

ADVANCED ENERGY INDUSTRIES INC

FORM 10-Q (Quarterly Report)

Filed 5/14/1997 For Period Ending 3/31/1997

Address	1625 SHARP POINT DR FT COLLINS, Colorado 80525
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CIK	0000927003
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, 1997.

☐ **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 March 31, 1997, there were 21,277,495 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 AND SUPPLEMENTAL DATA

ADVANCED ENERGY INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (IN THOUSANDS)

ASSETS	MARCH 31, 1997 (UNAUDITED)	DECEMBER 31, 1996
	-----	-----
Current Assets:		
Cash and cash equivalents.	\$ 9,784	\$11,231
Accounts receivable.	18,992	16,116
Inventories.	16,197	13,976
Prepaid expenses and other current assets.	867	1,013
Deferred income tax benefit.	1,223	1,223
	-----	-----
Total current assets	47,063	43,559
	-----	-----
Property and Equipment, net.	9,191	9,500
Other Assets	2,410	2,972
	-----	-----
Total assets	\$58,664	\$56,031
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 4,553	\$ 2,253
Accrued payroll and employee benefits.	2,590	2,396
Other accrued expenses	756	1,156
Customer deposits.	224	166
Accrued income tax payable	1,396	1,485
Current portion of long-term debt.	785	924
	-----	-----
Total current liabilities.	10,304	8,380
	-----	-----
Long-term debt	966	1,127
Deferred income tax liability.	28	28
	-----	-----
Total liabilities.	11,298	9,535
	-----	-----
Stockholders' equity	47,366	46,496
	-----	-----
Total liabilities and stockholders' equity	\$58,664	\$56,031
	-----	-----

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)

QUARTER ENDED MARCH 31,

	1997 (UNAUDITED)	1996 (UNAUDITED)
	-----	-----
Net Sales	\$20,667	\$27,166
Cost of Sales	13,158	17,035
	-----	-----
Gross profit	7,509	10,131
	-----	-----
Operating Expenses:		
Research and development	2,821	3,498
Sales and marketing	1,799	2,083
General and administrative	1,248	1,725
	-----	-----
Operating Income	1,641	2,825
	-----	-----
Other (expense) income, net	(387)	(170)
	-----	-----
Net income before income taxes	1,254	2,655
Provision for income taxes	489	982
	-----	-----
Net Income	\$ 765	\$ 1,673
	-----	-----
Net Income per share	\$ 0.04	\$ 0.08
	-----	-----
Weighted average shares outstanding	21,821	21,794
	-----	-----

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,	
	1997	1996
	(UNAUDITED)	(UNAUDITED)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 765	\$ 1,673
Adjustments to reconcile net income to net cash (used in) provided by operating activities --		
Depreciation and amortization	798	445
Amortization of deferred compensation	12	133
Loss on disposal of property and equipment.	--	39
Changes in operating assets and liabilities --		
Accounts receivable, trade.	(2,702)	(2,627)
Related parties and other receivables	(174)	133
Inventories	(2,221)	(1,487)
Income taxes.	(89)	661
Other current assets.	146	126
Deposits and other.	21	21
Demonstration and customer service equipment.	367	(15)
Accounts payable.	2,300	1,372
Accrued payroll and employee benefits	194	(63)
Customer deposits and other accrued expenses.	(342)	(211)
	-----	-----
Net cash (used in) provided by operating activities.	(925)	79
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment, net.	(315)	(3,126)
	-----	-----
Net cash used in investing activities.	(315)	(3,126)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of notes payable and capital lease obligations	(300)	(234)
Proceeds from sale of common stock	11	110
	-----	-----
Net cash used in financing activities	(289)	(124)
	-----	-----
EFFECT OF CUMULATIVE TRANSLATION ADJUSTMENT.	82	(64)
	-----	-----
DECREASE IN CASH AND CASH EQUIVALENTS.	(1,447)	(3,235)
CASH AND CASH EQUIVALENTS, beginning of period	11,231	13,332
	-----	-----
CASH AND CASH EQUIVALENTS, end of period	\$ 9,784	\$10,097
	-----	-----
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 39	\$ 52
	-----	-----
Cash paid for income taxes	\$ 0	\$ 290
	-----	-----

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, 1997, and the results of their operations and cash flows for the three month periods ended March 31, 1997 and March 31, 1996.

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 latest annual report on Form 10-K for the year ended December 31, 1996.

(2) INITIAL PUBLIC OFFERING

In November 1995, the Company closed on the initial public offering of its common stock. In connection with the offering, 2,400,000 shares of previously unissued common shares were sold at a price of \$10 per share, providing gross proceeds of \$24,000,000, less \$2,790,000 in offering costs.

(3) ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

	MARCH 31, 1997 (UNAUDITED)	DECEMBER 31, 1996
	-----	-----
	(IN THOUSANDS)	
Domestic	\$11,220	\$ 9,944
Foreign.	7,008	5,585
Allowance for doubtful accounts.	(239)	(242)
	-----	-----
Trade accounts receivable.	\$17,989	\$15,287
Related parties.	482	541
Other.	521	288
	-----	-----
Total accounts receivable.	\$18,992	\$16,116
	-----	-----

(4) INVENTORIES

Inventories consisted of the following:

	MARCH 31, 1997 (UNAUDITED)	DECEMBER 31, 1996
	-----	-----
	(IN THOUSANDS)	
Parts and raw materials	\$11,862	\$11,149
Work in process	1,642	1,122
Finished goods.	2,693	1,705
	-----	-----
	\$16,197	\$13,976
	-----	-----

(5) NET INCOME PER COMMON SHARE

Net income per share is computed based on results of operations attributable to common stock and weighted average number of common and common equivalent shares outstanding during each of the periods. Earnings per share are calculated by dividing the net earnings by the weighted average of common and common equivalent shares outstanding during each of the periods.

(6) STOCKHOLDERS' EQUITY

Stockholders' equity consisted of the following:

MARCH 31, 1997 (UNAUDITED)	DECEMBER 31, 1996
-----	-----

(IN THOUSANDS, EXCEPT
PAR VALUE)

Common stock, \$0.001 par value, 30,000 shares authorized; 21,277 and 21,268 shares issued

and outstanding	\$ 21	\$ 21
Additional paid-in capital.	23,085	23,075
Retained earnings	25,831	25,065
Stockholders' notes receivable.	(1,083)	(1,083)
Deferred compensation	(70)	(82)
Cumulative translation adjustment	(418)	(500)
	-----	-----
Total stockholders' equity.	\$47,366	\$46,496
	-----	-----

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

The following discussion contains, in addition to historical information, forward-looking statements. The Company's actual results may differ significantly from the results discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and in the Company's 1996 annual report on Form 10-K.

In particular, the Company believes that the following factors could impact forward-looking statements made herein or in future written or oral releases and by hindsight, prove such statements to be overly optimistic and unachievable: volatility of the semiconductor and semiconductor equipment industries, customer concentration, dependence on design wins, rapid technological change and dependence on new system introduction, competition, and management of growth.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 1997 AND 1996

SALES

Sales for the first quarter of 1997 were \$20.7 million, a decrease of 24% from first quarter of 1996 sales of \$27.2 million. The Company's decrease in sales between the periods presented has resulted from decreased unit sales of the Company's systems. A significant part of this unit sales decrease is attributable to decreased demand by domestic semiconductor equipment customers, primarily the Company's two largest customers reflecting the downturn in the entire semiconductor equipment industry. Sales in Europe were down marginally from the comparable quarter in 1996. Sales in Japan were up 188% from the comparable quarter in 1996 due to increased revenue from the flat panel display industry.

The Company continues to be cautious about the outlook for future sales to the semiconductor equipment industry.

GROSS MARGIN

The Company's gross margin for the first quarter of 1997 was 36.3% of revenue, down from 37.3% of revenue in the comparable period in 1996, and down from 36.9% in the fourth quarter of 1996. The decline in gross margin from the first quarter of 1996 to the first quarter of 1997 is due primarily to higher customer service costs, which increased in total dollars spent and as a percentage of sales, higher allocations of infrastructure costs to cost of good sold, and a less favorable absorption of manufacturing overhead costs. These increases were partially offset by lower material costs. The Company expects that

increased customer service costs and underutilization of manufacturing capacity will continue to negatively impact gross margin until sales levels improve.

RESEARCH AND DEVELOPMENT

The Company's research and development costs are incurred researching new technologies, developing new products and improving existing product designs. Research and development expenses for the first quarter of 1997 were \$2.8 million, down from \$3.5 million in the first quarter of 1996, representing a decrease of 20%. This decrease resulted from lower spending for materials and supplies, as well as a reduction in allocations of infrastructure costs to research and development. These decreases reflect a continuation of the Company's cost containment efforts implemented in the third quarter of 1996. As a percentage of sales, research and development expenses increased to 13.6% in the first quarter of 1997 from 12.9% in the first quarter of 1996, primarily as a result of the lower sales base.

The Company believes that continued research and development investment is essential to ongoing development of new products. Since inception, all research and development costs have been internally funded and expensed.

SALES AND MARKETING

Sales and marketing expenses support domestic and international sales and marketing activities that include personnel, trade shows, advertising, and other marketing activities. Sales and marketing expenses for the first quarter of 1997 were \$1.8 million, compared to expenses of \$2.1 million in the first quarter of 1996, representing a decrease of 14%. This decrease is primarily a result of lower allocations of general and administrative costs to the sales and marketing function. As a percentage of sales, sales and marketing expenses increased to 8.7% in the first quarter of 1997 from 7.7% in the first quarter of 1996, primarily as a result of the lower sales base.

The Company continues to reorganize its sales and marketing team to better address the specific needs of its customers. As a result, sales and marketing expenses are expected to increase as a percentage of sales in future periods.

GENERAL AND ADMINISTRATIVE

General and administrative expenses support the worldwide financial, administrative, information systems and human resources functions of the Company. General and administrative expenses for the first quarter of 1997 were \$1.2 million, compared to expenses of \$1.7 million in the first quarter of 1996, representing a decrease of 29%. The decrease is primarily a result of continued lower spending driven by cost containment efforts implemented during the third quarter of 1996, particularly for payroll costs and purchased services. As a percentage of sales, expenses decreased to 6.0% in the first quarter of 1997 from 6.3% in the first quarter of 1996.

The Company is in the process of implementing new information management system software throughout the Company including the replacement of existing systems in its foreign locations. The Company expects that significant charges related to training and implementation of the new software will occur during 1997 particularly for the foreign locations.

OTHER INCOME (EXPENSE)

Other income and expense consists primarily of foreign exchange gains and losses, interest expense and other miscellaneous income and expense items. Other expense was \$0.4 million for the first quarter of 1997, compared to other expense of \$0.2 million in the first quarter of 1996.

The Company has experienced fluctuations in foreign currency exchange rates during the past few months particularly against the Japanese yen. As a hedge against currency fluctuations in the Japanese yen, the Company entered into various forward foreign exchange contracts during the first quarter to lessen future exposures to foreign exchange losses.

PROVISION FOR INCOME TAXES

The income tax provision of \$0.5 million for the first quarter of 1997 represented an estimated effective rate of 39.0% compared to an effective income tax rate for the year 1996 of 38.1%. The Company adjusts its income taxes periodically based upon the anticipated tax status of all foreign and domestic entities.

LIQUIDITY AND CAPITAL RESOURCES

Until the initial public offering of the Company's common stock in November 1995, the Company financed its operations, acquired equipment and met its working capital requirements through borrowings under its revolving line of credit, long-term loans secured by property and equipment and cash flow from operations.

Cash used in operations totaled \$0.9 million for the first quarter of 1997 compared to cash provided by operations of \$0.1 million for the same period in 1996. Cash used in the first quarter of 1997 was primarily a result of increases in accounts receivable and inventories offset by net income and increases in accounts payable. Cash provided in the comparable period in 1996 was primarily a result of net income and increases in accounts payable, income taxes payable and other liabilities, offset by increases in accounts receivable and inventories.

Investing activities, consisting primarily of equipment acquisitions, used cash of \$0.3 million in the first quarter of 1997, versus \$3.1 million in the comparable period in 1996. In the first quarter of 1996 the Company equipped and moved into a new 56,000 square

foot building. Financing activities in the first quarter of 1997 consisted primarily of notes payable and capital lease obligations and used cash of \$0.3 million. In the comparable period in 1996, financing activities consisted primarily of repayment of notes payable and capital lease obligations, partially offset by proceeds from the sale of common stock, and used cash of \$0.1 million.

The Company plans to spend approximately \$3.5 million through the remainder of 1997 for the acquisition of manufacturing and test equipment and furnishings.

As of March 31, 1997, the Company had working capital of \$36.8 million. The Company's principal sources of liquidity consisted of \$9.8 million of cash and cash equivalents and \$10.0 million available under a \$10.0 million revolving line of credit that bears interest at the prime rate (8.5% at April 15, 1997). The Company has the option to convert up to \$3.0 million of its revolving line of credit to a 36-month term loan that would bear interest at prime rate plus 0.50%.

The Company also has a term loan for equipment financing for its US operations. At March 31, 1997, \$1.3 million was outstanding under the term loan, which bears interest at prime plus 0.25% and is due November 5, 1999.

The Company believes that its cash and cash equivalents, cash flow from operations and available borrowings, will be sufficient to meet the Company's working capital needs through at least the end of 1997. After that time, the Company may require additional equity or debt financing to address its working capital, capital equipment, or expansion needs. There can be no assurance that additional funding will be available when required or that it will be available on terms acceptable to the Company.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGES IN SECURITIES

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

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

(Registrant)

Vice President, Chief Financial May 9,1997 Officer, Assistant Secretary and Director (Principal Financial Officer and Principal Accounting Officer)

ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	3 MOS
FISCAL YEAR END	DEC 31 1997
PERIOD START	JAN 01 1997
PERIOD END	MAR 31 1997
CASH	9,784
SECURITIES	0
RECEIVABLES	19,231
ALLOWANCES	(239)
INVENTORY	16,197
CURRENT ASSETS	47,063
PP&E	15,575
DEPRECIATION	(6,384)
TOTAL ASSETS	58,664
CURRENT LIABILITIES	10,304
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	21
OTHER SE	47,345
TOTAL LIABILITY AND EQUITY	58,664
SALES	20,667
TOTAL REVENUES	20,667
CGS	13,158
TOTAL COSTS	13,158
OTHER EXPENSES	5,868
LOSS PROVISION	0
INTEREST EXPENSE	39
INCOME PRETAX	1,254
INCOME TAX	489
INCOME CONTINUING	765
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	765
EPS PRIMARY	0.04
EPS DILUTED	0.04

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