

ADVANCED ENERGY INDUSTRIES INC

FORM 10-Q (Quarterly Report)

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Address	1625 SHARP POINT DR FT COLLINS, Colorado 80525
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Industry	Electronic Instr. & Controls
Sector	Technology
Fiscal Year	12/31

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended March 31, 2000.

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

For the transition period from _____ to _____.

Commission file number: 0-26966

ADVANCED ENERGY INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

84-0846841

(State or other jurisdiction of incorporation
or organization)

(I.R.S. Employer
Identification No.)

1625 SHARP POINT DRIVE, FORT COLLINS, CO

80525

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (970) 221-4670

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 X No .

As of April 14, 2000, there were 28,493,502 shares of the Registrant's Common Stock, par value \$0.001 per share, outstanding.

ADVANCED ENERGY INDUSTRIES, INC.
FORM 10-Q
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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ADVANCED ENERGY INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (IN THOUSANDS)

	MARCH 31, 2000 (UNAUDITED)	DECEMBER 31, 1999
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 17,148	\$ 19,352
Marketable securities - trading	198,718	186,440
Accounts receivable, net	48,899	43,343
Income tax receivable	6	1,224
Inventories	28,302	25,474
Other current assets	2,073	1,708
Deferred income tax assets, net	3,080	3,080
	-----	-----
Total current assets	298,226	280,621
	-----	-----
PROPERTY AND EQUIPMENT, net	16,997	16,675
OTHER ASSETS:		
Deposits and other	506	533
Goodwill and intangibles, net	7,604	7,949
Demonstration and customer service equipment, net	2,075	2,197
Deferred debt issuance costs, net	4,250	4,410
	-----	-----
Total assets	\$329,658	\$312,385
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable trade	\$ 11,844	\$ 14,481
Accrued payroll and employee benefits	9,080	7,341
Other accrued expenses	2,223	2,207
Customer deposits	791	804
Accrued income taxes payable	3,999	886
Current portion of long-term debt	3,102	2,147
Accrued interest payable on convertible subordinated notes	2,658	886
	-----	-----
Total current liabilities	33,697	28,752
	-----	-----
LONG-TERM LIABILITIES:		
Capital lease obligations and notes payable, net of current portion	111	158
Convertible subordinated notes payable	135,000	135,000
	-----	-----
	135,111	135,158
	-----	-----
Total liabilities	168,808	163,910
	-----	-----
MINORITY INTEREST	111	128
	-----	-----
STOCKHOLDERS' EQUITY	160,739	148,347
	-----	-----
Total liabilities and stockholders' equity	\$329,658	\$312,385
	=====	=====

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

ADVANCED ENERGY INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	THREE MONTHS ENDED MARCH 31,	
	2000	1999
	(UNAUDITED)	(UNAUDITED)
SALES	\$ 67,171	\$ 32,728
COST OF SALES	34,997	19,630
Gross profit	32,174	13,098
OPERATING EXPENSES:		
Research and development	7,792	5,852
Sales and marketing	4,871	3,305
General and administrative	4,642	2,870
Total operating expenses	17,305	12,027
INCOME FROM OPERATIONS	14,869	1,071
OTHER INCOME (EXPENSE)	251	(39)
Net income before income taxes and minority interest	15,120	1,032
PROVISION FOR INCOME TAXES	5,141	498
MINORITY INTEREST IN NET LOSS	(17)	--
NET INCOME	\$ 9,996	\$ 534
	=====	=====
BASIC EARNINGS PER SHARE	\$ 0.35	\$ 0.02
	=====	=====
DILUTED EARNINGS PER SHARE	\$ 0.34	\$ 0.02
	=====	=====
BASIC WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING	28,374	26,834
	=====	=====
DILUTED WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING	29,725	28,027
	=====	=====

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

ADVANCED ENERGY INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	THREE MONTHS ENDED MARCH 31,	
	2000	1999
	(UNAUDITED)	(UNAUDITED)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 9,996	\$ 534
Adjustments to reconcile net income to net cash provided by operating activities --		
Depreciation and amortization	2,117	1,664
Amortization of deferred debt issuance costs	160	--
Minority interest	(17)	--
Provision for deferred income taxes	--	58
Gain on disposal of property and equipment	(92)	--
Earnings from marketable securities, net	(2,278)	(168)
Writedown of LITMAS investment	--	200
Changes in operating assets and liabilities --		
Accounts receivable-trade, net	(5,422)	(6,028)
Related parties and other receivables	(134)	(117)
Inventories	(2,828)	(886)
Other current assets	(365)	(521)
Deposits and other	27	16
Demonstration and customer service equipment	(76)	221
Accounts payable, trade	(2,667)	1,742
Accrued payroll and employee benefits	1,739	848
Customer deposits and other accrued expenses	1,775	79
Income taxes payable/receivable, net	4,331	853
Net cash provided by (used in) operating activities	6,266	(1,505)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of marketable securities	(10,000)	--
Sale of marketable securities	--	1,001
Proceeds from sale of equipment	150	--
Purchase of property and equipment, net	(1,924)	(1,152)
Net cash used in investing activities	(11,774)	(151)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change from notes payable and capital lease obligations	908	290
Sale of common stock	2,541	1,167
Net cash provided by financing activities	3,449	1,457
EFFECT OF CURRENCY TRANSLATION ON CASH	(145)	(341)
DECREASE IN CASH AND CASH EQUIVALENTS	(2,204)	(540)
CASH AND CASH EQUIVALENTS, beginning of period	19,352	12,295
CASH AND CASH EQUIVALENTS, end of period	\$ 17,148	\$ 11,755
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 15	\$ 8
Cash paid (received) for income taxes, net	\$ 2,480	\$ (452)

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

ADVANCED ENERGY INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION AND MANAGEMENT OPINION

In the opinion of management, the accompanying unaudited consolidated balance sheets and statements of operations and cash flows contain all adjustments, consisting only of normal recurring items, necessary to present fairly the financial position of Advanced Energy Industries, Inc., a Delaware corporation, and its wholly owned subsidiaries (the "Company") at March 31, 2000 and December 31, 1999, and the results of the Company's operations and cash flows for the three-month periods ended March 31, 2000 and 1999.

The unaudited financial statements presented herein have been prepared in accordance with the instructions to Form 10-Q and do not include all the information and note disclosures required by generally accepted accounting principles. The financial statements should be read in conjunction with the audited financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 1999.

(2) ACQUISITIONS

LITMAS -- During 1998 the Company acquired a 29% ownership interest in LITMAS, a privately held, North Carolina-based start-up company that designs and manufactures plasma gas abatement systems and high-density plasma sources. The purchase price consisted of \$1 million in cash. On October 1, 1999, the Company acquired an additional 27.5% interest in LITMAS for an additional \$560,000. The purchase price consisted of \$385,000 in the Company's common stock and \$175,000 in cash. The acquisition was accounted for using the purchase method of accounting and resulted in \$523,000 allocated to intangible assets as goodwill. The results of operations of LITMAS are included within the accompanying consolidated financial statements from the date the controlling interest of 56.5% was acquired.

AEV -- On October 8, 1998, RF Power Products, Inc., since renamed Advanced Energy Voorhees, Inc. ("AEV"), a New Jersey-based designer and manufacturer of radio frequency power systems, matching networks and peripheral products primarily for original equipment providers in the semiconductor capital equipment, commercial coating, flat panel display and analytical instrumentation markets, was merged with a wholly owned subsidiary of the Company. The Company issued approximately 4 million shares of its common stock to the former shareholders of AEV. In addition, outstanding AEV stock options were converted into options to purchase approximately 148,000 shares of the Company's common stock.

The merger constituted a tax-free reorganization and has been accounted for as a pooling of interests under Accounting Principles Board Opinion No. 16. Accordingly, all prior period consolidated financial statements presented have been restated to include the combined balance sheet, statements of operations and cash flows of AEV as though it had always been part of the Company.

FST -- Effective September 3, 1998, the Company acquired substantially all of the assets of Fourth State Technology, Inc. ("FST"), a privately held, Texas-based designer and manufacturer of process controls used to monitor and analyze data in the RF process. The purchase price consisted of \$2.5 million in cash, assumption of a \$113,000 liability, and an earn-out provision, which is based on profits over a twelve-quarter period beginning October 1, 1998. Approximately \$2.6 million of the initial purchase price was allocated to intangible assets. During the fourth quarter of 1999, the Company accrued \$240,000 to intangible assets as a result of the earn-out provision being met during the fifth quarter period. The results

of operations of FST are included within the accompanying consolidated financial statements from the date of acquisition.

(3) MARKETABLE SECURITIES

MARKETABLE SECURITIES consisted of the following:

	MARCH 31, 2000 (UNAUDITED)	DECEMBER 31, 1999
	(IN THOUSANDS)	
Commercial paper	\$ 160,028	\$ 118,894
Municipal bonds and notes	38,427	67,453
Money market mutual funds	263	93
Total marketable securities	\$ 198,718	\$ 186,440
	=====	=====

(4) ACCOUNTS RECEIVABLE

ACCOUNTS RECEIVABLE consisted of the following:

	MARCH 31, 2000 (UNAUDITED)	DECEMBER 31, 1999
	(IN THOUSANDS)	
Domestic	\$ 24,669	\$ 19,269
Foreign	22,820	22,792
Allowance for doubtful accounts	(543)	(537)
Trade accounts receivable	46,946	41,524
Related parties	59	32
Other	1,894	1,787
Total accounts receivable	\$ 48,899	\$ 43,343
	=====	=====

(5) INVENTORIES

INVENTORIES consisted of the following:

	MARCH 31, 2000 (UNAUDITED)	DECEMBER 31, 1999
	(IN THOUSANDS)	
Parts and raw materials	\$ 18,300	\$ 17,029
Work in process	3,944	2,523
Finished goods	6,058	5,922
Total inventories	\$ 28,302	\$ 25,474
	=====	=====

(6) STOCKHOLDERS' EQUITY

STOCKHOLDERS' EQUITY consisted of the following:

	MARCH 31, 2000 (UNAUDITED)	DECEMBER 31, 1999
	(IN THOUSANDS, EXCEPT PAR VALUE)	
Common stock, \$0.001 par value, 40,000 shares authorized; 28,492 and 28,250 shares issued and outstanding at March 31, 2000 and December 31, 1999, respectively	\$ 28	\$ 28
Additional paid-in capital	105,773	103,232
Retained earnings	55,973	45,977
Accumulated other comprehensive loss	(1,035)	(890)
Total stockholders' equity	\$ 160,739	\$ 148,347
	=====	=====

(7) ACCOUNTING STANDARDS

COMPREHENSIVE INCOME -- In June 1997 the Financial Accounting Standards Board ("FASB") issued SFAS No. 130, "Reporting Comprehensive Income," which establishes rules for the reporting of comprehensive income and its components. Comprehensive income for the Company consists of net income and foreign currency translation adjustments as presented below. The adoption of SFAS No. 130 in fiscal 1998 had no impact on total stockholders' equity. Prior year financial statements have been reclassified to conform to the SFAS No. 130 requirements.

	THREE MONTHS ENDED MARCH 31, 2000 (UNAUDITED)	THREE MONTHS ENDED MARCH 31, 1999 (UNAUDITED)
	(IN THOUSANDS)	
Net income, as reported	\$ 9,996	\$ 534
Adjustment to arrive at comprehensive net income:		
Cumulative translation adjustment	(145)	(341)
Comprehensive net income	\$ 9,851	\$ 193
	=====	=====

SEGMENT REPORTING -- In June 1997 the FASB issued SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," which requires a public business enterprise to report financial and descriptive information about its reportable operating segments. Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. SFAS No. 131 was effective for the Company beginning fiscal 1998. Management operates and manages its business of supplying power conversion and control systems as one operating segment, as their products have similar economic characteristics and production processes.

DERIVATIVE HEDGING ACTIVITIES -- In June 1998 the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments and for hedging activity. SFAS No. 133, as amended by SFAS No. 137 in June 1999, is effective for the Company for all periods in fiscal year 2001. SFAS No. 133 requires all derivatives to be recorded on the balance sheet as either an asset or liability and measured at their fair value. Changes in the derivative's fair value will be recognized currently in earnings unless specific hedging accounting criteria are met. SFAS No. 133 also establishes uniform hedge accounting criteria for all derivatives. The Company has not yet evaluated the impact that the adoption of SFAS No. 133 will have on the financial statements.

REVENUE RECOGNITION -- In December 1999 the staff of the Securities and Exchange Commission issued its Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition." SAB No. 101 provides guidance on the measurement and timing of revenue recognition in financial statements of public companies. Changes in accounting policies to apply the guidance of SAB No. 101 must be adopted by recording the cumulative effect of the change in the fiscal quarter ending June 30, 2000. Management does not believe that the adoption of SAB No. 101 will have a material effect on the Company's financial position or results of operations.

(8) CONVERTIBLE SUBORDINATED NOTES PAYABLE

In November 1999 the Company issued \$135 million of convertible subordinated notes payable at 5.25%. These notes mature November 15, 2006, with interest payable on May 15th and November 15th each year beginning May 15, 2000. Net proceeds to the Company were approximately \$130.5 million, after deducting \$4.5 million of offering costs, which have been capitalized and are being amortized over a period of 7 years. Holders of the notes may convert the notes at any time, into shares of the Company's common stock, at \$49.53 per share. The Company may convert the notes on or after November 19, 2002 at redemption prices ranging from 100.75 to 103.00 times the principal amount. At March 31, 2000, \$2.7

million of interest expense was accrued as a current liability, and there had been no conversion of notes into the Company's common stock.

(9) SUBSEQUENT EVENT

On April 6, 2000, the Company acquired Noah Holdings, Inc. ("Noah"). The Company issued approximately 686,000 shares of its common stock to the former shareholders of Noah. In addition, outstanding Noah stock options were converted into options to purchase approximately 29,000 shares of the Company's common stock. The acquisition will be accounted for as a pooling of interests, and will operate as a wholly owned subsidiary of the Company. Noah, a privately held, California-based company, designs, manufactures and markets solid state temperature control systems used to control process temperatures during semiconductor manufacturing.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SPECIAL NOTE ON FORWARD LOOKING STATEMENTS

The following discussion contains, in addition to historical information, forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. For example, statements relating to our beliefs, expectations and plans are forward-looking statements, as are statements that certain actions, conditions or circumstances will continue. Forward-looking statements involve risks and uncertainties. As a result, our actual results may differ materially from the results discussed in the forward-looking statements. Factors that could cause or contribute to such differences or prove any forward-looking statements, by hindsight, to be overly optimistic or unachievable, include, but are not limited to the following:

- o the significant fluctuations in our quarterly operating results;
- o the volatility of the semiconductor and semiconductor capital equipment industries;
- o timing and success of integration of recent and potential future acquisitions; and
- o supply constraints and technological changes.

For a discussion of these and other factors that may impact our realization of our forward-looking statements, see our Annual Report on Form 10-K for the year ended December 31, 1999, Part I "Cautionary Statements - Risk Factors."

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2000 AND 1999

SALES

We sell power conversion and control systems and plasma gas abatement systems primarily to the semiconductor capital equipment, data storage and emerging markets in the United States, to the flat panel display and data storage markets in Japan, and to data storage and emerging markets in Europe. We also sell spare parts and repair services worldwide through our customer service and technical support organization.

Sales were \$32.7 million in the first three months of 1999 and \$67.2 million in the first three months of 2000, representing an increase of 105%. The first three months of 2000 achieved a record quarterly level of sales for us. Our sales in the first three months of 2000 continued to reflect the recovery in the semiconductor capital equipment industry

from the severe downturn of 1998, and resulted from capacity expansion and increased investment in advanced technology by the semiconductor industry. This recovery resulted in increased demand for our systems from manufacturers of semiconductor capital equipment, including our largest customer. Our experience has shown that our sales to semiconductor capital equipment customers is dependent on the volatility of that industry, as a result of sudden changes in semiconductor supply and demand, and rapid technological advances in both semiconductor devices and wafer fabrication processes.

Our sales in the first three months of 2000 were also higher because of increased sales to the data storage, flat panel display and emerging markets. Sales to the data storage industry were significantly higher due to increased sales to that industry's entertainment customer group, though sales were down slightly to its computer customer group. We also achieved significantly higher sales of customer service and technical support. These increases to all our industries also resulted in higher sales to all our major regions, including the United States, Asia Pacific and Europe.

The following tables summarize net sales and percentages of net sales by customer type for us for the three-month periods ended March 31, 2000 and 1999:

		THREE MONTHS ENDED MARCH 31,	
		2000	1999
		(IN THOUSANDS)	
Semiconductor capital equipment	\$	41,439	\$ 18,266
Data storage		7,048	4,603
Flat panel display		4,725	1,217
Emerging markets		10,102	7,041
Customer service technical support		3,857	1,601
	\$	67,171	\$ 32,728
	=====		=====
		THREE MONTHS ENDED MARCH 31,	
		2000	1999
Semiconductor capital equipment		61.7%	55.8%
Data storage		10.5	14.1
Flat panel display		7.0	3.7
Emerging markets		15.0	21.5
Customer service technical support		5.8	4.9
		100.0%	100.0%
	=====		=====

The following tables summarize net sales and percentages of net sales by geographic region for us for the three-month periods ended March 31, 2000 and 1999:

THREE MONTHS ENDED MARCH 31,		
	2000	1999
	(IN THOUSANDS)	
United States and Canada	\$ 46,627	\$ 22,949
Europe	10,519	5,672
Asia Pacific	9,824	3,789
Rest of world	201	318
	\$ 67,171	\$ 32,728
	=====	=====

THREE MONTHS ENDED MARCH 31,		
	2000	1999
United States and Canada	69.4%	70.1%
Europe	15.7	17.3
Asia Pacific	14.6	11.6
Rest of world	0.3	1.0
	100.0%	100.0%
	=====	=====

GROSS MARGIN

Our gross margin was 40.0% in the first three months of 1999 and 47.9% in the first three months of 2000. The improvement was due to more favorable absorption of manufacturing overhead from the higher sales base and from lower costs of customer service and technical support. However, when facilities are added, there could be an impact on absorption of overhead.

RESEARCH AND DEVELOPMENT EXPENSES

We invest in research and development to investigate new technologies, develop new products, and improve existing product designs. Our research and development expenses were \$5.9 million in the first three months of 1999 and \$7.8 million in the first three months of 2000, representing an increase of 33%. The increase is primarily due to increases in payroll, materials and supplies, and higher infrastructure costs for new product development. As a percentage of sales, research and development expenses decreased from 17.9% in the first three months of 1999 to 11.6% in the first three months of 2000 because of the higher sales base

We believe continued research and development investment for development of new systems is critical to our ability to serve new and existing markets. Since our inception, the majority of our research and development costs have been internally funded and all have been expensed as incurred.

SALES AND MARKETING EXPENSES

Our sales and marketing expenses support domestic and international sales and marketing activities which include personnel, trade shows, advertising, and other marketing activities. Sales and marketing expenses were \$3.3 million in the first three months of 1999 and \$4.9 million in the first three months of 2000, representing a 47%

increase. The increase is primarily due to higher payroll, promotion and travel costs incurred as we continue to increase our sales management and product management capabilities. As a percentage of sales, sales and marketing expenses decreased from 10.1% in the first three months of 1999 to 7.3% in the first three months of 2000 because of the higher sales base.

GENERAL AND ADMINISTRATIVE EXPENSES

Our general and administrative expenses support our worldwide financial, administrative, information systems and human resources functions. General and administrative expenses were \$2.9 million in the first three months of 1999 and \$4.6 million in the first three months of 2000, representing a 67% increase. The increase is primarily due to higher spending for payroll and purchased services. As a percentage of sales, general and administrative expenses decreased from 8.7% in the first three months of 1999 to 6.9% in the first three months of 2000 because of the higher sales base.

We continue to implement our management system software, including the replacement of existing systems in our domestic and foreign locations. We expect that charges related to training and implementation of the new software will continue through 2000.

OTHER INCOME (EXPENSE)

Other income (expense) consists primarily of interest income and expense, foreign exchange gains and losses and other miscellaneous income and expense items. Other expense was \$39,000 in the first three months of 1999. Other income was \$251,000 in the first three months of 2000, primarily due to net interest income from marketable securities we hold, partially offset by foreign currency losses.

PROVISION FOR INCOME TAXES

The income tax provision for the first three months of 1999 was \$0.5 million and represented an effective tax rate of 48%. The income tax provision for the first three months of 2000 was \$5.1 million and represented an effective tax rate of 34%. The higher effective consolidated tax rate for the first three months of 1999 was due to a greater share of our taxable income derived from countries with higher effective tax rates. In addition, we have implemented several strategic tax reduction initiatives to reduce our overall effective rate. We adjust our income taxes periodically based upon the anticipated tax status of all foreign and domestic entities.

LIQUIDITY AND CAPITAL RESOURCES

Since our inception, we have financed our operations, acquired equipment and met our working capital requirements through borrowings under our revolving line of credit, long-term

loans secured by property and equipment, cash flow from operations, proceeds from underwritten public offerings of our common stock and proceeds from convertible subordinated debt.

Operating activities used cash of \$1.5 million in the first three months of 1999, primarily as a result of increases in accounts receivable and inventories, partially offset by net income, depreciation and amortization, increases in accounts payable and increased accruals for payroll, employee benefits and income taxes. Operating activities provided cash of \$6.3 million in the first three months of 2000, primarily as a result of net income, depreciation and amortization, increased accruals for payroll, employee benefits and income taxes, partially offset by increases in accounts receivable and inventories and decreases in accounts payable. We expect future receivable and inventory balances to fluctuate with net sales. We provide just-in-time deliveries to certain of our customers and may be required to maintain higher levels of inventory to satisfy our customers' delivery requirements. Any increase in our inventory levels will require the use of cash to purchase the inventory.

Investing activities used cash of \$0.2 million in the first three months of 1999, and included the purchase of property and equipment for \$1.2 million offset by a decrease of marketable securities of \$1.0 million. Investing activities used cash of \$11.8 million in the first three months of 2000, and included the purchase of marketable securities of \$10.0 million and the purchase of property and equipment for \$1.9 million, partially offset by proceeds from the sale of equipment of \$150,000.

Financing activities provided cash of \$1.5 million in the first three months of 1999, and consisted primarily of \$1.2 million from the exercise of employee stock options and sale of common stock through our employee stock purchase plan ("ESPP") and \$0.3 million of net changes in notes payable and capital lease obligations. Financing activities provided cash of \$3.4 million in the first three months of 2000, and included \$2.5 million from the exercise of employee stock options and sale of common stock through our ESPP and \$0.9 million of net changes in notes payable and capital lease obligations.

We plan to spend approximately \$9.1 million through the remainder of 2000 for the acquisition of equipment, leasehold improvements and furnishings, with depreciation expense projected to be \$4.4 million.

As of March 31, 2000, we had working capital of \$264.5 million. Our principal sources of liquidity consisted of \$17.1 million of cash and cash equivalents, \$198.7 million of marketable securities, and a credit facility consisting of a \$30.0 million revolving line of credit which replaced our prior line of credit, with options to convert up to \$10.0 million to a three-year term loan. Advances under the revolving line of credit bear interest at either the prime rate (9.0% at April 10, 2000) minus 1.25% or the LIBOR 360-day rate (6.87% at April 10, 2000) plus 150 basis points, at our option. All advances under the revolving line of credit will be due and payable in December 2000. As of

March 31, 2000 there was an advance outstanding of \$2.9 million on our line of credit by our Japanese subsidiary, Advanced Energy Japan K.K.

We believe that our cash and cash equivalents, marketable securities, cash flow from operations and available borrowings, will be sufficient to meet our working capital needs through at least the end of 2001. After that time, we may require additional equity or debt financing to address our working capital, capital equipment or expansion needs. In addition, any significant acquisitions we make may require additional equity or debt financing to fund the purchase price, if paid in cash. There can be no assurance that additional funding will be available when required or that it will be available on terms acceptable to us.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATE RISK

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio and long-term debt obligations. We generally place our investments with high credit quality issuers and by policy are averse to principal loss and seek to protect and preserve our invested funds by limiting default risk, market risk and reinvestment risk. As of March 31, 2000, our investments consisted of commercial paper and municipal bonds and money market mutual funds.

Our interest expense is sensitive to changes in the general level of U.S. interest rates with respect to our bank facility of which \$2.9 million was outstanding as of March 31, 2000. Our other debt, including our convertible subordinated notes, is fixed rate in nature and mitigates the impact of fluctuations in interest rates. The fair value of our debt approximates the carrying amount at March 31, 2000. We believe the potential effects of near-term changes in interest rates on our debt is not material.

FOREIGN CURRENCY EXCHANGE RATE RISK

We transact business in various foreign countries. Our primary foreign currency cash flows are generated in countries in Asia and Europe. We have entered into various forward foreign exchange contracts as a hedge against currency fluctuations in the Japanese yen. We will continue to evaluate various methods to minimize the effects of currency fluctuations.

Eleven European countries have adopted a Single European Currency (the "euro") as of January 1, 1999 with a transition period continuing through January 1, 2002. As of January 1, 1999, these eleven of the fifteen member countries of the European Union (the

"participating countries") established fixed conversion rates between their existing sovereign currencies and the euro. For three years after the introduction of the euro, the participating countries can perform financial transactions in either the euro or their original local currencies. This will result in a fixed exchange rate among the participating countries, whereas the euro (and the participating countries' currencies in tandem) will continue to float freely against the U.S. dollar and other currencies of non-participating countries. Although we do not expect the introduction of the euro currency to have a significant impact on our revenues or results of operations, we are unable to determine what effects, if any, the currency change in Europe will have on competition and competitive pricing in the affected regions.

OTHER RISK

We have invested in a start-up company and may in the future make additional investments in start-up companies that develop products which we believe may provide future benefits. The current start-up investment and any future start-up investments will be subject to all of the risks inherent in investing in companies that are not established.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not aware of any material legal proceedings that are expected to have a material effect on our business, assets or property.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

2.1 Agreement and Plan of Reorganization, dated as of June 1, 1998, by and among the Company, Warpspeed, Inc., a wholly owned subsidiary of the Company, and RF Power Products, Inc.(1)

3.1 The Company's Restated Certificate of Incorporation, as amended(2)

3.2 The Company's By-laws(3)

4.1 Form of Specimen Certificate for the Company's Common Stock(3)

4.2 Indenture dated November 1, 1999 between State Street Bank and Trust Company of California, N.A., as trustee, and the Company (including form of 5 1/4% Convertible Subordinated Note due 2006)(4)

4.3 The Company hereby agrees to furnish to the SEC, upon request, a copy of the instruments which define the rights of holders of long-term debt of the Company. None of such instruments not included as exhibits herein represents long-term debt in excess of 10% of the consolidated total assets of the Company.

10.1 Comprehensive Supplier Agreement, dated May 18, 1998, between Applied Materials Inc. and the Company(1)+

10.2 Purchase Order and Sales Agreement, dated October 12, 1999, between Lam Research Corporation and the Company(4)

10.3 Purchase Agreement, dated November 1, 1995, between Eaton Corporation and the Company(5)+

10.4 Loan and Security Agreement, dated August 15, 1997, among Silicon Valley Bank, Bank of Hawaii and the Company(6)

10.5 Loan Agreement dated December 8, 1997, by and among Silicon Valley Bank, as Servicing Agent and a Bank, and Bank of Hawaii, as a Bank, and the Company, as borrower(7)

10.6 Lease, dated June 12, 1984, amended June 11, 1992, between Prospect Park East Partnership and the Company for property in Fort Collins, Colorado(3)

10.7 Lease, dated March 14, 1994, as amended, between Sharp Point Properties, L.L.C., and the Company for property in Fort Collins, Colorado(3)

10.8 Lease, dated May 19, 1995, between Sharp Point Properties, L.L.C. and the Company for a building in Fort Collins, Colorado(3)

10.9 Lease agreement, dated March 18, 1996, and amendments dated June 21, 1996 and August 30, 1996, between RF Power Products, Inc., and Laurel Oak Road, L.L.C. for property in Voorhees, New Jersey(8)

10.10 Form of Indemnification Agreement(3)

10.11 Employment Agreement, dated June 1, 1998, between RF Power Products, Inc., and Joseph Stach(9)

10.12 1995 Stock Option Plan, as amended and restated(9)*

10.13 1995 Non-Employee Directors' Stock Option Plan(9)*

10.14 License Agreement, dated May 13, 1992 between RF Power Products and Plasma-Therm, Inc.(10)

10.15 Lease Agreement dated March 18, 1996 and amendments dated June 21, 1996 and August 30, 1996 between RF Power Products, Inc. and Laurel Oak Road, L.L.C. for office, manufacturing and warehouse space at 1007 Laurel Oak Road, Voorhees, New Jersey(8)

10.16 Direct Loan Agreement dated December 20, 1996 between RF Power Products, Inc. and the New Jersey Economic Development Authority(8)

10.17 Lease, dated April 15, 1998, between Cross Park Investors, Ltd., and the Company for property in Austin, Texas(1)

10.18 Lease, dated April 15, 1998, between Cameron Technology Investors, Ltd., and the Company for property in Austin, Texas(1)

27.1 Financial Data Schedule for the three-month period ended March 31, 2000.

(b) No reports on Form 8-K were filed by the Company during the quarter ended March 31, 2000.

- (1) Incorporated by reference to the Company's quarterly Report on Form 10-Q for the quarter ended June 30, 1998 (File No. 0-26966), filed August 7, 1998.
- (2) Incorporated by reference to the Company's quarterly Report on Form 10-Q for the quarter ended June 30, 1999 (File No. 0-26966), filed July 28, 1999.
- (3) Incorporated by reference to the Company's Registration Statement on Form S-1 (File No. 33-97188), filed September 20, 1995, as amended.
- (4) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 0-26966), filed March 20, 2000.
- (5) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1995 (File No. 0-26966), filed March 28, 1996, as amended.
- (6) Incorporated by reference to the Company's Registration Statement on Form S-3 (File No. 333-34039), filed August 21, 1997, as amended.
- (7) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 (File No. 0-26966), filed March 24, 1998.
- (8) Incorporated by reference to RF Power Products' Annual Report on Form 10-K for the fiscal year ended November 30, 1996 (File No. 0-20229), filed February 25, 1997.
- (9) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 0-26966), filed March 24, 1999.
- (10) Incorporated by reference to RF Power Products' Registration Statement on Form 10 (File No. 0-020229), filed May 19, 1992 as amended.

* Compensation Plan

+ Confidential treatment has been granted for portions of this agreement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ADVANCED ENERGY INDUSTRIES, INC.

/s/ Richard P. Beck

Richard P. Beck
Senior Vice President, Chief Financial
Officer, Assistant Secretary and
Director (Principal Financial Officer
and Principal Accounting Officer)
April 18, 2000

EXHIBIT INDEX

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ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	3 MOS
FISCAL YEAR END	DEC 31 2000
PERIOD START	JAN 01 2000
PERIOD END	MAR 31 2000
CASH	17,178
SECURITIES	198,718
RECEIVABLES	49,442
ALLOWANCES	(543)
INVENTORY	28,302
CURRENT ASSETS	298,226
PP&E	36,469
DEPRECIATION	(19,472)
TOTAL ASSETS	329,658
CURRENT LIABILITIES	33,697
BONDS	135,000
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	28
OTHER SE	160,711
TOTAL LIABILITY AND EQUITY	329,658
SALES	67,171
TOTAL REVENUES	67,171
CGS	34,997
TOTAL COSTS	34,997
OTHER EXPENSES	17,305
LOSS PROVISION	0
INTEREST EXPENSE	1,954
INCOME PRETAX	15,120
INCOME TAX	5,141
INCOME CONTINUING	9,996
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	9,996
EPS BASIC	0.35
EPS DILUTED	0.34

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