ADVANCED ENERGY INDUSTRIES INC

FORM 10-Q
(Quarterly Report)

Filed 8/13/2001 For Period Ending 6/30/2001

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Sector	Technology
Fiscal Year	12/31

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended June 30, 2001.

[ ] 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: 000-26966

ADVANCED ENERGY INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

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DELAWARE                                  84-0846841
-------------------------------           -----------------------------------
(State or other jurisdiction of           (I.R.S. Employer Identification No.)
incorporation or organization)

1625 SHARP POINT DRIVE, FORT COLLINS, CO   80525
----------------------------------------   ------------------------------------
(Address of principal executive offices)   (Zip Code)
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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 August 8, 2001, there were 31,791,568 shares of the Registrant's Common Stock, par value $0.001 per share, outstanding.

ADVANCED ENERGY INDUSTRIES, INC.
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PART I FINANCIAL INFORMATION

ITEM 1. UNAUDITED FINANCIAL STATEMENTS

ADVANCED ENERGY INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS
(IN THOUSANDS)

	JUNE 30, 2001 (UNAUDITED)	DECEMBER 31, 2000 (UNAUDITED)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 32,448	$ 31,716
Marketable securities - trading	129,180	157,811
Accounts receivable, net	43,099	76,545
Notes receivable	2,472	2,472
Income tax receivable	9,865	74
Inventories, net	47,462	45,266
Other current assets	2,658	2,508
Deferred income tax assets, net	9,040	7,483
Total current assets	276,224	323,875
PROPERTY AND EQUIPMENT, net	33,245	24,101
OTHER ASSETS:		
Deposits and other	687	995
Goodwill and intangibles, net	24,936	9,890
Investments - available for sale	2,452	1,824
Demonstration and customer service equipment, net	4,155	2,889
Deferred debt issuance costs, net	2,015	2,261
Total assets	$343,714	$365,835
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable - trade	$ 8,673	$ 18,250
Accrued payroll and employee benefits	8,285	11,723
Other accrued expenses	6,376	4,383
Customer deposits	537	104
Accrued income taxes payable	1,313	7,923
Current portion of capital lease obligations and long-term debt	216	1,337
Accrued interest payable on convertible subordinated notes	529	529
Total current liabilities	25,929	44,249
LONG-TERM LIABILITIES:		
Notes payable, net of current portion	230	1,043
Deferred income tax liabilities, net	1,116	--
Convertible subordinated notes payable	81,600	81,600
	82,946	82,643
Total liabilities	108,875	126,892
MINORITY INTEREST	185	145
STOCKHOLDERS' EQUITY	234,654	238,798
Total liabilities and stockholders' equity	$343,714	$365,835

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

ADVANCED ENERGY INDUSTRIES, INC. AND SUBSIDIARIES

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

	THREE MONTHS ENDED JUNE 30,	
	2001 (UNAUDITED)	2000 (UNAUDITED)
SALES	$ 46,171	$ 85,701
COST OF SALES	38,390	43,338
Gross profit	7,781	42,363
OPERATING EXPENSES:		
Research and development	11,040	8,504
Sales and marketing	5,963	5,373
General and administrative	5,645	5,810
Goodwill impairment	5,446	--
Restructuring charge	614	--
Merger costs	--	2,333
Total operating expenses	28,708	22,020
(LOSS) INCOME FROM OPERATIONS	(20,927)	20,343
OTHER (EXPENSE) INCOME	(70)	731
Net (loss) income before income taxes and minority interest	(20,997)	21,074
(BENEFIT) PROVISION FOR INCOME TAXES	(6,553)	8,023
MINORITY INTEREST IN NET INCOME (LOSS)	105	(67)
NET (LOSS) INCOME	$(14,549)	$ 13,118
BASIC (LOSS) EARNINGS PER SHARE	$ (0.46)	$ 0.42
DILUTED (LOSS) EARNINGS PER SHARE	$ (0.46)	$ 0.40
BASIC WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING	31,698	31,314
DILUTED WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING	31,698	32,543

	SIX MONTHS ENDED JUNE 30,	
	2001 (UNAUDITED)	2000 (UNAUDITED)
SALES	$ 120,885	$ 160,729
COST OF SALES	81,881	81,699
Gross profit	39,004	79,030
OPERATING EXPENSES:		
Research and development	23,429	16,617
Sales and marketing	12,592	11,240
General and administrative	11,819	11,449
Goodwill impairment	5,446	--
Restructuring charge	614	--
Litigation recovery	(1,500)	--
Merger costs	--	2,333
Total operating expenses	52,400	41,639
(LOSS) INCOME FROM OPERATIONS	(13,396)	37,391
OTHER INCOME (EXPENSE)	117	851
Net (loss) income before income taxes and minority interest	(13,279)	38,242
(BENEFIT) PROVISION FOR INCOME TAXES	(3,864)	13,970
MINORITY INTEREST IN NET INCOME (LOSS)	40	(84)
NET (LOSS) INCOME	$ (9,455)	$ 24,356
BASIC (LOSS) EARNINGS PER SHARE	$ (0.30)	$ 0.78
DILUTED (LOSS) EARNINGS PER SHARE	$ (0.30)	$ 0.75

BASIC WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING	31,623	31,238
DILUTED WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING	31,623	32,528

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

ADVANCED ENERGY INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS
(IN THOUSANDS)

	SIX MONTHS ENDED JUNE 30, 2001 (UNAUDITED)	SIX MONTHS ENDED JUNE 30, 2000 (UNAUDITED)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (9,455)	$ 24,356
Adjustments to reconcile net (loss) income to net cash provided by operating activities --		
Depreciation and amortization	8,151	4,843
Amortization of deferred debt issuance costs	246	320
Amortization of deferred compensation	262	197
Minority interest	40	(84)
Stock issued for services rendered and merger costs	--	2,430
Provision for deferred income taxes	(713)	(41)
Provision for inventory and product-related liabilities	7,116	--
Provision for restructuring	614	--
Provision for bad debt	200	--
Impairment of goodwill	5,446	--
Earnings from marketable securities, net	(2,695)	(4,781)
Changes in operating assets and liabilities --		
Accounts receivable-trade, net	34,129	(8,527)
Related parties and other receivables	284	(732)
Inventories	(5,134)	(8,021)
Other current assets	(61)	101
Deposits and other	307	6
Demonstration and customer service equipment	(1,752)	(614)
Accounts payable, trade	(9,932)	683
Accrued payroll and employee benefits	(3,843)	1,026
Customer deposits and other accrued expenses	(1,101)	(400)
Income taxes payable/receivable, net	(14,810)	1,976
Net cash provided by operating activities	7,299	12,738
CASH FLOWS FROM INVESTING ACTIVITIES:		
Marketable securities transactions	32,000	(10,000)
Proceeds from sale of equipment	--	150
Purchase of property and equipment, net	(9,442)	(5,279)
Purchase of investments	(639)	(531)
Acquisition of Engineering Measurements Company, net of cash acquired	(29,932)	--
Net cash used in investing activities	(8,013)	(15,660)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change from notes payable and capital lease obligations	(1,934)	(363)
Proceeds from common stock transactions	2,735	3,032
Net cash provided by financing activities	801	2,669
EFFECT OF CURRENCY TRANSLATION ON CASH	645	(666)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	732	(919)
CASH AND CASH EQUIVALENTS, beginning of period	31,716	21,043
CASH AND CASH EQUIVALENTS, end of period	$ 32,448	$ 20,124
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 2,282	$ 3,787
Cash paid for income taxes	$ 11,524	$ 13,568

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

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION AND MANAGEMENT OPINION

In the opinion of management, the accompanying unaudited consolidated condensed balance sheets and statements of operations and cash flows contain all adjustments necessary to present fairly the financial position of Advanced Energy Industries, Inc., a Delaware corporation, and its wholly owned subsidiaries (the "Company") at June 30, 2001 and December 31, 2000, and the results of the Company's operations and cash flows for the three- and six-month periods ended June 30, 2001 and 2000.

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, 2000, filed March 27, 2001.

The preparation of the Company's consolidated condensed financial statements requires the Company's management to make certain estimates and assumptions that affect the amounts reported and disclosed in the consolidated condensed financial statements and accompanying notes. Actual results could differ from those estimates.

(2) ACQUISITIONS

EMCO -- On January 2, 2001, Engineering Measurements Company ("EMCO"), a publicly-held, Longmont, Colorado-based manufacturer of electronic and electromechanical precision instruments for measuring and controlling the flow of liquids, steam and gases, was merged with a wholly owned subsidiary of the Company. The Company paid the EMCO shareholders cash in an aggregate amount of approximately $30 million. The acquisition was accounted for using the purchase method of accounting, and the operating results of EMCO are reflected in the accompanying financial statements prospectively from the date of acquisition. The purchase price was allocated to the net assets of EMCO as summarized below:

	(In thousands) (UNAUDITED)
Cash and cash equivalents	$ 459
Marketable securities	674
Accounts receivable	1,167
Inventories	1,678
Deferred income tax assets, current	584
Other current assets	88
Fixed assets	4,596
Goodwill and intangibles	23,152
Accounts payable	(355)
Accrued payroll	(405)
Other accrued expenses	(391)
Deferred income tax liability	(856)
	$30,391

SEKIDENKO, INC. -- On August 18, 2000, Sekidenko, Inc. ("Sekidenko"), a privately-held, Vancouver, Washington state-based supplier of optical fiber thermometers to the semiconductor capital equipment industry, was merged with a wholly owned subsidiary of the Company. The Company issued 2.1 million shares of its common stock to the former shareholders of Sekidenko.

NOAH HOLDINGS, INC. --- On April 6, 2000, Noah Holdings, Inc. ("Noah"), a privately-held, California-based manufacturer of solid state temperature control systems used to control process temperatures during semiconductor manufacturing, was merged with a wholly owned subsidiary of the Company. The Company issued approximately 687,000 shares of its common stock in connection with the acquisition. In addition, outstanding Noah stock options were converted into options to purchase approximately 40,000 shares of the Company's common stock. In April 2001 Noah was merged with its wholly owned subsidiary and the name of Noah Holdings, Inc. was changed to Noah Precision, Inc.

The Sekidenko and Noah mergers constituted tax-free reorganizations and have been accounted for as poolings 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 Noah and Sekidenko as though each had always been part of the Company. There were no transactions between the Company, Noah and Sekidenko prior to the combinations, and immaterial adjustments were recorded at Noah and Sekidenko to conform their accounting policies. Certain reclassifications were made to conform the Noah and Sekidenko financial statements to the Company's presentations. The results of operations for the separate companies and combined amounts presented in the consolidated financial statements follow:

	SIX MONTHS ENDED JUNE 30, 2000 (UNAUDITED) (IN THOUSANDS)
Sales:	
Pre-Noah and Sekidenko mergers	
Advanced Energy	$ 67,171
Noah	3,080
Sekidenko	4,777
Advanced Energy and Noah combined before Sekidenko merger	80,586
Sekidenko before Sekidenko merger	5,115
Post-Noah and Sekidenko mergers	--
Consolidated	$160,729
Net income:	
Pre-Noah and Sekidenko mergers	
Advanced Energy	$ 9,996
Noah	43
Sekidenko	1,199
Advanced Energy and Noah combined before Sekidenko merger	12,030
Sekidenko before Sekidenko merger	1,088
Post-Noah and Sekidenko mergers	--
Consolidated	$ 24,356

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 have been consolidated in the accompanying consolidated financial statements from the date the controlling interest of 56.5% was acquired. On October 1, 2000, the Company acquired an additional 3.0% interest in LITMAS for an additional $250,000, bringing the Company's ownership interest in LITMAS to 59.5%.

(3) MARKETABLE SECURITIES -- TRADING

MARKETABLE SECURITIES -- TRADING consisted of the following:

	JUNE 30, 2001 (UNAUDITED)	DECEMBER 31, 2000 (UNAUDITED)
	(IN THOUSANDS)	
Commercial paper	$103,634	$ 85,827
Municipal bonds and notes	24,107	54,022
Mutual funds	1,119	17,962
Treasury bills and other	320	--
Total marketable securities	$129,180	$157,811

These marketable securities are stated at period end market value, and have original costs of $128,827,000 and $157,112,000 as of June 30, 2001 and December 31, 2000, respectively. Included in these balances is accrued interest income of $353,000 and $699,000 as of June 30, 2001 and December 31, 2000, respectively.

(4) ACCOUNTS RECEIVABLE -- TRADE

ACCOUNTS RECEIVABLE -- TRADE consisted of the following:

	JUNE 30, 2001 (UNAUDITED)	DECEMBER 31, 2000 (UNAUDITED)
	(IN THOUSANDS)	
Domestic	$ 14,656	$ 41,545
Foreign	23,394	31,971
Allowance for doubtful accounts	(952)	(784)
Trade accounts receivable	37,098	72,732
Related parties	96	38
Other	5,905	3,775
Total accounts receivable	$ 43,099	$ 76,545

(5) INVENTORIES

INVENTORIES consisted of the following:

	JUNE 30, 2001 (UNAUDITED)	DECEMBER 31, 2000 (UNAUDITED)
	(IN THOUSANDS)	
Parts and raw materials	$32,050	$34,462
Work in process	2,776	3,777
Finished goods	12,636	7,027
Total inventories	$47,462	$45,266

(6) INVESTMENTS -- AVAILABLE FOR SALE AND OTHER

In the third quarter of 2000 the Company exercised warrants of a supplier in a cashless transaction and received 458,000 shares of the supplier's common stock, which is publicly traded. Concurrent with the exercise, the Company sold 320,000 shares of the supplier's common stock and recognized a gain of approximately $4.8 million. The remaining 138,000 shares have been classified as available-for-sale securities and are reflected as an investment of approximately $1.8 million in the accompanying balance sheet. Also included in investments is $700,000 of private company equity securities accounted for under the cost method.

(7) STOCKHOLDERS' EQUITY

STOCKHOLDERS' EQUITY consisted of the following:

	JUNE 30, 2001 (UNAUDITED)	DECEMBER 31, 2000 (UNAUDITED)
	(IN THOUSANDS, EXCEPT PAR VALUE)	
Common stock, $0.001 par value, 55,000 and 40,000 shares authorized, respectively; 31,775 and 31,537 shares issued and outstanding, respectively	$ 32	$ 32
Additional paid-in capital	129,337	124,930
Retained earnings	107,516	116,971
Deferred compensation	(1,358)	(1,620)
Accumulated other comprehensive loss	(873)	(1,515)
Total stockholders' equity	$ 234,654	$ 238,798

(8) ACCOUNTING POLICIES

COMPERHENSIVE INCOME -- Comprehensive income for the Company consists of net income, foreign currency translation adjustments and an unrealized holding loss as presented below

	SIX MONTHS ENDED JUNE 30, 2001 (UNAUDITED)	SIX MONTHS ENDED JUNE 30, 2000 (UNAUDITED)
	(IN THOUSANDS)	
Net (loss) income, as reported	$ (9,455)	$ 24,356
Adjustment to arrive at comprehensive net (loss) income:		
Unrealized holding loss on available-for-sale marketable securities	(3)	--
Cumulative translation adjustment	645	(666)
Comprehensive net (loss) income	$ (8,813)	$ 23,690

SEGMENT REPORTING -- SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," 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. Management operates and manages the Company's business as one operating segment, because all of its products and systems have similar economic characteristics and production processes. Since the Company operates in one segment, all financial segment information required by SFAS No. 131 is found in the consolidated financial statements.

DERIVATIVE INSTRUMENTS -- In June 1998 the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Company, as required, adopted SFAS No. 133, as amended by SFAS No. 137, on January 1, 2001. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activity by requiring 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 will not seek specific hedge accounting treatment for its foreign currency forward contracts. The adoption of SFAS No. 133 did not have a material impact on the Company's financial condition or results of operations.

The Company's subsidiary Advanced Energy Japan K.K. enters into foreign currency forward contracts to buy U.S. dollars to mitigate currency exposure from its payable position arising from trade purchases and intercompany transactions with its parent. Foreign currency forward contracts reduce the Company's exposure to the risk that the eventual net cash outflows resulting from the purchase of products denominated in other currencies will be adversely affected by changes in exchange rates. Foreign currency forward contracts are entered into with a major commercial Japanese bank that has a high credit rating, and the Company does not expect the counterparty to fail to meet its obligations under outstanding contracts.

Foreign currency gains and losses under the above arrangements are not deferred. The Company generally enters into foreign currency forward contracts with maturities ranging from one to seven months, with contracts outstanding at June 30, 2001, maturing through January 2002. All forward contracts are held until maturity. At June 30, 2001, the Company held foreign forward exchange contracts with nominal amounts of $13.5 million and market settlement amounts of $12.6 million for an unrealized gain position of $900,000 that has been included in other income and expense in the accompanying condensed statement of operations.

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 were required to be adopted by recording the cumulative effect of the change in the fiscal quarter ending December 31, 2000. The adoption of SAB No. 101 did not have a material effect on the Company's financial condition or results of operations.

BUSINESS COMBINATIONS, INTANGIBLE ASSETS AND GOODWILL -- In June 2001, the FASB issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." These statements prohibit pooling-of-interests accounting for transactions initiated after June 30, 2001, require the use of the purchase method of accounting for all combinations after June 30, 2001, and establish new standards for accounting for goodwill and other intangibles acquired in business combinations. Goodwill will continue to be recognized as an asset, but will not be amortized as previously required by APB Opinion No. 17, "Intangible Assets." Certain other intangible assets with indefinite lives, if present, may also not be amortized. Instead, goodwill and other intangible assets will be subject to periodic (at least annual) tests for impairment, and recognition of impairment losses in the future could be required based on a new methodology for measuring impairments prescribed by these pronouncements. The revised standards include transition rules and requirements for identification, valuation and recognition of a much broader list of intangibles as part of business combinations than prior practice, most of which will continue to be amortized. The Company's prospective financial statements may be significantly affected by the results of future periodic tests for impairment. In addition, the amount and timing of non-cash charges related to intangibles acquired in business combinations will change significantly from prior practice.

During the second quarter of 2001, the Company terminated the operations of its Tower Electronics, Inc. subsidiary ("Tower") and its Fourth State Technology ("FST") product line, due to declining sales of their respective products, loss of key customers, terminations of key employees and some customers' newly developed in-house capabilities. It was during the second quarter of 2001 that the Company determined that the long-term outlook for these businesses to generate cash flow was impaired, and as part of its strategic restructuring, determined that these businesses were no longer part of its main focus. The Company recorded a charge of $3.6 million of goodwill impairment related to the dissolution of Tower and a charge of $1.8 million of goodwill impairment related to the termination of FST. These amounts represented the carrying values of these assets on June 30, 2001, before the writedown. These charges are disclosed as "Goodwill Impairment" in the Operating Expenses section of the accompanying unaudited consolidated condensed statement of operations.

During the second quarter of 2001, the Company implemented a restructuring program that resulted in the reduction of approximately 135 regular employees. The reduction in force began and was completed during the second quarter of 2001. The Company recorded a restructuring charge of approximately $614,000 related primarily to severance and fringe benefits. In addition, the number of temporary and contract workers employed by the Company was also reduced.

(9) CONVERTIBLE SUBORDINATED NOTES PAYABLE

In November 1999 the Company issued $135 million of 5.25% convertible subordinated notes. 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 seven 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 a conversion price of 103.00% times the principal amount, and may convert at successively lesser amounts thereafter until November 15, 2006, at which time the Company may convert at a redemption price equal to the principal amount. At June 30, 2001, $529,000 of interest expense related to these notes was accrued as a current liability.

In October and November 2000, the Company repurchased an aggregate of approximately $53.4 million principal amount of its 5.25% convertible subordinated notes in the open market, for a cost of approximately $40.8 million. These purchases resulted in an after-tax extraordinary gain of $7.6 million. The purchased notes have been cancelled. Approximately $81.6 million principal amount of the notes remains outstanding. The Company may continue to purchase additional notes in the open market from time to time, if market conditions and the Company's financial position are deemed favorable for such purposes.

(10) LITIGATION RECOVERY

In March 2001, the Company received a $1.5 million settlement for recovery of legal expenses pertaining to a patent-infringement suit in which the Company was the plaintiff.

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

SPECIAL NOTE ON FORWARD LOOKING STATEMENTS

This Form 10-Q, including the following discussion, contains 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. Statements that are other than historical information are forward looking statements. For example, statements relating to our beliefs, expectations and plans are forward looking statements, as are statements that certain actions, conditions or circumstances will occur or continue. Forward looking statements involve risks and uncertainties. As a result, 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 changes or slowdowns in economic conditions in the semiconductor and semiconductor capital equipment industries or other industries in which our customers operate;

o changes in customers' inventory management practices;

o timing and challenges of integrating recent and potential future acquisitions;

o component shortages or allocations or other factors that change our levels of inventory or substantially increase our spending on inventory;

o introduction of new products by our competitors; and

o our ability to attract and retain key personnel.

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, 2000, Part I "Cautionary Statements - Risk Factors."

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2001 AND 2000

SALES

We sell power conversion and control systems and related equipment primarily to the semiconductor capital equipment, data storage, flat panel display and advanced product applications markets in the United States, to the flat panel display and advanced product applications markets in the Asia Pacific region, and to data storage, semiconductor capital equipment and advanced product applications markets in Europe. We also sell spare parts and repair services worldwide through our customer service and technical support organization.

Sales were $46.2 million in the second quarter of 2001, down 46% from sales of $85.7 million in the second quarter of 2000, and down 38% from sales of $74.7 million in the first quarter of 2001. The second quarter of 2001 included sales by EMCO, a wholly owned subsidiary we acquired on January 2, 2001, which was accounted for by the purchase method of accounting. The fourth quarter of 2000 was the eighth consecutive quarter of sales growth, which was primarily attributable to capacity expansion and increased investment in advanced technology by the semiconductor industry, which resulted in increased demand for our systems from manufacturers of semiconductor capital equipment. During the first quarter of 2001 and continuing through the second quarter of 2001, a worldwide slowdown in demand for semiconductors resulted in a sudden and rapid decline in demand for semiconductor manufacturing equipment, as inventory buildups and slower global economic growth resulted in slower capital investment by semiconductor manufacturers and their suppliers. Our experience has shown that our sales to semiconductor capital equipment customers is highly correlated to the volatile activity in this industry, which results from sudden changes in semiconductor supply and demand, as well as rapid technological advances in both semiconductor devices and wafer fabrication processes. Our sales to the semiconductor capital equipment industry in the second quarter of 2001 decreased 55% from sales to that industry from the second quarter of 2000, and decreased 46% from sales to that industry from the first quarter of 2001. We expect sales to the semiconductor capital equipment industry for the remainder of 2001 to be lower than the comparable periods in 2000.

Our sales to the data storage industry decreased 59% from the second quarter of 2000 to the second quarter of 2001, primarily due to slowdown in growth of demand for CVD and DVD replication equipment and personal computers, and overcapacity of such manufacturing equipment. Sales to the flat panel display industry decreased 51% from the second quarter of 2000 to the second quarter of 2001. Sales to advanced product applications industries increased 14% from the second quarter of 2000 to the second quarter of 2001.

The following tables summarize net sales and percentages of net sales by customer type for us for the three-month periods ended June 30, 2001 and 2000:

	THREE MONTHS ENDED JUNE 30,	
	2001	2000
	(IN THOUSANDS)	
Semiconductor capital equipment	$27,756	$61,528
Data storage	2,284	5,564
Flat panel display	3,735	7,663
Advanced product applications	8,319	7,302
Customer service technical support	4,077	3,644
	$46,171	$85,701

	THREE MONTHS ENDED JUNE 30,	
	2001	2000
Semiconductor capital equipment	60%	72%
Data storage	5	7
Flat panel display	8	9
Advanced product applications	18	8
Customer service technical support	9	4
	100%	100%

The following tables summarize net sales and percentages of net sales by geographic region for us for the three-month periods ended June 30, 2001 and 2000:

	THREE MONTHS ENDED JUNE 30,	
	2001	2000
	(IN THOUSANDS)	
United States and Canada	$28,563	$62,506
Europe	7,007	12,420
Asia Pacific	10,351	10,689
Rest of world	250	86
	$46,171	$85,701

	THREE MONTHS ENDED JUNE 30,	
	2001	2000
United States and Canada	62%	73%
Europe	15	15
Asia Pacific	22	12
Rest of world	1	--
	100%	100%

GROSS MARGIN

Our gross margin was 49.4% in the second quarter of 2000 and 16.9% in the second quarter of 2001. The decrease was due to lower absorption of manufacturing overhead and fixed costs, and a $7.1 million writedown related to the identification and future disposal of excess and obsolete inventory and additional warranty provision recorded to reflect our current experience and anticipated incremental repairs and retrofits. We added new facilities in Fort Collins, Colorado in the first quarter of 2001 to increase our manufacturing capacity, which increased our lease and depreciation costs. This adversely impacted absorption of overhead because the increased capacity was not fully utilized due to decreased demand. In addition, the sudden and pronounced decline in demand caused a significant increase in inventories deemed to be excessive or obsolete. Any further decreases in our level of sales in the future could have an additional negative impact on our gross margin.

RESEARCH AND DEVELOPMENT EXPENSES

We invest in research and development to identify new technologies, develop new products and improve existing product designs. Our research and development expenses were $8.5 million in the second quarter of 2000 and $11.0 million in the second quarter of 2001, representing an increase of 30%. The increase is primarily due to increases in payroll, purchased services and higher infrastructure costs for new product development, and partly due to the inclusion of EMCO research and development expenses in the second quarter of 2001. As a percentage of sales, research and development expenses increased from 9.9% in the second quarter of 2000 to 23.9% in the second quarter of 2001 because of the higher spending and lower sales levels.

We believe continued investment in the research and development of new systems is critical to our long-term strategy and our ability to serve new and existing markets, and we continue to invest in new product development during industry downturns. Since our inception, the majority of our research and development costs generally 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 $5.4 million in the second quarter of 2000 and $6.0 million in the second quarter of 2001, representing an 11% increase. The increase is primarily due to the inclusion of EMCO sales and marketing expenses in the second quarter of 2001 and higher payroll, promotion and distribution costs. We incurred these expenses to continue to increase our sales management and product management capabilities. As a percentage of sales, sales and marketing expenses increased from 6.2% in the second quarter of 2000 to 12.9% in the second quarter of 2001 because of the higher spending and lower sales levels.

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 $5.8 million in the second quarter of 2000 and $5.6 million in the second quarter of 2001, representing a 3% decrease. General and administrative expenses for the second quarter of 2001 include goodwill amortization resulting from the acquisition of EMCO. As a percentage of sales, general and administrative expenses increased from 6.8% in the second quarter of 2000 to 12.2% in the second quarter of 2001 because of the lower sales levels.

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 personnel training and implementation of our management system software will continue through 2001.

GOODWILL IMPAIRMENT

During the second quarter of 2001 we terminated operations of our Tower Electronics, Inc. subsidiary and our Fourth State Technology product line due to declining sales of their respective products, loss of related key customers, terminations of key employees and some customers' newly developed in-house capabilities. We determined that the long-term outlook for these businesses to generate cash flow was impaired and, as part of our strategic restructuring we determined that these businesses were no longer part of our main focus. We recorded a charge of $3.6 million of goodwill impairment related to the dissolution of our Tower Electronics, Inc. subsidiary and a charge of $1.8 million of goodwill impairment related to the termination of our Fourth State Technology product line. These amounts represented the entire amount of the net carrying values of these assets on the date they were written down.

RESTRUCTURING CHARGE

During the second quarter of 2001, in response to the downturn in the semiconductor capital equipment industry, we implemented two reductions in force and recorded a charge of $614,000 for restructuring and severance costs.

MERGER COSTS

Merger costs of $2.3 million for the second quarter of 2000 were incurred for the acquisition of Noah Holdings, Inc., which was accounted for as a pooling of interests.

OTHER (EXPENSE) INCOME

Other expense (income) consists primarily of interest income and expense, foreign exchange gains and losses and other miscellaneous gain, loss, income and expense items. Other income was $731,000 in the second quarter of 2000, and included $2.8 million of interest income offset by $2.1 million of interest expense, $118,000 of foreign currency gain and $58,000 of other expenses. Other expense was $70,000 in the second quarter of 2001, and included $1.3 million of interest income offset by $1.2 million of interest expense, $68,000 of foreign currency loss and $115,000 of other expenses.

(BENEFIT) PROVISION FOR INCOME TAXES

The income tax provision for the second quarter of 2000 was $8.0 million and represented an effective tax rate of 38%. The income tax benefit for the second quarter of 2001 was $6.6 million. Changes in our earnings relative to the earnings of our foreign subsidiaries and the writedown of certain intangible assets affected our consolidated effective tax rate. We adjust our provision for income taxes periodically based upon the anticipated tax status of our foreign and domestic entities.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2001 AND 2000

SALES

Sales were $160.7 million for the first six months of 2000 and $120.9 million for the first six months of 2001. The decrease was attributable to decreased sales to semiconductor capital equipment, data storage and flat panel display customers. Sales to the United States, Canada and Europe were lower while sales to Asia Pacific were higher in the first six months of 2001 when compared to the first six months of 2000.

The following tables summarize net sales and percentages of net sales by customer type for us for the six-month periods ended June 30, 2001 and 2000:

	SIX MONTHS ENDED JUNE 30,	
	2001	2000
	(IN THOUSANDS)	
Semiconductor capital equipment	$ 78,803	$112,085
Data storage	4,483	11,370
Flat panel display	10,445	13,630
Advanced product applications	19,293	16,143
Customer service technical support	7,861	7,501
	$120,885	$160,729

	SIX MONTHS ENDED JUNE 30,	
	2001	2000
Semiconductor capital equipment	65%	70%
Data storage	4	7
Flat panel display	9	8
Advanced product applications	16	10
Customer service technical support	6	5
	100%	100%

The following tables summarize net sales and percentages of net sales by geographic region for us for the six-month periods ended June 30, 2001 and 2000:

	SIX MONTHS ENDED JUNE 30,	
	2001	2000
	(IN THOUSANDS)	
United States and Canada	$ 81,361	$116,219
Europe	15,620	23,637
Asia Pacific	23,443	20,586
Rest of world	461	287
	$120,885	$160,729

	SIX MONTHS ENDED JUNE 30,	
	2001	2000
United States and Canada	67%	72%
Europe	13	15
Asia Pacific	20	13
Rest of world	--	--
	100%	100%

GROSS MARGIN

Our gross margin was 49.2% in the first six months of 2000 and 32.3% in the first six months of 2001. The decrease was due to lower absorption of manufacturing overhead and fixed costs and a $7.1 million writedown related to the identification and future disposal of excess and obsolete inventory and additional warranty provision recorded to reflect our current experience and anticipated incremental repairs and retrofits. We added new facilities in Fort Collins, Colorado in the first quarter of 2001 to increase our manufacturing capacity, which increased our lease and depreciation costs. This adversely impacted absorption of overhead because the increased capacity was not fully utilized due to decreased demand. In addition, the sudden and pronounced decline in demand caused a significant increase in inventories deemed to be excessive or obsolete. Any further decreases in our level of sales in the future could have an additional negative impact on our gross margin.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses were $16.6 million in the first six months of 2000 and $23.4 million in the first six months of 2001, representing an increase of 41%. The increase is primarily due to increases in payroll, materials and supplies, purchased services and higher infrastructure costs for new product development, and partly due to the inclusion of EMCO research and development expenses in the first six months of 2001. As a percentage of sales, research and development expenses increased from 10.3% in the first six months of 2000 to 19.4 % in the first six months of 2001 because of the higher spending and lower sales levels.

SALES AND MARKETING EXPENSES

Sales and marketing expenses were $11.2 million in the first six months of 2000 and $12.6 million in the first six months of 2001, representing a 12% increase. The increase is primarily due to the inclusion of EMCO sales and marketing expenses in the first six months of 2001 and higher payroll, promotion and distribution costs. We incurred these expenses to continue to increase our sales management and product management capabilities. As a percentage of sales, sales and marketing expenses increased from 7.0% in the first six months of 2000 to 10.4% in the first six months of 2001 because of the higher spending and lower sales levels.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses were $11.4 million in the first six months of 2000 and $11.9 million in the first six months of 2001, representing a 3% increase. The increase is primarily due to the inclusion of goodwill amortization resulting from the acquisition of EMCO, partially offset by lower spending for payroll. As a percentage of sales, general and administrative expenses increased from 7.1% in the first six months of 2000 to 9.8% in the first six months of 2001.

MERGER COSTS AND OTHER INFREQUENT EXPENSES (INCOME)

The first six months of 2000 included $2.3 million of merger costs incurred for the acquisition of Noah Holdings, Inc., which was accounted for as a pooling of interests. Additionally, the first six months of 2001 included $5.4 million of goodwill impairment and $614,000 for a restructuring charge. Income for the first six months of 2001 included a $1.5 million settlement for recovery of legal expenses pertaining to a patent-infringement suit in which we were the plaintiff.

OTHER INCOME (EXPENSE)

Other income consists primarily of interest income and expense, foreign exchange gains and losses and other miscellaneous gain, loss, income and expense items. Other income was $851,000 in the first six months of 2000, and included $5.3 million of interest income offset by $4.1 million of interest expense, $201,000 of foreign currency loss and $114,000 of other expenses. Other income was $117,000 in the first six months of 2001, and included $3.1 million of interest income offset by $2.5 million of interest expense, $51,000 of foreign currency loss and $426,000 of other expenses.

(BENEFIT) PROVISION FOR INCOME TAXES

The income tax provision for the first six months of 2000 was $14.0 million and represented an effective tax rate of 36%. The income tax benefit for the first six months of 2001 was $3.9 million. Changes in our earnings relative to the earnings of our foreign subsidiaries and the writedown of certain intangible assets affected our consolidated effective tax rate. We adjust our provision for income taxes periodically based upon the anticipated tax status of our 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 lines of credit, long-term loans secured by property and equipment, cash flow from operations and proceeds from underwritten public offerings of our common stock and convertible subordinated debt.

Operating activities provided cash of $12.7 million in the first six months of 2000, primarily as a result of net income, depreciation and amortization, partially offset by increases in accounts receivable and inventories. Operating activities provided cash of $7.3 million in the first six months of 2001, primarily as a result of depreciation and amortization, a decrease in accounts receivable, a provision for inventory and warranty and a loss on goodwill impairment, partially offset by net loss, accrued earnings from marketable securities, decreased accruals for income taxes, payroll and employee benefits, decreased accounts payable and increased inventories.

Investing activities used cash of $15.7 million in the first six months of 2000, and included the purchase of marketable securities of $10.0 million, property and equipment for $5.3 million and investments of $531,000, partially offset by proceeds from the sale of equipment of $150,000. Investing activities used cash of $8.0 million in the first six months of 2001, and included the acquisition of EMCO for $29.9 million, the purchase of property and equipment for $9.4 million and investments for $639,000, partially offset by the sale of marketable securities of $32.0 million.

Financing activities provided cash of $2.7 million in the first six months of 2000, and included of $3.0 million from the exercise of employee stock options and sale of common stock through our employee stock purchase plan ("ESPP"), offset by $363,000 of net changes in notes payable and capital lease obligations. Financing activities provided cash of $801,000 in the first six months of 2001, and included proceeds of $2.7 million from the exercise of employee stock options and sale of common stock through our ESPP, offset by $1.9 million of net decreases in notes payable and capital lease obligations.

We plan to limit capital spending to items crucial to our operations through the remainder of 2001. Depreciation expense is projected to be approximately $5.4 million through the remainder of 2001.

As of June 30, 2001, we had working capital of $250.3 million. Our principal sources of liquidity consisted of $32.4 million of cash and cash equivalents, $129.2 million of marketable securities, and a credit facility consisting of a $30.0 million revolving line of credit. Advances under the revolving line of credit bear interest at either the prime rate (6.75% at July 31, 2001) minus 1.00% or the LIBOR 360-day rate (3.8200% at July 31, 2001) plus 175 basis points, at our option. All advances under the revolving line of credit will be due and payable May 2003. As of June 30, 2001 there were no advances outstanding on this line of credit.

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 June 30, 2001, our investments consisted primarily of equity securities, commercial paper, municipal bonds and notes and money market mutual funds which had an original cost of $128.8 million, and earned $1.3 million for the quarter then ended, at an average interest rate of approximately 3.8%. The impact on interest income of a decrease of ten percent in the average interest rate would have resulted in approximately $125,000 less interest income for the quarter ended June 30, 2001.

As of June 30, 2001, all of our debt was at fixed interest rate. The impact on interest expense of a ten percent increase in the average interest rate would have been immaterial to our financial position and results of operations.

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 to mitigate against currency fluctuations in the Japanese yen. These currency swaps offset changes in the exchange rate in the yen, when intercompany transactions we conduct with our subsidiary in Japan are settled. Changes in the exchange rates of the U.S. dollar with other currencies in which we operate are immaterial. We will continue to evaluate various methods to minimize the effects of currency fluctuations.

Eleven European countries adopted a Single European Currency (the "euro") as of January 1, 1999 with a transition period continuing through at least 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. A twelfth European country adopted the euro on January 1, 2001. 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 start-up companies 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 investments 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

From time to time, we are party to various legal proceedings relating to our business. We are not currently party to any material legal proceedings, except the civil action described in our quarterly report on Form 10-Q for the quarter ended March 31, 2001, filed May 9, 2001.

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

We held our 2001 Annual Meeting of Stockholders on Wednesday, May 9, 2001, to vote on five proposals. Proxy statements were sent to all shareholders. The first proposal was for the election of the following eight people as directors:
Douglas S. Schatz, G. Brent Backman, Richard P. Beck, Trung T. Doan, Arthur A. Noeth, Elwood Spedden, Gerald M. Starek and Arthur W. Zafiropoulo. All eight directors were elected with the following votes tabulated:

NAME OF DIRECTOR	TOTAL VOTE FOR EACH DIRECTOR	TOTAL VOTE WITHHELD FROM EACH DIRECTOR
Mr. Schatz	25,301,546	2,899,639
Mr. Backman	27,150,588	1,050,597
Mr. Beck	25,421,670	2,779,515
Mr. Doan	27,149,010	1,052,175
Mr. Noeth	27,148,645	1,052,540
Mr. Spedden	27,148,795	1,052,390
Mr. Starek	27,149,712	1,051,473
Mr. Zafiropoulo	27,147,710	1,053,475

The second proposal was to increase the number of authorized shares of our common stock from 40,000,000 shares to 55,000,000 shares. The increase was ratified, with the following votes tabulated:

FOR	AGAINST	ABSTAIN
27,690,424	496,793	13,968

The third proposal was to amend our 1995 Stock Option Plan to increase the total number of shares of our common stock issuable under the plan from 5,625,000 shares to 8,125,000 shares. The increase was ratified, with the following votes tabulated:

FOR	AGAINST	ABSTAIN	NON VOTE
17,490,834	6,077,905	23,957	4,608,489

The fourth proposal was to amend our 1995 Non-Employee Directors' Stock Option Plan to increase the total number of shares of our common stock issuable under the plan from 100,000 shares to 200,000 shares. The increase was ratified, with the following votes tabulated:

FOR	AGAINST	ABSTAIN	NON VOTE
21,672,939	1,898,617	21,140	4,608,489

The fifth proposal was for the ratification of the appointment of independent auditors for the year 2001. The appointment of the current auditors, Arthur Andersen LLP, was ratified, with the following votes tabulated:

FOR	AGAINST	ABSTAIN
27,810,836	371,365	18,984

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

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

3.2 The Company's By-laws(1)

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(1) Incorporated by reference to the Company's Registration Statement on Form S-1 (File No. 33-97188), filed September 20, 1995, as amended.

(b) No reports on Form 8-K were filed by the Company during the quarter ended June 30, 2001.

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) *August 13, 2001*

INDEX TO EXHIBITS

EXHIBIT NO.	DESCRIPTION
3.1	The Company's Restated Certificate of Incorporation, as amended
3.2	The Company's By-laws(1)

---

(1) Incorporated by reference to the Company's Registration Statement on Form S-1 (File No. 33-97188), filed September 20, 1995, as amended.

EXHIBIT 3.1

CERTIFICATE OF AMENDMENT

OF

RESTATED CERTIFICATE OF INCORPORATION

OF

ADVANCED ENERGY INDUSTRIES, INC.

Advanced Energy Industries, Inc., (hereinafter called the "Corporation") a Corporation organized and existing under and by virtue of the provisions of the General Corporation Law of the State of Delaware (the "General Corporation Law"), does hereby certify:

1. The name of the Corporation is Advanced Energy Industries, Inc.

2. The Restated Certificate of Incorporation of the Corporation is hereby amended by striking out Article IV. A thereof and by substituting in lieu of said Article IV. A the following new Article IV. A:

"A. This corporation is authorized to issue two classes of stock to be designated, respectively, "Common Stock" and "Preferred Stock." The total number of shares which the corporation is authorized to issue is fifty-six million (56,000,000) shares. Fifty-five million (55,000,000) shares shall be Common Stock, par value $0.001 per share, and one million (1,000,000) shares shall be Preferred Stock, par value $0.001 per share."

3. The amendment of the Restated Certificate of Incorporation herein certified has been duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

Executed on this 11th day of June, 2001.

/s/ Richard P. Beck

Richard P. Beck, Senior Vice
President, Chief Financial Officer,
and Assistant Secretary

RESTATED CERTIFICATE OF INCORPORATION

OF

ADVANCED ENERGY INDUSTRIES, INC.

Advanced Energy Industries, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, DOES HEREBY CERTIFY:

1. The nature of the corporation is Advanced Energy Industries, Inc. The date of filing of its original Certificate of Incorporation with the Secretary of State was Friday, September 1, 1995.

2. This Restated Certificate of Incorporation has been duly adopted in accordance with Sections 228, 242 and 245 of the Delaware General Corporation Law.

3. This Restated Certificate of Incorporation restates and integrates and further amends the Certificate of Incorporation of this corporation by restating the text of the original Certificate of Incorporation in full to read as follows:

I.

The name of this corporation is ADVANCED ENERGY INDUSTRIES, INC.

II.

The address, including street, number, city, and county, of the registered office of the corporation in the State of Delaware is 32 Loockerman Square, Suite L-l00, City of Dover, 19904, County of Kent; and the name of the registered agent of the corporation in the State of Delaware at such address is The Prentice-Hall Corporation System, Inc.

III.

The purpose of this corporation is to engage in any lawful act or activity for which a corporation may be organized under the Delaware General Corporation Law.

IV.

A. This corporation is authorized to issue two classes of stock to be designated, respectively, "Common Stock" and "Preferred Stock." The total number of shares which the corporation is authorized to issue is thirty-one million (31,000,000) shares. Thirty million

(30,000,000) shares shall be Common Stock, each having a par value of one-tenth of one cent ($.001). One million (1,000,000) shares shall be Preferred Stock, each having a par value of one-tenth of one cent ($.001). Effective upon filing of this Restated Certificate of Incorporation, each one (1) share of the Company's Common Stock shall be split into three (3) shares of Common Stock. Following such split the par value of each share of capital stock shall continue to be $.001.

B. The Preferred Stock may be issued from time to time in one or more series. The Board of Directors is hereby authorized, by filing a certificate (a "Preferred Stock Designation") pursuant to the Delaware General Corporation Law, to fix or alter from time to time the designation, powers, preferences and rights of the shares of each such series and the qualifications, limitations or restrictions of any wholly unissued series of Preferred Stock, and to establish from time to time the number of shares constituting any such series or any of them; and to increase or decrease the number of shares of any series subsequent to the issuance of shares of that series, but not below the number of shares of such series then outstanding. In case the number of shares of any series shall be decreased in accordance with the foregoing sentence, the shares constituting such decrease shall resume the status that they had prior to the adoption of the resolution originally fixing the number of shares of such series.

V.

For the management of the business and for the conduct of the affairs of the corporation, and in further definition, limitation and regulation of the powers of the corporation, of its directors and of its stockholders or any class thereof, as the case may be, it is further provided that:

A. (1) The management of the business and the conduct of the affairs of the corporation shall be vested in its Board of Directors. The number of directors which shall constitute the whole Board of Directors shall be fixed exclusively by one or more resolutions adopted by the Board of Directors.

(2) Subject to the rights of the holders of any series of Preferred Stock to elect additional directors under specified circumstances, directors shall be elected at each annual meeting of stockholders for a term of one year. Each director shall serve until his successor is duly elected and qualified or until his death, resignation or removal. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

(3) Subject to the rights of the holders of any series of Preferred Stock, no director shall be removed without cause. Subject to any limitations imposed by law, the Board of Directors or any individual director may be removed from office at any time with cause by the affirmative vote of the holders of a majority of the voting power of all the then-outstanding shares of voting stock of the corporation, entitled to vote at an election of directors (the "Voting Stock").

(4) Subject to the rights of the holders of any series of Preferred Stock, any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal

or other causes and any newly created directorships resulting from any increase in the number of directors, shall, unless the Board of Directors determines by resolution that any such vacancies or newly created directorships shall be filled by the stockholders, except as otherwise provided by law, be filled only by the affirmative vote of a majority of the directors then in office, even though less than a quorum of the Board of Directors, and not by the stockholders. Any director elected in accordance with the preceding sentence shall hold office for the remainder of the full term of the director for which the vacancy was created or occurred and until such director's successor shall have been elected and qualified.

B. (1) Subject to paragraph (h) of Section 43 of the Bylaws, the Bylaws may be altered or amended or new Bylaws adopted by the affirmative vote of at least sixty-six and two-thirds percent (66-2/3%) of the voting power of all of the then-outstanding shares of the Voting Stock. The Board of Directors shall also have the power to adopt, amend, or repeal Bylaws.

(2) The directors of the corporation need not be elected by written ballot unless the Bylaws so provide.

(3) Special meetings of the stockholders of the corporation may be called, for any purpose or purposes, by (i) the Chairman of the Board of Directors, (ii) the Chief Executive Officer, or (iii) the Board of Directors pursuant to a resolution adopted by a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time any such resolution is presented to the Board of Directors for adoption), and shall be held at such place, on such date, and at such time as the Board of Directors shall fix.

(4) Advance notice of stockholder nominations for the election of directors and of business to be brought by stockholders before any meeting of the stockholders of the corporation shall be given in the manner provided in the Bylaws of the corporation.

VI.

A. A director of the corporation shall not be personally liable to the corporation or its stockholders for monetary damages for any breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law (iii) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived an improper personal benefit. If the Delaware General Corporation Law is amended after approval by the stockholders of this Article to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director shall be eliminated or limited to the fullest extent permitted by the Delaware General Corporation Law, as so amended.

B. Any repeal or modification of this Article VI shall be prospective and shall not affect the rights under this Article VI in effect at the time of the alleged occurrence of any act or omission to act giving rise to liability or indemnification.

VII.

A. The corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation in the manner now or hereafter prescribed by statute, except as provided in paragraph B of this Article VII, and all rights conferred upon the stockholders herein are granted subject to this reservation.

B. Notwithstanding any other provisions of this Certificate of Incorporation or any provision of law which might otherwise permit a lesser vote or no vote, but in addition to any affirmative vote of the holders of any particular class or series of the Voting Stock required by law, this Certificate of Incorporation or any Preferred Stock Designation, the affirmative vote of the holders of a least sixty-six and two-thirds percent (66-2/3%) of the voting power of all of the then-outstanding shares of the Voting Stock, voting together as a single class, shall be required to alter, amend or repeal Articles VI or VII.

IN WITNESS WHEREOF, said Advanced Energy Industries, Inc. has caused this Certificate to be signed by Douglas S. Schatz, its President, this 18th day of September, 1995.

ADVANCED ENERGY INDUSTRIES, INC.

By /s/ Douglas S. Schatz

Douglas S. Schatz.
President, Chief Executive Officer,
and Chairman of the Board

End of Filing

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