees under the 1983 Incentive Stock Option Plan, which expired in 1993. Another 15,000 shares of common stock are reserved for the exercise of stock purchase rights granted to directors under Director Stock Purchase Agreements prior to 1996. The Non-Employee Directors Stock Option Plan was approved by the stockholders in 1996 for the issuance of up to 100,000 shares of common stock to directors. The Amended and Restated 1995 Stock Option Plan and the 1995 Stock Bonus Plan were also approved by stockholders in 1996 under which a combined total of 160,000 shares were authorized. The 1998 Employee Stock Option Plan, under which 50,000 shares may be granted, was adopted by the board of director on January 31, 1998 and approved by shareholders on March 20, 1998. All of the plans with the exception of the 1983 Incentive Stock Option Plan expire in 2006. Qualified stock options issued under the terms of the plans have or will have an exercise price equal to or greater than the fair market value of the common stock at the date of the option grant and expire no later than 10 years from the date of grant, with the most recent grant expiring February 28, 2008. Under the terms of the 1995 Stock Option Plan, nonqualified stock options may also be issued. Options issued in fiscal years 1999, 1998 and 1997 vest at the rate of 20% - 33% per year. Shares granted under the 1995 Stock Bonus Plan totaled 25,000 in 1995 and 4,250 in 1996, of which 6,000 were forfeited in 1996. As of September 30, 1999, the Company had 100,500 options available for issuance under the plans.

The stock option transactions and the options outstanding for the three years ended September 30, 1999, are summarized as follows:

	Number of Options	Weighted-Average Exercise Price
Outstanding at September 30,1996	66,500	$2.64
Granted	141,042	5.00
Exercised	(13,500)	2.14
Expired	(3,000)	3.26
Outstanding at September 30,1997	191,042	4.34
Granted	27,000	4.66
Exercised	(9,000)	1.80
Expired or forfeited	(16,750)	4.46
Outstanding at September 30,1998	192,292	4.52
Granted	41,500	1.38
Exercised	--	--
Expired or forfeited	(6,500)	1.13
Outstanding at September 30,1999	227,292	1.17
Outstanding options exercisable as of:		
September 30, 1997	25,000	2.90
September 30, 1998	49,000	4.74
September 30, 1999	72,000	1.13

In fiscal 1999, 1998 and 1997 the number of incentive stock options issued to employees, net of forfeitures, were 26,000, 3,500 and 132,000 respectively, and they were valued at $54,000, $17,000 and $440,000 respectively, using the Black-Scholes valuation method. On October 14, 1998, the Company re-priced all stock options outstanding as of that date to the closing market price on that date of $1.13 per share. Vesting schedules and expiration dates remain unchanged. In accordance with APB No. 25, "Accounting for Stock Issued to Employees", the Company is not required to record compensation expense related to this re-pricing and no such expense has been recorded in these financial statements. The incremental value attributed to the re-pricing of the stock options was $58,000. The primary assumptions used in the valuations were a weighted average risk free rates of 4.33% to 6.23%, an expected dividend yield of 0%, holding periods of three to eight years and volatility of 63% to 86%. No adjustment has been made for the non-transferability of the options or for the risk of forfeiture at the time of issuance. Forfeitures are instead recorded as incurred.

Had the effects of stock-based compensation been accounted for in the financial statements for fiscal 1999, the net income would have been approximately $232,000 and the basic and diluted earnings per share would have been $.11. Had the effects of stock-based compensation been accounted for in the financial statements for fiscal 1998, the net loss would have been approximately $681,000 and the basic and diluted loss per share would have been $.32. Had the effects of stock-based compensation been accounted for in the financial statements for fiscal 1997, the net income would have been approximately $187,000 and the basic and diluted earnings per share would have been $.08.

As of September 30, 1999 the Company's 227,292 outstanding stock options had a weighted average remaining contractual life of 7.1 years and a range of exercise prices of $1.13 to $1.50. In addition, as of September 30, 1999 the Company had 72,000 of exercisable stock options with a weighted average remaining contractual life of 7.1 years all at an exercise price of $1.13.

(13) KOREAN JOINT VENTURE:

In the first quarter of fiscal 1996, the Company entered into a joint venture agreement pursuant to which the Company received a 45% ownership interest and a 50% voting interest in Seil Semicon, Inc., (the "JVC"), in return for a commitment to invest $500,000 in cash. The joint venturers planned to operate a silicon test wafer reclaiming business in Korea through Seil Semicon, Inc., which remains in the start-up phase. Pursuant to that agreement, the Company invested $425,000 and expensed $65,000 of that amount as its share of the start-up losses. The joint venture succeeded in acquiring real property for construction of the reclamation facility and in securing $3 million in third party financing. However, a review during the fourth quarter of fiscal 1996 led the Company to negotiate the sale of its interest in the joint venture. The Company received $478,000 during December 1996, pursuant to the termination agreement, which reimbursed the Company's actual investment and expenses.

(14) SHAREHOLDER RIGHTS PLAN:

During May 1999, the Company's Board of Directors adopted a shareholder rights plan, which authorized the distribution of one right for each outstanding common share to purchase one one-hundredth of a share of Series A Participating Preferred Stock, at a purchase price of $8.50, subject to certain antidilution adjustments. The rights will expire 10 years after issuance and will be exercisable if (a) a person or group becomes the beneficial owner of 15% or more of the Company's common stock or (b) a person or group commences a tender or exchange offer that would result in the offeror beneficially owning 15% or more of the common stock (a "Stock Acquisition Date"). If a Stock Acquisition Date occurs, each right, unless redeemed by the Company at $.01 per right, entitles the holder to purchase an amount of common stock of the Company, or in certain circumstances a combination of securities and/or assets or the common stock of the acquirer, having an equivalent market value of $17.00 per right at a purchase price of $8.50. Rights held by the acquiring person or group will become void and will not be exercisable.

AMTECH SYSTEMS, INC. AND SUBSIDIARIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED SEPTEMBER 30, 1999, 1998 AND 1997

<TABLE>
<CAPTION>

	For the Year Ended September 30,	Balance at Beginning of Year	Charged (credited) to Expense	Write-offs	Balance at End of Year
<S>	<C>	<C>	<C>	<C>	<C>
1. Allowance for Doubtful Accounts:					
	1999	$143,000	$ 29,144	$32,144	$140,000
	1998	130,000	25,198	12,198	143,000
	1997	90,000	42,960	2,960	130,000
2. Deferred Tax Valuation Allowance					
	1999	$115,000	$(22,000)	$ --	$93,000
	1998	61,000	54,000	--	115,000
	1997	58,000	3,000	--	61,000

</TABLE>

PART III

Pursuant to Paragraph G(3) of the General Instructions to Form 10-K, portions of the information required by Part III of Form 10-K are incorporated by reference from the Company's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the 2000 Annual Meeting of Stockholders (the "Proxy Statement").

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item is incorporated by reference to the Company's Proxy Statement.

ITEM 10. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to the Company's Proxy Statement.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is incorporated by reference to the Company's Proxy Statement.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is incorporated by reference to the Company's Proxy Statement.

PART IV

ITEM 13. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) FINANCIAL STATEMENTS.

The following is a list of all financial statements filed as a part of this Report:

1. Consolidated Balance Sheets - September 30, 1999 and 1998

2. Consolidated Statements of Operations for the years ended September 30, 1999, 1998 and 1997

3. Consolidated Statements of Stockholders' Equity for the years ended September 30, 1999, 1998 and 1997

4. Consolidated Statements of Cash Flows for the years ended September 30, 1999, 1998 and 1997

5. Notes to Consolidated Financial Statements - September 30, 1999, 1998 and 1997

(b) FINANCIAL STATEMENT SCHEDULES

The following is a list of a financial statement schedule required to be filed as a part of this Report:

1. Schedule II - Valuation and Qualifying Accounts

All schedules other than the Schedule listed above are omitted as the information is not required, is not material or is otherwise furnished.

(c) EXHIBITS.

Exhibit No.	Description	Method of Filing
3.1	Articles of Incorporation	A
3.2	Articles of Amendment to Articles of Incorporation, dated April 27, 1983	A
3.3	Articles of Amendment to Articles of Incorporation, dated May 19, 1987	B
3.4	Articles of Amendment to Articles of Incorporation, dated May 2, 1988	C
3.5	Articles of Amendment to Articles of Incorporation, dated May 28, 1993	F
3.6	Amended and Restated Bylaws	D
4.1	Rights Agreement dated May 17, 1999	M
10.1	Amended and Restated 1995 Stock Option Plan	H
10.2	1995 Stock Bonus Plan	H
10.3	Non-Employee Director Stock Option Plan	I
10.4	Employment Agreement with Robert T. Hass, dated May 19, 1992	E
10.5	Registration Rights Agreement with J.S. Whang, dated January 24, 1994	F
10.6	Employment Agreement with J.S. Whang, dated February 28, 1997	K
10.7	Contract of Sale (Real Property) dated June 21, 1996 between Tempress Systems, Inc. and Orgelmakerij Gedr. Rell B.V.	G

10.8	Employment Agreement, dated July 1, 1997, between the Registrant and John R. Krieger	J
10.9	Registration Rights Agreement, dated July 1, 1997, between the Registrant and John R. Krieger	J
10.10	Asset Purchase Agreement, dated July 1, 1997, among the Registrant, P.R. Hoffman Machines Corporation and John R. Krieger	J
10.11	1998 Employee Stock Option Plan	L
10.12	Amendment to Employment Agreement, dated 1999, between the Registrant and John R. Krieger	*
10.13	Sublease Agreement, dated July 1, 1999, between the Registrant and John R. Krieger	*

Exhibit No.	Description	Method of Filing
21	Subsidiaries of the Registrant	N
23	Consent of Independent Public Accountant	*
24	Powers of Attorney	See Signature Page
27	Financial Data Schedule	*

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* Filed herewith.

A Incorporated by reference to the Company's Form S-18 Registration Statement No. 2-83934-LA.

B Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1987.

C Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1988.

D Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1991.

E Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1993.

F Incorporated by reference to the Company's Form S-1 Registration Statement No. 33-77368.

G Incorporated by reference to the Company's Form S-3 Registration Statement No. 333-09917.

H Incorporated by reference to Company's Form S-8 Registration Statement relating to the Amended and Restated 1995 Stock Option Plan and the 1995 Stock Bonus Plan filed with the Securities and Exchange Commission on September 9, 1997.

I Incorporated by reference to Company's Form S-8 Registration Statement relating to the Non-Employee Directors Stock Option Plan filed with the Securities and Exchange Commission on August 8, 1996.

J Incorporated by reference to the Company's Current Report on Form 8-K, dated July 1, 1997.

K Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997.

L Incorporated by reference to the Company's Proxy Statement for shareholders meeting held on March 20, 1998.

M Incorporated by reference to the Company's Current Report on Form 8-K, dated May 17,1999.

N Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1997.

(d) Reports on Form 8-K

The Company filed a Form 8-K on May 28, 1999, disclosing the adoption of a rights agreement dated May 17, 1999, between Amtech Systems, Inc. and American Securities Transfer & Trust, Inc.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AMTECH SYSTEMS, INC.

December 23, 1999

By: /s/ Jong S. Whang

Jong S. Whang, President

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints JONG S. WHANG and ROBERT T. HASS, and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Form 10-K Annual Report, and to file the same, with all exhibits thereto, and other documents in connection therewith with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully and to all intents and purposes as he might or could do in person hereby ratifying and confirming all that said attorneys-in-fact and agents, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report on Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Jong S. Whang Jong S. Whang	Chairman of the Board, President (Chief Executive Officer)	December 23, 1999
/s/ Robert T. Hass Robert T. Hass	Vice President-Finance (Chief Financial & Accounting Officer)	December 23, 1999
/s/ Donald F. Johnston Donald F. Johnston	Director	December 23, 1999
/s/ Alvin Katz Alvin Katz	Director	December 23, 1999
/s/ Bruce R. Thaw Bruce R. Thaw	Director	December 23, 1999

AMENDMENT TO EMPLOYMENT AGREEMENT

Whereas, Amtech Systems, Inc. ("Employer) and John R. Krieger ("Employee") entered into an Employment Agreement (the "Agreement") dated July 1, 1997; and

Whereas, Employer and Employee now desire to modify the Agreement pursuant to Paragraph 2.19 thereof, and to enter into this Amendment to Employment Agreement ("Agreement");

The parties hereto therefore agree to the following modifications to the Agreement, to be effective as of the date set forth below; with all unmodified portions of the Agreement to remain in full force and effect as written:

1. Paragraph 2.4 of the Agreement is hereby deleted and replaced by the following:

2.4 Employee's duties for Employer will be determined based upon the mutual agreement of Employee and Employer, through its President or the Chairman of its Board of Directors, as they may agree from time to time. Employee shall devote his time, attention, skills and energies to complete the mutually agreed upon assignments in a professional and timely manner and shall serve Employer faithfully, diligently and to the best of his ability. Employee's assignments shall be primarily in the areas of corporate development, and he will not have direct line responsibility for P.R. Hoffman Machine Products, Inc., but may have responsibility for specific assignments related to P.R. Hoffman as agreed upon pursuant to this paragraph. Employee will initially be principally located in Dillsburg, Pennsylvania, and will transition to residence in Prescott, Arizona on a schedule to be determined by him. While in Arizona, and working on assignments for Employer, Employee may be required to report to Employer's corporate offices in Tempe, Arizona no more than three days per week. Employee will be responsible for all travel expenses between Prescott, Arizona and Employer's corporate offices in Tempe, Arizona, and will not be reimbursed for such expenses. Employer shall not hold the position of Director of Employer or any of its subsidiaries and agrees immediately to resign, and hereby does resign, as President and Director of P.R. Hoffman Machine Products, Inc.

2. Employer will not furnish Employee with a car or pay any expenses associated with a leased vehicle.

3. Employer will include Employee in its Pennsylvania payroll until such time as Employee notifies Employer in writing that he has relocated to Arizona. Beginning at the time of receipt of such notice, Employer will include Employee in its Arizona payroll. Employer is entitled to rely upon the notice from Employee as to the date of change in his state of his residence. Employee will indemnify, defend, and hold harmless Employer from and against any claims by any state or local taxing authority arising out of the inclusion of Employee on either Employer's Pennsylvania payroll or Employer's Arizona payroll.

4. Paragraph 2.6(b) of the Agreement and the last two sentences of Paragraph 2.7 of the Agreement are hereby deleted and are replaced by the following:

2.6(b) Employee shall be entitled to participate in any group benefit, insurance or pension plan to the same extent as similarly situated employees in Pennsylvania or, after he designates his relocation, in Arizona. Employee will not accrue or be entitled to any paid vacation or holidays and shall not be paid any vacation or holiday pay at any time regardless of the number of hours worked.

5. Employer will reimburse Employee for long distance telephone charges in connection with Employer business, including but not limited to charges for calls between Prescott, Arizona and Tempe, Arizona, subject to his furnishing appropriate documentation as required by Paragraph 2.7 of the Agreement.

6. Employer will provide Employee with a desktop computer with an approximate value of $1,500 for Employee's use at his residence in either Pennsylvania or Arizona, which computer will be owned by Employer and returned to Employer upon termination of the Agreement.

7. Paragraph 2.21 of the Agreement is amended by substituting "Arizona" for "Pennsylvania" in the second line thereof.

8. Paragraph 2.18 of the Agreement is amended by inserting "as amended herein" between "Agreement" and "constitutes" in the first line.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment this 21st day of January, 1999.

Amtech Systems, Inc.

By /s/ Robert T. Hass

Its Vice President-Finance

/s/ John R. Krieger

John R. Krieger

LEASE AGREEMENT

THIS LEASE, is made as of this 1ST day JULY , 1999, by and between PRH PROPERTIES, LP, a Pennsylvania limited partnership (hereinafter "Landlord"), and P.R. HOFFMAN MACHINE PRODUCTS, INC., an Arizona corporation (hereinafter "Tenant").

1. PREMISES. Landlord hereby leases to Tenant and Tenant hereby leases from Landlord that certain real property containing approximately 2.35 acres (hereinafter "Premises"), together with all improvements located thereon and appurtenances thereunto belonging, located on Commerce Drive, South Middleton Township, Cumberland County, Pennsylvania.

2. TERM. The initial term of this Lease shall be for a period of five (5) years and shall commence on the 1st day of July 1999 (hereinafter "Commencement Date") and ending June 30, 2004, unless sooner terminated in accordance with this Lease. Tenant shall have the right and option to renew the term for five (5) successive, additional periods of one (1) year each; provided however, that Tenant shall have no right or option to renew the term of this Lease if an event of default exists upon the date of giving the notice to renew or at any time thereafter through and including the expiration date of the then-existing term of this Lease. In order to exercise its right to renew the, Tenant must provide Landlord written notice of its exercise thereof at least ninety (90) days prior to the expiration of the then-existing term of this Lease. The maxim term of this Lease and all renewal terms is ten (10) years from the Commencement Date.

3. USE. The Premises shall be used by Tenant as an office, manufacturing and warehouse facility and for no other purpose.

4. RENTAL. (a) Tenant shall pay to Landlord during the initial term of this Lease monthly rent in accordance with the table below. All rent shall be payable in advance, punctually and without demand, deduction or set off, payable on the 1st day of each month during the term of this Lease at such place as Landlord may from time to time designate in writing. The amount of

ANNUAL AND MONTHLY RENTAL TABLE FOR INITIAL TERM:

COMMENCING ON:	ANNUAL RENT	MONTHLY RENT
7/1/1999	$118,200	$ 9,860
7/1/2000	$123,600	$10,300
7/1/2001	$128,400	$10,700
7/1/2002	$129,720	$10,810
7/1/2003	$130,320	$10,860

(b) If notice of renewal has been given in accordance with Section 2 of this Lease, then at the beginning of each year following the expiration of the initial and each renewal term (a "Renewal Year"), the monthly rent shall be adjusted by the index known as the U.S. City Average Consumer Price Index for Urban Wage Earners and Clerical Workers (revised series; 1982-84=100) issued from time to time by the Federal Bureau of Labor Statistics, or any successor agency that shall issue the index, or any other measure hereafter employed by the Federal Bureau of Labor Statistics or any successor agency in lieu of such index (the "CPI"). The CPI adjustment to the monthly rent shall be exactly equal to the change is cost of living as determined by the CPI; PROVIDED, however, that in no event shall the CPI adjustment to the monthly rent exceed five percent (5%) for any Renewal Year. To compute such CPI adjustment, the prevailing CPI will be used. Each such CPI adjustment to the monthly rent shall be accomplished by multiplying the monthly rent for the lease year terminating immediately prior to the Renewal Year, for which the adjustment is being calculated, by a fraction, the numerator of which shall be the most recently published CPI prior to the first day of the Renewal Year in question and the denominator of which shall be the CPI used as the numerator in calculation of the rent adjustment in the previous Renewal Year (but in no event shall the monthly rent be reduced as a result of such adjustment below the monthly rent payable immediately prior thereto), and the increased monthly rent resulting from the CPI adjustment to the monthly rent thereby established shall continue in effect as the monthly rent until again adjusted as provided herein. In computing the monthly rent for the first Renewal Year, the denominator of the fraction described above shall be the most recently published CPI prior to July 1, 2003.

5. LATE CHARGE. If Tenant fails to make any rental or other payment within ten (10) days of the date it is due hereunder, a late charge equal to five percent (5%) of the amount of the payment due shall be assessed and shall be immediately due and collectible as additional rent hereunder.

6. COMPLIANCE WITH LAWS AND CONDITION OF PREMISE. Tenant shall comply with all laws, ordinances, orders, permits, licenses, regulations of all governmental authorities (whether federal, state, local or otherwise) and insurance requirements concerning the Premises and any fixtures, machinery or equipment therein, and Tenant's use of the Premises, including, without limitation, all laws regarding public health and welfare, environmental protection, water and

air pollution, composition of products, underground storage tanks, toxic substances, hazardous wastes, hazardous substances, hazardous materials, waste or used oil, occupational health and safety and/.or nuisance, trespass and negligence. Tenant has examined and knows the condition of the Premises and equipment, and acknowledges that no representations as to the condition and repair thereof have been made by Landlord or its agents prior to or at the execution of this Lease Agreement that are not herein expressed, and accepts the Premises and equipment in an "as is" condition without warranty as to suitability for any particular use; provided, however, that in no event shall this Section 6 be construed to contradict Landlord's indemnification obligations with respect to environmental matters set forth in Section 30 hereof or Landlord's representations and warranties and indemnification obligations set forth in that certain Asset Purchase Agreement dated July 1, 1997.

7. UTILITIES. The Premises shall be served by electricity, water, sewer, telephone and other utilities presently available to the Premises. Tenant shall pay for all such services consumed on the Premises. Landlord shall not be responsible for any suspension in such services resulting from causes beyond its control or for temporary periods during which repairs are being made to the Premises.

8. REAL ESTATE TAXES AND ASSESSMENTS. Landlord shall provide to Tenant, within ten (10) business days after receipt, all notices of real estate taxes, and general and special assessments (including sewer and water rentals and charges, trash, street lights, and the like) assessed against the Premises. Tenant agrees to pay, within the applicable discount period, all said real estate taxes and assessments.

If the Tenant fails to pay such real estate taxes or assessments and other charges which it is obligated to pay pursuant to this paragraph within the aforesaid period of ten (10) business days after receipt, the Landlord may, but shall not be obligated to, pay such real estate taxes, assessments and charges, as the case may be, together with the interest and penalties thereon, and the amount so paid shall be considered additional rent due and in arrears.

9. PERSONAL PROPERTY TAXES. Tenant shall pay before delinquency, all taxes, assessments, license fees, and other charges that are levied and assessed against personal property or fixtures installed or located in or on the Premises, and that are payable during the term of this Lease.

10. MAINTENANCE AND REPAIRS. Tenant, at its own cost, shall maintain the Premises (including the roof, structural and mechanical components of the improvements located on the Premises, and the adjoining walks and grounds) and any fixtures, machinery or equipment thereon in good condition. Tenant shall be responsible for the cost of any janitorial services needed for the Premises. Landlord shall not have any responsibility to maintain the Premises. Upon expiration or termination of the term, Tenant shall return the Premises to the Landlord in as good condition and repair as existed on the commencement date of the term, ordinary wear and tear along excepted.

11. GROUND MAINTENANCE. Tenant, at its own cost, shall maintain the grounds of the Premises, including but not limited to snow and ice removal, landscaping, mowing and any other maintenance necessary to preserve the ground of the Premises in the condition as of the Commencement Date. Upon expiration or termination of the term of this Lease, Tenant shall return the grounds of the Premises to Landlord in as good condition as existed on the Commencement Date.

12. STRUCTURAL ALTERATIONS. Tenant shall not make any structural or exterior alterations to the Premises without Landlord's prior written consent, which consent shall not be unreasonably withheld or delayed.

13. NONSTRUCTURAL ALTERATIONS AND FIXTURES. Tenant, at its cost, after obtaining Landlord's prior written consent, which consent may not be unreasonably withheld or delayed, may make nonstructural alterations to the interior of improvements located on the Premises and may place and attach such equipment, machinery and fixtures therein as Tenant requires in order to conduct its business on the Premises. In making any alterations, etc., Tenant shall comply with the following:

(a). Unless waived in writing by Landlord, Tenant shall submit reasonably detailed plans and specifications of the proposed alterations or placing of fixtures, machinery or equipment to Landlord at least fifteen (15) days prior to the date it intends to commence the alterations or fixturing.

(b). The alterations and fixturing, etc., shall be approved by all appropriate government agencies, and all applicable permits and authorizations shall be obtained before commencement of the work.

Any alterations made shall remain on and be surrendered with the Premises on expiration or termination of the term, except that Landlord may elect to require Tenant, at Tenant's cost, to remove any nonstructural alterations and fixtures that Tenant has made to the Premises, and Tenant shall restore the Premises to as good condition as existed at the commencement of the term, normal wear and tear excepted.

If Tenant is not then in default of any provision of the Lease, Tenant shall have the right to remove from the Premises immediately prior to the expiration of the term any and all equipment, machinery and fixtures which Tenant has placed or attached in or to the Premises (and at Landlord's option, Landlord may require Tenant to remove same), and such removal shall be done in a manner that will not cause any structural damage to the Premises, and Tenant shall promptly restore any damage caused by such removal.

14. MECHANICS' LIENS. Tenant will not permit any mechanics' claim or lien to be placed upon the Premises or any building or improvement constituting a part thereof during the term of this Lease, and in case of the filing of any such claim or lien, Tenant will promptly discharge same or procure a lien release bond by a good and sufficient surety corporation in an amount equal to one and one-half times the amount of the claim or lien. If a default in the discharge thereof or procuring of a bond shall continue for thirty (30) days after written notice from Landlord to the Tenant, the Landlord shall have the right and privilege at Landlord's option of paying the same or any portion thereof without inquiry as to the validity thereof, and any amounts so paid, including expenses and interest shall be deemed additional rental due and payable by Tenant to Landlord.

15. INDEMNITY. Tenant shall indemnity and hold Landlord harmless from all claims and liability, including reasonable attorneys' fees and related costs and expenses, arising out of any damage or injury to or death of any person or property occurring in, on or about the Premises, or resulting from any act or omission of Tenant, unless such liability arises from the negligence of Landlord.

16. INSURANCE. Tenant shall, at its sole cost and expense, maintain fire insurance coverage with all-risk endorsements on the improvements located on the Premises in an amount equal to the full replacement cost of the said improvements. In addition, Tenant shall maintain casualty insurance on its personal property, but in any event, all personal property of any kind or description of Tenant on the Premises shall be at tenant's sole risk, and Landlord shall not be liable for any damage done to or loss of such personal property or damage or loss suffered by the business of Tenant arising out of any act or neglect of other occupants of the building located on the Premises, or other parties, or from bursting, overflowing or leaking of water, sewer or steam pipes or from heating or plumbing fixtures or from electric wires of equipment, or from gas or odors, or caused in any manner whatsoever except in the case of the intentional neglect of Landlord.

Tenant shall procure and maintain, throughout the term of this Lease Agreement, general liability insurance, insuring against injury or death to persons occurring in or about the Premises and the improvements located thereon.

Tenant agrees to release, indemnify and hold harmless Landlord from and against any and all costs, losses, damages, claims and liabilities, including reasonable attorneys' fees, arising out of or attributable to the condition, use, operation or maintenance of the Premises and any improvements or buildings located thereon, or arising out of or based upon any injury (including death) to any person, or damage to any property, occurring in, on or about the Premises, and any improvements or buildings thereon, or resulting from any act or admission of the Tenant. The aforesaid general liability insurance, shall, in addition, insure performance by the Tenant of the indemnity provisions provided above.

Tenant shall name Landlord and Landlord's mortgagee, if any, on all policies of insurance obtained regarding the Premises, each as their interest may appear. Each of the policies shall contain an endorsement that it shall not be cancelled without at least ten (10) days prior written notice to Landlord and any such mortgagee. Landlord and its mortgagee, if any, shall be entitled to a duplicate original of all such insurance policies no later than ten (10) days prior to the expiration date of the then existing polices, together with evidence that the premiums have been prepaid for the full term of the policy.

If the Tenant fails to pay the premium for any of the policies of insurance listed above which it is obligated to pay pursuant to this paragraph, the Landlord may, but will not be obligated to, pay such insurance premiums for tenants, and the amount so paid shall be considered rent due and in arrears.

17. MUTUAL RELEASE. Notwithstanding anything in this Lease to the contrary, Landlord and Tenant hereby waive and release each other of and from any and all rights of recovery, claims, actions or causes of action against each other, their agents, officers, representatives, employees, servants, contractors and invitees for any loss or damage that may occur to the Premises, the building, improvements or fixtures therein or thereon, or any personal property within the building from any cause whatsoever which could be insured against under the

terms of an all-risk fire, and extended coverage insurance policy, regardless of cause or origin, including the negligence of Landlord or Tenant or their agents, officers, representatives, servants, employees, contractors or invitees.

18. PARTIAL DESTRUCTION OF THE PREMISES. If the Premises are partially damaged by fire or other cause not in excess of 50% of the area or value of the Premises, the damage thereto (exclusive of Tenant's property) shall be repaired or restored promptly by Landlord, at no expense to Tenant. If the damages are such as to render all or a part of the Premises untenable, the rent shall be abated to an extent corresponding with the period during which and the extent to which the Premises have become untenantable. More specifically, until the Premises are satisfactorily repaired or restored by Landlord as described above, Tenant's obligation to pay rent apportionable to such period of nonuse shall be reduced based on a fraction, the numerator of which is the number of square feet no longer used or usable by Tenant, and the denominator of which shall be the total square footage leased by Tenant hereunder.

19. TOTAL DESTRUCTION OF THE PREMISES. In the event of total destruction of the Premises (i.e., greater than or equal to 50% of the area or value of the Premises), Landlord shall have the option to rebuild, and rent shall abate until such time as the Premises are available to Tenant (except that Landlord shall not be responsible for restoring any of Tenant's fixtures or other property of Tenant), at which time rent shall again commence. In the event, however, Landlord elects not to rebuild or does not within sixty (60)days after the destruction commence to rebuild or repair, or does not within one hundred eighty (180) days make available to Tenant the Premises, this Lease shall thereupon terminate.

20. CONDEMNATION. In the event the Premises or a portion thereof are taken or sold pursuant to the exercise of the right of eminent domain, rent shall be proportionately abated and reduced (in the case of a partial taking) or this Lease shall be terminated (in the case of a taking of the whole), as the case may be, but in no event shall Tenant be entitled to receive any part of the award paid to Landlord in connection therewith, and Tenant hereby assigns to Landlord all such awards and compensation, except that Tenant shall have the right to claim any separate award for the value of Tenant's fixtures, improvements and relocation expenses. If the useable square footage of the building is reduced by ten percent (10%) or more as a result of such condemnation, Tenant shall have the right to terminate this lease.

21. ASSIGNMENT AND SUBLETTING. Tenant shall not assign or sublet the Premises or any part thereof without the written consent of Landlord, which consent shall not be unreasonably withheld or delayed.

22. LANDLORD'S MORTGAGES. This Lease is expressly subject to all present and future mortgages or other security instruments of Landlord encumbering the Building. Tenant covenants to execute such documents as requested by Landlord to confirm such subordination, and upon failure to do so, hereby irrevocably appoints Landlord its agent and attorney-in-fact to execute the same on its behalf.

23. QUIET ENJOYMENT. Landlord covenants to allow Tenant quietly and peaceably to enjoy possession of the Premises free from interference or interruption of Landlord or any other person claiming under or through Landlord, and Landlord represents to Tenant that it has a sufficient ownership interest in the Premises to enter into and carry out the provisions of this Lease.

24. SURRENDER. At the expiration or earlier termination of this Lease, Tenant shall quit and surrender the Premises in the same condition as they were delivered to Tenant at the Commencement Date, normal wear and tear excepted. All fixtures, improvements and appurtenances attached to or built into the Premises by Tenant in such a manner as to become part of the freehold, shall become and remain a part of and be surrendered with the Premises, except that Landlord may elect to require Tenant, at Tenant's expense, to remove any or all of such fixtures, nonstructural improvements and appurtenances, and Tenant shall repair any damage caused by such removal; provided, however, that in no event shall this Section 24 be construed to contradict any provisions of Section .13 hereof.

Time is of the essence of each provision of this Lease. Tenant hereby waives the Notice to Quit requirements of the Pennsylvania Landlord and Tenant Act of 1951, as amended, 68 P.S. ss.250.101 et seq., or any other applicable law, and agrees to surrender the Premises without the need for notice at the expiration of the term, including any renewal or extension thereof or upon sooner termination of this Lease.

25. SIGNS. Tenant shall provide and maintain, at its expense, a sign on or about the building located on the Premises, which sign shall be approved by Landlord prior to it being affixed to the building.

26. ACCESS. Landlord and Landlord's authorized agents shall have the right from time to time after reasonable prior notice or in the case of an emergency, no notice, to Tenant to enter the Premises for the purposes of making repairs, of inspecting the Premises, and of showing the Premises to prospective purchasers or tenants.

27. DEFAULT BY TENANT.

(a) If Tenant shall default (i) in making any payment of rent or other sums required to be paid by Tenant in accordance with the terms of this Lease, or (ii) shall default in the observance or performance of any other provision of this Lease, or (iii) there shall occur an assignment by Tenant for the benefit of creditors; an appointment of a receiver of the assets of Tenant; or the filing for, by or against Tenant of any action under Chapter 7 of the Federal Bankruptcy Act or comparable federal, state or local legislation that establishes a plan for the liquidation of the Tenant and such default shall continue uncured for a period of ten (10) days with respect to a monetary default or thirty (30) days with respect to a non-monetary default after Landlord notifies Tenant, an Event of Default shall have occurred; provided, however, that if the nature of Tenant" default is such that it is not capable of being cured within such thirty (30) day period, the Event of Default shall not be deemed to have occurred if Tenant commences such cure within a thirty (30) day period and thereafter diligently prosecutes such cure to completion, as determined by Landlord in Landlord's sole and reasonable discretion.

(b) If an Event of Default has occurred, Landlord may declare this Lease Agreement and Tenant's right to possession of the Premises ended, whereupon Landlord shall, without this exposition limiting its rights in law or in equity, have the following remedies:

(i) Landlord may declare the entire rent and other sums reserved hereunder for the full term of this Lease remaining unpaid immediately due and payable in full;

(ii) Landlord may terminate this Lease and annul the unexpired portion of this Lease;

(iii) Landlord may enter upon and repossess the Premises and at Landlord's option, may relet the Premises, in which case all expenses of such reletting shall be deemed additional rent immediately due and payable hereunder, and all rent when received from the new tenant shall be credited against Tenant's liability hereunder;

(iv) Landlord may institute legal proceedings to collect all rent and sums due and payable hereunder and to recover possession of the Premises.

(V) REMEDIES CUMULATIVE: It is understood and agreed that the remedies herein given to Landlord shall be cumulative, and the exercise of any one remedy by Landlord shall not be to the exclusion of any other remedy. Each and all of said remedies shall be exercisable repeatedly and as often as may be necessary.

(VI) NO WAIVER: No delay or omission in the exercise of any right or remedy of Landlord on any default by Tenant shall impair such a right or remedy or be construed as a waiver. Any waiver by Landlord of any default must be in writing and shall not be a waiver of any other default concerning the same or any other provision of this Lease unless and only to the extent such additional waiver(s) are specifically provided for in such written waiver.

28. DEFAULT BY LANDLORD.

(a) In the event Landlord shall default in keeping, observing or performing any of the terms, provisions, covenants and conditions contained in this Lease, and such default is not cured (or proper corrective measures to cure such default commenced) by Landlord within the period specified herein for the curing of such defaults, Tenant shall have the right, but not the obligation, to remedy such default after giving written notice thereof to Landlord. Landlord agrees to promptly send to Tenant a copy of any notice of default received from the holders of present or future mortgages or other security instruments encumbering the building.

(b) In the event Landlord shall default in keeping, observing or performing any of the terms, provisions, covenants and conditions contained in this Lease, and such default is not cured (or proper corrective measures to cure such default commenced) by Landlord within ten (10) days of such default, Tenant, at any time thereafter upon ten (10) days' written notice to Landlord, may declare this Lease ended, whereupon Tenant shall have the remedies provided at law or in equity.

29. HOLDOVER. If Tenant holds possession of the Premises after the term of this Lease and any exercised renewal options Tenant shall become a tenant from month-to-month upon the terms herein specified, but at a monthly base rent equal to the monthly base rent payable during the last month of the term multiplied by

110%, which shall be payable monthly in advance, and such tenancy shall continue on a month-to-month basis until terminated by Landlord or Tenant upon at least one month's prior written notice to terminate such monthly tenancy.

30. TOXIC MATERIALS.

(a) As used in this Lease.

(i) The term "Hazardous Material(s)" means any oil, flammable items, explosives, radioactive materials, hazardous or toxic substances, material or waste or related materials including, without limitation, any substances that pose a hazard to the Premises or to persons on or about the Premises and any substances defined as or included in the definition of "hazardous substance," "hazardous waste," "hazardous material," "toxic substance," "extremely hazardous waste," "restricted hazardous waste" or words of similar import, now or subsequently

regulated in any way under applicable federal, state or local laws or regulations, including without limitation, petroleum-based products, paints, solvents, lead, cyanide, DDT, printing inks, acids, pesticides, ammonia compounds and other chemical products, asbestos, PCB's, urea formaldehyde foam insulation, transformers or other equipment containing dielectric fluid, levels of polychlorinated biphenyls, or radon gas, and similar compounds, and including any different products and materials which are subsequently found have adverse effects on the environment or the health and safety of persons.

(ii) The term "Environmental Law(s)" means any one or all of the following: the Comprehensive Environmental Response, Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization act of 1986 (42 U.S.C.ss.ss.9601 et seq.); the Resource Conservation and Recovery Act as amended (42 U.S.C.ss.ss.300f et seq); the Clean Water Act as amended (33 U.S.C.ss.ss.1251 et seq.); the Clean Air Act as amended (42 U.S.C.ss.ss.7401 et seq.) the Toxic Substance Control Act as amended (15 U.S.C.ss.ss.136 et seq.) the Solid Waste Disposal Act as Amended (42 U.S.C.ss.ss.3251 et seq.) the Hazardous Materials Transportation Act (49 U.S.C.ss.ss.1801 et seq.); the regulations promulgated under any of the foregoing: and all other laws, regulations, ordinances, standards, policies, and guidelines now in effect or hereinafter enacted by any governmental entity (whether local, state or federal) having jurisdiction or regulatory authority over the Premises or over activities conducted therein and which deal with the regulation or protection of human health, industrial hygiene or the environment, including the soil, subsurface soil, ambient air, groundwater, surface water, and land use.

(iii) The term "Environmental Activity(ies)" means any generation, manufacture, production, pumping, bringing upon, use, storage, treatment, release, discharge, escaping, emitting, leaching, disposal or transportation of Hazardous Materials.

(b) Tenant shall protect, indemnify, defend (with counsel satisfactory to Landlord) and hold harmless Landlord, his heirs, representatives, employees, agents, lenders, and ground lessees, if any, and their respective successors and assigns for, from and against any and all losses, damages, claims, costs, expenses, penalties, response costs, fines and liabilities of any kind (including, without limitation, the cost of any investigation, remediation and cleanup, and reasonable attorneys' fees) which are determined to be attributable to (i) any Environmental Activity on the Premises undertaken or committed by Tenant or Tenant's agents or caused by the negligence of such persons during the Term of this Lease. This indemnity shall survive the termination of this Lease. Tenant shall have no liability or obligation arising out of any violation of any

Environmental Law or contamination or pollution of, or from, the Premises caused by (i) conduct or conditions occurring prior to July 1, 1997, or after, Tenant's occupancy of the Premises or (ii) Landlord's or Landlord's agents use of, or acts or omissions on, the Premises.

(c) Landlord shall protect, indemnify, defend (with counsel satisfactory to Tenant) and hold harmless Tenant and its directors, officers, partners, employees, agents, lenders, and ground lessees, if any, and their respective successor and assigns for, from and against any and all losses, damages, claims, costs, expenses, penalties, response costs, fines and liabilities of any kind (including without limitation, the cost of any investigation, remediation and cleanup, and reasonable attorneys' fees) which are determined to be attributable to (i) any Environmental Activity on the Premises undertaken or committed by Landlord or Landlord's agents or caused by the negligence of such persons at any time prior to, during or after the Term of this Lease. The indemnity shall survive the termination of this Lease. Landlord shall have no liability or obligation arising out of any violation of any Environmental Law or contamination or pollution of, or from, the Premises caused by Tenant's or Tenant's agents use of, or acts or omissions on, the Premises.

31. LANDLORD'S LIABILITY. The maximum combined liability of the Landlord and the principals of Landlord shall limited to the greater of their combined equity in the leased premises on (i) July 1, 1999 or (ii) the day immediately preceding that on which the Landlord or one of its principal's receives notification from the lessee of a claim under this lease against the Landlord or one of its principals. The interest of the Landlord herein may be assigned, in which case the Landlord shall advise Tenant of the name of the assignee and Landlord shall have no liability hereunder from and after the effective date of any such assignment, except for obligations which may have theretofore accrued.

32. NOTICES. All notices and other communications hereunder shall be in writing and shall be deemed given when delivered by hand or by certified or registered mail, return receipt requested, first-class postage prepaid, properly addressed to the party to whom such notice is directed, at the address hereinafter specified, or at such other address as the party receiving notice designates to the other party in writing and by complying with the terms of this paragraph.

If to Landlord: PRH Properties, LP
17700 N. Crossroads Ranch Road
Prescott, Arizona 86305

With a copy to: McNees, Wallace & Nurick
100 Pine Street
Post Office Box 1166
Harrisburg, Pennsylvania 17108
Attn: W. Jeffry Jamouneau, Esquire

If to Tenant:
Amtech Systems, Inc.
131 South Clark Drive
Tempe, Arizona 85281
Attn: Robert T. Hass, Vice President-Finance, CFO

With a copy to:
Squire, Sanders & Dempsey
40 N. Central Avenue, Suite #2700
Phoenix, Arizona 85004
Attn: Greg Hall, Esquire

33. ENTIRE AGREEMENT. This Lease constitutes the entire agreement between the parties hereto as to the Lease of the Premises and supersedes all prior discussions, understandings or agreements between the parties hereto. No modification, amendment, change or addition to this Lease Agreement shall be binding on the parties unless reduced to writing and signed by their authorized representatives.

34. MECHANICS' LIENS. The interest of Landlord in the Premises shall not be subject to liens for materials, services or improvements which have been furnished by any person at the request of Tenant, and Tenant shall not have the authority to in any way encumber the interest of Landlord.

35. GOVERNING LAW. This Lease Agreement shall be governed by the laws of the Commonwealth of Pennsylvania, without regard to choice-of-law provisions, and jurisdiction and venue for all disputes hereunder shall lie only in the Court of Common Pleas for Cumberland County, Pennsylvania and/or in the United States District Court for the Middle District of Pennsylvania.

36. LEGALLY BINDING. Except as herein otherwise specified, this Lease Agreement shall legally benefit and bind the parties hereto and their respective successors and assigns. Tenant may not record this Lease Agreement without the prior written consent of Landlord.

37. LANDLORD'S REPRESENTATIONS AND WARRANTIES. Landlord represents, warrants and covenants to and with Tenant that Landlord has the full right and power to execute and perform this Lease and to grant the estate defined herein and Tenant, on payment of the rent and performance of a the covenants and agreements hereof, shall peaceably and quietly have, hold and enjoy the Premises and all rights, easements, appurtenances and privileges belonging or in any way appertaining thereto without molestation or hindrance of any person claiming by, through or under Landlord, subject, however, to the terms of this Lease.

38. MISCELLANEOUS.

(a) If any term or provision or portion thereof of this Lease Agreement, or application thereof to any person or circumstance, be held invalid,

the remainder of said term or provision and/or of this Lease Agreement shall not be affected thereby; and, to this end, the parties hereto agree that the terms and provisions of this Lease Agreement are severable.

(b) In no event shall this Lease Agreement or anything contained herein be construed to contradict Krieger's indemnification obligations with respect to environmental matters set forth in Section 13 of the Sublease between John R. Krieger, as an individual, and P.R. Hoffman Machine Products, Inc. dated as of July 1, 1997, as amended by Amendment #1, or in anyway limit the duration of said indemnification obligations.

IN WITNESS WHEREOF, the undersigned have caused this Lease to be duly authorized and executed as of the day and year first above written.

ATTEST: LANDLORD:
PRH PROPERTIES, LP

By: /s/ John R. Krieger
- --------------------------- -----------------------------------
John R. Krieger, Partner

ATTEST TENTANT:
P.R. HOFFMAN MACHINE PRODUCTS, INC.

By: /s/ Robert T. Hass
- --------------------------- -----------------------------------
Robert T. Hass, its Vice President

AMENDMENT #1
TO
SUBLEASE AGREEMENT

Amendment #1 to that certain Sublease dated July 1, 1997, by and between John R. Krieger, an adult individual, as sublessor ("Krieger") and P. R. Hoffman Machine Products, Inc., an Arizona corporation, as sublessee ("Hoffman").

WITNESSETH:

In consideration of the mutual covenants set forth in the Sublease and in Section 38(b) of the lease dated July 1, 1999 and herein e parties hereto agree to amend the Sublease as follows:

In Sub-section 13(c) on page 7 of the Sublease, the words "Hoffman or Hoffman's" in line eight (8) thereof are to be and hereby are replaced with the words "Krieger or Krieger's" in order to reflect the original intent that said line would mirror, rather than copy, line 8 of Sub-section 13(b) thereof.

Except for the change noted above, all terms of the Sublease remain in effect and unchanged.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment #1 as of the 1ST day of July 1997.

ATTEST: KRIEGER:
JOHN R. KRIEGER

By: /s/ John R. Krieger
- --------------------------- -----------------------------------
John R. Krieger

ATTEST TENTANT:
P.R. HOFFMAN MACHINE PRODUCTS, INC.

By: /s/ Robert T. Hass
- --------------------------- -----------------------------------
Robert T. Hass, its Vice President

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report included in this Form 10-K, into the Company's previously filed Registration Statements on Forms S-3 (File Numbers 333-09917 and 333-10117) and Forms S-8 (File Numbers 333-09911 and 333-09909).

/s/ ARTHUR ANDERSEN LLP

Phoenix, Arizona
December 22, 1999.

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE BALANCE SHEETS AS OF SEPTEMBER 30, 1999 AND 1998, AND THE STATEMENTS OF OPERATION AND CASH FLOW FOR THE THREE YEARS IN THE PERIOD ENDED SEPTEMBER 30, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED SEPTEMBER 30, 1999.
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