

ADVANCED ENERGY INDUSTRIES INC
Form 10-Q
August 07, 2012
Table Of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012

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 <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
(Do not check if a 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

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As of July 31, 2012 there were 37,778,291 shares of the registrant's Common Stock, par value \$0.001 per share, outstanding.

ADVANCED ENERGY INDUSTRIES, INC.
FORM 10-Q
TABLE OF CONTENTS

	Page
<u>PART I FINANCIAL STATEMENTS</u>	<u>3</u>
<u>ITEM 1. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS</u>	<u>3</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations</u>	<u>4</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>7</u>
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>19</u>
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>27</u>
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	<u>27</u>
<u>PART II OTHER INFORMATION</u>	<u>29</u>
<u>ITEM 1. LEGAL PROCEEDINGS</u>	<u>29</u>
<u>ITEM 1A. RISK FACTORS</u>	<u>29</u>
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	<u>31</u>
<u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>	<u>31</u>
<u>ITEM 4. MINE SAFETY DISCLOSURES</u>	<u>31</u>
<u>ITEM 5. OTHER INFORMATION</u>	<u>31</u>
<u>ITEM 6. EXHIBITS</u>	<u>31</u>
<u>SIGNATURES</u>	<u>32</u>
EX-31.1	
EX-31.2	
EX-32.1	
EX-32.2	

Table Of Contents

PART I FINANCIAL STATEMENTS

ITEM 1. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

ADVANCED ENERGY INDUSTRIES, INC.

Condensed Consolidated Balance Sheets *

(In thousands, except per share amounts)

	June 30, 2012	December 31, 2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 120,266	\$ 117,639
Marketable securities	28,754	25,567
Accounts receivable, net of allowances of \$6,282 and \$6,796, respectively	100,850	132,485
Inventories, net of reserves of \$15,753 and \$13,614, respectively	80,609	80,283
Deferred income tax assets	9,014	9,014
Income taxes receivable	7,712	13,826
Other current assets	10,626	11,672
Total current assets	357,831	390,486
Property and equipment, net	39,668	42,338
OTHER ASSETS:		
Deposits and other	9,131	8,959
Goodwill	46,515	46,515
Other intangible assets, net	40,715	43,438
Deferred income tax assets	1,706	1,642
Total assets	\$495,566	\$533,378
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$42,031	\$44,828
Income taxes payable	7,172	3,310
Accrued payroll and employee benefits	10,411	9,184
Accrued warranty expense	8,581	8,433
Other accrued expenses	8,643	10,800
Customer deposits	6,071	14,689
Total current liabilities	82,909	91,244
LONG-TERM LIABILITIES:		
Deferred income tax liabilities	5,920	6,475
Uncertain tax positions	16,404	16,404
Accrued warranty expense	5,476	6,286
Other long-term liabilities	17,098	5,630
Total liabilities	127,807	126,039
Commitments and contingencies (Note 16)		
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; 37,679 and 41,956 issued and outstanding, respectively	38	42
Additional paid-in capital	205,285	254,003
Retained earnings	134,764	124,767
Accumulated other comprehensive income	27,672	28,527
Total stockholders' equity	367,759	407,339

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Total liabilities and stockholders' equity	\$495,566	\$533,378
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* Amounts as of June 30, 2012 are unaudited. Amounts as of December 31, 2011 are derived from the December 31, 2011 audited Consolidated Financial Statements.

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

3

Table Of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
SALES	\$115,658	\$138,154	\$221,445	\$275,806
COST OF SALES	71,929	82,777	137,972	158,384
GROSS PROFIT	43,729	55,377	83,473	117,422
OPERATING EXPENSES:				
Research and development	14,502	17,137	29,617	32,999
Selling, general, and administrative	16,706	20,001	36,765	40,906
Amortization of intangible assets	1,351	921	2,723	1,842
Restructuring charges (benefit)	(144)	) —	2,431	—
Total operating expenses	32,415	38,059	71,536	75,747
OPERATING INCOME	11,314	17,318	11,937	41,675
OTHER INCOME, NET	1,775	92	2,186	755
Income from continuing operations before income taxes	13,089	17,410	14,123	42,430
Provision for income taxes	4,288	3,898	4,556	10,152
INCOME FROM CONTINUING OPERATIONS, NET OF INCOME TAXES	8,801	13,512	9,567	32,278
Income from discontinued operations, net of income taxes	127	74	430	214
NET INCOME	\$8,928	\$13,586	\$9,997	\$32,492
Basic weighted-average common shares outstanding	38,974	43,571	39,877	43,505
Diluted weighted-average common shares outstanding	39,583	44,187	40,460	44,156
EARNINGS PER SHARE:				
CONTINUING OPERATIONS:				
BASIC EARNINGS PER SHARE	\$0.23	\$0.31	\$0.24	\$0.74
DILUTED EARNINGS PER SHARE	\$0.22	\$0.31	\$0.24	\$0.73
DISCONTINUED OPERATIONS				
BASIC EARNINGS PER SHARE	\$0.00	\$0.00	\$0.01	\$0.00
DILUTED EARNINGS PER SHARE	\$0.00	\$0.00	\$0.01	\$0.00
NET INCOME:				
BASIC EARNINGS PER SHARE	\$0.23	\$0.31	\$0.25	\$0.75
DILUTED EARNINGS PER SHARE	\$0.23	\$0.31	\$0.25	\$0.74

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

Table Of Contents

ADVANCED ENERGY INDUSTRIES, INC.

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,		
	2012	2011	2012	2011	
Net income	\$8,928	\$13,586	\$9,997	\$32,492	
Other comprehensive income (loss), net of tax:					
Foreign currency translation adjustment	929	2,055	(869	) 1,768
Unrealized gains (losses) on securities	(5) (10) 14	(13)
Comprehensive income	\$9,852	\$15,631	\$9,142	\$34,247	

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

Table Of Contents

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

	Six Months Ended June 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$9,997	\$32,492
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,618	6,813
Stock-based compensation expense	7,237	6,139
Provision (benefit) for deferred income taxes	(614	) (181
Restructuring charges	2,431	—
Net (gain) loss on sale or disposal of assets	(1,223	) 57
Changes in operating assets and liabilities:		
Accounts receivable	30,990	(7,056
Inventories	(522	) (21,944
Other current assets	898	761
Accounts payable	(2,172	) (7,483
Other current liabilities and accrued expenses	(547	) 482
Income taxes	9,710	3,333
Non-current assets	—	91
Net cash provided by operating activities	64,803	13,504
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of marketable securities	(13,767	) (7,449
Proceeds from sale of marketable securities	10,566	7,001
Proceeds from the sale of assets	2,200	—
Purchases of property and equipment	(4,209	) (8,657
Net cash used in investing activities	(5,210	) (9,105
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on capital lease obligations	(47	) (70
Purchase and retirement of treasury stock	(57,117) —
Proceeds from exercise of stock options	1,635	1,862
Excess tax from stock-based compensation deduction	(476	) (564
Net cash provided by (used in) financing activities	(56,005	) 1,228
EFFECT OF CURRENCY TRANSLATION ON CASH	(961	) (977
INCREASE IN CASH AND CASH EQUIVALENTS	2,627	4,650
CASH AND CASH EQUIVALENTS, beginning of period	117,639	130,914
CASH AND CASH EQUIVALENTS, end of period	\$120,266	\$135,564
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$15	\$47
Cash paid for income taxes	2,555	14,595
Cash received for refunds of income taxes	7,334	7,522
Cash held in banks outside the United States	30,249	49,399
The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.		

Table Of Contents

ADVANCED ENERGY INDUSTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 deposition 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 June 30, 2012, and the results of our operations and cash flows for the three months and six months ended June 30, 2012 and 2011.

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, 2011 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 us to make estimates, assumptions and judgments 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 inventory, warranty reserves, acquisitions, asset valuations, goodwill, 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, making it possible that a change in these estimates could occur in the near term.

REVENUE RECOGNITION

Our accounting policies are described in our audited Consolidated Financial Statements and Notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2011.

NEW ACCOUNTING STANDARDS

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 ("ASC") are communicated through

Table of Contents

ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

issuance of an Accounting Standards Update (“ASU”). 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 the Condensed Consolidated Financial Statements upon adoption.

NOTE 2. BUSINESS DISPOSITION

On October 15, 2010, we completed the sale of our gas flow control business, which included the Aera[®] mass flow control and related product lines to Hitachi Metals, Ltd. (“Hitachi”), for approximately \$43.3 million. Assets and liabilities sold included, without limitation, inventories, real property in Hachioji, Japan, equipment, certain contracts, intellectual property rights related to the gas flow control business and certain warranty liability obligations.

In connection with the closing of this asset disposition, we entered into a Master Services Agreement and a Supplemental Transition Services Agreement pursuant to which we provided certain transition services until October 2011 and we became an authorized service provider for Hitachi in all countries other than Japan. In March 2012, we entered into an agreement to sell certain fixed assets to Hitachi and cease providing contract manufacturing services. As of May 31, 2012 we ceased providing contract manufacturing services to Hitachi and completed the sale of certain fixed assets related to that manufacturing. The sale of these assets resulted in a \$1.9 million gain, which is recorded in Other income, net in our Condensed Consolidated Statements of Operations for the second quarter of 2012. As of June 30, 2012, all manufacturing activities and relationships with Hitachi related to the previously owned gas flow control business have ended. We do not anticipate any additional activity with Hitachi in respect of these assets that would materially impact our financial statements in the future.

In accordance with authoritative accounting guidance for reporting discontinued operations, for the periods reported in this Form 10-Q, the results of continuing operations were reduced by the revenue and costs associated with the gas flow control business, which are included in the income from discontinued operations, net of income taxes, in our Condensed Consolidated Statements of Operations.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Sales	\$4,383	\$4,208	\$8,959	\$10,554
Cost of sales	4,044	3,974	9,189	10,660
Gross profit (loss)	339	234	(230)	(106)
Operating expenses:				
Research and development	—	(3)	—	5
Selling, general, and administrative	43	90	88	140
Total operating expenses	43	87	88	145
Operating income (loss) from discontinued operations	296	147	(318)	(251)
Other income (expense)	(142)	157	881	768
Income from discontinued operations before income taxes	154	304	563	517
Provision for income taxes	27	230	133	303
Income from discontinued operations, net of income taxes	\$127	\$74	\$430	\$214

NOTE 3. INCOME TAXES

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Provision for income taxes:				
Income from continuing operations before income taxes	\$13,089	\$17,410	\$14,123	\$42,430

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Provision for income taxes	4,288	3,898	4,556	10,152	
Effective tax rate	32.8	% 22.4	% 32.3	% 23.9	%

8

Table of Contents

ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Our effective tax rate is lower than the corporate statutory U.S. federal income tax rate primarily due to the benefit of earnings in foreign jurisdictions, which are subject to lower tax rates. Our effective tax rate increased from the three months and six months ended 2012 as compared to 2011 because 2012 projected earnings are being taxed in higher tax rate jurisdictions as compared to 2011.

We repatriated \$30.0 million from Japan during the second quarter of 2012 for which a deferred tax liability of \$2.1 million had been recorded in 2010. The deferred tax liability was reclassified into current taxes payable in the second quarter of 2012. Other than this repatriation, undistributed earnings of foreign subsidiaries are considered to be permanently reinvested and accordingly, no provision for U.S. federal and state income taxes or foreign withholding taxes has been made.

Our policy is to classify accrued penalties and interest related to unrecognized tax benefits in our income tax provision. For the three months and six months ended June 30, 2012 and 2011, the amount of interest and penalties accrued related to our unrecognized tax benefits was not significant.

NOTE 4. EARNINGS PER SHARE

Basic earnings per share (“EPS”) is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding during the period. The computation of diluted EPS is similar to the computation of basic EPS except that the numerator is increased to exclude charges that would not have been incurred, and the denominator is increased to include the number of additional common shares that would have been outstanding (using the if-converted and treasury stock methods), if securities containing potentially dilutive common shares (stock options and restricted stock units) had been converted to common shares, and if such assumed conversion is dilutive.

The following is a reconciliation of the weighted-average shares outstanding used in the calculation of basic and diluted EPS (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Income from continuing operations, net of income taxes	\$8,801	\$13,512	\$9,567	\$32,278
Basic weighted-average common shares outstanding	38,974	43,571	39,877	43,505
Assumed exercise of dilutive stock options and restricted stock units	609	616	583	651
Diluted weighted-average common shares outstanding	39,583	44,187	40,460	44,156
Income from Continuing Operations:				
Basic earnings per share	\$0.23	\$0.31	\$0.24	\$0.74
Diluted earnings per share	\$0.22	\$0.31	\$0.24	\$0.73

The following stock options and restricted units were excluded in the computation of diluted earnings per share because they were anti-dilutive:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Stock options	4,875	3,831	5,303	3,690
Restricted stock units	1	4	—	3
Share Repurchases				

In November 2011, our Board of Directors authorized a program to repurchase up to \$75.0 million of our common stock over a twelve-month period. Under this program, during the three months and six months ended June 30, 2012, we repurchased and retired 2.7 million and 4.7 million shares of our common stock for a total of \$35.2 million and \$57.1 million, respectively. As of June 30, 2012, we have completed this repurchase program. Total shares repurchased are 6.4 million shares of our common stock for \$75.0 million.

All share repurchases were executed in the open market and no shares were repurchased from related parties. Repurchased shares were retired and assumed the status of authorized and unissued shares.

Table of Contents

ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 5. MARKETABLE SECURITIES

Our investments with original maturities of more than three months at time of purchase are considered marketable securities available for sale.

The composition of our marketable securities is as follows (in thousands):

	June 30, 2012		December 31, 2011	
	Cost	Fair Value	Cost	Fair Value
Commercial paper	\$1,200	\$1,200	\$2,395	\$2,395
Certificates of deposit	10,457	10,457	8,333	8,326
Corporate bonds/notes	9,717	9,716	7,534	7,523
Municipal bonds/notes	289	289	—	—
Agency bonds/notes	7,093	7,092	7,320	7,323
Total marketable securities	\$28,756	\$28,754	\$25,582	\$25,567

The maturities of our marketable securities available for sale as of June 30, 2012 are as follows:

	Earliest		Latest
Commercial paper	7/2/2012	to	7/23/2012
Certificates of deposit	7/20/2012	to	2/14/2014
Corporate bonds/notes	7/2/2012	to	6/17/2013
Municipal bonds/notes	9/1/2013	to	9/1/2013
Agency bonds/notes	7/15/2012	to	7/3/2013

The value and liquidity of the marketable securities we hold are affected by market conditions, as well as, the ability of the issuers of such securities to make principal and interest payments when due, and the functioning of the markets in which these securities are traded. Our current investments in marketable securities are expected to be liquidated during the next twelve months.

As of June 30, 2012, we do not believe any of the underlying issuers of our marketable securities are presently at risk of default.

NOTE 6. DERIVATIVE FINANCIAL INSTRUMENTS

We are impacted by changes in foreign currency exchange rates. We manage these risks through the use of derivative financial instruments, primarily forward contracts. During the three months and six months ended June 30, 2012 and June 30, 2011, we entered into foreign currency exchange forward contracts to manage the exchange rate risk associated with intercompany debt denominated in nonfunctional currencies. These derivative instruments are not designated as hedges; however, they do offset the fluctuations of our intercompany debt due to foreign exchange rate changes.

The notional amount of foreign currency exchange contracts at June 30, 2012 and 2011 was \$31.2 million and \$14.5 million, respectively, and the fair value of these contracts was not significant at June 30, 2012 and 2011. During the three months ended June 30, 2012 and 2011 we recognized a gain of \$1.5 million and a loss of \$0.1 million, respectively, on our foreign currency exchange contracts. During the six months ended June 30, 2012 and 2011, we recognized a gain of \$0.5 million and a loss \$0.1 million, respectively. These gains and losses were offset by corresponding gains and losses on the related intercompany debt and both are included as a component of other income, net, in our Condensed Consolidated Statements of Operations.

Table of Contents

ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 7. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

The following tables present information about our financial assets measured at fair value, on a recurring basis, as of June 30, 2012, and December 31, 2011. The tables indicate the fair value hierarchy of the valuation techniques utilized to determine such fair value. We did not have any financial liabilities measured at fair value, on a recurring basis, as of June 30, 2012, and December 31, 2011.

June 30, 2012	Level 1 (In thousands)	Level 2	Level 3	Total
Commercial paper	\$—	\$1,200	\$—	\$1,200
Certificates of deposit	—	10,457	—	10,457
Corporate bonds/notes	9,716	—	—	9,716
Municipal bonds/notes	289	—	—	289
Agency bonds/notes	7,092	—	—	7,092
Total	\$17,097	\$11,657	\$—	\$28,754

December 31, 2011	Level 1 (In thousands)	Level 2	Level 3	Total
Commercial paper	\$—	\$2,395	\$—	\$2,395
Certificates of deposit	—	8,326	—	8,326
Corporate bonds/notes	7,523	—	—	7,523
Agency bonds/notes	7,323	—	—	7,323
Total	\$14,846	\$10,721	\$—	\$25,567

There were no transfers in or out of Level 1, 2, or 3 fair value measurements during the three months or six months ended June 30, 2012.

NOTE 8. INVENTORIES

Our inventories are valued at the lower of cost or market and computed on a first-in, first-out (FIFO) basis.

Components of inventories are as follows (in thousands):

	June 30, 2012	December 31, 2011
Parts and raw materials	\$56,308	\$57,962
Work in process	6,240	3,708
Finished goods	18,061	18,613
	\$80,609	\$80,283

Table of Contents

ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 9. PROPERTY AND EQUIPMENT

Details of property and equipment are as follows (in thousands):

	June 30, 2012	December 31, 2011
Buildings and land	\$1,667	\$1,647
Machinery and equipment	41,747	40,126
Computer and communication equipment	24,878	24,097
Furniture and fixtures	2,286	2,648
Vehicles	430	464
Leasehold improvements	29,190	29,680
Construction in process	2,119	6,352
	102,317	105,014
Less: Accumulated depreciation	(62,649	) (62,676)
	\$39,668	\$42,338

Depreciation expense recorded in continuing operations is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Depreciation expense	\$3,054	\$2,630	\$5,895	\$4,971

NOTE 10. GOODWILL

The following summarizes the changes in goodwill during the three months and six months ended June 30, 2012 and 2011 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Gross carrying amount, beginning of period	\$46,515	\$48,360	\$46,515	\$48,360
Additions and adjustments	—	(1,845)	—	(1,845)
Impairments	—	—	—	—
Gross carrying amount, end of period	\$46,515	\$46,515	\$46,515	\$46,515

NOTE 11. INTANGIBLE ASSETS

Included in our other intangible assets are assets acquired in a business combination that are used in research and development activities. These assets are considered to have indefinite lives until the completion or abandonment of the associated research and development efforts. As of December 31, 2011, one project remained as in-process research and development and is presented as non-amortizable intangibles in the table below. All in-process research and development projects were complete as of June 30, 2012 and are classified as amortizing intangibles.

Table of Contents

ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Other intangible assets consisted of the following as of June 30, 2012 (in thousands, except weighted-average useful life):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted-Average Useful Life in Years
Amortizable intangibles:				
Technology-based	\$41,944	\$(8,228)	\$33,716	7
Trademarks and other	8,210	(1,211)	6,999	8
Total intangible assets	\$50,154	\$(9,439)	\$40,715	

Other intangible assets consisted of the following as of December 31, 2011 (in thousands, except weighted-average useful life):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted-Average Useful Life in Years
Amortizable intangibles:				
Technology-based	\$37,922	\$(5,841)	\$32,081	7
Trademarks and other	8,210	(875)	7,335	8
Total amortizable intangibles	46,132	(6,716)	39,416	
Non-amortizing intangibles	4,022		4,022	
Total intangible assets	\$50,154	\$(6,716)	\$43,438	

Amortization expense relating to other intangible assets included in our income from continuing operations is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Amortization expense	\$1,351	\$921	\$2,723	\$1,842
Estimated amortization expense related to intangibles for each of the five years 2012 through 2016 and thereafter is as follows (in thousands):				
Year Ending December 31,				
2012 (remaining)				\$2,831
2013				8,069
2014				8,854
2015				8,407
2016				6,239
Thereafter				6,315
				\$40,715

NOTE 12. RESTRUCTURING
COSTS

In September 2011, we approved and committed to several initiatives to realign our manufacturing and research and development activities in order to foster growth and enhance profitability. These initiatives are designed to align research and development activities with the location of our customers and reduce product costs. Under this plan, we have reduced our global headcount by approximately 218 people or 13.0% of our total headcount, consolidated our facilities by terminating or exiting several leases, and recorded impairments for assets no longer in use due to the restructuring of our business.

Table of Contents

ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Over the next 3 to 9 months, we will implement the remainder of the restructuring plan as we close facilities and relocate certain functions and expect to incur an additional \$4.0 to \$9.0 million of restructuring costs during this period. Estimated total expenses to be incurred under this plan are between \$13.0 and \$18.0 million including the amounts recognized in 2011 and those noted below. Of this total, approximately \$5.0 to \$6.0 million relates to severance costs, \$2.5 million relates to asset impairments, and \$5.5 to \$9.5 million relates to costs to close facilities and relocate portions of our manufacturing.

The following table summarizes the components of our restructuring costs incurred under this plan (in thousands):

	Three months ended June 30, 2012	Six months ended June 30, 2012	Cumulative costs through June 30, 2012
Severance and related costs	\$74	447	\$4,068
Property and equipment impairments	(300)	) 512	2,251
Facility closure costs	82	1,472	3,460
Total restructuring charges	\$(144)	) \$2,431	\$9,779

The gain on property and equipment in the current quarter is due to an adjustment of an estimate of lease impairments that was recognized in the first quarter of 2012.

The following table summarizes our restructuring liabilities under the plan (in thousands):

	Balances at December 31, 2011	Costs incurred and charged to expense	Cost paid or otherwise settled	Effect of change in exchange rates	Balances at June 30, 2012
Severance and related costs	\$800	\$447	\$(902)	) \$(20)	) \$325
Property and equipment impairments	—	512	(512)) —	—
Facility closure costs	1,019	1,472	(1,698)	) —	793
Total restructuring liabilities	\$1,819	\$2,431	\$(3,112)	) \$(20)	) \$1,118

NOTE 13. WARRANTIES

Provisions of our sales agreements include product warranties customary to these types of agreements, ranging from 18 months to 24 months following installation for Thin Films products and 5 years to 10 years following installation for Solar Energy products. Our provision for the estimated cost of warranties is recorded when revenue is recognized. The warranty provision is based on historical experience by product, configuration and geographic region.

We establish accruals for warranty issues that are probable to result in future costs. Changes in product warranty accruals are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Balances at beginning of period	\$14,319	\$13,428	\$14,719	\$12,949
Increases to accruals related to sales during the period	1,865	2,493	3,700	5,044
Warranty expenditures	(2,127)	) (1,625)	) (4,362)	) (3,697)
Balances at end of period	\$14,057	\$14,296	\$14,057	\$14,296

We also offer our Solar Energy customers the option to purchase additional warranty coverage up to 20 years after the base warranty period expires. Deferred revenue related to such extended warranty contracts was \$16.9 million as of June 30, 2012, of which \$0.5 million is classified in Customer deposits and \$16.4 million is classified in Other long-term liabilities in the Condensed Consolidated Balance Sheet as of June 30, 2012. At December 31, 2011, deferred revenue related to extended warranty contracts was \$12.9 million, of which \$8.0 million is classified in Customer deposits and \$4.9 million is classified in Other long-term liabilities.

Table of Contents

ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 14. STOCK-BASED
COMPENSATION

We recognize stock-based compensation expense based on the fair value of the awards issued. Stock-based compensation for the three months and six months ended June 30, 2012 and 2011 is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Stock-based compensation expense	\$2,228	\$3,399	\$7,237	\$6,139

Stock Options

Stock option awards, other than awards under our 2012-2014 Long Term Incentive Plan ("LTI Plan"), are generally granted with an exercise price equal to the market price of our stock at the date of grant, a four-year vesting schedule, and a term of 10 years.

Under the LTI Plan, we made grants of performance based options and awards during the first quarter of 2012, which will vest annually over a three year period based on the Company's achievement of return on net assets targets established by our Board of Directors at the time the grants were made. The fair value of each grant was estimated on the date of grant using the Black-Scholes-Merton option pricing model utilizing an expected volatility of 61.5%, a risk-free rate of 1.2%, a dividend yield of zero, and an expected term of 5.9 years. The weighted-average grant date fair value of the options is \$6.19 per share. The weighted average grant date fair value of the awards is \$11.03 per share.

A summary of our stock option activity for the six months ended June 30, 2012 is as follows (in thousands):

	Shares	
Options outstanding at December 31, 2011	5,821	
Options granted	1,621	
Options exercised	(204))
Options forfeited	(572))
Options expired	(154))
Options outstanding at June 30, 2012	6,512	

Restricted Stock Units

A summary of our non-vested Restricted Stock Units ("RSU") activity for the six months ended June 30, 2012 is as follows (in thousands):

	Shares	
Balance at December 31, 2011	764	
RSUs granted	13	
RSUs vested	(178))
RSUs forfeited	(87))
Balance at June 30, 2012	512	

Table of Contents

ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 15. ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income consisted of the following (in thousands):

	Foreign Currency Adjustments	Unrealized Gains (Losses) on Securities	Total Accumulated Other Comprehensive Income
Balances at December 31, 2011	\$28,542	\$(15	) \$28,527
Current period other comprehensive income (loss)	(869	) 14	(855
Balances at June 30, 2012	\$27,673	\$(1	) \$27,672

NOTE 16. COMMITMENTS AND CONTINGENCIES

We have firm purchase commitments and agreements with various suppliers to ensure the availability of components. The obligation as of June 30, 2012 is approximately \$69.4 million. Our policy with respect to all purchase commitments, is to record losses, if any, when they are probable and reasonably estimable. We continuously monitor these commitments for exposure to potential losses and will record a provision for losses when it is deemed necessary.

NOTE 17. RELATED PARTY TRANSACTIONS

During the three months and six months ended June 30, 2012 and 2011, we engaged in the following transactions with companies related to members of our Board of Directors, as described below (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Sales - related parties	\$323	\$1,544	\$477	\$2,554
Rent expense - related parties	477	545	937	1,157
Sales - Related Parties				

Members of our Board of Directors hold various executive positions and serve as directors at other companies, including companies that are our customers. During the three months and six months ended June 30, 2012 we had sales to two such companies as noted above and aggregate accounts receivable from one such customer totaled \$16,000 at June 30, 2012. During the three months and six months ended June 30, 2011 we had sales to three such companies as noted above and aggregate accounts receivable from two such customers totaled \$48,000 at December 31, 2011.

Rent Expense - Related Parties

We lease our executive offices, research and development, and manufacturing facilities in Fort Collins, Colorado from a limited liability partnership in which Douglas Schatz, our Chairman of the Board and former Chief Executive Officer, holds an interest. The leases relating to these spaces expire during 2021 and obligate us to total annual payments of approximately \$1.4 million, which includes facilities rent and common area maintenance costs.

NOTE 18. SIGNIFICANT CUSTOMER INFORMATION

Applied Materials, Inc. is our largest customer and our only customer that accounted for 10% or more of our sales during the three months and six months ended June 30, 2012 and 2011. Sales to Applied Materials as a percent of total sales were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Applied Materials	15.4	% 14.0	% 16.1	% 15.0

Table of Contents

ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Applied Materials accounted for 10.8% of our accounts receivable as of June 30, 2012. No other customer accounted for 10% or more of our gross accounts receivable as of June 30, 2012 or December 31, 2011.

NOTE 19. SEGMENT
 INFORMATION

Our Thin Films SBU offers power conversion products for direct current, pulsed DC mid frequency, and radio frequency power supplies, matching networks, and RF instrumentation, as well as, thermal instrumentation products. Our power conversion systems refine, modify, and control the raw electrical power from a utility and convert it into power that may be customized and is predictable and repeatable. Our thermal instrumentation products provide temperature measurement solutions for applications in which time-temperature cycles affect material properties, productivity, and yield. These products are used in rapid thermal processing, chemical vapor deposition, and other semiconductor and solar applications requiring non-contact temperature measurement. Our network of global service support centers offer repair services, conversions, upgrades, and refurbishments to companies using our products. Our Thin Films SBU principally serves original equipment manufacturers (“OEMs”) and end customers in the semiconductor, flat panel display, solar panel, and other capital equipment markets.

Our Solar Energy SBU offers both a transformer-based and a 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. Our Solar Energy SBU focuses on residential, commercial, and utility-scale solar projects and installations, selling primarily to distributors, engineering, procurement, and construction contractors, developers, and utility companies. Our Solar Energy revenue has seasonal variations. Installations of inverters are normally lowest during the first quarter as a result of typically poor weather and installation scheduling by our customers.

Our chief operating decision maker, who is our Chief Executive Officer, and other management personnel regularly review our performance and make resource allocation decisions by reviewing the results of our two business segments separately. Revenue and operating profit is reviewed by our chief operating decision maker. We have also divided inventory and property and equipment based on business segment.

Sales with respect to our operating segments is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Thin Films	\$64,843	\$97,331	\$125,233	\$197,430
Solar Energy	50,815	40,823	96,212	78,376
Total	\$115,658	\$138,154	\$221,445	\$275,806

Income from continuing operations before income taxes by operating segment is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Thin Films	\$8,881	\$20,042	\$12,048	\$44,866
Solar Energy	2,740	321	3,233	2,833