ADVANCED ENERGY INDUSTRIES INC

FORM 10-Q
(Quarterly Report)

Filed 8/12/1997 For Period Ending 6/30/1997

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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)

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

For the quarterly period ended June 30, 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 June 30, 1997, there were 21,289,962 shares of the Registrant's Common Stock, par value $0.001 per share, outstanding.

ADVANCED ENERGY INDUSTRIES, INC.
FORM 10-Q

INDEX

PART I	FINANCIAL INFORMATION	
ITEM 1.	FINANCIAL STATEMENTS	
	Consolidated Balance Sheets- June 30, 1997 and December 31, 1996	3
	Consolidated Statements of Operations- Three months and six months ended June 30, 1997 and 1996	4
	Consolidated Statements of Cash Flows- Six months ended June 30, 1997 and 1996	5
	Notes to consolidated financial statements	6
ITEM 2.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	8
PART II	OTHER INFORMATION	
ITEM 1.	LEGAL PROCEEDINGS	13
ITEM 2.	CHANGES IN SECURITIES	13
ITEM 3.	DEFAULTS UPON SENIOR SECURITIES	13
ITEM 4.	SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	13
ITEM 5.	OTHER INFORMATION	14
ITEM 6.	EXHIBITS AND REPORTS ON FORM 8-K	14

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

ADVANCED ENERGY INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

	JUNE 30, 1997 (UNAUDITED)	DECEMBER 31, 1996
ASSETS		
Current Assets:		
Cash and cash equivalents	$11,183	$11,231
Accounts receivable	26,154	16,116
Inventories	16,169	13,976
Prepaid expenses and other current assets	637	1,013
Deferred income tax benefit	1,223	1,223
Total current assets	55,366	43,559
Property and equipment, net	9,028	9,500
Other assets	1,657	2,972
Total assets	$66,051	$56,031
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 6,296	$ 2,253
Accrued payroll and employee benefits	3,687	2,396
Other accrued expenses	764	1,156
Customer deposits	1,071	166
Accrued income tax payable	2,046	1,485
Current portion of long-term debt	745	924
Total current liabilities	14,609	8,380
Long-term debt	789	1,127
Deferred income tax liability	28	28
Total liabilities	15,426	9,535
Stockholders' equity	50,625	46,496
Total liabilities and stockholders' equity	$66,051	$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 JUNE 30,

	1997 (UNAUDITED)	1996 (UNAUDITED)
Net Sales.	$ 32,690	$ 29,831
Cost of Sales.	20,139	17,204
Gross profit	12,551	12,627
Operating Expenses:		
Research and development	3,513	3,645
Sales and marketing.	2,336	2,248
General and administrative	1,702	2,330
Operating Income	5,000	4,404
Other income (expense), net.	286	(66)
Net income before income taxes	5,286	4,338
Provision for income taxes	1,996	1,676
Net Income	$ 3,290	$ 2,662
Net Income per share	$ 0.15	$ 0.12
Weighted average shares outstanding. . .	21,991	21,653

SIX MONTHS ENDED JUNE 30,

	1997 (UNAUDITED)	1996 (UNAUDITED)
Net Sales.	$ 53,358	$ 56,997
Cost of Sales.	33,298	34,239
Gross profit	20,060	22,758
Operating Expenses:		
Research and development	6,334	7,143
Sales and marketing.	4,135	4,331
General and administrative	2,950	4,055
Operating Income	6,641	7,229
Other expense, net	(101)	(236)
Net income before income taxes	6,540	6,993
Provision for income taxes	2,485	2,658
Net Income	$ 4,055	$ 4,335
Net Income per share	$ 0.19	$ 0.20
Weighted average shares outstanding. . .	21,906	21,657

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)

SIX MONTHS ENDED JUNE 30,

	1997 (UNAUDITED)	1996 (UNAUDITED)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 4,055	$ 4,335
Adjustments to reconcile net income to net cash provided by operating activities--		
Depreciation and amortization	1,673	1,146
Amortization of deferred compensation	24	24
Loss on disposal of property and equipment	--	20
Changes in operating assets and liabilities --		
Accounts receivable, trade	(8,854)	(3,203)
Related parties and other receivables	(1,184)	(209)
Inventories	(2,193)	(1,062)
Income taxes	561	1,041
Other current assets	376	83
Deposits and other	634	34
Demonstration and customer service equipment	250	(411)
Accounts payable	4,043	(2,172)
Accrued payroll and employee benefits	1,291	677
Customer deposits and other accrued expenses	513	(126)
Net cash provided by operating activities	1,189	177
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment, net	(770)	(4,352)
Net cash used in investing activities	(770)	(4,352)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of notes payable and capital lease obligations	(517)	(492)
Proceeds from sale of common stock	27	118
Net cash used in financing activities	(490)	(374)
EFFECT OF CUMULATIVE TRANSLATION ADJUSTMENT	23	(19)
DECREASE IN CASH AND CASH EQUIVALENTS	(48)	(4,568)
CASH AND CASH EQUIVALENTS, beginning of period	11,231	13,332
CASH AND CASH EQUIVALENTS, end of period	$ 11,183	$ 8,764
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 76	$ 100
Cash paid for income taxes	$ 905	$ 1,697

The accompanying notes to consolidated fina nci al statements are an integral part of these consolidated s tatements.

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 June 30, 1997, and the results of their operations and cash flows for the three and six month periods ended June 30, 1997 and June 30, 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:

	JUNE 30, 1997 (UNAUDITED)	DECEMBER 31, 1996
	(IN THOUSANDS)	
Domestic	$14,404	$ 9,944
Foreign	9,979	5,585
Allowance for doubtful accounts	(242)	(242)
Trade accounts receivable	$24,141	$15,287
Related parties	1,218	541
Other	795	288
Total accounts receivable	$26,154	$16,116

(4) INVENTORIES

Inventories consisted of the following:

	JUNE 30, 1997 (UNAUDITED)	DECEMBER 31, 1996
	(IN THOUSANDS)	
Parts and raw materials	$11,361	$11,149
Work in process	1,859	1,122
Finished goods	2,949	1,705
	$16,169	$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:

	JUNE 30, 1997 (UNAUDITED)	DECEMBER 31, 1996
	(IN THOUSANDS, EXCEPT PAR VALUE)	
Common stock, $0.001 par value, 30,000 shares authorized; 21,290 and 21,268 shares issued and outstanding	$ 21	$ 21
Additional paid-in capital	23,102	23,075
Retained earnings	29,120	25,065
Stockholders' notes receivable	(1,083)	(1,083)
Deferred compensation	(58)	(82)
Cumulative translation adjustment	(477)	(500)
Total stockholders' equity	$50,625	$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 JUNE 30, 1997 AND 1996

SALES

Sales for the second quarter of 1997 were $32.7 million, an increase of 10% from second quarter of 1996 sales of $29.8 million. The Company's increase in sales between the periods presented has resulted from increased unit sales of the Company's systems. A significant part of the sales increase was attributable to increased demand by domestic semiconductor equipment customers, primarily the Company's largest customer, reflecting the recovery in the semiconductor equipment industry. Sales in Europe were up 22% from the comparable quarter in 1996. Sales in Japan were up 138% from the comparable quarter in 1996 due to higher unit sales, primarily from the flat panel display industry. In anticipation of continued growth of business from the semiconductor equipment market throughout the rest of 1997, the Company has acquired 31,000 square feet of additional space which increases the Company's total square footage by 25%.

GROSS MARGIN

The Company's gross margin for the second quarter of 1997 was 38.4%, down from 42.3% in the comparable period in 1996, and up from 36.3% in the first quarter of 1997. The decline in gross margin from the second quarter of 1996 to the second quarter of 1997 was due primarily to adjustments for excess and obsolete inventory, higher costs associated with customer service, and increased overhead and staffing incurred in anticipation of higher manufacturing levels in 1997. The improvement in gross margin from the first quarter of 1997 to the second quarter of 1997 was primarily the result of more favorable absorption of manufacturing overhead resulting from a 58% increase in sales.

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 second quarter of 1997 were $3.5 million, down from $3.6 million in the second quarter of 1996, representing a decrease of 4%. As a percentage of sales, research and development expenses decreased to 10.7% in the second quarter of 1997 from 12.2% in the second quarter of 1996.

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 second quarter of 1997 were $2.3 million, compared to expenses of $2.2 million in the second quarter of 1996, representing an increase of 4%. The increase was primarily due to higher spending for purchased services. As a percentage of sales, sales and marketing expenses decreased to 7.1% in the second quarter of 1997 from 7.5% in the second quarter of 1996, primarily as a result of the higher 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 second quarter of 1997 were $1.7 million, compared to expenses of $2.3 million in the second quarter of 1996, representing a decrease of 27%. The decrease is primarily a result of lower spending for payroll costs and purchased services. As a percentage of sales, general and administrative expenses decreased to 5.2% in the second quarter of 1997 from 7.8% in the second 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 and 1998, particularly for the foreign locations.

OTHER INCOME (EXPENSE)

Other income and expense consists primarily of foreign exchange gains and losses, interest income and expense and other miscellaneous income and expense items. Other income was $0.3 million for the second quarter of 1997, compared to other expense of $0.1 million in the second quarter of 1996.

The Company has experienced fluctuations in foreign currency exchange rates during the past two quarters, 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 $2.0 million for the second quarter of 1997 represented an estimated effective rate of 37.8% 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.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 1997 AND 1996

SALES

Sales for the first six months of 1997 were $53.4 million, a decrease of 6% from sales of $57.0 million in the comparable period in 1996. 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 the 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 that affected the first quarter of 1997. Partially offsetting these decreases, sales in Japan were up 156% from the comparable period in 1996 due to increased unit sales.

GROSS MARGIN

The Company's gross margin for the first six months of 1997 was 37.6%, down from 39.9% in the comparable period in 1996. The 2.3% decline in gross margin between the periods presented was due primarily to unfavorable absorption of manufacturing overhead costs resulting from the lower sales base.

RESEARCH AND DEVELOPMENT

Research and development expenses for the first six months of 1997 were $6.3 million, down from $7.1 million in the comparable period in 1996, representing a decrease of 11%. This decrease resulted from a reduction in allocation of infrastructure costs to research and development. As a percentage of sales, research and development expenses decreased to 11.9% in the first six months of 1997 from 12.5% in the comparable period in 1996.

SALES AND MARKETING

Sales and marketing expenses for the first six months of 1997 were $4.1 million, down from $4.3 million in the comparable period in 1996, representing a decrease of 5%. As a percentage of sales, sales and marketing expenses increased to 7.7% in the first six months of 1997 from 7.6% in the comparable period in 1996.

GENERAL AND ADMINISTRATIVE

General and administrative expenses for the first six months of 1997 were $3.0 million, down from $4.1 million in the comparable period in 1996, representing a decrease of 27%. This decrease was primarily a reduction in payroll and benefits expenses. As a percentage of sales, general and administrative expenses decreased to 5.5% in the first six months of 1997 from 7.1% in the comparable period in 1996.

OTHER INCOME (EXPENSE)

Other expense was $0.1 million for the first six months of 1997, compared to other expense of $0.2 million in the comparable period in 1996.

PROVISION FOR INCOME TAXES

The income tax provision of $2.5 million for the first six months of 1997 represented an estimated effective rate of 38.0%, compared to an effective income tax rate for the year 1996 of 38.1%.

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 provided by operations totaled $1.2 million for the first six months of 1997 compared to $0.2 million for the same period in 1996. Cash provided in the first six months of 1997 was primarily a result of net income and increases in accounts payable offset by increases in accounts receivable and inventories. Cash provided in the comparable period in 1996 was primarily a result of net income offset by increases in accounts receivable and inventories and decreases in accounts payable.

Investing activities, consisting primarily of equipment acquisitions, used cash of $0.8 million in the first six months of 1997, versus $4.4 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 six months of 1997 used cash of $0.5 million and consisted primarily of repayment of notes payable and capital lease obligations. In the comparable period in 1996, financing activities used cash of $0.4 million and consisted primarily of repayment of notes payable and capital lease obligations, partially offset by proceeds from the sale of common stock.

The Company has updated its capital spending outlook and plans to spend approximately $5.0 million through the remainder of 1997 for the acquisition of manufacturing and test equipment and furnishings.

As of June 30, 1997, the Company had working capital of $40.8 million. The Company's principal sources of liquidity consisted of $11.2 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 July 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 June 30, 1997, $1.2 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

The Company held its 1997 Annual Meeting of Stockholders on Thursday, May 15, 1997, to vote on two proposals. Proxy statements were sent to all shareholders. The first proposal was for the election of directors, including Douglas S. Schatz, G. Brent Backman, Richard P. Beck, Elwood Spedden, and Hollis L. Caswell. All five directors were elected with the following votes tabulated:

NAME OF DIRECTOR	TOTAL VOTE FOR EACH DIRECTOR	TOTAL VOTE WITHHELD FROM EACH DIRECTOR
Mr. Schatz	19,556,232	17,272
Mr. Backman	19,557,176	16,328
Mr. Beck	19,555,602	17,902
Mr. Spedden	19,556,396	17,108
Mr. Caswell	19,555,396	18,108

The second proposal was for the ratification of appointment of independent auditors. The current auditors, Arthur Anderson, LLP, were retained, with the following votes tabulated:

FOR	AGAINST	ABSTAIN	NO VOTE
19,552,705	4,875	15,924	-0-

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
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(Registrant)

Vice President, Chief Financial August 8, 1997 Officer, Assistant Secretary and Director (Principal Financial Officer and Principal Accounting Officer)

ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	6 MOS
FISCAL YEAR END	DEC 31 1997
PERIOD START	APR 01 1997
PERIOD END	JUN 30 1997
CASH	11,183
SECURITIES	0
RECEIVABLES	26,396
ALLOWANCES	(242)
INVENTORY	16,169
CURRENT ASSETS	55,366
PP&E	16,046
DEPRECIATION	(7,018)
TOTAL ASSETS	66,051
CURRENT LIABILITIES	14,609
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	21
OTHER SE	50,604
TOTAL LIABILITY AND EQUITY	66,051
SALES	58,358
TOTAL REVENUES	58,358
CGS	33,298
TOTAL COSTS	33,298
OTHER EXPENSES	13,419
LOSS PROVISION	0
INTEREST EXPENSE	76
INCOME PRETAX	6,540
INCOME TAX	2,485
INCOME CONTINUING	4,055
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	4,055
EPS PRIMARY	0.19
EPS DILUTED	0.19

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