

ADVANCED ENERGY INDUSTRIES INC

FORM 10-Q (Quarterly Report)

Filed 8/9/1996 For Period Ending 6/30/1996

Address	1625 SHARP POINT DR FT COLLINS, Colorado 80525
Telephone	970-221-4670
CIK	0000927003
Industry	Electronic Instr. & Controls
Sector	Technology
Fiscal Year	12/31

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 1996.

**// TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES AND
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 and 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, 1996, there were 21,238,845 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)

	JUNE 30, 1996 (UNAUDITED)	DECEMBER 31, 1995
	-----	-----
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 8,764	\$13,332
Accounts receivable	18,583	15,172
Inventories	17,166	16,104
Prepaid expenses and other current assets	580	663
Deferred income tax benefit	1,031	1,031
	-----	-----
Total current assets.	46,124	46,302
	-----	-----
Property and Equipment, net	9,935	6,639
Other Assets.	2,650	2,378
	-----	-----
Total assets.	\$58,709	\$55,319
	-----	-----

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:		
Accounts payable.	\$ 4,493	\$ 6,665
Accrued payroll and employee benefits . . .	3,440	2,763
Other accrued expenses.	674	749
Customer deposits	62	113
Accrued income tax payable.	2,377	1,336
Current portion of long-term debt	823	927
	-----	-----
Total current liabilities	11,869	12,553
	-----	-----
Long-term debt.	1,169	1,557
Deferred income tax liability	122	122
	-----	-----
Total liabilities	13,160	14,232
	-----	-----
Stockholders' equity.	45,549	41,087
	-----	-----
Total liabilities and stockholders' equity. .	\$58,709	\$55,319
	-----	-----

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,

	1996 (UNAUDITED)	1995 (UNAUDITED)
Net Sales	\$29,831	\$24,945
Cost of Sales	17,204	12,055
Gross profit.	12,627	12,890
Operating Expenses:		
Research and development.	3,645	2,330
Sales and marketing	2,248	1,415
General and administrative.	2,330	1,962
Operating Income.	4,404	7,183
Other (expense) income, net	(66)	199
Net income before income taxes.	4,338	7,382
Provision for income taxes.	1,676	2,873
Net Income.	\$ 2,662	\$ 4,509
Net Income per share.	\$ 0.12	\$ 0.24
Weighted average shares outstanding	21,653	19,046

SIX MONTHS ENDED JUNE 30,

	1996 (UNAUDITED)	1995 (UNAUDITED)
Net Sales	\$56,997	\$42,984
Cost of Sales	34,239	21,739
Gross profit.	22,758	21,245
Operating Expenses:		
Research and development.	7,143	4,394
Sales and marketing	4,331	2,722
General and administrative.	4,055	3,614
Operating Income.	7,229	10,515
Other (expense) income, net	(236)	96
Net income before income taxes.	6,993	10,611
Provision for income taxes.	2,658	4,105
Net Income.	\$ 4,335	\$ 6,506
Net Income per share.	\$ 0.20	\$ 0.34
Weighted average shares outstanding	21,657	18,885

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,

	1996 (UNAUDITED)	1995 (UNAUDITED)
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income.	\$ 4,335	\$ 6,506
Adjustments to reconcile net income to net cash provided by operating activities --		
Depreciation and amortization	1,146	764
Amortization of deferred compensation	24	--
(Gain) loss on disposal of property and equipment.	20	(44)
Changes in operating assets and liabilities --		
Accounts receivable, trade	(3,203)	(6,086)
Related parties and other receivables. . . .	(209)	(1,989)
Inventories.	(1,062)	(3,668)
Income taxes	1,041	1,869
Other current assets	83	(33)
Deposits and other	34	(193)
Demonstration and customer service equipment	(411)	(194)
Accounts payable	(2,172)	3,358
Accrued payroll and employee benefits. . . .	677	491
Customer deposits and other accrued expenses	(126)	71
	-----	-----
Net cash provided by operating activities. .	177	852
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment, net	(4,352)	(1,786)
	-----	-----
Net cash used in investing activities	(4,352)	(1,786)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable	--	7,354
Repayment of notes payable and capital lease obligations.	(492)	(6,684)
Proceeds from sale of common stock.	118	(48)
	-----	-----
Net cash (used in) provided by financing activities	(374)	622
	-----	-----
EFFECT OF CUMULATIVE TRANSLATION ADJUSTMENT	(19)	410
	-----	-----
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.	(4,568)	98
CASH AND CASH EQUIVALENTS, beginning of period. .	13,332	368
	-----	-----
CASH AND CASH EQUIVALENTS, end of period.	\$ 8,764	\$ 466
	-----	-----
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Exercise of stock options in exchange for stockholders' note receivable.	\$ 0	\$ 1,083
	-----	-----
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest.	\$ 100	\$ 335
	-----	-----
Cash paid for income taxes.	\$ 1,697	\$ 664
	-----	-----

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 June 30, 1996, its results of operations and cash flows for the three and six month periods ended June 30, 1996 and June 30, 1995.

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, 1995.

(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, 1996 (UNAUDITED)	DECEMBER 31, 1995
	(IN THOUSANDS)	
Domestic	\$12,483	\$ 8,825
Foreign	4,466	4,925
Allowance for doubtful accounts	(206)	(210)
	-----	-----
Trade accounts receivable	\$16,743	\$13,540
Related parties	777	979
Other	1,063	653
	-----	-----
Total accounts receivable	\$18,583	\$15,172
	-----	-----

(4) INVENTORIES

Inventories consisted of the following:

	JUNE 30, 1996 (UNAUDITED)	DECEMBER 31, 1995
	(IN THOUSANDS)	
Parts and raw materials	\$12,472	\$11,104
Work in process	2,363	1,936
Finished goods	2,331	3,064
	-----	-----
	\$17,166	\$16,104
	-----	-----

(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, 1996 (UNAUDITED)	DECEMBER 31, 1995
	-----	-----
	(IN THOUSANDS, EXCEPT PAR VALUE)	
Common stock, \$0.001 par value, 30,000 shares authorized; 21,239 and 21,069 shares issued and outstanding.....	\$ 21	\$ 21
Additional paid-in capital.....	23,046	22,925
Retained earnings.....	24,257	19,921
Stockholders' notes receivable.....	(1,083)	(1,083)
Deferred compensation.....	(106)	(130)
Cumulative translation adjustment.....	(586)	(567)
	-----	-----
Total stockholders' equity.....	\$45,549	\$41,087
	-----	-----

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 1995 annual report on Form 10-K.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 1996 AND 1995

SALES

Sales for the second quarter of 1996 were \$29.8 million, an increase of 20% from second quarter of 1995 sales of \$24.9 million. The Company's sales growth during the periods presented has resulted from the increased unit sales of the Company's systems. Average selling prices remained constant. A significant part of this unit sales growth is attributable to increased sales to domestic customers, primarily the Company's two largest customers, which in the quarter reported on accounted for approximately 57% of the Company's revenue, as compared to 40% for the same quarter of the previous year.

The Company is cautious about the outlook for future sales to the semiconductor equipment industry. During the most recent quarter, 71% of the Company's revenue came from this industry. Industry analysts are generally forecasting reduced demand in the semiconductor equipment industry in the near-term.

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.

GROSS MARGIN

The Company's gross margin for the second quarter of 1996 was 42.3% of revenue, down from 51.7% of revenue in the comparable period in 1995 and up from 37.3% in the first quarter of 1996. The gross margin in the second quarter of 1996 compared to the comparable period in 1995 was primarily affected by higher costs associated with outsourcing the manufacture of assemblies, product mix, and costs associated with expanded manufacturing facilities. The Company realized improvements from the first quarter to the second quarter of 1996 resulting from the review of all outsourcing

contracts, re-negotiating prices with outsourcing vendors and re-evaluating prior decisions to outsource certain assemblies. Additionally, the Company's revenues increased \$2.7 million from the first quarter to the second quarter of 1996 resulting in more favorable absorption of manufacturing overhead.

RESEARCH AND DEVELOPMENT

The Company's research and development costs are associated with researching new technologies, developing new products and improving existing product designs. Research and development expenses for the second quarter of 1996 were \$3.6 million, compared to expenses of \$2.3 million in the second quarter of 1995, representing an increase of 56%. As a percentage of sales, research and development expenses increased to 12.2% in the second quarter of 1996 from 9.3% in the second quarter of 1995. The increase is primarily associated with costs incurred to support new product development.

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 which include personnel, trade shows, advertising, and other marketing activities. Sales and marketing expenses for the second quarter of 1996 were \$2.2 million, compared to expenses of \$1.4 million in the second quarter of 1995, representing an increase of 59%. As a percentage of sales, sales and marketing expenses increased to 7.5% in the second quarter of 1996 from 5.7% in the second quarter of 1995. The increase is attributable to costs associated with expansion of the sales and marketing infrastructure to support the increase in sales volume.

The Company is reorganizing its sales and marketing team to better address the specific needs of its customers. To accomplish this, the Company hired a vice president of sales, marketing and customer support, opened a new support office in Korea and plans to open a service office in Taiwan. 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 1996 were \$2.3 million, compared to expenses of \$2.0 million in the second quarter of 1995, representing an increase of 19%. As a percentage of sales, these expenses decreased to 7.8% in the second quarter of 1996 from 7.9% in the second quarter of 1995.

The Company is currently implementing information management system software which will replace existing systems to support its growth. The Company expects that significant charges related to training and implementation of the new software will occur during 1996. Some of these expenses were recognized and have been allocated to other functional areas.

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 expenses were \$0.1 million for the second quarter of 1996, compared to other income of \$0.2 million in the second quarter of 1995.

PROVISION FOR INCOME TAXES

The income tax provision of \$1.7 million for the second quarter of 1996 represented an estimated effective rate of 38.6%. The income tax provision in the comparable period in 1995 was \$2.9 million, representing an estimated rate of 38.9%.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 1996 AND 1995

SALES

Sales for the first six months of 1996 were \$57.0 million, an increase of 33% from sales of \$43.0 million in the comparable period in 1995. The Company's sales growth during the periods presented has resulted from the increased unit sales of the Company's systems. A significant part of this growth is attributable to increased sales to domestic customers, primarily the Company's two largest customers, which in the six months reported on accounted for approximately 57% of the company's revenue, as compared to 41% for the same period in the previous year.

The Company is cautious about the outlook for future sales to the semiconductor equipment industry. During the first six months of 1996, 72% of the Company's revenue came from this industry. Industry analysts are generally forecasting reduced demand in the semiconductor equipment industry in the near- term.

GROSS MARGIN

The Company's gross margin for the first six months of 1996 was 39.9% of revenue, down from 49.4% of revenue in the comparable period in 1995. The gross margin in the first six months of 1996 was primarily affected by higher costs associated with outsourcing assemblies, changes in product mix, and costs associated with expanding into additional manufacturing facilities. Average selling prices remained relatively constant.

RESEARCH AND DEVELOPMENT

Research and development expenses for the first six months of 1996 were \$7.1 million, compared to expenses of \$4.4 million in the comparable period in 1995, representing an increase of 63%. As a percentage of sales, research and development expenses increased to 12.5% in the first six months of 1996 from 10.2% in the first six months of 1995. The increase is primarily associated with costs incurred to support new product development.

SALES AND MARKETING

Sales and marketing expenses for the first six months of 1996 were \$4.3 million, compared to expenses of \$2.7 million in the comparable period in 1995, representing an increase of 59%. As a percentage of sales, these expenses increased to 7.6% in the first six months of 1996 from 6.3% in the first six months of 1995. The increase is attributable to costs associated with expansion to support the increase in sales volume.

GENERAL AND ADMINISTRATIVE

General and administrative expenses for the first six months of 1996 were \$4.1 million, compared to expenses of \$3.6 million in the comparable period in 1995, representing an increase of 12%. As a percentage of sales, these expenses decreased to 7.1% in the first six months of 1996 from 8.4% in the first six months of 1995.

OTHER INCOME (EXPENSE)

Other expenses were \$0.2 million for the first six months of 1996, compared to other income of \$0.1 million in the first six months of 1995.

PROVISION FOR INCOME TAXES

The income tax provision of \$2.7 million for the first six months of 1996 represented an estimated effective rate of 38.0%. The income tax provision in the comparable period in 1995 was \$4.1 million, representing an estimated rate of 38.7%. The Company periodically adjusts its income tax provision 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 provided by operations totaled \$0.2 million for the first six months in 1996 compared to \$0.9 million for the same period in 1995. Cash provided in the first six

months of 1996 was primarily a result of net income offset by increases in accounts receivable and inventories and decreases in accounts payable. Cash provided in the comparable period in 1995 was primarily a result of net income and increases in accounts payable offset by increases in accounts receivable and inventories.

Investing activities, consisting primarily of equipment acquisitions and leasehold improvements, used cash of \$4.4 million in the first six months of 1996, versus \$1.8 million in the comparable period in 1995. Financing activities in the first six months of 1996 consisted primarily of note and loan repayments and used cash of \$0.4 million. In the comparable period in 1995, financing activities consisted primarily of proceeds from and repayments to the Company's revolving line of credit, proceeds from notes payable, and repayment of notes payable and capital lease obligations and generated cash of \$0.6 million.

The Company plans to spend approximately \$2.0 million through the remainder of 1996 for the acquisition of equipment and integrated information management system software, leasehold improvements and furnishings.

As of June 30, 1996, the Company had working capital of \$34.3 million. The Company's principal sources of liquidity consisted of \$8.8 million of cash and cash equivalents and \$8.0 million available under an \$8.0 million revolving line of credit that bears interest at the prime rate (8.25% at July 15, 1996). 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. At June 30, 1996, \$1.3 million was outstanding under the term loan, which bears interest at prime plus 0.75% and is due July 31, 1999. The Company also entered into an agreement in November 1995, that provides the Company with a \$1.5 million line of credit to purchase equipment. At June 30, 1996, there were no amounts outstanding under this line of credit.

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 1996. 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 1996 Annual Meeting of Stockholders on Wednesday, May 15, 1996, 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 Jon D. Tompkins. 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	18,004,673	2,850
Mr. Backman	18,004,673	2,850
Mr. Beck	18,003,673	3,850
Mr. Spedden	18,001,699	5,824
Mr. Tompkins	18,001,699	5,824

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 -----
18,004,118	1,330	2,075	-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

(Registrant)

Vice President, Chief Financial August 1, 1996 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 1996
PERIOD START	MAR 01 1996
PERIOD END	JUN 30 1996
CASH	8,764
SECURITIES	0
RECEIVABLES	18,583
ALLOWANCES	0
INVENTORY	17,166
CURRENT ASSETS	46,124
PP&E	9,935
DEPRECIATION	0
TOTAL ASSETS	58,709
CURRENT LIABILITIES	11,869
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	21
OTHER SE	45,528
TOTAL LIABILITY AND EQUITY	58,709
SALES	56,997
TOTAL REVENUES	56,997
CGS	34,239
TOTAL COSTS	34,239
OTHER EXPENSES	15,529
LOSS PROVISION	0
INTEREST EXPENSE	101
INCOME PRETAX	6,993
INCOME TAX	2,658
INCOME CONTINUING	4,335
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	4,335
EPS PRIMARY	0.20
EPS DILUTED	0.20

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