

ADVANCED ENERGY INDUSTRIES INC

Form 10-Q

November 08, 2011

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**UNITED STATES
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 September 30, 2011.

or

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)**

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of October 31, 2011, there were 43,660,364 shares of the registrant's Common Stock, par value \$0.001 per share, outstanding.

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	September 30, 2011	December 31, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 132,253	\$ 130,914
Marketable securities	22,669	9,640
Accounts receivable, net of allowances of \$2,631 and \$3,440, respectively	132,048	119,893
Inventories	92,822	77,593
Deferred income tax assets	7,689	7,510
Income taxes receivable	6,570	6,061
Other current assets	12,393	10,156
Total current assets	406,444	361,767
PROPERTY AND EQUIPMENT, net	40,837	34,569
OTHER ASSETS:		
Uncertain tax positions and deposits	8,868	8,874
Goodwill	46,515	48,360
Other intangible assets, net	45,590	48,421
Deferred income tax assets	5,176	3,166
Total assets	\$ 553,430	\$ 505,157
 LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 50,559	\$ 56,185
Income taxes payable	7,387	3,602
Accrued payroll and employee benefits	8,881	23,202
Accrued warranty expense	8,336	7,144
Other accrued expenses	11,250	5,389
Customer deposits	10,145	6,803
Total current liabilities	96,558	102,325
 LONG-TERM LIABILITIES:		
Deferred income tax liabilities	5,271	5,155
Uncertain tax positions	14,176	14,176
Accrued warranty expense	6,385	5,805
Other long-term liabilities	5,943	3,728
Total liabilities	128,333	131,189

Commitments and contingencies (Note 17)

STOCKHOLDERS EQUITY:

Preferred stock, \$0.001 par value, 1,000 shares authorized, none issued and outstanding		
Common stock, \$0.001 par value, 70,000 shares authorized; 43,644 and 43,330 shares issued and outstanding, respectively	44	43
Additional paid-in capital	268,985	258,398
Retained earnings	127,535	88,453
Accumulated other comprehensive income	28,533	27,074
Total stockholders equity	425,097	373,968
Total liabilities and stockholders equity	\$ 553,430	\$ 505,157

* Amounts as of September 30, 2011 are unaudited. Amounts as of December 31, 2010 are derived from the December 31, 2010 audited Consolidated Financial Statements.

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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ADVANCED ENERGY INDUSTRIES, INC.
Condensed Consolidated Statements of Operations (Unaudited)
(In thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
SALES	\$ 128,498	\$ 140,966	\$ 404,304	\$ 310,760
COST OF SALES	79,651	80,276	238,035	176,304
GROSS PROFIT	48,847	60,690	166,269	134,456
OPERATING EXPENSES:				
Research and development	17,592	16,672	50,591	41,329
Selling, general and administrative	16,473	20,545	57,379	49,955
Amortization of intangible assets	989	1,177	2,831	1,945
Restructuring charges	3,119		3,119	
Total operating expenses	38,173	38,394	113,920	93,229
OPERATING INCOME	10,674	22,296	52,349	41,227
OTHER INCOME (LOSS), NET	(259)	1,224	496	1,828
Income from continuing operations before income taxes	10,415	23,520	52,845	43,055
Provision for income taxes	3,244	5,964	13,396	9,192
INCOME FROM CONTINUING OPERATIONS, NET OF INCOME TAXES	7,171	17,556	39,449	33,863
Income (loss) from discontinued operations, net of income taxes	(579)	2,392	(365)	5,921
NET INCOME	\$ 6,592	\$ 19,948	\$ 39,084	\$ 39,784
Basic weighted-average common shares outstanding	43,535	43,254	43,515	42,711
Diluted weighted-average common shares outstanding	43,819	43,849	44,056	43,293
EARNINGS PER SHARE:				
CONTINUING OPERATIONS:				
BASIC EARNINGS PER SHARE	\$ 0.16	\$ 0.41	\$ 0.91	\$ 0.79
DILUTED EARNINGS PER SHARE	\$ 0.16	\$ 0.40	\$ 0.90	\$ 0.78
DISCONTINUED OPERATIONS:				
BASIC EARNINGS PER SHARE	\$ (0.01)	\$ 0.06	\$ (0.01)	\$ 0.14
DILUTED EARNINGS PER SHARE	\$ (0.01)	\$ 0.05	\$ (0.01)	\$ 0.14

NET INCOME:

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BASIC EARNINGS PER SHARE	\$	0.15	\$	0.46	\$	0.90	\$	0.93
DILUTED EARNINGS PER SHARE	\$	0.15	\$	0.45	\$	0.89	\$	0.92

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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ADVANCED ENERGY INDUSTRIES, INC.
Condensed Consolidated Statements of Cash Flows (Unaudited)
(In thousands)

	Nine Months Ended September 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 39,084	\$ 39,784
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	10,566	7,646
Stock-based compensation expense	9,362	5,895
Provision (benefit) for deferred income taxes	(346)	137
Restructuring charges	3,119	
Net loss on disposal of assets	118	
Changes in operating assets and liabilities, net of assets acquired:		
Accounts receivable	(11,684)	(54,938)
Inventories	(16,028)	(31,733)
Other current assets	(482)	(2,638)
Accounts payable	(4,793)	6,645
Other current liabilities and accrued expenses	(5,796)	19,408
Income taxes	3,540	(7,621)
Non-current assets	(8)	560
Non-current liabilities		253
Net cash provided by (used in) operating activities	26,652	(16,602)
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of marketable securities	(22,640)	(108,104)
Proceeds from sale of marketable securities	9,667	141,755
Purchase of PV Powered, Inc., net of cash acquired		(35,977)
Purchase of property and equipment	(14,629)	(6,921)
Net cash used in investing activities	(27,602)	(9,247)
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on capital lease obligations	(143)	(140)
Proceeds from exercise of stock options	1,796	1,408
Excess tax benefit from stock-based compensation deduction	(572)	
Net cash provided by financing activities	1,081	1,268

EFFECT OF CURRENCY TRANSLATION ON CASH	1,208	(6,959)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,339	(31,540)
CASH AND CASH EQUIVALENTS, beginning of period	130,914	133,106
CASH AND CASH EQUIVALENTS, end of period	\$ 132,253	\$ 101,566
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 36	\$ 35
Cash paid for income taxes	17,867	19,442
Cash received for refunds of income taxes	7,522	1,679
Cash held in banks outside the United States	45,233	22,891
NONCASH TRANSACTIONS:		
Common stock issued as partial consideration for PV Powered acquisition	\$	\$ 14,690
Contingent liability accrued as part of PV Powered acquisition		39,600
Equipment purchased with capital lease	26	223

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ADVANCED ENERGY INDUSTRIES, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 1. BASIS OF PRESENTATION

We design, manufacture, sell and support power conversion products that transform power into various usable forms. Our products enable manufacturing processes that use thin-film processing and etching for various products, such as semiconductor devices, flat panel displays, solar panels and architectural glass. We also supply thermal instrumentation products for advanced temperature control in the thin-film process for these same markets. Our solar inverter products support renewable power generation solutions for residential, commercial and utility-scale solar projects and installations. Our network of global service support centers offer repair services, conversions, upgrades and refurbishments to companies using our products. We also offer a wide variety of operations and maintenance service plans that can be tailored for individual photovoltaic (PV) sites of all sizes.

We are organized into two strategic business units (SBU) based on the products and services provided.

Thin Films Processing Power Conversion and Thermal Instrumentation (Thin Films) SBU offers our products for direct current (DC), pulsed DC mid frequency, and radio frequency (RF) power supplies, matching networks and RF instrumentation as well as thermal instrumentation products.

Solar Energy SBU offers both a transformer-based or transformerless advanced grid-tied PV inverter solution for residential, commercial and utility-scale system installations. Our PV inverters are designed to convert renewable solar power, drawn from large and small scale solar arrays, into high-quality, reliable electrical power.

In the opinion of management, the accompanying unaudited Condensed Consolidated Financial Statements contain all adjustments, consisting of normal, recurring adjustments, necessary to present fairly the financial position of Advanced Energy Industries, Inc., a Delaware corporation, and its wholly-owned subsidiaries (we , us , our , Advanced Energy , or the Company) at September 30, 2011, and the results of our operations and cash flows for the three months and nine months ended September 30, 2011 and 2010.

The Condensed Consolidated Financial Statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and Notes thereto contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 and other financial information filed with the SEC.

ESTIMATES AND ASSUMPTIONS The preparation of our Condensed Consolidated Financial Statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. We believe that the significant estimates, assumptions and judgments when accounting for items and matters such as allowances for doubtful accounts, excess and obsolete inventories, warranty reserves, acquisitions, asset valuations, asset life, depreciation, amortization, recoverability of assets, impairments, deferred revenue, stock option and restricted stock grants, taxes, and other provisions are reasonable, based upon information available at the time they are made. Actual results may differ from these estimates under different assumptions or conditions.

REVENUE RECOGNITION Our multiple deliverable arrangements involve the delivery of product, training, and installation services to our customers and can be long-term in nature. We have determined that the deliverables under these arrangements qualify as separate units of accounting. Revenue is allocated to the separate units of accounting based on vendor specific objective evidence as we sell each element on a stand-alone basis. Revenue is recognized for each element as it is delivered. Product delivery occurs based on the shipping terms included in the agreement.

NEW ACCOUNTING PRONOUNCEMENTS From time to time, the Financial Accounting Standards Board (FASB) or other standards setting bodies issue new accounting pronouncements. Updates to the FASB Accounting Standards Codification are communicated through issuance of an Accounting Standards Update. Unless otherwise discussed, we believe that the impact of recently issued guidance, whether adopted or to be adopted in the future, is not expected to have a material impact on our Condensed Consolidated Financial Statements upon adoption.

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On May 3, 2010, we acquired all of the outstanding common stock of PV Powered, Inc. (PV Powered), a privately-held Oregon corporation based in Bend, Oregon, for approximately \$90.3 million consisting of 1.0 million shares of our common stock with a market value of approximately \$14.7 million and cash payments totaling \$75.6 million, net of cash acquired.

PV Powered is a leading manufacturer of grid-tied PV inverters in the residential, commercial and utility-scale markets. PV Powered manufactures high-reliability transformer-based PV inverters utilized in residential, commercial roof top and ground mount systems for the North American market. Its inverters range in size from 30 kilowatts (kW) to two megawatts for the commercial market and 1kW to 5kW for the residential market, with market leading efficiency ratings. PV Powered is included in our Solar Energy SBU.

We recorded the acquisition of PV Powered using the acquisition method of accounting and the purchase price was allocated to the tangible assets, intangible assets, and liabilities acquired based on estimated fair values as of the date of acquisition. The excess of the purchase price (consideration transferred) over the respective fair values of identifiable assets and liabilities acquired was recorded as goodwill. The goodwill resulting from the acquisition is not tax deductible. Our purchase price allocation is final as of June 30, 2011.

The components of the fair value of the total consideration transferred for the PV Powered acquisition are as follows (in thousands):

Cash paid to owners	\$ 76,301
Cash acquired	(724)
Common stock issued - 997,966 shares	14,690
Total fair value of consideration transferred	\$ 90,267

The following table summarizes the final fair values of the assets acquired and liabilities assumed in the acquisition (in thousands):

Accounts receivable	\$ 4,777
Inventories	8,363
Other current assets	277
Deferred tax assets	4,591
Property and equipment	4,065
Deposits and other noncurrent assets	67
Accounts payable	(5,480)
Accrued liabilities	(2,744)
Deferred tax liabilities	(18,711)
Other long-term liabilities	(2,739)
	(7,534)
Other intangible assets:	
Trademarks	5,277
Technology	28,208
In process research and development	14,868
Customer relationships	2,213

Backlog	720
Total other intangible assets	51,286
Total identifiable net assets	43,752
Goodwill	46,515
Total fair value of consideration transferred	\$ 90,267

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A summary of the intangible assets acquired, amortization method and estimated useful lives follows (in thousands):

	Amount	Amortization Method	Useful Life
Trademarks	\$ 5,277	Accelerated	10 years
Technology	28,208	Accelerated	7 years
In process research and development	14,868		
Customer relationships	2,213	Accelerated	7 years
Backlog	720	Straight-line	6 months
	\$ 51,286		

Our amortization of in process research and development does not begin until the specific project is complete and put into production.

Disposition

On October 15, 2010, we completed the sale of our gas flow control business, which includes our Aera[®] mass flow control and related product lines, to Hitachi Metals, Ltd. for approximately \$43.3 million.

In connection with the closing of this asset disposition, we entered into a Master Services Agreement and a Supplemental Transition Service Agreement (Transition Services Agreement) pursuant to which we agreed to provide certain transition services until October 11, 2011. The Transition Services Agreement has been extended through March 2012.

In accordance with authoritative accounting guidance for reporting discontinued operations, the revenues and costs associated with our gas flow control business are excluded from income from continuing operations and are presented as income from discontinued operations, net of taxes, in our Condensed Consolidated Statements of Operations.

Operating results from discontinued operations are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Sales	\$ 10,726	\$ 15,722	\$ 21,280	\$ 42,671
Cost of sales	10,288	11,488	20,948	29,206
Gross profit	438	4,234	332	13,465
Operating expenses:				
Research and development	1	922	6	1,814
Selling, general and administrative	56	480	196	2,692
Amortization of intangible assets				246
Total operating expenses	57	1,402	202	4,752
Operating income (loss) from discontinued operations	381	2,832	130	8,713
Other income (loss)	(885)		(117)	

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Income (loss) from discontinued operations before income taxes	(504)	2,832	13	8,713
Income taxes on income from discontinued operations	75	440	378	2,792
Income (loss) from discontinued operations, net of income taxes	\$ (579)	\$ 2,392	\$ (365)	\$ 5,921

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The following table sets out the tax expense and the effective tax rate for our income from continuing operations (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Income from continuing operations before income taxes	\$ 10,415	\$ 23,520		