

Recon Technology, Ltd
Form 10-Q
January 31, 2012

U. S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2011

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 001-34409

RECON TECHNOLOGY, LTD

(Exact name of registrant as specified in its charter)

Cayman Islands	Not Applicable
(State or other jurisdiction of	(I.R.S. employer
incorporation or organization)	identification number)

1902 Building C, King Long International Mansion

9 Fulin Road, Beijing 100107

People's Republic of China

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(Address of principal executive offices and zip code)

+86 (10) 8494-5799

(Registrant's telephone number, including area code)

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. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer Accelerated filer

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

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

Indicate the number of shares outstanding of each of the issuer's classes of ordinary shares, as of the latest practicable date. The Company is authorized to issue 25,000,000 ordinary shares. As of the date of this report, the Company has issued and outstanding 3,951,811 shares.

RECON TECHNOLOGY, LTD

FORM 10-Q

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This document contains certain statements of a forward-looking nature. Such forward-looking statements, including but not limited to projected growth, trends and strategies, future operating and financial results, financial expectations and current business indicators are based upon current information and expectations and are subject to change based on factors beyond the control of the Company. Forward-looking statements typically are identified by the use of terms such as “look,” “may,” “should,” “might,” “believe,” “plan,” “expect,” “anticipate,” “estimate” and similar words, although some forward-looking statements are expressed differently. The accuracy of such statements may be impacted by a number of business risks and uncertainties that could cause actual results to differ materially from those projected or anticipated, including but not limited to the following:

- the timing of the development of future products;

- projections of revenue, earnings, capital structure and other financial items;

- statements of our plans and objectives;

- statements regarding the capabilities of our business operations;

- statements of expected future economic performance;

- statements regarding competition in our market; and

- assumptions underlying statements regarding us or our business.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to update this forward-looking information. Nonetheless, the Company reserves the right to make such updates from time to time by press release, periodic report or other method of public disclosure without the need for specific reference to this report. No such update shall be deemed to indicate that other statements not addressed by such update remain correct or create an obligation to provide any other updates.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

See the financial statements following the signature page of this report, which are incorporated herein by reference.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our company's financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and the related notes included elsewhere in this report. This discussion contains forward-looking statements that involve risks and uncertainties. Actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors.

Overview

We are a company with limited liability incorporated in 2007 under the laws of the Cayman Islands. Headquartered in Beijing, we provide products and services to oil and gas companies and their affiliates through our contractually controlled affiliates ("variable interest entities" or "VIEs"), Beijing BHD Petroleum Technology Co. Ltd. ("BHD") and Nanjing Recon Technology Co., Ltd. ("Nanjing Recon," and, together with BHD, the "Domestic Companies"). We are the center of strategic management, financial control and human resources allocation for the Domestic Companies. Jining ENI Energy Technology Co., Ltd. ("ENI") was previously one of our contractually controlled affiliates until December 16, 2010, when we ceased to have the power to direct its activities following a change of ownership. As a result of such change, ENI ceased to be our VIE starting December 16, 2010.

Through our contractual relationships with the Domestic Companies, we provide equipment, tools and other hardware related to oilfield production and management, and develop and sell our own specialized industrial automation control and information solutions. However, we do not engage in the production of petroleum or petroleum products.

Our business is mainly focused on the upstream sectors of the oil and gas industry. We derive our revenues from the sales and provision of (1) hardware products, (2) software products, and (3) services. Our products and services involve most of the key procedures of the extraction and production of oil and gas, and include automation systems,

equipment, tools and on-site technical services. For the three months ended September 30, 2011, 100% of our revenue came from the sales of hardware. For the same period in 2010, hardware sales and services constituted 79.97% and 20.03%, respectively, of our revenues. We did not recognize any revenues from software sales during the three months ended September 30, 2010 and 2011.

Our VIEs provide the oil and gas industry with equipment, production technologies and automation and services.

- **Nanjing Recon:** Nanjing Recon is a high-tech company that specializes in automation services for oilfield companies. It mainly focuses on providing automation solutions to the oil exploration industry, including monitoring wells, automatic metering to the joint station production, process monitor, and a variety of oilfield equipment and control systems.
- **BHD:** BHD is a high-tech company that specializes in transportation equipment and stimulation productions and services. Possessing proprietary patents and substantial industry experience, BHD has built up stable and strong working relationships with the major oilfields in China.

Products and Services

We provide the following three types of integrated products and services for our customers.

Equipment for Oil and Gas Production and Transportation

High-Efficiency Heating Furnaces. Crude petroleum contains certain impurities that must be removed before it can be sold, including water and natural gas. To remove the impurities and to prevent solidification and blockage in transport pipes, companies employ heating furnaces. BHD researched, developed and implemented a new oilfield furnace that is advanced, highly automated, reliable, easily operable, safe and highly heat-efficient (90% efficiency).

Burner. We serve as an agent for the Unigas Burner, which is designed and manufactured by UNIGAS, a European burning equipment production company. The burner we provide has the following characteristics: high degree of automation, energy conservation, high turn-down ratio, high security and environmental safety.

Oil and Gas Production Improvement Techniques

Packers of Fracturing. This utility model is used in concert with the security joint, hydraulic anchor, and slide brushing of sand spray in the well. It is used for easy seat sealing and sand-up prevention. The utility model reduces desilting volume and prevents sand-up, which makes the deblocking processes easier to realize. The back flushing is sand-stick proof.

Production Packer. At varying withdrawal points, the production packer separates different oil layers and protects the oil pipe from sand and permeation, promoting the recovery ratio.

Fissure Shaper. This is our proprietary product that is used along with a perforating gun to effectively increase perforation depth by between 46% and 80%, shape stratum fissures, improve stratum diversion capability and, as a result, improve our ability to locate oilfields and increase the output of oil wells.

Sand Prevention in Oil and Water Well. This technique processes additives that are resistant to elevated temperatures into “resin sand” which is transported to the bottom of the well via carrying fluid. The “resin sand” goes through the borehole, pilling up and compacting at the borehole and oil vacancy layer. An artificial borehole wall is then formed, functioning as a means of sand prevention. This sand prevention technique has been adapted to more than 100 wells, including heavy oil wells, light oil wells, water wells and gas wells, with a 100% success rate and a 98% effective rate.

Water Locating and Plugging Technique. High water cut affects the normal production of oilfields. Previously, there was no sophisticated method for water locating and tubular column plugging in China. The mechanical water locating and tubular column plugging technique we have developed resolves the problem of high water cut wells. This technique conducts a self-sealing test during multi-stage usage and is reliable to separate different production sets effectively. The water location switch forms a complete set by which the water locating and plugging can be finished in one trip. The tubular column is adaptable to several oil drilling methods and is available for water locating and plugging in second and third class layers.

Fracture Acidizing. We inject acid to layers under pressure, which can form or expand fissures. The treatment process of the acid is defined as fracture acidizing. The technique is mainly adapted to oil and gas wells that are blocked up

relatively deeply, or the ones in the zones of low permeability.

Electronic Break-Down Service. This service resolves block-up and freezing problems by generating heat from the electric resistivity of the drive pipe and utilizing a loop tank composed of an oil pipe and a drive pipe. This technique saves energy and is environment friendly. It can increase the production of oilfields that are in the middle and later periods.

Automation System and Services

Pumping Unit Controller. Functions as a monitor to the pumping unit, and also collects data for load, pressure, voltage, and startup and shutdown control.

RTU Monitor. Collects gas well pressure data.

Wireless Dynamometer and Wireless Pressure Gauge. These products replace wired technology with cordless displacement sensor technology. They are easy to install and significantly reduce the work load associated with cable laying.

Electric Multi-way Valve for Oilfield Metering Station Flow Control. This multi-way valve is used before the test separator to replace the existing three valve manifolds. It facilitates the electronic control of the connection of the oil lead pipeline with the separator.

Natural Gas Flow Computer System. The flow computer system is used in natural gas stations and gas distribution stations to measure flow.

Recon SCADA Oilfield Monitor and Data Acquisition System. Recon SCADA is a system which applies to the oil well, measurement station, and the union station for supervision and data collection.

EPC Service of Pipeline SCADA System. A service technique for pipeline monitoring and data acquisition after crude oil transmission.

EPC Service of Oil and Gas Wells SCADA System. A service technique for monitoring and data acquisition of oil wells and natural gas wells.

EPC Service of Oilfield Video Surveillance and Control System. A video surveillance technique for controlling the oil and gas wellhead area and the measurement station area.

Technique Service for “Digital oilfield” Transformation. Includes engineering technique services such as oil and gas SCADA system, video surveillance and control system and communication systems.

Factors Affecting Our Business

Business Outlook

The oilfield engineering and technical service industry is generally divided into five sections: (1) exploration, (2) drilling and completion, (3) testing and logging, (4) production, and (5) oilfield construction. Thus far our businesses have only been involved in production. Our management plans to expand our core business, move into new markets, and develop new businesses. Management anticipates great opportunities both in new markets and our existing markets. We believe that many existing wells and oilfields need to improve or renew their equipment and service to maintain production and techniques and services like ours will be needed as new oil and gas fields are developed. In the next three years, we will focus on:

Measuring Equipment and Service. Our priority is the development of our well, pipeline and oilfield SCADA engineering project contracting service, oilfield video surveillance and control system, and reforming technical support service. According to conservative estimates, the potential market for our wireless indicator and remote monitoring system (SCADA) is approximately ¥5 billion.

Market Demand for Gathering and Transferring Equipment. (1) Furnace. We estimate total market demand in China for furnaces like ours at about 2,000 units per year, of which 500 are expected to come from new wells and 1,500 are expected to come from reconstruction of old wells. The potential market is estimated at ¥800 million (approximately \$121 million) based on an average price of ¥400,000 (approximately \$60,498) per furnace. (2) Oil/water separator. We estimate the total market demand in China at about 800 units per year, of which 300 are expected to come from new wells and 500 are expected to come from reconstruction of old wells. The potential market is about ¥400 million (approximately \$60 million) based on an average price of ¥500,000 (approximately \$75,622). (3) Burner. We estimate total market demand in China at about 5,000 units per year, of which 1,000 are expected to come from new wells and 4,000 are expected to come from reconstruction of old wells. The potential market is about ¥300 million (approximately \$45 million) based on an average unit price of ¥60,000 (approximately \$9,075).

New Business. Along with the opening of the oilfield service market to private companies, we have established our own service team equipped with specialized equipment and experienced staff. We expect the new business to start generating revenues during the quarter ended December 31, 2011.

Growth Strategy

As a smaller domestic company, it is our basic strategy to focus on developing our onshore oilfield business, that is, the upstream of the industry. Due to the remote location and difficult environments of China's oil and gas fields, foreign competitors rarely enter those areas.

Large domestic oil companies prefer to focus on their exploration and development businesses to earn higher margins and keep their competitive advantage. With regard to private oilfield service companies, we estimate that approximately 90% specialize in the manufacture of drilling and production equipment. Thus, the market for technical support and project service is still in its early stage. Our management insists on providing high quality products and service in the oilfield where we have a geographical advantage. This allows us to avoid conflicts of interest with bigger suppliers of drilling equipment and keep our position within the market segment. Our mission is to increase the automation and safety levels of industrial petroleum production in China, and improve the underdeveloped working process and management mode by using advanced technologies. At the same time, we are always looking to improve our business and to increase our earning capability.

Industry and Recent Developments

Oilfield drilling and production equipment and engineering technique services are applied in the process of oil and gas extraction. Therefore, the exploration and exploitation activities of petroleum companies directly influences demand for oilfield technical services and corresponding equipment. The number of new oil and gas wells each year is a key indicator of the market and reflects the prosperity of the oilfield service industry. China is the world's second-largest petroleum producing country, with nearly 30,000 wells drilled and annual drill depths of 49,000,000 meters. In the long run, factors affecting the development of petroleum companies include prices of oil and gas, and China's national energy strategy. In the short to medium term, petroleum companies plan their development activities according to the level of demand.

Thus, the level of demand for oil and gas in the short- to medium-term affects the number of oil and gas wells. Meanwhile, well prospecting is done to ensure the supply of oil and gas in the medium to long term. At present, China is in shortage of oil and gas. The difference between supply and demand is growing. For the three state-owned petroleum companies, the top priority is to ensure the nation supply and to promote stable and increased oilfield production. The capital expenditures are determined by the national energy strategy to a large extent. Under such circumstances, despite the adverse domestic and international market conditions influencing the Chinese oil market in 2010 and 2011, the investment by petroleum companies to upstream prospecting and development continues to increase. Advanced oilfield drill equipment and technique services are in greater demand, as petroleum companies make efforts to promote effectiveness and reduce costs.

Recently, China's dependence on imported oil exceeded 50%, and an increasingly serious "gas shortage" also put stress on China's energy supply. The government has decided to invest more in the construction of gas storage and long-distance natural gas transportation pipeline. Our management believes our current product lines and experience in pipeline transportation and monitoring and development of automation products could help us grow rapidly and develop to be a leader in this segment of the oilfield service industry.

Factors Affecting Our Results of Operations — Generally

Our operating results in any period are subject to general conditions typically affecting the Chinese oilfield service industry including:

- the amount of spending by our customers, primarily those in the oil and gas industry;
- growing demand from large corporations for improved management and software designed to achieve such corporate performance;

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- the procurement processes of our customers, especially those in the oil and gas industry;
- competition and related pricing pressure from other oilfield service solution providers, especially those targeting the Chinese oil and gas industry;
- the ongoing development of the oilfield service market in China; and
- inflation and other macroeconomic factors.

Unfavorable changes in any of these general conditions could negatively affect the number and size of the projects we undertake, the number of products we sell, the amount of services we provide, the price of our products and services, and otherwise affect our results of operations.

Our operating results in any period are more directly affected by company-specific factors including:

- our revenue growth, in terms of the proportion of our business dedicated to large companies and our ability to successfully develop, introduce and market new solutions and services;
- our ability to increase our revenues from both old and new customers in the oil and gas industry in China;
- our ability to effectively manage our operating costs and expenses; and
- our ability to effectively implement any targeted acquisitions and/or strategic alliances so as to provide efficient access to markets and industries in the oil and gas industry in China.

Critical Accounting Policies and Estimates

Estimates and Assumptions

We prepare our unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America U.S. GAAP, which require us to make judgments, estimates and assumptions. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and various other assumptions that we believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates. An accounting policy is considered critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time such estimate is made, and if different accounting estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements. We believe that the following policies involve a higher degree of judgment and complexity in their application and require us to make significant accounting estimates. The following descriptions of critical accounting policies, judgments and estimates should be read in conjunction with our consolidated financial statements and other disclosures included in this quarterly report. Significant accounting estimates reflected in our Company's consolidated financial statements include revenue recognition, allowance for doubtful accounts, and useful lives of property and equipment.

Consolidation of VIEs

We recognize an entity as a VIE if it either (i) has insufficient equity to permit the entity to finance its activities without additional subordinated financial support or (ii) has equity investors who lack the characteristics of a controlling financial interest. We consolidate a VIE as its primary beneficiary when we have both the power to direct the activities that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the VIE.

Assets recognized as a result of consolidating VIEs do not represent additional assets that could be used to satisfy claims against our general assets. Conversely, liabilities recognized as a result of consolidating these VIEs do not represent additional claims on our general assets; rather, they represent claims against the specific assets of the consolidated VIEs.

Revenue Recognition

We recognize revenue when the following four criteria are met: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been provided, (3) the sales price is fixed or determinable, and (4) collectability is reasonably assured. Delivery does not occur until products have been shipped or services have been provided to the client and the client has signed a completion and acceptance report, risk of loss has transferred to the client, client acceptance provisions have lapsed, or the Company has objective evidence that the criteria specified in client acceptance provisions have been satisfied. The sales price is not considered to be fixed or determinable until all contingencies related to the sale have been resolved.

Hardware

Revenue from hardware sales is generally recognized when the product is shipped to the customer and when there are no unfulfilled company obligations that affect the customer's final acceptance of the arrangement.

Software

The Company sells self-developed software. For software sales, the Company recognizes revenues in accordance with the provisions of ASC 985-605, "Software Revenue Recognition," and related interpretations. Revenue from software is recognized according to project contracts. Contract costs are accumulated during the periods of installation and testing or commissioning. Usually this is short term. Revenue is not recognized until completion of the contracts and receipt of acceptance statements.

Services

The Company provides services to improve software functions and system requirements on separated fixed-price contracts. Revenue is recognized when services are completed and acceptance is determined by a completion report signed by the customer.

Deferred income represents unearned amounts billed to customers related to sales contracts.

Cost of Revenues

When the criteria for revenue recognition have been met, costs incurred are recognized as cost of revenue. Cost of revenues includes wages, materials, handling charges, the cost of purchased equipment and pipes, and other expenses associated with manufactured products and services provided to customers. We expect cost of revenues to grow as our revenues grow. It is possible that we could incur development costs with little revenue recognition, but based upon our past history, we expect our revenues to grow.

Fair Values of Financial Instruments

The carrying amounts reported in the consolidated balance sheets for trade accounts receivable, other receivables, advances to suppliers, trade accounts payable, accrued liabilities, advances from customers and notes payable approximate fair value because of the immediate or short-term maturity of these financial instruments.

Allowance for Doubtful Accounts

Trade receivables are carried at original invoiced amount less a provision for any potential uncollectible amounts. Provisions are applied to trade receivables where events or changes in circumstances indicate that the balance may not be collectible. The identification of doubtful accounts requires the use of judgment and estimates of management. Our management must make estimates of the collectability of our accounts receivable. Management specifically analyzes accounts receivable, historical bad debts, customer creditworthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. Our allowance for trade accounts receivable to unrelated third parties was ¥2,854,583 and ¥2,522,576 (\$394,041) on June 30, 2011 and September 30, 2011, respectively.

Property and Equipment

We record property and equipment at cost. We depreciate property and equipment on a straight-line basis over their estimated useful lives using the following annual rates:

Items	Useful life
Motor Vehicles	5-10 years
Office Equipment	2-5 years
Leasehold Improvements	5 years

We expense maintenance and repair expenditures as they do not improve or extend an asset's productive life. These estimates are reasonably likely to change in the future since they are based upon matters that are highly uncertain such as general economic conditions, potential changes in technology and estimated cash flows from the use of these assets.

Depreciation expense was ¥98,597 and ¥88,723 (\$13,859) for the three months ended September 30, 2010 and 2011, respectively.

	June 30, 2011	September 30, 2011	September 30, 2011
	RMB	RMB	U.S. Dollars
Motor vehicles	¥1,838,720	¥1,711,860	\$267,403
Office equipment and fixtures	409,356	451,587	70,541
Leasehold improvement	—	—	—
Total property and equipment	2,248,076	2,163,447	337,944
Less: Accumulated depreciation	(1,115,651)	(1,037,460)	(162,058)
Fixed assets disposal	—	18,847	2,944
Property and equipment, net	¥1,132,425	¥1,144,834	\$178,830

Valuation of Long-Lived Assets

We review the carrying values of our long-lived assets for impairment whenever events or changes in circumstances indicate that they may not be recoverable. When such an event occurs, we project undiscounted cash flows to be generated from the use of the asset and its eventual disposition over the remaining life of the asset. If projections indicate that the carrying value of the long-lived asset will not be recovered, we reduce the carrying value of the long-lived asset by the estimated excess of the carrying value over the projected discounted cash flows. In the past, we have not had to make significant adjustments to the carrying values of our long-lived assets, and we do not anticipate a need to do so in the future. However, circumstances could cause us to have to reduce the value of our capitalized software more rapidly than we have in the past if our revenues were to significantly decline. Estimated cash flows from the use of the long-lived assets are highly uncertain and therefore the estimation of the need to impair these assets is reasonably likely to change in the future. Should the economy or acceptance of our software change in the future, it is likely that our estimate of the future cash flows from the use of these assets will change by a material amount.

Results of Operations

Our historical reporting results are not necessarily indicative of the results to be expected for any future period.

Revenue

	For the Three Months Ended September 30,		Increase (Decrease)	Percentage Change	Change attributable to:		
	2011	2010			Deconsolidation of ENI	Operations	
Hardware	¥3,593,772,	¥17,433,499	¥(13,839,727)	(79.39	%)	¥(8,595,799)	¥(5,243,928)
Hardware-related parties	1,348,817	4,365,812	(3,016,995)	(69.11	%)	(4,365,812)	1,348,817
Total Revenue	¥4,924,589	¥21,799,311	¥(16,856,722)	(77.33	%)	¥(12,961,611)	¥(3,895,111)

Revenues. Our total revenues decreased by approximately 77.33%, or ¥16,856,722 (\$2,633,122), from ¥21,799,311 for the three months ended September 30, 2010 to ¥4,924,589 (\$772,062) for the same period of 2011. For our sales of hardware, specifically, transportation equipment decreased by 34.94%, automation business by 68.07%, and accessories to zero, respectively. The decrease in our revenues for the three-month period was due to the following factors:

(1) The decrease of hardware sales was mainly caused by the deconsolidation of ENI, which amounted to ¥12,961,611 (\$2,024,682). In light of the ownership change of ENI on December 16, 2010, the Company's Audit Committee concluded that ENI is no longer a VIE and the Company should not include ENI's operations in the Company's operating results starting December 16, 2010. Our management believe even though ENI's not being a VIE caused short-term loss for us, it will not determine our long-term business development.

(2) The decrease of automation business and transportation business, which amounted to ¥3,895,111 (\$608,440), was mainly caused by delays in certain projects and reflects the seasonality of our business. We typically receive a significant percentage of our revenues in the second and third fiscal quarters, after our clients (many of which are state-owned enterprises) receive their financial allocations to purchase products and services such as ours.

We did not have revenues from software or service for the three months ended September 30, 2011. We do, however, continue to be engaged in these businesses and expect to generate revenues from software and service during the remaining quarters of 2012.

We believe the worldwide economic crisis made companies, including our clients, more cautious in their finance and encouraged those companies to seek ways to reduce costs and maximize output by investing in technological solutions that would enable them to improve revenues and reduce expenses. Because our solutions are designed to help oil companies operate more efficiently, our management is optimistic about our opportunities to target our solutions to our customers' focus on efficiency, profitability and safety.

Specifically, the Chinese government has attached great importance to the safety problems that exist in the Chinese energy industry by implementing numerous new projects and initiatives designed to increase safety and security in the Chinese energy industry, such as implementing digital oilfield construction to improve safety, production efficiency and oil recovery ratios in oilfields. This government-led modernization project is designed to eliminate hidden security dangers and develop key projects for saving energy and materials. As a result of the new policies, the Chinese government has increased spending to replace equipment with potential safety problems. Our management has considered these factors carefully and will focus on related automation and service businesses. Additionally, as we have provided services to CNPC and Sinopec, they have chosen to continue to use our solutions. During the three months ended September 30, 2011, substantially all of our revenues were generated through our business engagements with these companies' operating subsidiaries. This long-term cooperation made it possible for us to improve our service quality, products' popularity and adaptability for a very limited number of customers. Further, this long-term cooperation improves our ability to collect receivables on time.

Cost and Margin

	For the Three Months Ended September 30,		Increase (Decrease)	Percentage Change	Change attributable to:	
	2011	2010			Change	Deconsolidation of ENI
Total Revenue	¥4,942,589	¥21,799,311	¥(16,856,722)	(77.33 %)	¥ (12,961,611)	¥(3,895,111)
Cost of Revenue	2,465,443	14,081,493	(11,616,050)	(82.49 %)	(9,106,598)	(2,509,452)
Gross Profit	¥2,477,146	¥7,717,818	¥(5,240,672)	(67.90 %)	¥ (3,855,013)	¥(1,385,659)
Margin %	50.12	% 35.40	% 14.71	%		

Cost of Revenues. Our cost of revenues includes costs related to the design, implementation, delivery and maintenance of our software solutions and raw materials. All materials and components we need can be purchased or manufactured under contract. Usually the prices for electronic components do not fluctuate substantially due to market competition, and we do not expect them to significantly affect our cost of revenues. However, specialized equipment and chemical products may be directly influenced by the price moves of metal and oil. Additionally, the prices for some imported accessories mandated by our clients can also impact our cost.

Our cost of revenues decreased from ¥14,081,493 in the three months ended September 30, 2010 to ¥2,465,443 (\$386,945) for the same period of 2011, a decrease of ¥11,616,050 (\$1,814,497), or 82.49%. As a percentage of revenues, our cost of revenues decreased from 64.60% in 2010 to 49.88% in 2011. Our focus on solutions with comparatively higher margins, such as our software and service solutions, allowed our cost of revenues to decrease as a percentage of revenues. We expect this trend will continue, provided we are able to continue to grow our higher-margin solution revenues.

Gross Profit. Our gross profit decreased to ¥2,477,146 (\$386,945) for the three months ended September 30, 2011 from ¥7,717,818 for the same period in 2010, a decrease of ¥5,240,672 (\$818,624), or approximately 67.90%. Our gross profit as a percentage of revenue increased to 50.12% for the three months ended September 30, 2011 from 35.40% for the same period in 2010. This increase was caused mainly by the deconsolidation of ENI's trading business because ENI's trading business had a lower gross profit margin than the remainder of our company.

Operating Expenses

	For the Three Months Ended September 30,		Increase (Decrease)	Percentage Change	Change attributable to:	
	2011	2010			Change	Deconsolidation of ENI
	¥832,797	¥1,803,156	¥(970,359)	(53.81 %)	¥(665,733)	¥(304,626)

Selling and distribution expenses	16.85	%	8.27	%	8.58	%	—		
General and administrative expenses	4,876,183		4,221,814		654,369		15.50	%	(1,451,051) 2,105,420
% of revenue	98.66	%	19.37	%	79.29	%	—		
Operating expenses	¥5,708,980		¥6,024,970		¥(315,990)		(5.24	%)	¥(2,116,784) ¥1,800,794

General and Administrative Expenses. General and administrative expenses consist primarily of costs in human resources, facilities costs, depreciation expenses, professional advisor fees, audit fees, option expenses and other expenses incurred in connection with general operations. General and administrative expenses increased by 15.50%, or ¥654,369 (\$102,216), from ¥4,221,814 in the three months ended September 30, 2010 to ¥4,876,183 (\$761,689) in the same period of 2011. General and administrative expenses were 19.37% of total revenues in 2010 and 98.66% of total revenues in 2011. This percentage increase was primarily attributable to the decrease in total revenues, which caused a relatively moderate increase in absolute value to reflect a much larger increase as a percentage of revenues. More specifically,

(i) General and administrative expenses decreased by ¥1,451,051 (\$226,663) because of the deconsolidation of ENI; and

(ii) General and administrative expenses for operations increased by ¥2,105,420 (\$328,879), which was mainly caused by increased expenses for research and development activities and increased expenses for audit and attorney fees.

Selling and Distribution Expenses. Selling and distribution expenses consist primarily of salaries and related expenditures of our sales and marketing organization, sales commissions, costs of our marketing programs including public relations, advertising and trade shows, and an allocation of our facilities and depreciation expenses. Selling expenses decreased by 53.81%, from ¥1,803,156 for three months ended September 30, 2010 to ¥832,797 (\$130,088) for the same period of 2011. This decrease resulted primarily from the deconsolidation of ENI. Selling expenses were 8.27% of total revenues in the three months ended September 30, 2010 and 16.85% of total revenues in the same period of 2011. This increase was mainly caused by the decrease in total revenues. As we continued to solidify our business relationships with current clients and develop new customers, we required extensive marketing efforts and incurred additional costs. At present, we are expanding our business in Sichuan and Qinghai Provinces. In order to successfully increase the scope of our client base, we established new local offices in different regions across China. We expect that our selling expenses, as well as its percentage as against total revenues, will increase correspondingly.

Net Income

	For the Three Months Ended September 30,			
	2011	2010	Increase (Decrease)	Percentage Change
Income (loss) from operations	¥(3,231,834)	¥1,692,848	¥(4,924,682)	(290.91%)
Subsidy income	—	451,520	(451,520)	(100.00%)
Interest and other income (loss)	(64,847)	(154,451)	(89,604)	(80.00%)
Income (loss) before income tax and non-controlling interest	(3,296,681)	1,989,917	(5,286,598)	(265.67%)
Provision for income tax	(108,515)	(805,826)	697,311	(86.53%)
Net income (loss)	(3,405,196)	1,184,091	(4,589,287)	(378.41%)
Net income attributable to non-controlling interest	—	(340,330)	340,330	(100.00%)
Net income attributable to ordinary shareholders	¥(3,405,196)	¥843,761	¥(4,248,957)	(490.71%)

Income (loss) from Operations. Loss from operations was ¥3,231,834 (\$504,832) for the three months ended September 30, 2011, compared to an income of ¥1,692,848 for the same period of 2010. This decrease in income from operations can be attributed primarily to the decrease in sales volume to CNPC and Sinopec and increased R&D expenses.

Subsidy Income. We received grants from the local government. For the three months ended September 30, 2010, we received ¥451,520 subsidy income. These grants were given by the government to support local software companies' operations and research and development. Grants related to research and development projects are recognized as subsidy income in the combined and consolidated statements of operations when related expenses are recorded.

Income Tax Expense. Income taxes are provided based upon the liability method of accounting pursuant to US GAAP. Under this approach, deferred income taxes are recorded to reflect the tax consequences on future years of differences between the tax basis of assets and liabilities and their financial reporting amounts. A valuation allowance is recorded against deferred tax assets if it is not likely that the asset will be realized. We have not been subject to any

income taxes in the United States or the Cayman Islands. Enterprises doing business in the PRC are generally subject to federal (state) enterprise income tax at a rate of 25%; however, Nanjing Recon and BHD were granted the certification of High Technology Enterprise and are taxed at a rate of 15% for taxable income generated. The applicable tax rate for each of our subsidiaries changed in the past few years because of their qualifications and different local policies. For the three months ended September 30, 2011, Nanjing Recon and BHD were taxed at a rate of 15%. Our effective EIT burden will vary, depending on which of our domestic companies generate greater revenue.

Income tax expense for the three months ended September 30, 2010 and 2011 was ¥805,826 and ¥108,515 (\$16,951), respectively. This decrease was mainly due to a decrease in taxable operating income.

Income (loss). As a result of the factors described above, net loss was ¥3,405,196 (\$531,913) for the quarter ended September 30, 2011, a decrease of ¥4,589,287 (\$716,874) from net income of ¥1,184,091 for the same period of 2010.

Net Income Available for Common Shareholders. As a result of the factors described above, net loss available for common shareholders was ¥3,405,196 (\$531,913) for the three months ended September 30, 2011, a decrease of ¥4,248,957 (\$663,713) from ¥843,761 for same period of 2010.

Adjusted EBITDA

Adjusted EBITDA. We define adjusted EBITDA as net income (loss) adjusted to income tax expense, interest expense, non-cash stock compensation expense, depreciation, amortization and accretion expense and loss resulting from the deconsolidation of a VIE. We think it is useful to an equity investor in evaluating our operating performance because: (1) it is widely used by investors in our industry to measure a company's operating performance without regard to items such as interest expense, depreciation and amortization, which can vary substantially from company to company depending upon accounting methods and book value of assets, capital structure and the method by which the assets were acquired; and (2) it helps investors more meaningfully evaluate and compare the results of our operations from period to period by removing the impact of our capital structure and asset base from our operating results.

	For the Three Months Ended September 30,				
	2011	2010	Increase	Percentage	2011
	RMB	RMB	(Decrease)	Change	USD
Reconciliation of Adjusted EBITDA to Net Income (Loss):					
Net income (loss)	¥(3,405,196)	¥1,184,091	¥(4,589,287)	(387.58 %)	\$(531,913)
Income tax expense	108,515	805,826	(697,311)	(86.53 %)	16,951
Interest expense	142,911	113,439	29,472	25.98 %	22,323
Stock compensation expense	263,364	438,706	(175,342)	(39.97 %)	41,139
Depreciation, amortization and accretion	88,723	98,597	(9,874)	(10.01 %)	13,859
Adjusted EBITDA	¥(2,801,683)	¥2,640,659	¥(5,249,458)	(198.79 %)	\$(437,641)

Adjusted EBITDA decreased by ¥5,249,458, or 198.79%, to a loss of ¥2,801,683 (\$437,641) for the three months ended September 30, 2011 compared to the same period in 2010. This was due to loss of deconsolidation, the delays in projects caused by construction delays at some of our customers, and the extra expenses associated with our audit and increased expense for R&D. These factors caused revenues during the period to decrease and our administrative expenses to increase. Compared to net income attributable to ordinary shareholders, we believe EBITDA more accurately reflects our operations.

Liquidity and Capital Resources

Cash and Cash Equivalents. Cash and cash equivalents are comprised of cash on hand, demand deposits and highly liquid short-term debt investments with stated maturities of no more than six months. As of September 30, 2011, we had cash and cash equivalents in the amount of ¥2,034,659 (\$317,826).

Indebtedness. As of September 30, 2011, except for ¥2,654,685 (\$414,678) of short-term borrowings and a ¥5,000,000 (\$781,030) commercial loan from a local bank, we did not have any finance leases or hire purchase commitments, guarantees or other material contingent liabilities.

Holding Company Structure. We are a holding company with no operations of our own. All of our operations are conducted through our Domestic Companies. As a result, our ability to pay dividends and to finance any debt that we may incur is dependent upon the receipt of dividends and other distributions from the Domestic Companies. In addition, Chinese legal restrictions permit payment of dividends to us by our Domestic Companies only out of its accumulated net profit, if any, determined in accordance with Chinese accounting standards and regulations. Under Chinese law, our Domestic Companies are required to set aside a portion (at least 10%) of its after-tax net income (after discharging all cumulated loss), if any, each year for compulsory statutory reserve until the amount of the reserve reaches 50% of our Domestic Companies' registered capital. These funds may be distributed to shareholders at the time of its wind up. When we were incorporated in the Cayman Islands in August 2007, 5,000,000 ordinary shares were authorized, and 50,000 ordinary shares were issued to Mr. Yin Shenping, Mr. Chen Guangqiang and Mr. Li Hongqi, at a par value of \$0.01 each. On December 10, 2007, our company sold 2,632 ordinary shares to an investor for an aggregate consideration of \$200,000. On June 8, 2009, in connection with our initial public offering, the Board of Directors approved a 42.7840667-to-1 split of ordinary shares and redeemable ordinary shares to shareholders of record as of such date. After giving effect to the share split of our ordinary shares and the completion of our initial public offering, we had 3,951,811 ordinary shares outstanding.

On December 16, 2010, in light of the change of the ownership of ENI, we ceased to have the power to direct the activities of ENI, which as of that date most significantly impact its economic performance. As a result, ENI ceased to be our VIE starting from the same date.

Off-Balance Sheet Arrangements. We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. In addition, we have not entered into any derivative contracts that are indexed to our own shares and classified as shareholders' equity, or that are not reflected in our financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. Moreover, we do not have any variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

Capital Resources. To date we have financed our operations primarily through cash flows from operating operations. As of September 30, 2011 we had total assets of ¥113,131,847 (\$17,671,880), which included cash amounting to ¥2,034,659 (\$317,826), and net accounts receivable amounting to ¥45,813,668 (\$7,156,373). Working capital amounted to ¥70,742,102 (\$11,050,345) and shareholders' equity amounted to ¥78,509,587 (\$12,263,673).

Cash from Operating Activities. Net cash used in operating activities was ¥1,362,036 (\$212,758) for the three months ended September 30, 2011, an increase of ¥1,342,723 from ¥19,313 for the same period of 2010. The increase in the use of cash in the current period was due to a net loss of ¥3,405,196 for the three months ended September 30, 2011 compared to a net income of ¥1,184,091 for the same period of 2010.

Cash from Investing Activities. Net cash used in investing activities was ¥101,131 (\$15,797) for the three months ended September 30, 2011, an increase of ¥94,492 for the same period in 2010. The purchase of property and equipment was ¥6,639 for the same period of 2010.

Cash from Financing Activities. Cash flows provided by financing activities amounted to ¥0 (\$0) for the three months ended September 30, 2011 and cash flows used in financing activities amounted to ¥2,278,285 for the three months ended September 30, 2010. The decrease in the use of cash was due to the fact that we did not pay off any short-term borrowings during this quarter.

Working Capital. As of September 30, 2011, our working capital was ¥70,742,102. Total current asset as of September 30, 2011 amounted to ¥99,015,532 (\$15,466,826), a decrease of ¥1,764,907 (\$275,689) from June 30, 2011. The decrease was attributable mainly to the deconsolidation of ENI.

The current ratio decreased from 3.75 at June 30, 2011 to 3.50 at September 30, 2011.

Recently Enacted Accounting Standards

None.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

As of September 30, 2011, our company carried out an evaluation, under the supervision of and with the participation of management, including our Company's chief executive officer and chief financial officer, of the effectiveness of the design and operation of our Company's disclosure controls and procedures. In the light of the non reliance on and restatement of the quarterly reports for the quarters ended December 31, 2010 and March 30, 2011 originally filed on February 19, 2011 and May 16, 2011, respectively. The chief executive officer and chief financial officer concluded that our Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) were ineffective in timely alerting them to information required to be included in the Company's periodic Securities and Exchange Commission filings.

Changes in Internal Control over Financial Reporting

In the light of the non reliance on and restatement of the quarterly reports for the quarters ended December 31, 2010 and March 30, 2011 originally filed on February 19, 2011 and May 16, 2011, respectively. The Company has conducted a preliminary assessment of its accounting organization and the manner in which the accounting and financial reporting functions are being supported. Based on such assessment, the Company has developed a preliminary plan to

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strengthen its accounting and financial reporting functions as well as the related disclosure controls and procedures. Such plan will require the hiring of additional resources and the deployment of other corporate resources for the accounting department in relation to the financial reporting process. Such additional resources will include the establishment of a work force dedicated to the task of correcting past financial irregularities and maintaining correct financial reporting on an on-going basis. To strengthen the Company's internal control over financial reporting, the Company has engaged outside consultants that are skilled in SEC reporting and Section 404 compliance to assist in the implementation of the following remedial actions (which are targeted to be completed by June 2012):

- Development and formalization of key accounting and financial reporting policies and procedures;

- Identification and documentation of key controls by business process;

- Enhancement of existing disclosures policies and procedures;

- Formalization of periodic communication between management and the audit committee;

- Implementation of policies and procedures intended to enhance management monitoring and oversight by the Audit Committee; and

- Formalization of a periodic staff training program to enhance their awareness of the key internal control activities.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A Risk Factors.

Not applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(a) None

The section entitled “Use of Proceeds” from our registration statement filed on August 12, 2008, as amended (the “Registration Statement”) is incorporated herein by reference. The effective date of the Registration Statement is July 22, 2009, and the Commission file number assigned to the Registration Statement is 333-152964. The (b) Registration Statement registers the offering of up to 1,700,000 ordinary shares (subject to amendment in accordance with the Securities Act of 1933 and the rules and regulations promulgated thereunder) (the Offering”). As of September 30, 2011, the Company has spent proceeds from the Offering in accordance with the following chart:

Description of Use	Proposed Expenditure Amount	Actual Expenditures through September 30, 2011
Product Research and development	\$ 1,273,024	\$ 857,692
Acquisition and business development in oil-field industry in China and globally	4,073,675	4,200,000
Sarbanes-Oxley compliance	424,341	0
Fixed asset purchases	442,341	0
Employee training	169,736	6,639
General working capital	2,121,706	1,610,464
Due from former VIE	—	2,600,000
Total	\$ 8,504,823	\$ 9,274,795

(c)None

Item 3. Defaults upon Senior Securities.

None.

Item 4. (Removed and Reserved).

Item 5. Other Information.

None.

Item 6. Exhibits.

The following exhibits are filed herewith:

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Exhibit Number	Document
3.1	Amended and Restated Articles of Association of the Registrant ⁽¹⁾
3.2	Amended and Restated Memorandum of Association of the Registrant ⁽¹⁾
4.1	Specimen Share Certificate ⁽¹⁾
10.1	Translation of Exclusive Technical Consulting Service Agreement between Recon Technology (Jining) Co., Ltd. and Beijing BHD Petroleum Technology Co., Ltd. ⁽¹⁾
10.2	Translation of Power of Attorney for rights of Chen Guangqiang in Beijing BHD Petroleum Technology Co., Ltd. ⁽¹⁾
10.3	Translation of Power of Attorney for rights of Yin Shenping in Beijing BHD Petroleum Technology Co., Ltd. ⁽¹⁾
10.4	Translation of Power of Attorney for rights of Li Hongqi in Beijing BHD Petroleum Technology Co., Ltd. ⁽¹⁾
10.5	Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Chen Guangqiang and Beijing BHD Petroleum Technology Co., Ltd. ⁽¹⁾
10.6	Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Yin Shenping and Beijing BHD Petroleum Technology Co., Ltd. ⁽¹⁾
10.7	Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Li Hongqi and Beijing BHD Petroleum Technology Co., Ltd. ⁽¹⁾
10.8	Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Chen Guangqiang and Beijing BHD Petroleum Technology Co., Ltd. ⁽¹⁾
10.9	Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Yin Shenping and Beijing BHD Petroleum Technology Co., Ltd. ⁽¹⁾
10.10	Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Li Hongqi and Beijing BHD Petroleum Technology Co., Ltd. ⁽¹⁾
10.11	Translation of Exclusive Technical Consulting Service Agreement between Recon Technology (Jining) Co., Ltd. and Jining ENI Energy Technology Co., Ltd. ⁽¹⁾
10.12	Translation of Power of Attorney for rights of Chen Guangqiang in Jining ENI Energy Technology Co., Ltd. ⁽¹⁾
10.13	Translation of Power of Attorney for rights of Yin Shenping in Jining ENI Energy Technology Co., Ltd. ⁽¹⁾

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- 10.14 Translation of Power of Attorney for rights of Li Hongqi in Jining ENI Energy Technology Co., Ltd. ⁽¹⁾
- 10.15 Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Chen Guangqiang and Jining ENI Energy Technology Co., Ltd. ⁽¹⁾
- 10.16 Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Yin Shenping and Jining ENI Energy Technology Co., Ltd. ⁽¹⁾
- 10.17 Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Li Hongqi and Jining ENI Energy Technology Co., Ltd. ⁽¹⁾
- 10.18 Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Chen Guangqiang and Jining ENI Energy Technology Co., Ltd. ⁽¹⁾

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- 10.19 Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Yin Shenping and Jining ENI Energy Technology Co., Ltd. ⁽¹⁾
- 10.20 Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Li Hongqi and Jining ENI Energy Technology Co., Ltd. ⁽¹⁾
- 10.21 Translation of Exclusive Technical Consulting Service Agreement between Recon Technology (Jining) Co., Ltd. and Nanjing Recon Technology Co., Ltd. ⁽¹⁾
- 10.22 Translation of Power of Attorney for rights of Chen Guangqiang in Nanjing Recon Technology Co., Ltd. ⁽¹⁾
- 10.23 Translation of Power of Attorney for rights of Yin Shenping in Nanjing Recon Technology Co., Ltd. ⁽¹⁾
- 10.24 Translation of Power of Attorney for rights of Li Hongqi in Nanjing Recon Technology Co., Ltd. ⁽¹⁾
- 10.25 Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Chen Guangqiang and Nanjing Recon Technology Co., Ltd. ⁽¹⁾
- 10.26 Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Yin Shenping and Nanjing Recon Technology Co., Ltd. ⁽¹⁾
- 10.27 Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Li Hongqi and Nanjing Recon Technology Co., Ltd. ⁽¹⁾
- 10.28 Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Chen Guangqiang and Nanjing Recon Technology Co., Ltd. ⁽¹⁾
- 10.29 Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Yin Shenping and Nanjing Recon Technology Co., Ltd. ⁽¹⁾
- 10.30 Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Li Hongqi and Nanjing Recon Technology Co., Ltd. ⁽¹⁾
- 10.33 Employment Agreement between Recon Technology (Jining) Co., Ltd. and Mr. Yin Shenping ⁽¹⁾
- 10.34 Employment Agreement between Recon Technology (Jining) Co., Ltd. and Mr. Chen Guangqiang ⁽¹⁾
- 10.35 Employment Agreement between Recon Technology (Jining) Co., Ltd. and Mr. Li Hongqi ⁽¹⁾
- 10.36 Operating Agreement among Recon Technology (Jining) Co. Ltd., Nanjing Recon Technology Co., Ltd. and Mr. Yin Shenping, Mr. Chen Guangqiang and Mr. Li Hongqi ⁽¹⁾
- 10.37 Operating Agreement among Recon Technology (Jining) Co. Ltd., Jining ENI Energy Technology Co., Ltd., and Mr. Yin Shenping, Mr. Chen Guangqiang and Mr. Li Hongqi ⁽¹⁾
- 10.38 Operating Agreement among Recon Technology (Jining) Co. Ltd., Beijing BHD and Mr. Yin Shenping, Mr. Chen Guangqiang and Mr. Li Hongqi ⁽¹⁾

21.1 Subsidiaries of the Registrant ⁽²⁾

99.1 Stock Option Plan ⁽¹⁾

99.2 Code of Business Conduct and Ethics ⁽¹⁾

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- 31.1 Certifications pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. ⁽³⁾
- 31.2 Certifications pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. ⁽³⁾
- 32.1 Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. ⁽³⁾
- 32.1 Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. ⁽³⁾

(1) Incorporated by reference to the Company's Registration Statement on Form S-1, Registration No. 333-152964.

(2) Incorporated by reference to the Company's Quarterly Report on Form 10-Q/A, filed on January 31, 2012.

(3) Filed herewith.

SIGNATURES

In accordance with the requirements of the Exchange Act, the Company caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RECON TECHNOLOGY, LTD

January 31, 2012 By: /s/ Liu Jia
Liu Jia
Chief Financial Officer
(Principal Financial and Accounting Officer)

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RECON TECHNOLOGY, LTD

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Unaudited Condensed Consolidated Balance Sheets as of September 30, 2011 and June 30, 2011	F-2
Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the three months ended September 30, 2011 and September 30, 2010	F-3
Unaudited Condensed Consolidated Statements of Cash Flows for the three months ended September 30, 2011 and September 30, 2010	F-4
Notes to Unaudited Condensed Consolidated Financial Statements	F-5

RECON TECHNOLOGY, LTD**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

	June 30, 2011 RMB	September 30, 2011 RMB	September 30, 2011 U.S. Dollars
ASSETS			
Current Assets			
Cash and cash equivalents	¥3,485,944	¥2,034,659	\$317,826
Trade accounts receivable, net	22,329,705	23,687,652	3,700,155
Trade accounts receivable - related parties, net	25,983,172	22,126,016	3,456,218
Notes receivable	1,276,574	-	-
Other receivables, net	6,128,794	7,385,527	1,153,664
Other receivables- related parties	4,383,000	4,883,000	762,754
Purchase advances	12,152,896	12,469,181	1,947,762
Purchase advances- related parties	989,828	1,213,028	189,482
Prepaid expenses	1,016,299	934,433	145,964
Inventories	22,576,094	23,823,903	3,721,438
Deferred tax assets	458,133	458,133	71,563
Total Current Assets	100,780,439	99,015,532	15,466,826
Other receivables	12,971,481	12,971,481	2,026,224
Property and equipment, net	1,132,425	1,144,834	178,830
Total Assets	¥114,884,345	¥113,131,847	\$17,671,880
LIABILITIES AND EQUITY			
Current Liabilities			
Trade accounts payable	¥6,320,488	¥7,778,396	\$1,215,033
Other payables	2,022,401	2,125,288	331,983
Deferred income	2,420,497	1,915,697	299,243
Advances from customers	782,945	705,551	110,211
Accrued payroll and employees' welfare	157,824	167,213	26,120
Accrued expenses	345,015	450,948	70,441
Taxes payable	7,192,123	7,475,652	1,167,742
Short-term bank loan	5,000,000	5,000,000	781,030
Short-term borrowings	1,743,286	1,743,286	272,312
Short-term borrowings - related parties	911,399	911,399	142,366
Total Current Liabilities	¥26,895,978	¥28,273,430	\$4,416,481
Commitments and Contingencies			
Equity	¥529,979	¥529,979	\$82,786

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Ordinary shares (U.S. \$0.0185 par value, 25,000,000 shares authorized; 3,951,811 shares issued and outstanding)			
Additional paid-in capital	65,877,686	66,145,333	10,332,302
Appropriated retained earnings	2,058,429	2,058,429	321,539
Unappropriated retained earnings	13,502,105	10,096,156	1,577,080
Accumulated other comprehensive loss	(295,803)	(320,310)	(50,034)
Total Controlling Shareholders' Equity	81,672,396	78,509,587	12,263,673
Non-controlling Interest	6,315,971	6,348,830	991,726
Total Equity	87,988,367	84,858,417	13,255,399
Total Liabilities and Equity	¥114,884,345	¥113,131,847	\$17,671,880

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

RECON TECHNOLOGY, LTD**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE INCOME (LOSS)**

	For the Three Months Ended September 30,		
	2010	2011	2011
	RMB	RMB	U.S. Dollars
Revenues			
Hardware - third-party	¥17,433,499	¥ 3,593,772	\$561,369
Hardware - related-parties	4,365,812	1,348,817	210,693
Total revenues	21,799,311	4,942,589	772,062
Cost of revenues	14,081,493	2,465,443	385,117
Gross profit	7,717,818	2,477,146	386,945
Selling and distribution expenses	1,803,156	832,797	130,088
General and administrative expenses	4,221,814	4,876,183	761,689
Operating expenses	6,024,970	5,708,980	891,777
Income (loss) from operations	1,692,848	(3,231,834)	(504,832)
Subsidy income	451,520	-	-
Interest income	1,386	6,332	989
Interest expense	(113,439)	(142,911)	(22,324)
Other income (expenses)	(42,398)	71,732	11,205
Net income (loss) before income tax	1,989,917	(3,296,681)	(514,962)

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Provision for income tax (805,826) (108,515) (16,951)

Net income (loss)	1,184,091	(3,405,196)	Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Options Exercise Price (\$)	Option Expiration Date	Market Value of Shares or Units of Stock that have Not Vested (#) (\$)
Jong S. Whang	16,250	—	\$6.90	12/8/2016				
	10,000	—	\$6.15	11/20/2019				
	10,000	—	\$10.64	8/6/2020				
	36,667	—	\$7.98	12/15/2021				
	—	12,500 (1)	\$2.95	12/11/2022				
	12,500	37,500 (2)	\$7.01	12/12/2023				
	—	50,000 (3)	\$9.98	11/19/2024				
					4,583	(4)	\$19,707	
Fokko Pentinga	18,750	—	\$3.80	12/9/2018				
	10,000	—	\$6.15	11/20/2019				
	6,667	—	\$10.64	8/6/2020				
	85,000	—	\$7.98	12/15/2021				
	—	12,500 (1)	\$2.95	12/11/2022				
	12,500	37,500 (2)	\$7.01	12/12/2023				
	—	50,000 (3)	\$9.98	11/19/2024				
					3,750	(4)	\$16,125	
Bradley C. Anderson	7,500	—	\$6.15	11/20/2019				
	5,000	—	\$10.64	8/6/2020				
	16,667	—	\$7.98	12/15/2021				
	—	10,000 (1)	\$2.95	12/11/2022				
	8,852	26,554 (2)	\$7.01	12/12/2023				
	—	35,000 (3)	\$9.98	11/19/2024				
					2,083	(4)	\$8,957	

- (1) Unvested option awards will vest in equal installments on the first through fourth anniversaries of the December 11, 2012 grant date.
- (2) Unvested option awards will vest in equal installments on the first through fourth anniversaries of the December 12, 2013 grant date.
- (3) Unvested option awards will vest in equal installments on the first through fourth anniversaries of the November 19, 2015 grant date.
- (4) The remaining unvested restricted stock awards for Messrs. Whang, Pentinga and Anderson vested in December 2015.

Option Exercises and Stock Vested

The following table shows all stock options exercised and the value realized upon exercise, and all stock awards vested and the value realized upon vesting, by the named executive officers during fiscal 2015, which ended on September 30, 2015.

OPTION EXERCISES AND STOCK VESTED FOR FISCAL 2015

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise \$(1)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting \$(2)
Jong S. Whang	30,000	183,388	7,916	63,398
Fokko Pentinga	16,250	148,850	6,666	57,839
Bradley C. Anderson	20,002	102,050	3,541	30,523

(1) The value realized equals the difference between the option exercise price and the fair market value of Amtech common stock on the date of exercise, multiplied by the number of shares for which the option was exercised.

(2) The value realized equals the fair market value of Amtech common stock on the vesting date, multiplied by the number of shares that vested.

Pension Benefits

As previously discussed, Mr. Pentinga, our President and Chief Executive Officer, is a participant in Pensioenfond Metaal en Techniek, a multi-employer pension plan that covers our employees in the Netherlands. As of September 30, 2015, Mr. Pentinga had 21 years of credited service and the present value of accumulated benefit thereunder was \$748,000. No payments were made thereunder in fiscal 2015. None of our other named executive officers receive pension benefits.

Nonqualified Deferred Compensation

None of our named executive officers receive nonqualified deferred compensation benefits.

EMPLOYMENT AND CHANGE IN CONTROL ARRANGEMENTS

Employment Agreement with Executive Chairman

On February 9, 2012, we entered into a Second Amended and Restated Employment Agreement with Jong S. Whang, our executive chairman, as amended on July 1, 2012, June 8, 2013, April 9, 2015 and November 19, 2015. Below is a summary of the terms and conditions of Mr. Whang's employment agreement.

Term

Mr. Whang's employment agreement provides for an employment period commencing on the date of the employment agreement and continuing for an initial term of six years. Thereafter, the employment period will continue for successive one-year terms unless either we or Mr. Whang provides written notice of termination of the employment period at least 120 days prior to the end of any given term. If Mr. Whang remains in the full-time employ of our company beyond the employment period without any written agreement, his employment agreement will be deemed to continue on a month to month basis and either party will have the right to terminate the employment agreement at the end of any ensuing calendar month with written notice of at least 30 days.

Base Salary

Pursuant to his current employment agreement, Mr. Whang receives a base salary of \$200,000 per annum, which base salary shall be reviewed on an annual basis by our Compensation and Stock Option Committee. Effective July 1, 2012, Mr. Whang had voluntarily reduced his annual salary from \$400,000 to \$320,000. Effective July 1, 2013, Mr. Whang voluntarily further reduced his annual base salary to \$224,000. Effective December 1, 2014, upon approval of the Compensation and Stock Option Committee on November 18, 2014, Mr. Whang's base salary was restored to \$400,000 per annum. Effective January 1, 2016, Mr. Whang voluntarily reduced his annual salary to \$200,000. The reduction in base salary may be restored at any time in Mr. Whang's sole discretion with advance written notice to the Compensation and Stock Option Committee.

Incentive Compensation

Mr. Whang is also entitled to an annual cash bonus for each fiscal year that will be determined in accordance with an annual bonus plan adopted by our Compensation and Stock Option Committee. The annual bonus plan may not be any less favorable to Mr. Whang than the bonus plan for fiscal 2010 that was adopted by our Compensation and Stock Option Committee on December 21, 2009. The terms of Mr. Whang's 2015 bonus plan are described above in more detail in the section "Annual Cash Compensation" under the caption "Cash Bonuses".

Stock Options

Pursuant to Mr. Whang's employment agreement, any currently outstanding options held by Mr. Whang will remain in full force and effect in accordance with our stock option plans and applicable stock option agreements. Mr. Whang will also be issued an annual grant of stock options by our Compensation and Stock Option Committee within 90 days after the end of each fiscal year during his employment period. All of the options granted to Mr. Whang will be incentive stock options within the meaning of the Internal Revenue Code of 1986, or if they do not qualify as incentive stock options, they will be non-qualified stock options. The amount and terms of the grants will be determined by our Compensation and Stock Option Committee.

Benefits

Mr. Whang will be entitled to receive from our Company such employee benefits as are provided to other executive officers of the Company, including family medical, dental, vision, disability and life insurance, and participation in pension and retirement plans, incentive compensation plans, stock option plans, Company-sponsored welfare benefit plans for disability and life insurance and other benefit plans. We will provide Mr. Whang with an annual automobile allowance of not less than \$14,000 (annual allowance is currently \$18,000), a life insurance policy in the face amount

of \$500,000 and such other benefits as we may deem appropriate from time to time. Effective July 1, 2013, Mr. Whang voluntarily suspended, for an indefinite period of time, his annual auto allowance, which was fully restored by the Compensation and Stock Option Committee on November 18, 2014.

Termination

Mr. Whang's employment is "at will" and either we or Mr. Whang can terminate his employment agreement at any time, with or without "cause" or "good reason" (as those terms are defined in Mr. Whang's employment agreement), upon 30 days written notice. Mr. Whang's employment agreement can also be terminated by us due to the disability of Mr. Whang after at least 30 days' written notice by us of our intention to terminate his employment.

Severance

If we terminate the employment of Mr. Whang against his will and without cause (including by giving notice of termination of his employment agreement as described above), or if Mr. Whang terminates his employment for good reason, Mr. Whang is entitled to receive salary, incentive compensation and vacation accrued through the date of termination, plus (i) an amount equal to Mr. Whang's base salary in effect on the date of termination for the remainder of the initial three-year term or two years, whichever is greater. (which, would be up to \$1,200,000 if terminated during the first year of the term, or \$800,000 if terminated after the first year of the term); (ii) an amount equal to the maximum amount of incentive compensation he could earn for the fiscal year in which the termination occurs; and (iii) full vesting of all outstanding stock options and restricted stock held by Mr. Whang. The value of Mr. Whang's unvested stock options and unvested restricted stock at September 30, 2015 was approximately \$37,000. If Mr. Whang voluntarily terminates his employment other than for good reason, if we terminate Mr. Whang's employment for cause, or if Mr. Whang's employment is terminated due to his death or disability, Mr. Whang will be entitled to receive salary and accrued vacation through the date of termination only. However, in the event Mr. Whang's employment is terminated due to his death or disability, he will also be entitled to receive (i) a pro-rata portion of the amount of incentive compensation he would earn for the fiscal year in which the termination occurs if the results of operations of Amtech for such fiscal year were annualized, and (ii) full vesting of all outstanding stock options and restricted stock held by him.

On November 17, 2015, the Board of Directors, following the recommendation of the Company's Compensation and Options Committee of the Board of Directors, agreed to amend the change in control provisions of Mr. Whang's employment agreement to establish the base salary, for purposes of calculating the applicable termination payment, at \$400,000.

Post-Employment Consulting

Mr. Whang's employment agreement provides that upon termination of Mr. Whang against his will and without cause (including by giving notice of termination of his employment agreement as described above), or by Mr. Whang for good reason, for a period of two (2) years following the date of such termination, (i) Mr. Whang will make himself available for an average of 20 hours per week in order to consult with the Company in such manner and on such matters as the Company shall reasonably request, (ii) Mr. Whang will make himself available to serve on the Board of Directors of the Company, and (iii) in consideration for Mr. Whang's agreement to perform such services, the Company will (A) pay Mr. Whang an annual amount equal to 40% of his base salary in effect on the date he was terminated and (B) include Mr. Whang in the Company's family medical, dental and vision insurance plans, or, if Mr. Whang's inclusion in such plans is not permitted, provide substantially the same benefits to the Mr. Whang at the Company's expense.

Noncompetition

Mr. Whang agreed that during the term of his employment agreement he would not engage in certain activities in which he would be competing with us or our subsidiaries. He also agreed that for a period of two years after the end of the term of his employment agreement he would not engage in certain activities in which he would be competing with us or our subsidiaries and he would not own, directly or indirectly, more than a 5% interest in entities which compete with us or our subsidiaries.

Change in Control

In the event that Mr. Whang's employment with us is terminated either (i) by us for any reason other than for cause during a "pending change in control" (as that term is defined in Mr. Whang's employment agreement) of our Company or within one year following the occurrence of a "change in control" (as that term is defined in Mr. Whang's employment agreement), or (ii) by Mr. Whang for good reason within one year following the occurrence of a change in control of our Company, then Mr. Whang will be entitled to receive within 30 days of the date of termination of his employment (provided, however, if such 30 day period begins in one calendar year and ends in another calendar year, Mr. Whang will not have the right to designate the calendar year of payment), in lieu of the severance payment otherwise payable, (i) an amount equal to three years of his base salary in effect on the date of termination of his employment, (ii) the maximum amount of the incentive compensation which he could earn for the fiscal year in which the termination occurs, and (iii) full vesting of all outstanding stock options and restricted stock he holds.

Employment Agreement with Chief Executive Officer

On June 29, 2012, we entered into an Employment Agreement with Fokko Pentinga, our chief executive officer, as amended on July 1, 2012, on June 29, 2013, and on April 9, 2015. Below is a summary of the terms and conditions of Mr. Pentinga's employment agreement.

Term

Mr. Pentinga's employment agreement provides for an employment period commencing on the date of the employment agreement and continuing for an indefinite period as required by Dutch statutory employment law.

Base Salary

Pursuant to his Employment Agreement, Mr. Pentinga receives a base salary of \$407,000 per annum (€343,055, the euro equivalent based on a six month average exchange rate fixed one day before the effective date of the latest amendment to the Employment Agreement), which base salary shall be reviewed on an annual basis by our Compensation and Stock Option Committee and can be increased, but not decreased below \$370,000, at the discretion of our Compensation and Stock Option Committee. Effective July 1, 2012, Mr. Pentinga voluntarily reduced his annual base salary to \$314,500. Effective July 1, 2013, Mr. Pentinga voluntarily further reduced his annual base salary to \$251,600 (€193,330). His salary is paid partially in euros and partially in U.S. dollars depending on where he performs his work. Effective December 1, 2014, upon approval of the Compensation and Stock Option Committee on November 18, 2014, Mr. Pentinga's base salary was restored to \$370,000 per annum (which salary will be paid in euros based upon the exchange rate in effect as of December 15, 2011). Effective April 9, 2015, upon approval of the Compensation and Stock Option Committee on April 9, 2015, Mr. Pentinga's annual base salary was increased to \$407,000.

Incentive Compensation

Mr. Pentinga is also entitled to an annual cash bonus for each fiscal year that will be determined in accordance with an annual bonus plan adopted by our Compensation and Stock Option Committee. The annual bonus plan may not be any less favorable to Mr. Pentinga than the bonus plan for fiscal 2012 that was adopted by our Compensation and Stock Option Committee on December 15, 2011. The terms of Mr. Pentinga's 2014 bonus plan are described above in more detail in the section "Annual Cash Compensation," under the caption "Cash Bonuses."

Stock Options

Pursuant to Mr. Pentinga's employment agreement, any currently outstanding options held by Mr. Pentinga will remain in full force and effect in accordance with our stock option plans and applicable stock option agreements. Mr. Pentinga will also be issued an annual grant of stock options by our Compensation and Stock Option Committee within 90 days after the end of each fiscal year during his employment period. All of the options granted to Mr. Pentinga will be non-qualified stock options within the meaning of the Internal Revenue Code of 1986.

Benefits

Mr. Pentinga will be entitled to receive from our Company such employee benefits as are provided to other management level employees in his country of domicile (i.e. the Netherlands), including disability and life insurance, and participation in pension and retirement plans, incentive compensation plans, stock option plans, disability and life insurance and other benefit plans. We will provide Mr. Pentinga with a leased automobile at a cost of not more than €29,500 and such other benefits as we may deem appropriate from time to time.

Termination

Either we or Mr. Pentinga can terminate his employment agreement with prior written notice of termination given in accordance with Dutch statutory employment law, including observance of the Dutch statutory notice period, or by mutual agreement, or by the Company at any time for cause, as defined in the agreement. Mr. Pentinga's employment agreement can also be terminated by us due to the disability of Mr. Pentinga after meeting the requirements of Dutch statutory employment law.

Severance

If we terminate the employment of Mr. Pentinga against his will and without cause (including by giving notice of termination of his employment agreement as described above), or if Mr. Pentinga terminates his employment for good reason, Mr. Pentinga is entitled to receive salary, incentive compensation and vacation accrued through the date of termination, plus (i) an amount equal to Mr. Pentinga's base salary in effect on the date of termination for two years, which, amounts to \$814,000 (€686,110); (ii) an amount equal to the maximum amount of incentive compensation he could earn for the fiscal year in which the termination occurs; and (iii) full vesting of all outstanding stock options and restricted stock held by Mr. Pentinga. The value of Mr. Pentinga's unvested stock options and unvested restricted stock at September 30, 2015 was approximately \$33,000.

If Mr. Pentinga voluntarily terminates his employment other than for good reason, if we terminate Mr. Pentinga's employment for cause, or if Mr. Pentinga's employment is terminated due to his death or disability, Mr. Pentinga will be entitled to receive salary and accrued vacation through the date of termination. In addition, if we terminate Mr. Pentinga's employment due to disability as a result of his becoming incapacitated as defined in the Dutch Civil Code, Mr. Pentinga will be entitled to 70% of the maximum daily social wage for a maximum of 52 weeks, which would total approximately \$58,200. However, in the event Mr. Pentinga's employment is terminated due to his death or disability, he will also be entitled to receive (i) a pro-rata portion of the amount of incentive compensation he would earn for the fiscal year in which the termination occurs if the results of operations of Amtech for such fiscal year were annualized, and (ii) full vesting of all outstanding stock options and restricted stock held by him.

Noncompetition

Mr. Pentinga agreed that during the term of his employment agreement he would not engage in certain activities in which he would be competing with us or our subsidiaries. He also agreed that for a period of two years after the end of the term of his employment agreement he would not engage in certain activities in which he would be competing with us or our subsidiaries and he would not own, directly or indirectly, more than a 5% interest in entities which compete with us or our subsidiaries.

Change in Control

In the event that Mr. Pentinga's employment with us is terminated either (i) by us for any reason other than for cause during a "pending change in control" (as that term is defined in Mr. Pentinga's employment agreement) of our Company or within one year following the occurrence of a "change in control" (as that term is defined in Mr. Pentinga's employment agreement), or (ii) by Mr. Pentinga for good reason within one year following the occurrence of a change in control of our Company, then Mr. Pentinga will be entitled to receive within 30 days of the date of termination of his employment (provided, however, if such 30 day period begins in one calendar year and ends in another calendar year, Mr. Pentinga will not have the right to designate the calendar year of payment), in lieu of the severance payment

otherwise payable, (i) an amount equal to two years of his base salary in effect on the date of termination of his employment, (ii) the maximum amount of the incentive compensation which he could earn for the fiscal year in which the termination occurs, and (iii) full vesting of all outstanding stock options and restricted stock he holds.

Employment Agreement with Chief Financial Officer

On April 9, 2015, we entered into an Employment Agreement with Bradley C. Anderson, our chief financial officer. Below is a summary of the terms and conditions of Mr. Anderson's employment agreement.

Term

Mr. Anderson's employment agreement provides for an employment period commencing on the date of the employment agreement and continuing for an initial term of three years. Thereafter, the employment period will continue for successive one-year terms unless either we or Mr. Anderson provides written notice of termination of the employment period at least 120 days prior to the end of any given term. If Mr. Anderson remains in the full-time employ of our company beyond the employment period without any written agreement, his employment agreement will be deemed to continue on a month to month basis and either party will have the right to terminate the employment agreement at the end of any ensuing calendar month with written notice of at least 30 days.

Base Salary

Pursuant to his Employment Agreement, Mr. Anderson receives a base salary of \$291,500 per annum which base salary shall be reviewed on an annual basis by our Compensation and Stock Option Committee and can be increased, but not decreased at the discretion of our Compensation and Stock Option Committee.

Incentive Compensation

Mr. Anderson is also entitled to an annual cash bonus for each fiscal year that will be determined in accordance with an annual bonus plan adopted by our Compensation and Stock Option Committee. The annual bonus plan may not be any less favorable to Mr. Anderson than the bonus plan for fiscal 2010 that was adopted by our Compensation and Stock Option Committee on December 21, 2009. The terms of Mr. Anderson's 2015 bonus plan are described above in more detail in the section "Annual Cash Compensation," under the caption "Cash Bonuses."

Stock Options

Pursuant to Mr. Anderson's employment agreement, any currently outstanding options held by Mr. Anderson will remain in full force and effect in accordance with our stock option plans and applicable stock option agreements. Mr. Anderson will also be issued an annual grant of stock options by our Compensation and Stock Option Committee within 90 days after the end of each fiscal year during his employment period. All of the options granted to Mr. Anderson will be incentive stock options within the meaning of the Internal Revenue Code of 1986, or if they do not qualify as incentive stock options, they will be non-qualified stock options. The amount and terms of the grants will be determined by our Compensation and Stock Option Committee.

Benefits

Mr. Anderson will be entitled to receive from our Company such employee benefits as are provided to other executive officers of the Company, including family medical, dental, vision, disability and life insurance, and participation in pension and retirement plans, incentive compensation plans, stock option plans, Company-sponsored welfare benefit plans for disability and life insurance and other benefit plans. We will provide Mr. Anderson with an annual automobile allowance of not less than \$10,000 (annual allowance is currently \$10,000) and such other benefits as we may deem appropriate from time to time. Effective July 1, 2013, Mr. Anderson voluntarily suspended, for an indefinite period of time, his annual auto allowance, which was fully restored by the Compensation and Stock Option Committee on November 18, 2014.

Termination

Mr. Anderson's employment is "at will" and either we or Mr. Anderson can terminate his employment agreement at any time, with or without "cause" or "good reason" (as those terms are defined in Mr. Anderson's employment agreement), upon 30 days written notice. Mr. Anderson's employment agreement can also be terminated by us due to the disability of Mr. Anderson after at least 30 days' written notice by us of our intention to terminate his employment.

Severance

If we terminate the employment of Mr. Anderson against his will and without cause (including by giving notice of termination of his employment agreement as described above), or if Mr. Anderson terminates his employment for good reason, Mr. Anderson is entitled to receive salary, incentive compensation and vacation accrued through the date of termination, plus (i) an amount equal to Mr. Anderson's base salary in effect on the date of termination for the remainder of the initial three-year term or two years, whichever is greater (which would be up to \$874,500 if terminated during the first year of the term, or \$583,000 if terminated after the first year of the term); (ii) an amount equal to the maximum amount of incentive compensation he could earn for the fiscal year in which the termination occurs; and (iii) full vesting of all outstanding stock options and restricted stock held by Mr. Anderson. The value of Mr. Anderson's unvested stock options and unvested restricted stock at September 30, 2015 was approximately \$22,000. If Mr. Anderson voluntarily terminates his employment other than for good reason, if we terminate Mr. Anderson's employment for cause, or if Mr. Anderson's employment is terminated due to his death or disability, Mr. Anderson will be entitled to receive salary and accrued vacation through the date of termination only. However, in the event Mr. Anderson's employment is terminated due to his death or disability, he will also be entitled to receive (i) a pro-rata portion of the amount of incentive compensation he would earn for the fiscal year in which the termination occurs if the results of operations of Amtech for such fiscal year were annualized, and (ii) full vesting of all outstanding stock options and rest

Noncompetition

Mr. Anderson agreed that during the term of his employment agreement he would not engage in certain activities in which he would be competing with us or our subsidiaries. He also agreed that for a period of two years after the end of the term of his employment agreement he would not engage in certain activities in which he would be competing with us or our subsidiaries and he would not own, directly or indirectly, more than a 5% interest in entities which compete with us or our subsidiaries.

Change in Control

In the event that Mr. Anderson's employment with us is terminated either (i) by us for any reason other than for cause during a "pending change in control" (as that term is defined in Mr. Anderson's employment agreement) of our Company or within one year following the occurrence of a "change in control" (as that term is defined in Mr. Anderson's employment agreement), or (ii) by Mr. Anderson for good reason within one year following the occurrence of a change in control of our Company, then Mr. Anderson will be entitled to receive within 30 days of the date of termination of his employment (provided, however, if such 30 day period begins in one calendar year and ends in another calendar year, Mr. Anderson will not have the right to designate the calendar year of payment), in lieu of the severance payment otherwise payable, (i) an amount equal to three years of his base salary in effect on the date of termination of his employment, (ii) the maximum amount of the incentive compensation which he could earn for the fiscal year in which the termination occurs, and (iii) full vesting of all outstanding stock options and restricted stock he holds.

Other Compensatory Arrangements

On November 17, 2015, upon the recommendation of the Compensation and Stock Option Committee, the Board approved stock option grants for certain named executive officers. Mr. Whang received a grant of an option to purchase 50,000 shares of the Company's common stock. Mr. Pentinga received a grant of an option to purchase 50,000 shares of the Company's common stock. Mr. Anderson received a grant of an option to purchase 35,000 shares of the Company's common stock. The options granted have an exercise price of \$5.25 (the closing price of the Company's common stock on November 16, 2015) and will vest on the first four (4) anniversaries of the grant date. On November 17, 2015, the

Company granted Mr. van der Wanssem an option to purchase 6,000 shares of the Company's common stock. The options granted to Mr. van der Wanssem have an exercise price of \$5.25 and will vest on the first three (3) anniversaries of the grant date.

Compensation Policies and Practices as Related to Risk Management

The Compensation and Stock Option Committee does not believe the Company's compensation policies and practices create risks that are reasonably likely to have a material adverse effect on the Company. The Compensation and Stock Option Committee has determined that the Company's executive compensation program does not encourage unnecessary or excessive risk taking as a result of the following factors:

As discussed elsewhere in this Proxy Statement, our executive officer compensation includes a balanced mix of cash and equity.

Base salaries do not encourage risk taking as they are fixed in amount.

Performance-based cash bonus awards under the non-equity incentive plan focus on achievement of short-term or annual goals. Although this may seem to encourage the taking of short-term risks at the expense of long-term results, these bonuses in actuality represent only a portion of the executive officers' total compensation opportunities, and the Compensation and Stock Option Committee believes that the non-equity incentive plan awards appropriately balance risk and the desire to focus executives on specific short-term individual and financial goals important to the Company's success.

Discretionary cash bonuses are awarded at the discretion of the Compensation and Stock Option Committee, which allows the Compensation and Stock Option Committee to evaluate whether the executives are engaging in activities that create risks prior to awarding any such cash bonuses. This discretion mitigates the likelihood that executives will engage in activities that create risk, and allows the Compensation and Stock Option Committee the ability to refrain from rewarding any such risk-taking.

Compensation provided to the executive officers in the form of long-term equity awards is important to help further align executives' interests with those of the Company's shareholders. The Compensation and Stock Option Committee believes that these awards do not encourage unnecessary or excessive risk taking because the ultimate value of the awards is tied to the Company's stock price over the long-term. In addition, the awards are subject to long-term vesting schedules to help ensure that executives have significant value tied to long-term stock price performance.

AUDIT COMMITTEE REPORT

In accordance with its written charter adopted by our Board of Directors on January 12, 2012, a copy of which is available on the Company's website at www.amtechsystems.com, the Audit Committee is responsible for reviewing and discussing the audited financial statements with management, discussing with the Company's auditors information relating to the auditors' judgments about the quality of the Company's accounting practices, recommending to our Board of Directors that the Company include the audited financial statements in its Annual Report on Form 10-K and overseeing compliance with the requirements of the SEC for disclosure of auditors' services and activities. Moreover, the Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the independent, registered public accounting firm.

The Board of Directors annually reviews the independence of the Audit Committee members in view of FINRA's listing standards' and the SEC's definitions of independence for audit committee members. The Board has determined that each of the members of the Audit Committee meets those definitions and standards. Additionally, each member of the Audit Committee is financially literate, and one of the Audit Committee members, Michael Garnreiter, has financial management expertise as required by NASDAQ's rules and meets the SEC's definition of an "audit committee financial expert."

Management is responsible for the preparation, presentation and integrity of the Company's financial statements, accounting and financial reporting principles, internal controls, and procedures designed to ensure compliance with accounting standards and applicable laws and regulations. The Company's independent auditors are responsible for performing an independent audit of the consolidated financial statements and expressing an opinion on the conformity of those financial statements with generally accepted accounting principles.

The Audit Committee meets with the external auditors and management to review the Company's financial results before publication of the Company's quarterly earnings press releases and the filing of the Company's quarterly reports on Form 10-Q and annual report on Form 10-K. Additionally, management provides the Audit Committee with periodic updates throughout the year on the Company's compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. The Committee also monitors the activities and performance of the external auditors, including audit scope, audit fees, auditor independence and performance of non-audit services. All services to be performed by the Company's independent registered public accounting firm are subject to pre-approval by the Audit Committee.

The Audit Committee meets regularly with the independent accountants without management present and also meets in executive session without any others present. The Audit Committee has reviewed the Company's consolidated financial statements for the fiscal year ended September 30, 2015, as audited by its independent auditors, Mayer Hoffman McCann P.C. ("Mayer Hoffman"), and has discussed these financial statements with management. In addition, the Audit Committee has discussed with Mayer Hoffman the matters required to be discussed by the statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1 AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T. Furthermore, the Audit Committee has received the written disclosures and the letter from Mayer Hoffman required by applicable requirements of the Public Company Accounting Oversight Board regarding Mayer Hoffman's communications with the Audit Committee concerning independence and has discussed with Mayer Hoffman its independence.

Based upon the foregoing review and discussion, the Audit Committee recommended to our Board of Directors that the audited financial statements for the fiscal year ended September 30, 2015 be included in the Company's Annual Report on Form 10-K for filing with the SEC.

RESPECTFULLY SUBMITTED,

Michael Garnreiter, Chairman
Robert F. King
Robert F. King
Sukesh Mohan

PRE-APPROVAL POLICY

In March 2008, the Audit Committee adopted a Pre-Approval Policy (the "Policy") governing the approval of all audit and non-audit services performed by the Company's independent auditor in order to ensure that the performance of such services does not impair the auditor's independence.

According to the Policy, the Audit Committee will annually review and pre-approve the types of services, and will set a limit on the fees for such services, that may be provided by the independent auditor during the following year. The Policy specifically describes the annual audit services and fees, other services that are audit-related, the preparation of tax returns and tax related compliance services and all other services that have the general pre-approval of the Audit Committee. The term of any general pre-approval is twelve (12) months from the date of pre-approval, unless the Audit Committee specifically provides for a different period.

Any service to be provided by the independent auditor that has not received general pre-approval under the Policy is required to be submitted to the Audit Committee for approval prior to the commencement of a substantial portion of the engagement. Any proposed service exceeding pre-approved cost levels is also required to be submitted to the Audit Committee for specific approval. For the fiscal years ended September 30, 2015 and 2014, all services rendered by the Company's independent auditors were pre-approved by the Audit Committee pursuant to the pre-approval Policy.

The Audit Committee will revise the list of general pre-approved services from time to time based on subsequent determinations. The Audit Committee does not delegate its responsibilities to pre-approve services performed by the independent auditor to management.

DISCLOSURE OF AUDIT AND NON-AUDIT FEES

The following table sets forth the fees billed to us by our independent auditors for services rendered for the audit of our annual financial statements and the review of our quarterly financial statements for the fiscal years ended September 30, 2015 and 2014, and fees billed during those fiscal years for (i) services by our auditor that are reasonably related to the performance of the audit or review of our financial statements and that are not reported as audit fees, (ii) services rendered in connection with tax compliance, tax advice and tax planning, and (iii) all other fees for services rendered.

Our independent auditors, Mayer Hoffman McCann P.C. ("MHM") leases substantially all of its personnel, who work under the control of MHM shareholders, from wholly-owned subsidiaries of CBIZ, Inc., in an alternative practice structure.

	Year Ended Sept. 30, 2015	Year Ended Sept. 30, 2014
Audit Fees (1)	\$328,400	\$311,000
Audit-Related Fees	—	—
Tax Fees	—	—
All Other Fees	—	—
Total Fees	\$328,400	\$311,000

Annual audit and review of financial statements included in the Company's reports on Form 10-Q and Form 10-K, (1) including an audit of the Company's internal control over financial reporting, and services normally provided by the auditors in connection with statutory and regulatory filings.

Code of Ethics

The Board of Directors has adopted a Code of Ethics for all employees of the Company, as recommended by the Nominating and Governance Committee. A copy of this Code of Ethics may be viewed on our website (www.amtechsystems.com), or obtained at no charge by written request to the Company's Corporate Secretary.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

We had no transactions during fiscal 2015, nor are any transactions currently proposed, with any director, director nominee, executive officer, security holder known to us to own of record or beneficially more than 5% of the common stock, or any member of the immediate family of any of the foregoing persons, in which the amount involved exceeded \$120,000.

The written policy of the Board is for its Nominating and Governance Committee to review each related person transaction (as defined below) and determine whether it will approve or ratify that transaction. Any Board member who has any interest (actual or perceived) will not be involved in the consideration of Directors.

For purposes of the policy, a "related person transaction" is any transaction, arrangement or relationship in which we are a participant and, the related person (defined below) had, has or will have a direct or indirect material interest and the aggregate amount involved is expected to exceed \$120,000 in any calendar year. "Related person" includes (a) any person who is or was (at any time during the last fiscal year) an officer, director or nominee for election as a director; (b) any person or group who is a beneficial owner of more than 5% of our voting securities; (c) any immediate family member of a person described in provisions (a) or (b) of this sentence; or (d) any entity in which any of the foregoing persons is employed, is a partner or has a greater than 5% beneficial ownership interest.

In determining whether a related person transaction will be approved or ratified, the Board, or committee, will consider a multitude of factors including (a) the extent of the related person's interest in the transaction; (b) the availability of other sources of comparable products or services; (c) whether the terms are competitive with terms generally available in similar transactions with persons that are not related persons; (d) the benefit to us; and (e) the aggregate value of the transaction.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information concerning the beneficial ownership of our common stock as of January 19, 2016, by (i) each director, director nominee and executive officer of Amtech, including the named executive officers, (ii) all executive officers directors and director nominees of Amtech as a group. The information included in the tables below was determined in accordance with Rule 13d-3 under the Exchange Act and is based upon the information furnished by the persons listed below. Except as otherwise indicated, each shareholder listed possesses sole voting and investment power with respect to the shares indicated as being beneficially owned.

Name and Address (1) (2)	No. of Shares of Common Stock Beneficially Held (3)	Percent of Common Stock Ownership (3)	
Officers and Directors:			
Jong S. Whang	188,333	(4) 1.4	%
Fokko Pentinga	179,167	(5) 1.3	%
Bradley C. Anderson	100,677	(6) *	
Paul J. van der Wansem	676,416	(7) 5.1	%
Robert M. Averick	2,400,000	(8) 18.3	%
Michael Garnreiter	39,000	(9) *	
Egbert J. G. Goudena	36,000	(10) *	
Robert F. King	48,000	(11) *	
Sukesh Mohan	—	—	%
Director and Officer Total (9 people)	3,667,593	(12) 27.9	%

*Less than 1%.

(1) The address for each person listed in this table is c/o Amtech Systems, Inc., 131 South Clark Drive, Tempe, Arizona 85281.

(2) Mr. Whang is our Executive Chairman and Chairman of the Board of Directors. Mr. Pentinga is our President and CEO and is a director. Mr. Anderson is our Executive Vice President-Chief Financial Officer, Treasurer and Secretary. Mr. van der Wansem is a member of the management executive committee and is a director. Messrs. Averick, Garnreiter, Goudena, King and Mohan are directors of Amtech.

(3) Based on 13,167,509 shares of common stock outstanding as of January 19, 2016. The share amounts and percentages shown include shares of common stock actually owned as of January 19, 2016, and shares of common stock with respect to which the person had the right to acquire beneficial ownership within 60 days of such date pursuant to options or warrants. All shares of common stock that the identified person had the right to acquire within 60 days of January 19, 2016, upon the exercise of options or warrants, are deemed to be outstanding when computing the percentage of the securities owned by such person, but are not deemed to be outstanding when computing the percentage of the securities owned by any other person.

(4) Includes 116,667 shares issuable upon exercise of options exercisable within 60 days of January 19, 2016.

(5) Includes 164,167 shares issuable upon exercise of options exercisable within 60 days of January 19, 2016.

(6) Includes 60,620 shares issuable upon exercise of options exercisable within 60 days of January 19, 2016.

(7) Includes 133,243 shares issuable upon exercise of options exercisable within 60 days of January 19, 2016.

(8) Mr. Averick was not a director during the past fiscal year, and was appointed to the board on January 15, 2016. Mr. Averick is the Portfolio Manager at Kokino LLC, which is a family office that provides investment m

agement services to various clients who own shares of the Company's common stock, including (i) Leslie J. Schreyer, as Trustee under Trust Agreement dated December 23, 1989 FBO the issue of Jonathan D. Sackler (the "Trust"); (ii) M3C Holdings LLC ("M3C"); and (iii) Piton Capital Partners LLC ("Piton"). As the Portfolio Manager at Kokino LLC, Mr. Averick shares the power to vote and dispose (or direct the disposition of) 2,400,000 shares of common stock, which is the sum of the common stock beneficially owned by the following persons: (i) 1,386,312 shares of common stock beneficially owned by the Trust; (ii) 263,688 shares of common stock beneficially owned by the M3C; (iii) 600,000 shares of common stock beneficially owned by Piton; and (iv) 150,000 shares of common stock beneficially owned by Mr. Averick jointly with his wife. Mr. Averick has no pecuniary interest in the shares of Common Stock held by the Trust, M3C or Piton, except for a minority interest he owns in Piton.

(9) Includes 39,000 shares issuable upon exercise of options exercisable within 60 days of January 19, 2016.

(10) Includes 29,000 shares issuable upon exercise of options exercisable within 60 days of January 19, 2016

(11) Includes 38,000 shares issuable upon exercise of options exercisable within 60 days of January 19, 2016.

(12) Includes 580,697 shares issuable upon exercise of options exercisable within 60 days of January 19, 2016.

The following table sets forth certain information concerning the beneficial ownership of our common stock based on information received by the Company as of January 19, 2016, by each person known by us to be the beneficial owner of more than 5% of our common stock based on such filings.

Name and Address	No. of Shares of Common Stock Beneficially Held (1)	Percent of Common Stock Ownership (1)
5% Shareholders		
Leslie J. Schreyer, as Trustee FBO the issue of Jonathan D. Sackler	1,386,312	(2) 10.5 %
Royce & Associates LLC	1,382,168	(3) 10.5 %

Based on 13,167,509 shares of common stock outstanding as of January 19, 2016. The share amounts and percentages shown include shares of common stock actually owned as of January 19, 2016, and shares of common stock with respect to which the person had the right to acquire beneficial ownership within 60 days of such date (1) pursuant to options or warrants. All shares of common stock that the identified person had the right to acquire within 60 days of January 19, 2016, upon the exercise of options or warrants, are deemed to be outstanding when computing the percentage of the securities owned by such person, but are not deemed to be outstanding when computing the percentage of the securities owned by any other person.

Information based on Schedule 13G/A filed with the SEC on August 27, 2015. Leslie J. Schreyer is Trustee under a Trust Agreement dated December 23, 1989 FBO the issue of Jonathan D. Sackler. Represents shares held in the Trust, for which Leslie J. Schreyer serves as sole Trustee and has voting power and dispositive power over such (2) shares. Leslie J. Schreyer has no pecuniary interest in the shares held by the Trust. The Trust is a member of Piton, along with other clients of Kokino LLC. In the aggregate, clients of and other persons associated with Kokino LLC beneficially own 2,422,917 shares of common stock. The address for Leslie J. Schreyer is c/o Chadbourne & Parke LLP 1301 Avenue of Americas, New York, NY 10019.

Information based on Form 13G/A filed with the SEC on January 7, 2016. The address for Royce & Associates, (3) LLC is 745 Fifth Avenue, New York, NY 10151.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the Company's directors and executive officers, as well as persons beneficially owning more than 10% of our outstanding Common Stock, to file certain reports of ownership with the SEC within specified time periods. Such officers, directors and shareholders are also required by SEC rules to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on our review of such forms received by us during the fiscal year ended September 30, 2015, or written representations from certain reporting persons, we believe that between October 1, 2014 and September 30, 2015, all Section 16(a) filing requirements applicable to its officers, directors and 10% shareholders were complied with, except for one transaction. On May 26, 2015, a partner associated with Mr. van der Wansem's family trust removed 1,645 shares of common stock in connection with his resignation from the partnership. Mr. van der Wansem filed a Form 5 on January 11, 2016 to disclose this transaction.

PROPOSAL NO. 2 -- TO APPROVE THE RATIFICATION OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

The Audit Committee has selected the independent registered public accounting firm Mayer Hoffman McCann P.C. to audit our financial statements for the fiscal year ending September 30, 2016, and is seeking ratification of that choice by our shareholders. Regardless of whether the selection is ratified, the Audit Committee is responsible for the selection and ongoing oversight of the auditors and has the authority to replace Mayer Hoffman as the auditors for the 2016 fiscal year, if it deems it appropriate to do so. Any such change subsequent to the Annual Meeting will not be submitted to the shareholders for ratification.

The Board of Directors anticipates that one or more representatives of Mayer Hoffman will be present at the Annual Meeting. Any such representative will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

PROPOSAL NO. 3 -- ADVISORY VOTE TO APPROVE NAMED EXECUTIVE OFFICER COMPENSATION

We are seeking an advisory vote from our shareholders to approve the compensation of our named executive officers. This proposal, commonly known as a "Say on Pay" proposal, gives our shareholders the opportunity to express their views on the compensation of our named executive officers.

Our Compensation and Stock Option Committee establishes our general compensation policies and specific compensation for each of our executive officers, and administers our equity incentive compensation program. Our Compensation and Stock Option Committee is responsible for developing, administering and interpreting the compensation program for executive officers and other key employees.

Our Compensation and Stock Option Committee's objective is to make the compensation packages of our executive officers sufficient to attract and retain persons of exceptional quality and to provide effective incentives to motivate and reward our executives for achieving our financial and strategic goals, which are essential to our long-term success and growth in shareholder value.

Our compensation programs for our named executive officers are designed to achieve the following objectives:

- attract and retain talented and experienced executives in our industry;
- motivate and reward executives whose knowledge, skills and performance are critical to our success;
- align the interests of our executives and shareholders by rewarding executives when shareholder value increases; and

motivate our executives to manage our business to meet our short-term and long-term corporate goals and business objectives, and reward them for meeting these objectives.

We use a mix of short-term compensation in the form of base salaries and cash incentive bonuses and long-term compensation in the form of equity incentive compensation to provide a total compensation structure that is designed to encourage our executives to achieve these objectives.

Shareholders are urged to read the Compensation Discussion and Analysis section of this Proxy Statement and the tabular disclosure regarding named executive officer compensation (together with the accompanying narrative disclosure) in this Proxy Statement, which discusses how our compensation policies and procedures implement our compensation philosophy. The Compensation and Stock Option Committee and the Board of Directors believe that these policies and procedures are effective in implementing our compensation philosophy and in achieving its goals. The Board of Directors believes that the compensation of our named executive officers is appropriate and recommends a vote FOR the following advisory resolution:

RESOLVED, that the shareholders approve, on an advisory basis, the compensation of the Company's named executive officers, as disclosed pursuant to the compensation disclosure rules of the SEC (which disclosure includes the Compensation Discussion and Analysis, the compensation tables and any related material).

Although the advisory vote is non-binding, the Compensation and Stock Option Committee and the Board of Directors will review the results of the vote. The Compensation Committee will consider our shareholders' concerns and take them into account in future determinations concerning our executive compensation program. The Board of Directors therefore recommends that you indicate your support for the compensation policies and procedures for our named executive officers, as outlined in the above resolution.

OTHER MATTERS

Annual Report

The Annual Report of the Company for the fiscal year ended September 30, 2015, is enclosed herewith.

Voting By Proxy

If your shares are registered directly in your name, you may vote:

Via the Internet. Go to the website www.investorvote.com/ASYS and follow the instructions. You must specify how you want your shares voted or your Internet vote cannot be completed. Votes have to be received no later than 1:00 am Eastern Standard Time the morning of the Meeting.

By Telephone. To vote by phone, call 1-800-652-VOTE (8683) toll free from the U.S. and Canada and follow the instructions. You must specify how you want your shares voted and confirm your vote at the end of the call or your telephone vote cannot be completed. Votes have to be received no later than 1:00 am Eastern Standard Time the morning of the Meeting.

By Mail. Complete and sign the enclosed proxy card and mail it in the enclosed postage prepaid envelope for receipt on or before March 8, 2016. If you execute the proxy but do not specify how you want your shares voted, the shares will be voted in accordance with the recommendations of the Board set forth in the proxy statement.

If your shares are held in "street name" (held for your account by a broker or other nominee):

Your broker, bank or other nominee should give you instructions for voting your shares. You may vote by Internet, telephone or mail as instructed by your broker, bank or other nominee. You may

also vote in person if you obtain a legal proxy from your broker, giving you the right to vote your shares at the Meeting and you bring verification of your ownership of Common Stock to the meeting.

You may revoke your proxy and/or change your vote at any time before the Meeting.

If your shares are registered directly in your name, you must do one of the following:

Via the Internet or by Telephone. Cast your votes again via the Internet or by telephone by following the directions above. Only the last Internet or telephone vote will be counted.

By Mail. Sign a new proxy card and submit it as instructed above, or send a notice revoking your proxy to the Secretary so that it is received on or before March 8, 2016.

In Person at the Annual Meeting. Attend the Meeting and vote in person. Presence at the Meeting will not revoke your proxy unless you specifically request that your proxy be revoked.

If your shares are held through a broker or other nominee and you would like to change your voting instructions, please follow the instructions provided by your broker.

Independent Auditors

Our Board of Directors selected the accounting firm of Mayer Hoffman McCann P.C. as the Company's independent registered public accountants for the fiscal year ending September 30, 2015 and expects to reappoint them for the fiscal year ending September 30, 2016, immediately following the Annual Meeting. A representative of Mayer Hoffman is expected to be present at the Annual Meeting and will have the opportunity to make a statement if he or she so desires, and will also be available to respond to appropriate questions.

Deadline for Shareholder Proposals for Action at the Company's Next Annual Meeting

The Company anticipates holding its 2017 Annual Meeting of Shareholders on March 9, 2017. Any shareholder who wishes to present any proposal for shareholder action at the 2017 Annual Meeting of Shareholders must, in addition to complying with any other applicable requirements, including, without limitation, those set forth in Rule 14a-8 of the Exchange Act, submit notice of such proposal to the Company's Secretary, at the Company's offices, not later than September 27, 2016, in order to be included in the Company's proxy statement and form of proxy for that meeting. Such proposals should be addressed to the Corporate Secretary, Amtech Systems, Inc., 131 South Clark Drive, Tempe, Arizona 85281. If a shareholder proposal is introduced at the 2017 Annual Meeting of Shareholders without any discussion of the proposal in the Company's proxy statement, and the shareholder does not notify the Company on or before December 21, 2016, as required by SEC Rule 14(a)-4(c)(1), of the intent to raise such proposal at the Annual Meeting of Shareholders, then proxies received by the Company for the 2017 Annual Meeting will be voted by the persons named in such proxies in their discretion with respect to such proposal. Notice of such proposal is to be sent to the above address.

Shareholder Communications with Board of Directors

The Company does not have formal procedures for shareholder communications with the Board of Directors. However, any matter intended for the Board of Directors or any Board Committee should be directed to the Corporate Secretary of the Company at 131 South Clark Drive, Tempe, Arizona 85281, with a request to forward the same to the intended recipient. All shareholder communications delivered to the Corporate Secretary of the Company for forwarding to the Board of Directors or specified Board members will be forwarded in accordance with the shareholder's instructions.

NO INCORPORATION BY REFERENCE

In our filings with the SEC, information is sometimes “incorporated by reference.” This means that we refer you to information previously filed with the SEC that should be considered as part of the particular filing. As provided under SEC regulations, the “Audit Committee Report” and the “Compensation Committee Report” contained in this Proxy Statement specifically are not incorporated by reference into any other filings with the SEC and shall not be deemed to be “Soliciting Material.” In addition, this Proxy Statement includes several website addresses. These website addresses are intended to provide inactive, textual references only. The information on these websites is not part of this Proxy Statement.

HOUSEHOLDING OF PROXY MATERIALS

The Securities and Exchange Commission permits companies and intermediaries (i.e., brokers) to satisfy the delivery requirements for proxy statements with respect to two or more security holders sharing the same address by delivering a single proxy statement addressed to those security holders. This process, which is commonly referred to as “householding,” potentially means extra convenience for security holders and cost savings for companies.

If you are currently receiving multiple copies of the Company’s Proxy Statement and Annual Report at your address and would like to request householding of your communications, please contact your broker. Once you have elected householding of your communications, householding will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in householding, and would prefer to receive a separate Proxy Statement and Annual Report, please notify your broker if you own shares in street name, or direct your written request to Amtech Systems, Inc., 131 South Clark Drive, Tempe, Arizona 85281, Attn: Secretary if you are a shareholder of record. Shareholders currently participating in householding may request additional copies of the Proxy Statement and Annual Report by contacting the Company at (480) 967-5146.

By Order of the Board of Directors:

Bradley C. Anderson, Secretary

Tempe, Arizona
January 25, 2016

Amtech Systems, Inc.

Holder Account Number

Electronic Voting Instructions Available 24 hours a day, 7 days a week!

Instead of mailing your proxy, you may choose one of the voting methods outlined below to vote your proxy.

VALIDATION DETAILS ARE LOCATED BELOW IN THE TITLE BAR. Proxies submitted by the Internet or telephone must be received by 1:00 a.m., Eastern Standard Time, on March 9, 2016.

Vote by Internet

- Go to www.investorvote.com/ASYS
- Or scan the QR code with your smartphone
- Follow the steps outlined on the secure website

Vote by telephone

- Call toll free 1-800-652-VOTE (8683) within the USA, US territories & Canada on a touch tone telephone
- Follow the instructions provided by the recorded message

A. Proposals-The Board of Directors recommends a vote FOR all the nominees listed and FOR Proposals 2 through 3.

1. ELECTION OF DIRECTORS:

	For	Withhold	
1. Jong S. Whang	<input type="radio"/>	<input type="radio"/>	votes
2. Fokko Pentinga	<input type="radio"/>	<input type="radio"/>	votes
3. Robert Averick	<input type="radio"/>	<input type="radio"/>	votes
4. Michael Garnreiter	<input type="radio"/>	<input type="radio"/>	votes
5. Egbert J. G. Goudena	<input type="radio"/>	<input type="radio"/>	votes
6. Robert F. King	<input type="radio"/>	<input type="radio"/>	votes
7. Sukesh Mohan	<input type="radio"/>	<input type="radio"/>	votes
8. Paul J. van der Wansem	<input type="radio"/>	<input type="radio"/>	votes

To specify a method of cumulative voting, mark the box to the left with an "X" and write the number of shares you wish to vote in favor of each nominee on the line next to such nominee's name above.

2. RATIFICATION OF THE APPOINTMENT OF MAYER HOFFMAN MCCANN P.C. AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL YEAR 2016

For	Against	Abstain
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

3. ADVISORY VOTE TO APPROVE NAMED EXECUTIVE OFFICER COMPENSATION

For	Against	Abstain
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

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B. Authorized Signatures – This section must be completed for your vote to be counted - Date and Sign below
Please sign exactly as your name appears on the front of this proxy card. When shares are held in common or in joint tenancy, both should sign. When signing as attorney, as executor, administrator, trustee or guardian, please give full title as such. If a corporation, sign in full corporate name by President or other authorized officer. If a partnership, please sign in partnership name by an authorized person. Please return in the enclosed, postage-paid envelope. The undersigned agrees that the proxy holder is authorized to cumulate votes in the election of directors and to vote for less than all of the nominees.

Date (mm/dd/yyyy) Signature 1 - Please keep signature within the box Signature 2 - Please keep signature within the box

[__/__/____] [_____
[_____]

IF VOTING BY MAIL, YOU MUST COMPLETE SECTIONS A - C ON BOTH SIDES OF THIS CARD

PROXY - AMTECH SYSTEMS, INC.

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS
OF AMTECH SYSTEMS, INC. FOR THE 2016 ANNUAL MEETING OF SHAREHOLDERS

The undersigned shareholder of Amtech Systems, Inc., an Arizona corporation (the “Company”), hereby acknowledges receipt of the Notice of Annual Meeting of Shareholders dated January 25, 2016, and hereby appoints Jong S. Whang, Fokko Pentinga, Bradley C. Anderson and Robert T. Hass, and each of them, proxies and attorneys-in-fact, with full power of substitution, on behalf and in the name of the undersigned, to represent the undersigned at the Annual Meeting of Shareholders of AMTECH SYSTEMS, INC. to be held at The Tempe Mission Palms Hotel, 60 East 5th Street, Tempe, Arizona, USA, on Wednesday, March 9, 2016, at 9:00 a.m., Arizona time, and at any adjournment(s) or postponement(s) thereof, and to vote all shares of Common Stock that the undersigned would be entitled to vote if then and there personally present, on the matters set forth on the reverse side.

This form of proxy confers discretionary authority to cumulate votes with respect to the election of directors. Unless you have specified on the proxy card how you want your shares voted with respect to the election of directors, the proxy agents intend to cumulatively vote all of the shares covered by the proxies solicited by this Proxy Statement in favor of the number of nominees named in this Proxy Statement as they may, in their discretion, determine is required to elect the maximum number of nominees named in this Proxy Statement.

THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED SHAREHOLDER. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR THE ELECTION OF THE NOMINEES NAMED ON THE REVERSE SIDE AND AS SAID PROXIES DEEM ADVISABLE ON SUCH MATTERS AS MAY COME BEFORE THE MEETING.

C. Non-Voting Items

Change of Address - Please print your new address below. Comments - Please print your comments below.

[_____] [_____]

IF VOTING BY MAIL, YOU MUST COMPLETE SECTIONS A - C ON BOTH SIDES OF THIS CARD