

ADVANCED ENERGY INDUSTRIES INC

Form 10-Q

August 02, 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 June 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**

(State or other jurisdiction of incorporation or organization)

**84-0846841**

(I.R.S. Employer Identification No.)

**1625 Sharp Point Drive, Fort Collins, CO**

(Address of principal executive offices)

**80525**

(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  Smaller reporting company

(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

As of July 29, 2011, there were 43,632,289 shares of the registrant's Common Stock, par value \$0.001 per share, outstanding.



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**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)**

|   | <b>June 30,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|---|--------------------------|------------------------------|
| <b>ASSETS</b>   |                          |                              |
| <b>CURRENT ASSETS:</b>  |                          |                              |
| Cash and cash equivalents   | \$ 135,564               | \$ 130,914                   |
| Marketable securities   | 10,124                   | 9,640                        |
| Accounts receivable, net of allowances of \$3,701 and \$3,440, respectively | 128,802                  | 119,893                      |
| Inventories   | 100,392                  | 77,593                       |
| Deferred income tax assets  | 7,689                    | 7,510                        |
| Income taxes receivable   | 2,388                    | 6,061                        |
| Other current assets  | 11,689                   | 10,156                       |
| <b>Total current assets</b>   | <b>396,648</b>           | <b>361,767</b>               |
| <b>PROPERTY AND EQUIPMENT, net</b>  | <b>38,408</b>            | <b>34,569</b>                |
| <b>OTHER ASSETS:</b>  |                          |                              |
| Uncertain tax positions and deposits  | 8,795                    | 8,874                        |
| Goodwill  | 46,515                   | 48,360                       |
| Other intangible assets, net  | 46,579                   | 48,421                       |
| Deferred income tax assets  | 5,059                    | 3,166                        |
| <b>Total assets</b>   | <b>\$ 542,004</b>        | <b>\$ 505,157</b>            |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>                                  |                          |                              |
| <b>CURRENT LIABILITIES:</b>   |                          |                              |
| Accounts payable  | \$ 48,828                | \$ 56,185                    |
| Income taxes payable  | 2,967                    | 3,602                        |
| Accrued payroll and employee benefits                                       | 13,688                   | 23,202                       |
| Accrued warranty expense  | 8,820                    | 7,144                        |
| Other accrued expenses  | 10,642                   | 5,389                        |
| Customer deposits   | 11,013                   | 6,803                        |
| <b>Total current liabilities</b>  | <b>95,958</b>            | <b>102,325</b>               |
| <b>LONG-TERM LIABILITIES:</b>   |                          |                              |
| Deferred income tax liabilities   | 5,176                    | 5,155                        |
| Uncertain tax positions   | 14,176                   | 14,176                       |
| Accrued warranty expense  | 5,476                    | 5,805                        |
| Other long-term liabilities   | 5,565                    | 3,728                        |
| <b>Total liabilities</b>  | <b>126,351</b>           | <b>131,189</b>               |

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; 43,619 and 43,330 shares issued and outstanding, respectively | 44             | 43             |
| Additional paid-in capital   | 265,835        | 258,398        |
| Retained earnings  | 120,945        | 88,453         |
| Accumulated other comprehensive income   | 28,829         | 27,074         |
| <br>Total stockholders equity  | <br>415,653    | <br>373,968    |
| <br>Total liabilities and stockholders equity  | <br>\$ 542,004 | <br>\$ 505,157 |

\* Amounts as of June 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)

|   | <b>Three Months Ended</b> |                  | <b>Six Months Ended</b> |                  |
|---|---------------------------|------------------|-------------------------|------------------|
|   | <b>June 30,</b>           |                  | <b>June 30,</b>         |                  |
|   | <b>2011</b>               | <b>2010</b>      | <b>2011</b>             | <b>2010</b>      |
| SALES   | \$ 138,154                | \$ 100,107       | \$ 275,806              | \$ 169,794       |
| COST OF SALES   | 82,777                    | 55,548           | 158,384                 | 96,028           |
| GROSS PROFIT  | 55,377                    | 44,559           | 117,422                 | 73,766           |
| OPERATING EXPENSES:   |                           |                  |                         |                  |
| Research and development                                      | 17,137                    | 13,515           | 32,999                  | 24,657           |
| Selling, general and administrative                           | 20,001                    | 17,183           | 40,906                  | 29,412           |
| Amortization of intangible assets                             | 921                       | 767              | 1,842                   | 767              |
| Total operating expenses                                      | 38,059                    | 31,465           | 75,747                  | 54,836           |
| OPERATING INCOME  | 17,318                    | 13,094           | 41,675                  | 18,930           |
| OTHER INCOME, NET   | 92                        | 220              | 755                     | 605              |
| Income from continuing operations before income taxes         | 17,410                    | 13,314           | 42,430                  | 19,535           |
| Provision for income taxes                                    | 3,898                     | 1,857            | 10,152                  | 3,228            |
| <b>INCOME FROM CONTINUING OPERATIONS, NET OF INCOME TAXES</b> | <b>13,512</b>             | <b>11,457</b>    | <b>32,278</b>           | <b>16,307</b>    |
| Income from discontinued operations, net of income taxes      | 74                        | 2,162            | 214                     | 3,529            |
| <b>NET INCOME</b>   | <b>\$ 13,586</b>          | <b>\$ 13,619</b> | <b>\$ 32,492</b>        | <b>\$ 19,836</b> |
| Basic weighted-average common shares outstanding              | 43,571                    | 42,806           | 43,505                  | 42,440           |
| Diluted weighted-average common shares outstanding            | 44,187                    | 43,327           | 44,156                  | 43,004           |
| <b>EARNINGS PER SHARE:</b>                                    |                           |                  |                         |                  |
| CONTINUING OPERATIONS:  |                           |                  |                         |                  |
| BASIC EARNINGS PER SHARE                                      | \$ 0.31                   | \$ 0.27          | \$ 0.74                 | \$ 0.38          |
| DILUTED EARNINGS PER SHARE                                    | \$ 0.31                   | \$ 0.26          | \$ 0.73                 | \$ 0.38          |
| DISCONTINUED OPERATIONS:                                      |                           |                  |                         |                  |
| BASIC EARNINGS PER SHARE                                      | \$ 0.00                   | \$ 0.05          | \$ 0.00                 | \$ 0.08          |
| DILUTED EARNINGS PER SHARE                                    | \$ 0.00                   | \$ 0.05          | \$ 0.00                 | \$ 0.08          |

**NET INCOME:**



|                                   |                |                |                |                |
|-----------------------------------|----------------|----------------|----------------|----------------|
| <b>BASIC EARNINGS PER SHARE</b>   | <b>\$ 0.31</b> | <b>\$ 0.32</b> | <b>\$ 0.75</b> | <b>\$ 0.47</b> |
| <b>DILUTED EARNINGS PER SHARE</b> | <b>\$ 0.31</b> | <b>\$ 0.31</b> | <b>\$ 0.74</b> | <b>\$ 0.46</b> |

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)

|   | <b>Six Months Ended</b> |             |
|---|-------------------------|-------------|
|   | <b>June 30,</b>         |             |
|   | <b>2011</b>             | <b>2010</b> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                         |             |
| Net income  | \$ 32,492               | \$ 19,836   |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                         |             |
| Depreciation and amortization   | 6,813                   | 4,709       |
| Stock-based compensation expense  | 6,139                   | 3,820       |
| Provision (benefit) for deferred income taxes   | (181)                   | 1,351       |
| Net loss on disposal of assets  | 57                      |             |
| Changes in operating assets and liabilities, net of assets acquired:                        |                         |             |
| Accounts receivable   | (7,056)                 | (20,526)    |
| Inventories   | (21,944)                | (23,709)    |
| Other current assets  | 761                     | (1,708)     |
| Accounts payable  | (7,483)                 | 6,196       |
| Other current liabilities and accrued expenses  | 482                     | 12,282      |
| Income taxes  | 3,333                   | (6,788)     |
| Non-current assets  | 91                      | 493         |
| Non-current liabilities   |                         | 133         |
| <br>Net cash provided by (used in) operating activities                                     | <br>13,504              | <br>(3,911) |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                         |             |
| Purchase of marketable securities   | (7,449)                 | (106,152)   |
| Proceeds from sale of marketable securities   | 7,001                   | 138,519     |
| Purchase of PV Powered, Inc., net of cash acquired  |                         | (35,977)    |
| Purchase of property and equipment  | (8,657)                 | (2,932)     |
| <br>Net cash used in investing activities   | <br>(9,105)             | <br>(6,542) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                         |             |
| Payments on capital lease obligations   | (70)                    | (65)        |
| Proceeds from exercise of stock options   | 1,862                   | 386         |
| Excess tax benefit from stock-based compensation deduction                                  | (564)                   | 15          |
| <br>Net cash provided by financing activities   | <br>1,228               | <br>336     |
| <br><b>EFFECT OF CURRENCY TRANSLATION ON CASH</b>   | <br>(977)               | <br>(6,194) |

|  |                   |                   |
|--|-------------------|-------------------|
| <b>INCREASE (DECREASE ) IN CASH AND CASH EQUIVALENTS</b> | 4,650             | (16,311)          |
| CASH AND CASH EQUIVALENTS, beginning of period           | 130,914           | 133,106           |
| <b>CASH AND CASH EQUIVALENTS, end of period</b>          | <b>\$ 135,564</b> | <b>\$ 116,795</b> |

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:**

|  |        |        |
|--|--------|--------|
| Cash paid for interest                       | \$ 47  | \$ 23  |
| Cash paid for income taxes                   | 14,595 | 11,445 |
| Cash received for refunds of income taxes    | 7,522  | 1,667  |
| Cash held in banks outside the United States | 49,399 | 27,788 |

**NONCASH TRANSACTIONS:**

|   |    |           |
|---|----|-----------|
| Common stock issued as partial consideration for PV Powered acquisition | \$ | \$ 14,690 |
| Contingent liability accrued as part of PV Powered acquisition          |    | 38,967    |

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

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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.

**Renewable Power Inverters** ( Renewables ) SBU offers both a transformer-based or transformerless advanced grid-tie PV 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, 2011, and the results of our operations and cash flows for the three months and six months ended June 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 inventory, 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.

**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.

**Table of Contents****NOTE 2. BUSINESS ACQUISITION AND DISPOSITION****Acquisition**

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 Renewables business unit.

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    |
| <br>  |           |
| Total fair value of consideration transferred | \$ 90,267 |

The following table summarizes estimated fair values of the assets acquired and liabilities assumed as of May 3, 2010 (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)  |
| <br>                                 |          |
| 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<sup>®</sup> mass flow control and related product lines, to Hitachi Metals, Ltd. for approximately \$43.3 million.

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 |           | Six Months Ended |           |
|---|--------------------|-----------|------------------|-----------|
|   | June 30,           |           | June 30,         |           |
|   | 2011               | 2010      | 2011             | 2010      |
| Sales   | \$ 4,208           | \$ 15,084 | \$ 10,554        | \$ 26,949 |
| Cost of sales   | 3,974              | 9,754     | 10,660           | 17,718    |
| Gross profit  | 234                | 5,330     | (106)            | 9,231     |
| Operating expenses:                                     |                    |           |                  |           |
| Research and development                                | (3)                | 444       | 5                | 892       |
| Selling, general and administrative                     | 90                 | 1,158     | 140              | 2,212     |
| Amortization of intangible assets                       |                    | 124       |                  | 246       |
| Total operating expenses                                | 87                 | 1,726     | 145              | 3,350     |
| Operating income (loss) from discontinued operations    | 147                | 3,604     | (251)            | 5,881     |
| Other income  | 157                |           | 768              |           |
| Income from discontinued operations before income taxes | 304                | 3,604     | 517              | 5,881     |
| Income taxes on income from discontinued operations     | 230                | 1,442     | 303              | 2,352     |

|  |    |    |    |       |    |     |    |       |
|--|----|----|----|-------|----|-----|----|-------|
| Income from discontinued operations, net of income taxes | \$ | 74 | \$ | 2,162 | \$ | 214 | \$ | 3,529 |
|--|----|----|----|-------|----|-----|----|-------|

**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):

|   | <b>Three Months Ended June</b> |                     | <b>Six Months Ended June</b> |                     |    |        |    |        |
|---|--------------------------------|---------------------|------------------------------|---------------------|----|--------|----|--------|
|   | <b>2011</b>                    | <b>30,<br/>2010</b> | <b>2011</b>                  | <b>30,<br/>2010</b> |    |        |    |        |
| Income from continuing operations before income taxes | \$                             | 17,410              | \$                           | 13,314              | \$ | 42,430 | \$ | 19,535 |
| Provision for income taxes                            |                                | 3,898               |                              | 1,857               |    | 10,152 |    | 3,228  |
| Effective tax rate                                    |                                | 22.4%               |                              | 13.9%               |    | 23.9%  |    | 16.5%  |



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Our tax rate is lower than the U.S. federal income tax rate primarily due to the benefit of earnings in foreign jurisdictions which are subject to lower tax rates. We plan to repatriate approximately \$30.0 million from Japan during 2011, for which a deferred income tax expense of \$2.1 million was recorded in 2010. Other than this planned 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, 2011 and 2010, the amount of interest and penalties accrued related to our unrecognized tax benefits was immaterial.

**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 which 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 our weighted-average shares outstanding used in the calculation of basic and diluted earnings per share for the three months and six months ended June 30, 2011 and 2010 (in thousands, except per share data):

|   | <b>Three Months Ended June</b> |             | <b>Six Months Ended June</b> |             |
|---|--------------------------------|-------------|------------------------------|-------------|
|   | <b>30,</b>                     |             | <b>30,</b>                   |             |
|   | <b>2011</b>                    | <b>2010</b> | <b>2011</b>                  | <b>2010</b> |
| Income from continuing operations, net of income taxes                | \$ 13,512                      | \$ 11,457   | \$ 32,278                    | \$ 16,307   |
| Basic weighted-average shares outstanding                             | 43,571                         | 42,806      | 43,505                       | 42,440      |
| Assumed exercise of dilutive stock options and restricted stock units | 616                            | 521         | 651                          | 564         |
| Diluted weighted-average shares outstanding                           | 44,187                         | 43,327      | 44,156                       | 43,004      |

## Income from Continuing Operations:

## Earnings per common share:

|                            |         |         |         |         |
|----------------------------|---------|---------|---------|---------|
| Basic earnings per share   | \$ 0.31 | \$ 0.27 | \$ 0.74 | \$ 0.38 |
| Diluted earnings per share | \$ 0.31 | \$ 0.26 | \$ 0.73 | \$ 0.38 |

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

|               | <b>Three Months Ended June</b> |             | <b>Six Months Ended June</b> |             |
|---------------|--------------------------------|-------------|------------------------------|-------------|
|               | <b>30,</b>                     |             | <b>30,</b>                   |             |
|               | <b>2011</b>                    | <b>2010</b> | <b>2011</b>                  | <b>2010</b> |
| Stock options | 3,831                          | 3,560       | 3,690                        | 3,339       |

|                        |   |    |   |    |
|------------------------|---|----|---|----|
| Restricted stock units | 4 | 77 | 3 | 49 |
|------------------------|---|----|---|----|

**Table of Contents****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, 2011 |            | December 31, 2010 |            |
|-----------------------------|---------------|------------|-------------------|------------|
|                             | Cost          | Fair Value | Cost              | Fair Value |
| Commercial paper            | \$ 1,348      | \$ 1,348   | \$                | \$         |
| Treasury bills              |               |            | 2,003             | 2,006      |
| Certificates of deposit     | 3,143         | 3,143      | 3,126             | 3,126      |
| Corporate bonds/notes       | 4,342         | 4,331      | 1,002             | 1,004      |
| Agency bonds/notes          | 1,302         | 1,302      | 3,503             | 3,504      |
| Total marketable securities | \$ 10,135     | \$ 10,124  | \$ 9,634          | \$ 9,640   |

The maturities of our marketable securities available for sale as of June 30, 2011 are as follows:

|                         | Earliest   |    | Latest     |
|-------------------------|------------|----|------------|
| Commercial paper        | 12/5/2011  | to | 12/16/2011 |
| Certificates of deposit | 10/14/2011 | to | 12/23/2011 |
| Corporate bonds/notes   | 2/24/2012  | to | 12/17/2012 |
| Agency bonds/notes      | 7/16/2012  | to | 9/24/2012  |

The value and liquidity of our marketable securities are affected by market conditions, the ability of the issuer 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 18 months.

As of June 30, 2011, 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, 2011, we entered into a foreign currency exchange forward contract to manage the exchange rate risk associated with intercompany debt denominated in nonfunctional currency. This derivative instrument is not designated as a hedge; however, it does offset the fluctuations of our intercompany debt due to foreign exchange rate changes.

The notional amount of foreign currency exchange contracts was \$14.5 million at June 30, 2011. The fair value of these contracts was immaterial at June 30, 2011. During the three months and six months ended June 30, 2011, we recognized \$0.1 million of losses on our foreign currency exchange contracts. These losses were offset by corresponding gains on the related intercompany debt and both are included as a component of other income, net, in our Condensed Consolidated Statements of Operations.

We did not enter into foreign currency forward contracts during 2010.

**Table of Contents****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, 2011 and December 31, 2010, and indicate the fair value hierarchy of the valuation techniques utilized to determine such fair value (in thousands):

| <b>As of June 30, 2011:</b> | <b>Level 1</b>  | <b>Level 2</b>  | <b>Total</b>     |
|-----------------------------|-----------------|-----------------|------------------|
| Commercial paper            | \$              | \$ 1,348        | \$ 1,348         |
| Certificates of deposit     |                 | 3,143           | 3,143            |
| Corporate bonds/notes       | 4,331           |                 | 4,331            |
| Agency bonds/notes          | 1,302           |                 | 1,302            |
| <b>Total</b>                | <b>\$ 5,633</b> | <b>\$ 4,491</b> | <b>\$ 10,124</b> |

| <b>As of December 31, 2010:</b> | <b>Level 1</b>  | <b>Level 2</b>  | <b>Total</b>    |
|---------------------------------|-----------------|-----------------|-----------------|
| Treasury bills                  | \$ 2,006        |                 | \$ 2,006        |
| Certificates of deposit         |                 | 3,126           | 3,126           |
| Corporate bonds/notes           | 1,004           |                 | 1,004           |
| Agency bonds/notes              | 3,504           |                 | 3,504           |
| <b>Total</b>                    | <b>\$ 6,514</b> | <b>\$ 3,126</b> | <b>\$ 9,640</b> |

We did not have any Level 3 investments or financial liabilities measured at fair value on a recurring basis as of June 30, 2011 and December 31, 2010. In the first quarter of 2011, we reclassified our investments in certificates of deposits from Level 1 into Level 2 as we believe this more appropriately reflects the level of inputs available for valuing these financial instruments. There were no transfers in and out of Level 1, 2 or 3 fair value measurements during the six months ended June 30, 2011.

**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):

|                         | <b>June 30,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|-------------------------|--------------------------|------------------------------|
| Parts and raw materials | \$ 64,100                | \$ 53,755                    |
| Work in process         | 9,344                    | 5,594                        |
| Finished goods          | 26,948                   | 18,244                       |
|                         | <b>\$ 100,392</b>        | <b>\$ 77,593</b>             |

**Table of Contents****NOTE 9. PROPERTY AND EQUIPMENT**

Detail of our property and equipment is as follows (in thousands):

|                                      | <b>June 30,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|--------------------------------------|--------------------------|------------------------------|
| Buildings and land                   | \$ 1,788                 | \$ 1,701                     |
| Machinery and equipment              | 50,987                   | 53,885                       |
| Computer and communication equipment | 22,472                   | 23,296                       |
| Furniture and fixtures               | 3,047                    | 5,717                        |
| Vehicles                             | 463                      | 541                          |
| Leasehold improvements               | 28,230                   | 28,003                       |
| Construction in process              | 4,648                    | 3,996                        |
|                                      | 111,635                  | 117,139                      |
| Less: Accumulated depreciation       | (73,227)                 | (82,570)                     |
|                                      | \$ 38,408                | \$ 34,569                    |

Depreciation expense recorded in continuing operations for the three months and six months ended June 30, 2011 and 2010 is as follows (in thousands):

|              | <b>June 30,</b> |             |
|--------------|-----------------|-------------|
|              | <b>2011</b>     | <b>2010</b> |
| Three months | \$ 2,630        | \$ 1,756    |
| Six months   | 4,971           | 3,292       |

**NOTE 10. GOODWILL**

During the three months ended June 30, 2011 we finalized the PV Powered purchase price allocation. As a result, we increased our estimate of the value of PV Powered's pre-acquisition net operating losses and recorded a \$1.8 million increase to our noncurrent deferred income tax assets and reduced goodwill accordingly.

The following summarizes changes in our goodwill during the three months and six months ended June 30, 2011 and 2010 (in thousands):

|  | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|--|--|-------------|--------------------------------------|-------------|
|  | <b>2011</b>                            | <b>2010</b> | <b>2011</b>                          | <b>2010</b> |
| Gross carrying amount, beginning of period | \$ 48,360                              | \$ 47,920   | \$ 48,360                            | \$ 47,920   |
| Additions                                  |  | 47,920      |                                      | 47,920      |
| Adjustments                                | (1,845)                                |             | (1,845)                              |             |
| Impairments                                |  |             |                                      |             |
| Net carrying amount, end of period         | \$ 46,515                              | \$ 47,920   | \$ 46,515                            | \$ 47,920   |



**Table of Contents****NOTE 11. OTHER 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 and are presented as non-amortizable intangibles in the tables below. Our other intangible assets consisted of the following as of June 30, 2011 (in thousands, except weighted-average useful life):

|                               | <b>Gross</b>           |                                 | <b>Net</b>             | <b>Weighted-Average Useful Life in Years</b> |
|-------------------------------|------------------------|---------------------------------|------------------------|--|
|                               | <b>Carrying Amount</b> | <b>Accumulated Amortization</b> | <b>Carrying Amount</b> |  |
| Amortizable intangibles:      |                        |                                 |                        |  |
| Technology-based              | \$ 33,811              | \$ (3,972)                      | \$ 29,839              | 7  |
| Trademarks and other          | 8,210                  | (735)                           | 7,475                  | 8  |
| Total amortizable intangibles | 42,021                 | (4,707)                         | 37,314                 |  |
| Non-amortizable intangibles   | 9,265                  |                                 | 9,265                  |  |
| Total other intangible assets | \$ 51,286              | \$ (4,707)                      | \$ 46,579              |  |

Our other intangible assets consisted of the following as of December 31, 2010 (in thousands, except weighted-average useful life):

|                               | <b>Gross</b>           |                                 | <b>Net</b>             | <b>Weighted-Average Useful Life in Years</b> |
|-------------------------------|------------------------|---------------------------------|------------------------|--|
|                               | <b>Carrying Amount</b> | <b>Accumulated Amortization</b> | <b>Carrying Amount</b> |  |
| Amortizable intangibles:      |                        |                                 |                        |  |
| Technology-based              | \$ 31,553              | \$ (2,271)                      | \$ 29,282              | 7  |
| Trademarks and other          | 8,210                  | (594)                           | 7,616                  | 8  |
| Total amortizable intangibles | 39,763                 | (2,865)                         | 36,898                 |  |
| Non-amortizable intangibles   | 11,523                 |                                 | 11,523                 |  |
| Total other intangible assets | \$ 51,286              | \$ (2,865)                      | \$ 48,421              |  |

Amortization expense relating to other intangible assets included in our income from continuing operations for the three months and six months ended June 30, 2011 and 2010 is as follows (in thousands):

|              | <b>June 30,</b> |             |
|--------------|-----------------|-------------|
|              | <b>2011</b>     | <b>2010</b> |
| Three months | \$ 921          | \$ 767      |

Six months

1,842

767



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Our estimated amortization expense for each of the five years 2011 through 2015 and thereafter is as follows (in thousands):

| <b>Year Ending December 31,</b> |                  |
|---------------------------------|------------------|
| 2011 (Remaining)                | \$ 1,863         |
| 2012                            | 5,178            |
| 2013                            | 6,948            |
| 2014                            | 7,523            |
| 2015                            | 6,980            |
| Thereafter                      | 8,822            |
|                                 | <b>\$ 37,314</b> |

**NOTE 12. WARRANTIES**

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

Accruals are established for warranty issues that are probable to result in future costs. Changes in accrued product warranties for the three months and six months ended June 30, 2011 and 2010, including those acquired on May 3, 2010 as part of the PV Powered acquisition, were as follows (in thousands):

|  | <b>Three Months Ended</b> |             | <b>Six Months Ended</b> |             |
|--|---------------------------|-------------|-------------------------|-------------|
|  | <b>June 30,</b>           |             | <b>June 30,</b>         |             |
|  | <b>2011</b>               | <b>2010</b> | <b>2011</b>             | <b>2010</b> |
| Balance at beginning of period                           | \$ 13,428                 | \$ 7,874    | \$ 12,949               | \$ 7,005    |
| Warranty liabilities acquired                            |                           | 2,625       |                         | 2,625       |
| Increases to accruals related to sales during the period | 2,493                     | 2,393       | 5,044                   | 4,648       |
| Warranty expenditures                                    | (1,625)                   | (634)       | (3,697)                 | (2,020)     |
| Balance at end of period                                 | \$ 14,296                 | \$ 12,258   | \$ 14,296               | \$ 12,258   |

**NOTE 13. STOCK-BASED COMPENSATION**

We recognize stock-based compensation expense based on the fair value of awards issued. Stock-based compensation for the three months and six months ended June 30, 2011 and 2010 is as follows (in thousands):

|              | <b>June 30,</b> |             |
|--------------|-----------------|-------------|
|              | <b>2011</b>     | <b>2010</b> |
| Three months | \$ 3,399        | \$ 1,945    |
| Six months   | 6,139           | 3,820       |

*Stock Options*

Stock option awards are 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.



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A summary of our stock option activity for the six months ended June 30, 2011 is as follows (in thousands):

|  | <b>Shares</b> |
|--|---------------|
| Options outstanding at December 31, 2010 | 5,709         |
| Options granted                          | 742           |
| Options exercised                        | (190)         |
| Options forfeited                        | (211)         |
| Options expired                          | (221)         |
| Options outstanding at June 30, 2011     | 5,829         |

*Restricted Stock Units*

A summary of our non-vested Restricted Stock Units activity for the six months ended June 30, 2011 is as follows (in thousands):

|                              | <b>Shares</b> |
|------------------------------|---------------|
| Balance at December 31, 2010 | 447           |
| RSUs granted                 | 361           |
| RSUs vested                  | (101)         |
| RSUs forfeited               | (34)          |
| Balance at June 30, 2011     | 673           |

**NOTE 14. COMPREHENSIVE INCOME**

Comprehensive income consists of net income, foreign currency translation adjustments and net unrealized holding gains (losses) on available-for-sale investments. Our comprehensive income for the three months and six months ended June 30, 2011 and 2010 is presented below (in thousands):

|  | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|--|--|-------------|--------------------------------------|-------------|
|  | <b>2011</b>                            | <b>2010</b> | <b>2011</b>                          | <b>2010</b> |
| Net income   | \$ 13,586                              | \$ 13,619   | \$ 32,492                            | \$ 19,836   |
| Adjustments to arrive at comprehensive income,<br>net of taxes:    |  |             |                                      |             |
| Unrealized holding gain (loss) on available-for-sale<br>securities | (10)                                   | 3           | (13)                                 | 7           |
| Cumulative translation adjustment                                  | 2,055                                  | (3,280)     | 1,768                                | (6,452)     |
| Comprehensive income   | \$ 15,631                              | \$ 10,342   | \$ 34,247                            | \$ 13,391   |

**NOTE 15. ACCUMULATED OTHER COMPREHENSIVE INCOME**

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

**Unrealized holding gain (loss) on available-for-sale securities:**

|                              |      |
|------------------------------|------|
| Balance at December 31, 2010 | \$ 6 |
|------------------------------|------|

|   |           |
|---|-----------|
| Unrealized holding loss, net of realized amounts reclassified to net income | (13)      |
| Balance at June 30, 2011  | (7)       |
| <b>Accumulated foreign currency translation adjustments:</b>                |           |
| Balance at December 31, 2010  | 27,068    |
| Translation adjustments   | 1,768     |
| Balance at June 30, 2011  | 28,836    |
| Total accumulated other comprehensive income                                | \$ 28,829 |

**Table of Contents****NOTE 16. COMMITMENTS AND CONTINGENCIES**

We are involved in disputes and legal actions from time to time in the ordinary course of our business. We have firm purchase commitments and agreements with various suppliers to ensure the availability of components. Our policy with respect to all purchase commitments is to record losses, if any, when they are probable and reasonably estimable. We believe we have an adequate provision for potential exposure related to inventory on order which may go unused.

**NOTE 17. RELATED PARTY TRANSACTIONS**

During the three months and six months ended June 30, 2011 and 2010, we had the following related party transactions (in thousands):

|                              | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|------------------------------|--------------------------------|----------|------------------------------|----------|
|                              | 2011                           | 2010     | 2011                         | 2010     |
| Sales related parties        | \$ 1,544                       | \$ 1,182 | \$ 2,554                     | \$ 1,549 |
| Rent expense related parties | 545                            | 742      | 1,157                        | 1,441    |
| <i>Sales Related Parties</i> |                                |          |                              |          |

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 six months ended June 30, 2011 we had sales to two such companies as noted above and aggregate accounts receivable from these two customers totaled \$0.7 million at June 30, 2011. During the six months ended June 30, 2010 we had sales to two such companies as noted above and aggregate accounts receivable from three such companies totaled \$0.4 million at December 31, 2010.

*Rent Expense Related Parties*

We lease our executive offices 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 2015 and obligate us to total annual payments of approximately \$2.4 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 accounts for 10% or more of our sales. Sales to Applied Materials as a percent of total sales for the three months and six months ended June 30, 2011 and 2010 were as follows:

|                   | Three Months Ended<br>June 30, |      | Six Months Ended<br>June 30, |      |
|-------------------|--------------------------------|------|------------------------------|------|
|                   | 2011                           | 2010 | 2011                         | 2010 |
| Applied Materials | 14%                            | 24%  | 15%                          | 28%  |

ULVAC, Inc. accounted for 11% of gross accounts receivable as of December 31, 2010. No other customer accounted for 10% or more of our gross accounts receivable as of June 30, 2011 or December 31, 2010.

**NOTE 19. SEGMENT INFORMATION**

During the first quarter of fiscal 2011, we began to operate as two reportable business segments. The creation of two business units, Thin Films and Renewables, has improved our execution and strategic focus in two distinct markets. The re-alignment of our businesses reflects the success of our strategy to maintain our leadership in thin-film markets, while also expanding into high-growth renewable markets with our inverter product portfolio. The creation of these two units will enable greater focus on each business' unique needs and requirements, allowing each to expand and accelerate growth by better serving each of these very different industries.



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Our chief operating decision maker and management personnel began reviewing our performance and making resource allocation decisions by reviewing the results of our two business segments separately. Revenue and operating profit is now reviewed by our chief operating decision maker, however, we have only divided inventory and property and equipment based on business segment. Due to the structure of our internal organization and the manner in which expenses were tracked and managed and as a result of the design of our internal systems during fiscal 2010, we were unable to recast related financial information by operating segment for fiscal 2010 and prior. As such, segment information, other than revenue, for the three months and six months ended June 30, 2010 is not reported as it is impracticable to do so.

We are organized into the Thin Films and Renewables 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. Our Thin Films SBU principally serves original equipment manufacturers ( OEMs ) and end customers in the semiconductor, flat panel display, solar module and other capital equipment markets.

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 power conversion systems are primarily used by semiconductor, solar panel and similar thin-film manufacturers including flat panel display, data storage and architectural glass manufacturers.

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.

**Renewable Power Inverters** ( Renewables ) SBU offers both a transformer-based or transformerless advanced grid-tie PV 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 Renewables 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 Renewables revenue has seasonal variations. Installations of inverters are normally lowest during the first quarter as a result of typically poor weather and installation tendencies.

Revenue with respect to operating segments for the three months and six months ending June 30, 2011 and 2010 is as follows (in thousands):

|            | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|------------|--|-------------|--------------------------------------|-------------|
|            | <b>2011</b>                            | <b>2010</b> | <b>2011</b>                          | <b>2010</b> |
| Thin Films | \$ 97,331                              | \$ 85,697   | \$ 197,430                           | \$ 153,120  |
| Renewables | 40,823                                 | 14,410      | 78,376                               | 16,674      |
| Total      | \$ 138,154                             | \$ 100,107  | \$ 275,806                           | \$ 169,794  |

Income from continuing operations before income taxes by operating segment for the three months and six months ended June 30, 2011 is as follows (in thousands):

| <b>Three Months<br/>Ended</b> | <b>Six Months<br/>Ended</b> |
|-------------------------------|-----------------------------|
|-------------------------------|-----------------------------|

|   | <b>June 30, 2011</b> | <b>June 30, 2011</b> |
|---|----------------------|----------------------|
| Thin Films  | \$ 20,042            | \$ 44,866            |
| Renewables  | 321                  | 2,833                |
| Total segment operating income                        | 20,363               | 47,699               |
| Corporate expenses                                    | (3,045)              | (6,024)              |
| Other income, net                                     | 92                   | 755                  |
| Income from continuing operations before income taxes | \$ 17,410            | \$ 42,430            |



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Segment assets consist of inventories and property and equipment, net. A summary of consolidated total assets by segment as of June 30, 2011 follows (in thousands):

|  |            |
|--|------------|
| Thin Films                                   | \$ 74,724  |
| Renewables                                   | 63,069     |
| Total segment assets                         | 137,793    |
| Unallocated corporate property and equipment | 1,008      |
| Corporate assets                             | 403,203    |
| Consolidated total assets                    | \$ 542,004 |

Corporate is a non-operating business segment with the main purpose of supporting operations. Our amortization of intangibles is not allocated to business segment financial statements reviewed by our chief operating decision maker and management personnel. Unallocated corporate assets include accounts receivable, deferred income taxes and intangible assets.

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

**Special Note on Forward-Looking Statements**

The following discussion contains, in addition to historical information, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Statements in this report that are not historical information are forward-looking statements. For example, statements relating to our beliefs, expectations and plans are forward-looking statements, as are statements that certain actions, conditions or circumstances will continue. The inclusion of words such as anticipate, expect, estimate, can, may, continue, enables, plan, intend, or believe, as well as statements that events or circumstances will occur or continue, indicate forward-looking statements. Forward-looking statements involve risks and uncertainties, which are difficult to predict and many of which are beyond our control. Therefore, actual results could differ materially and adversely from those expressed in any forward-looking statements.

For additional information regarding factors that may affect our actual financial condition, results of operations and accuracy of our forward-looking statements, see the information under the caption Risk Factors in Part II Item 1A of this Quarterly Report on Form 10-Q and, in our Annual Report on Form 10-K for the year ended December 31, 2010.

We undertake no obligation to revise or update any forward-looking statements for any reason.

***BUSINESS OVERVIEW***

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 as well as grid-tie power conversion. We also supply thermal instrumentation products used for temperature control in the thin-film process. Our network of global service support centers provides local repair and field service capability in key regions.

Our power conversion products refine, modify and control the raw electrical power from a utility and converts it into power that is predictable, repeatable and customizable. Our power conversion products are primarily used by semiconductor, solar panel and similar thin-film manufacturers including flat panel display, data storage and architectural glass manufacturers.

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 businesses that use our products.

Our grid-tie power conversion products offer both an advanced transformer-based or transformerless grid-tie PV solutions 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. These products are used for residential, commercial and utility-scale solar projects and installations, and are sold primarily to distributors; engineering, procurement, and construction contractors; developers; and utility companies. These product revenues have seasonal variations. Installations of inverters are normally lowest during the first quarter of the year due to less favorable weather conditions and installation tendencies by our customers.

On May 3, 2010, we acquired PV Powered, Inc. ( PV Powered ), a privately-held Oregon corporation based in Bend, Oregon. PV Powered is a leading manufacturer of grid-tie PV inverters in the residential, commercial and utility-scale markets. We now provide our customers with solutions in a wider power range and an increased number of solar array opportunities where our products can be utilized.

On October 15, 2010, we sold our gas flow control business, which includes the Aera<sup>®</sup> mass flow control and related product lines, to Hitachi Metals, Ltd. Accordingly, the results of operations from our gas flow control business have been excluded from our discussions relating to continuing operations.

During the first quarter of fiscal 2011, we began to operate as two reportable business segments. The creation of two business units, Thin Films and Renewables, has improved our execution and strategic focus in two distinct markets.

This re-alignment of our businesses reflects the success of our strategy to maintain our leadership in thin-film markets, while also expanding into high-growth renewable markets with our inverter product portfolio. The creation of these two units will enable greater focus on each business' unique needs and requirements, allowing each to expand and accelerate growth by better serving each of these very different industries.

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Due to the structure of our internal organization and the manner in which expenses were tracked and managed and, as a result of the design of our internal reporting systems during fiscal 2010, we were unable to recast related financial information by operating segment for fiscal 2010 and prior. As such, segment information, other than revenue, for the three months and six months ended June 30, 2010 is not reported as it is impracticable to do so.

Our analysis presented below is organized to provide the information we believe will be instructive for understanding our historical performance and relevant trends going forward. This discussion should be read in conjunction with our Condensed Consolidated Financial Statements in Part I, Item 1 of this report, including the notes thereto.

**Results of Operations***OVERALL RESULTS*

The following table sets forth, for the three months and six months ended June 30, 2011 and 2010, certain data from our Condensed Consolidated Statements of Operations (in thousands):

|   | <b>Three Months Ended</b> |             | <b>Six Months Ended</b> |             |
|---|---------------------------|-------------|-------------------------|-------------|
|   | <b>June 30,</b>           |             | <b>June 30,</b>         |             |
|   | <b>2011</b>               | <b>2010</b> | <b>2011</b>             | <b>2010</b> |
| Sales   | \$ 138,154                | \$ 100,107  | \$ 275,806              | \$ 169,794  |
| Gross profit  | \$ 55,377                 | \$ 44,559   | \$ 117,422              | \$ 73,766   |
| Operating expenses                                    | 38,059                    | 31,465      | 75,747                  | 54,836      |
| Operating income                                      | 17,318                    | 13,094      | 41,675                  | 18,930      |
| Other income, net                                     | 92                        | 220         | 755                     | 605         |
| Income from continuing operations before income taxes | 17,410                    | 13,314      | 42,430                  | 19,535      |
| Provision for income taxes                            | 3,898                     | 1,857       | 10,152                  | 3,228       |
| Net income from continuing operations                 | \$ 13,512                 | \$ 11,457   | \$ 32,278               | \$ 16,307   |

The following table sets forth, for the three months and six months ended June 30, 2011 and 2010, the percentage of sales from our Condensed Consolidated Statements of Operations:

|   | <b>Three Months Ended</b> |             | <b>Six Months Ended</b> |             |
|---|---------------------------|-------------|-------------------------|-------------|
|   | <b>June 30,</b>           |             | <b>June 30,</b>         |             |
|   | <b>2011</b>               | <b>2010</b> | <b>2011</b>             | <b>2010</b> |
| Sales   | 100.0%                    | 100.0%      | 100.0%                  | 100.0%      |
| Gross profit  | 40.0%                     | 44.5%       | 42.6%                   | 43.4%       |
| Operating expenses                                    | 27.5%                     | 31.4%       | 27.5%                   | 32.3%       |
| Operating income                                      | 12.5%                     | 13.1%       | 15.1%                   | 11.1%       |
| Other income, net                                     | 0.1%                      | 0.2%        | 0.3%                    | 0.4%        |
| Income from continuing operations before income taxes | 12.6%                     | 13.3%       | 15.4%                   | 11.5%       |

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|  |      |       |       |      |
|--|------|-------|-------|------|
| Provision for income taxes                             | 2.8% | 1.9%  | 3.7%  | 1.9% |
| Income from continuing operations, net of income taxes | 9.8% | 11.4% | 11.7% | 9.6% |

**Table of Contents****SALES**

Our sales by segment for the three months and six months ended June 30, 2011 and 2010 were as follows (in thousands):

|  | <b>Three Months Ended June 30,</b> |                                 |                   |                                 |                                 |                           |
|--|------------------------------------|---------------------------------|-------------------|---------------------------------|---------------------------------|---------------------------|
|  | <b>2011</b>                        | <b>% of<br/>Total<br/>Sales</b> | <b>2010</b>       | <b>% of<br/>Total<br/>Sales</b> | <b>Increase/<br/>(Decrease)</b> | <b>Percent<br/>Change</b> |
| <b>Thin Films:</b>                     |                                    |                                 |                   |                                 |                                 |                           |
| Semiconductor capital equipment market | \$ 43,694                          | 31.6%                           | \$ 43,894         | 43.8%                           | \$ (200)                        | (0.5%)                    |
| Non-semiconductor capital equipment    | 40,505                             | 29.4%                           | 31,136            | 31.1%                           | 9,369                           | 30.1%                     |
| Global support                         | 13,132                             | 9.5%                            | 10,667            | 10.7%                           | 2,465                           | 23.1%                     |
| <b>Total Thin Films</b>                | <b>97,331</b>                      | <b>70.5%</b>                    | <b>85,697</b>     | <b>85.6%</b>                    | <b>11,634</b>                   | <b>13.6%</b>              |
| <b>Renewables</b>                      | <b>40,823</b>                      | <b>29.5%</b>                    | <b>14,410</b>     | <b>14.4%</b>                    | <b>26,413</b>                   | <b>183.3%</b>             |
| <b>Total sales</b>                     | <b>\$ 138,154</b>                  | <b>100.0%</b>                   | <b>\$ 100,107</b> | <b>100.0%</b>                   | <b>\$ 38,047</b>                | <b>38.0%</b>              |

|  | <b>Six Months Ended June 30,</b> |                                 |                   |                                 |                                 |                           |
|--|----------------------------------|---------------------------------|-------------------|---------------------------------|---------------------------------|---------------------------|
|  | <b>2011</b>                      | <b>% of<br/>Total<br/>Sales</b> | <b>2010</b>       | <b>% of<br/>Total<br/>Sales</b> | <b>Increase/<br/>(Decrease)</b> | <b>Percent<br/>Change</b> |
| <b>Thin Films:</b>                     |                                  |                                 |                   |                                 |                                 |                           |
| Semiconductor capital equipment market | \$ 89,649                        | 32.5%                           | \$ 84,835         | 50.0%                           | \$ 4,814                        | 5.7%                      |
| Non-semiconductor capital equipment    | 80,953                           | 29.4%                           | 46,705            | 27.5%                           | 34,248                          | 73.3%                     |
| Global support                         | 26,828                           | 9.7%                            | 21,580            | 12.7%                           | 5,248                           | 24.3%                     |
| <b>Total Thin Films</b>                | <b>197,430</b>                   | <b>71.6%</b>                    | <b>153,120</b>    | <b>90.2%</b>                    | <b>44,310</b>                   | <b>28.9%</b>              |
| <b>Renewables</b>                      | <b>78,376</b>                    | <b>28.4%</b>                    | <b>16,674</b>     | <b>9.8%</b>                     | <b>61,702</b>                   | <b>370.0%</b>             |
| <b>Total sales</b>                     | <b>\$ 275,806</b>                | <b>100.0%</b>                   | <b>\$ 169,794</b> | <b>100.0%</b>                   | <b>\$ 106,012</b>               | <b>62.4%</b>              |

Overall, our sales increased \$38.0 million, or 38.0%, to \$138.2 million for the three months ended June 30, 2011 from \$100.1 million for the three months ended June 30, 2010. Sales increased \$106.0 million, or 62.4%, to \$275.8 million for the six months ended June 30, 2011 from \$169.8 million for the six months ended June 30, 2010.

The increase in sales was driven by our renewable business as well as our non-semiconductor markets, particularly, increased demand for products in the flat panel display and solar PV markets. These increases, along with strong sales in our semiconductor market, were driven by a continuation of the consistent consumer spending we have experienced since early 2010. Although factories continue to operate at high utilization rates, we may experience decreases in sales in future periods as factories begin to accumulate more inventory than the consumer markets can consume. In addition, our revenue in the period from January 1, 2010 to May 3, 2010 did not include Renewables revenue from PV Powered, which we acquired on May 3, 2010. Overall demand for our renewable product lines has increased in proportion with an increase in activity in the North American solar market, however, sales growth of our renewable products was below expectations in the second quarter. Declining solar panel prices and changes in solar energy

incentives resulted in customers postponing projects to the second half of 2011 in order to take advantage of these lower prices.

*Thin Films*

Results for Thin Films for the three months and six months ended June 30, 2011 are as follows (in thousands):

|                  | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|------------------|--|-------------|--------------------------------------|-------------|
|                  | <b>2011</b>                            | <b>2010</b> | <b>2011</b>                          | <b>2010</b> |
| Sales            | \$ 97,331                              | \$ 85,697   | \$ 197,430                           | \$ 153,120  |
| Operating Income | 20,042                                 |             | 44,866                               |             |

Thin Films sales climbed 13.6% to \$97.3 million, or 70.5% of sales, for the three months ended June 30, 2011 versus \$85.7 million, or 85.6% of sales, for the three months ended June 30, 2010. Thin Films sales climbed 28.9% to \$197.4 million, or 71.6% of sales, for the six months ended June 30, 2011 versus \$153.1 million, or 90.2% of sales, for the six months ended June 30, 2010. This growth reflects consistent demand in the semiconductor industry for the first half of the year as well as increased demand in our non-semiconductor markets, such as flat panel display and solar panels.

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In the three months ended June 30, 2011, sales in the thin-film semiconductor market decreased 0.5% to \$43.7 million, or 31.6% of sales, from \$43.9 million, or 43.8% of sales for the three months ended June 30, 2010. In the six months ended June 30, 2011, sales in the thin-film semiconductor market rose 5.7% to \$89.6 million, or 32.5% of sales, from \$84.8 million, or 50.0% of sales for the six months ended June 30, 2010. The semiconductor capital equipment market grew throughout 2010 as technology investments drove a rebuilding of inventory to satisfy the consumer electronics market. For the first half of the year, we saw continued strength in the semiconductor markets across all regions which included significant investments for high-brightness LED and 3D integrated circuits. In the near term we believe that demand in the semiconductor capital equipment industry may decrease as semiconductor fabricators slow down their investments in both technology and expansions. As a result, our revenue in this market is expected to be down the second half of 2011 as compared to the first half of the year.

Sales in the thin-film non-semiconductor capital equipment markets increased 30.1% to \$40.5 million, or 29.4% of sales, for the three months ended June 30, 2011 compared to \$31.1 million, or 31.1% of sales, for the three months ended June 30, 2010. Sales in the thin-film non-semiconductor capital equipment markets increased 73.3% to \$81.0 million, or 29.4% of sales, for the six months ended June 30, 2011 compared to \$46.7 million, or 27.5% of sales, for the six months ended June 30, 2010. The markets that comprise the thin-film non-semiconductor capital equipment markets include solar panel, flat panel display, data storage, architectural glass and other industrial thin-film manufacturing equipment markets. Our customers in these markets are global OEMs. The increase in our Thin Films non-semiconductor sales was due to capacity expansion throughout 2010 and into 2011 in the flat panel display and solar panel markets.

Sales to customers in the thin-film solar panel market, which is included as a component of our non-semiconductor capital equipment markets, increased to \$15.8 million, or 11.4% of total sales, for the three months ended June 30, 2011 as compared to \$12.8 million, or 12.8% of total sales, for the three months ended June 30, 2010. Sales to customers in the thin-film solar panel market increased to \$36.1 million, or 13.1% of total sales, for the six months ended June 30, 2011 as compared to \$16.7 million, or 9.8% of total sales, for the six months ended June 30, 2010. Our solar panel growth in the first half of 2011 was driven by our technology leadership in crystalline silicon ( c-Si ) processing equipment and strategic customer relationships that helped us capitalize on growth in the People's Republic of China (the PRC ). Sales in this market are expected to decline in the second half of 2011 as uncertainty in the financial policy related to solar panel manufacturing in the PRC as well as an overcapacity of solar panels worldwide may slow investment and have a negative impact on demand for our products.

In the flat panel display market, also included as a component of our non-semiconductor capital equipment markets, we saw a cycle of investing by flat panel display manufacturers in Korea and the PRC in 2010 and in the first half of 2011 that was driven by the market adoption of flat panels by PRC consumers, the growth in touch screens for tablet PCs and smart phones and the migration of new technology such as LED backlighting and 3D televisions around the world. During the current quarter, sales in the flat panel display market increased significantly as compared to the first quarter of 2011 due to capacity additions for active matrix organic LED technologies made by Korean OEMs. We anticipate growth in this market slowing in the second half of the year as the timing of investments made in next generation technologies appears to be pushing into 2012 and beyond.

Our global support revenue grew 23.1% to \$13.1 million, or 9.5% of total sales, for the three months ended June 30, 2011, compared to \$10.7 million, representing 10.7% of sales, for the three months ended June 30, 2010. Our global support revenue grew 24.3% to \$26.8 million, or 9.7% of total sales, for the six months ended June 30, 2011, compared to \$21.6 million, representing 12.7% of sales, for the six months ended June 30, 2010. The increase in our global support sales was due to an increase in factory utilization by our customers throughout 2010 and into the first half of 2011, which drove demand for repairs, replacement parts and inventory restocking. Although the outlook for our service business continues to be strong, as we expand our product offerings to include maintenance contracts in the growing solar array market, we may see a slight pause of growth in the near term due to the risk of end users more tightly managing maintenance budgets to deal with an anticipated drop in factory utilization.

*Renewables*

Results for our Renewables business segment for the three months and six months ended June 30, 2011 are as follows (in thousands):



|                  | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|------------------|--|-------------|--------------------------------------|-------------|
|                  | <b>2011</b>                            | <b>2010</b> | <b>2011</b>                          | <b>2010</b> |
| Sales            | \$ 40,823                              | \$ 14,410   | \$ 78,376                            | \$ 16,674   |
| Operating Income | 321                                    |             | 2,833                                |             |

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Renewables sales were \$40.8 million, or 29.5% of sales, for the three months ended June 30, 2011 as compared to \$14.4 million, or 14.4% of sales, for the three months ended June 30, 2010. Renewables sales were \$78.4 million, or 28.4% of sales, for the six months ended June 30, 2011 as compared to \$16.7 million, or 9.8% of sales, for the six months ended June 30, 2010.

This significant year-over-year growth reflects our acquisition of PV Powered, whose products continue to penetrate the U.S. market for both commercial and residential applications, as well as the continued growth of the North American solar market. Sales for the current quarter were up slightly from the first quarter of 2011 due to an increase in sales in Europe, however, sales still remained lower as compared to levels achieved in the fourth quarter of 2010. We experienced unexpected push-outs of business from the current quarter into future periods as the renewable market responded to uncertainty around solar energy incentives and dropping prices for solar panels. Although we expect lower solar panel prices to ultimately fuel growth of solar array installations, an uncertainty as to how low prices may fall has caused a temporary delay in the procurement of equipment needed for projects. We anticipate an increase in Renewables sales during the third quarter of 2011 as solar panel prices stabilize and project activity resumes to normal.

*Backlog*

Our overall backlog was \$102.9 million at June 30, 2011 as compared to \$139.4 million at March 31, 2011 and \$93.1 million at December 31, 2010. The quarter decrease was primarily driven by the uncertainty in solar panel prices and the delays in projects described above.

*GROSS PROFIT*

Our gross profit was \$55.4 million, or 40.0% of sales, for the three months ended June 30, 2011, as compared to \$44.6 million, or 44.5% of sales for the three months ended June 30, 2010. Our gross profit was \$117.4 million, or 42.6% of sales, for the six months ended June 30, 2011, as compared to \$73.8 million, or 43.4% of sales for the six months ended June 30, 2010. The year-over-year increase in terms of absolute dollars was due to an overall boost in production and sales volume in 2011 as compared to 2010, our acquisition of PV Powered and increased leverage of factory overhead, as well as reduced warranty costs resulting from improved quality and lower warranty claims. The decrease in gross profit in terms of percent of sales was caused by an overall product mix shift to include a higher percentage of revenue from our Renewables product line, which traditionally has lower gross margins. In addition to the anticipated decline in gross margin percentage due to overall product mix, we saw a decline in our Renewables business gross margins as competitive pricing pressure drove down the average selling price for our inverters. We expect our gross margin to increase in absolute dollars over the course of 2011 as total sales increase; however it may be flat or slightly down as a percentage of sales as our product mix shifts to include a higher percentage of revenue from our Renewables product line.

**Table of Contents****OPERATING EXPENSES**

The following table summarizes our operating expenses as a percentage of sales for the three months and six months ended June 30, 2011 and 2010 (in thousands):

|                                     | <b>Three Months Ended June 30,</b> |       |             |       | <b>Increase/</b>  | <b>Percent</b> |
|-------------------------------------|------------------------------------|-------|-------------|-------|-------------------|----------------|
|                                     | <b>2011</b>                        |       | <b>2010</b> |       | <b>(Decrease)</b> | <b>Change</b>  |
| Research and development            | \$ 17,137                          | 12.4% | \$ 13,515   | 13.5% | \$ 3,622          | 26.8%          |
| Selling, general and administrative | 20,001                             | 14.5% | 17,183      | 17.1% | 2,818             | 16.4%          |
| Amortization of intangible assets   | 921                                | 0.6%  | 767         | 0.8%  | 154               | 20.1%          |
| Total operating expenses            | \$ 38,059                          | 27.5% | \$ 31,465   | 31.4% | \$ 6,594          | 21.0%          |

|                                     | <b>Six Months Ended June 30,</b> |       |             |       | <b>Increase/</b>  | <b>Percent</b> |
|-------------------------------------|----------------------------------|-------|-------------|-------|-------------------|----------------|
|                                     | <b>2011</b>                      |       | <b>2010</b> |       | <b>(Decrease)</b> | <b>Change</b>  |
| Research and development            | \$ 32,999                        | 12.0% | \$ 24,657   | 14.5% | \$ 8,342          | 33.8%          |
| Selling, general and administrative | 40,906                           | 14.8% | 29,412      | 17.3% | 11,494            | 39.1%          |
| Amortization of intangible assets   | 1,842                            | 0.7%  | 767         | 0.5%  | 1,075             | 140.1%         |
| Total operating expenses            | \$ 75,747                        | 27.5% | \$ 54,836   | 32.3% | \$ 20,911         | 38.1%          |

**Research and Development**

The markets we serve constantly present us with opportunities to develop our products for new or emerging applications and require technological changes to achieve higher performance, lower cost and provide other attributes that will advance our customers' products. We believe that continued and timely development of new and differentiated products, as well as enhancements to existing products to support customer requirements, is critical for us to compete in the markets we serve. Accordingly, we devote significant personnel and financial resources to the development of new products and the enhancement of existing products, and we expect these investments to continue. All of our research and development costs for the three months and six months ended June 30, 2011 and 2010 have been expensed as incurred.

Research and development expenses for the three months ended June 30, 2011 were \$17.1 million, or 12.4% of sales, as compared to \$13.5 million, or 13.5% of sales, for the three months ended June 30, 2010. Research and development expenses for the six months ended June 30, 2011 were \$33.0 million, or 12.0% of sales, as compared to \$24.7 million, or 14.5% of sales, for the six months ended June 30, 2010.

The increase in research and development expenses of \$3.6 million, or 26.8%, in the three months June 30, 2011 and \$8.3 million, or 33.8%, in the six months ended June 30, 2011 as compared to the same period in 2010 was driven primarily by increases in personnel costs, materials and supplies and outside consulting services. We continue to focus on new product development, specifically related to the expansion of our inverter product line globally and, although we have always maintained a very cautious approach to our discretionary spending, we anticipate that research and development expenses will increase in 2011 in terms of absolute dollars but remain within their current range as a percentage of sales.

**Selling, General and Administrative**

Our selling expenses support domestic and international sales and marketing activities that include personnel, trade shows, advertising, third-party sales representative commissions and other selling and marketing activities. Our general and administrative expenses support our worldwide corporate, legal, tax, financial, governance, administrative, information systems and human resource functions in addition to our general management. Selling, general and administrative ( SG&A ) expenses for the three months ended June 30, 2011 were \$20.0 million, or 14.5% of sales, as compared to \$17.2 million, or 17.1% of sales, in the three months ended June 30, 2010. SG&A expenses for the six months ended June 30, 2011 were \$40.9 million, or 14.8% of sales, as compared to \$29.4 million, or 17.3% of sales, in the six months ended June 30, 2010. The increase in SG&A expenses of \$2.8 million, or 16.4%, in the three months ended June 30, 2011 and \$11.5 million, or 39.1%, in the six months ended June 30, 2011 as compared to the same periods in 2010 was driven primarily by increases in personnel costs and travel to meet the expectations and demands of our global customers. We anticipate that SG&A expenses will continue to increase in 2011 in terms of absolute dollars and will remain within their current range as a percentage of sales.

**Table of Contents***Amortization of Intangible Assets*

Amortization of intangibles was \$0.9 million, or 0.6% of sales, for the three months ended June 30, 2011 as compared to \$0.8 million, or 0.8% of sales, in the three months ended June 30, 2010. Amortization of intangibles was \$1.8 million, or 0.7% of sales, for the six months ended June 30, 2011 as compared to \$0.8 million, or 0.5% of sales, in the six months ended June 30, 2010. The increase in amortization was the result of amortization of PV Powered intangible assets acquired in May 2010.

*OTHER INCOME, NET*

Other income, net, consists primarily of investment income and foreign currency exchange gains and losses. Other income, net, was \$0.1 million for the three months ended June 30, 2011, as compared to \$0.2 million for the three months ended June 30, 2010. Other income, net, was \$0.8 million for the six months ended June 30, 2011, as compared to \$0.6 million for the six months ended June 30, 2010. Although we are subject to exchange rate fluctuations due to the nature of our international operations, we are mitigating the risk of large swings with the use of derivative instruments and anticipate future gains and losses to be immaterial to our financial position and results of operations.

*PROVISION FOR INCOME TAXES*

We recorded an income tax provision from continuing operations for the three months ended June 30, 2011 of \$3.9 million, compared to \$1.9 million for the three months ended June 30, 2010, resulting in effective tax rates of 22.4% and 13.9%, respectively. We recorded an income tax provision from continuing operations for the six months ended June 30, 2011 of \$10.2 million, compared to \$3.2 million for the six months ended June 30, 2010, resulting in effective tax rates of 23.9% and 16.5%, respectively. Our effective tax rate may vary from period to period due to changes in the composition of income between U.S. and foreign jurisdictions resulting from our activity. Our effective rate differs from the U.S. federal statutory rate primarily due to the benefit of earnings in foreign jurisdictions which are subject to lower tax rates.

*DISCONTINUED OPERATIONS*

On October 15, 2010, we completed the sale of our gas flow control business, which includes the Aera<sup>®</sup> mass flow control and related product lines to Hitachi Metals, Ltd., for \$43.3 million. Assets and liabilities sold include, without limitation, inventory, real property in Hachioji, Japan, equipment, certain contracts, intellectual property rights related to the gas flow control business and certain warranty liability obligations. The results of continuing operations were reduced by the revenue and costs associated with the gas flow control business and are included in the results from discontinued operations, net of income taxes, in our Condensed Consolidated Statements of Operations.

**Liquidity and Capital Resources**

Our ability to fund our operations, acquisitions, capital expenditures and product development efforts will depend on our ability to generate cash from operating activities which is subject to future operating performance as well as general economic, financial, competitive, legislative, regulatory and other conditions, some of which may be beyond our control. Our primary sources of liquidity are our available cash, marketable securities and cash generated from current operations.

*CASH FLOWS*

Cash flows during the six months ended June 30, 2011 and 2010 are summarized as follows (in thousands):

|   | <b>Six Months Ended June 30,</b> |              |
|---|----------------------------------|--------------|
|   | <b>2011</b>                      | <b>2010</b>  |
| Net cash provided by (used in) operating activities | \$ 13,504                        | \$ (3,911)   |
| Net cash used in investing activities               | (9,105)                          | (6,542)      |
| Net cash provided by financing activities           | 1,228                            | 336          |
| Effect of currency translation on cash              | (977)                            | (6,194)      |
| <br>Net change in cash and cash equivalents         | <br>4,650                        | <br>(16,311) |

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|  |            |            |
|--|------------|------------|
| Cash and cash equivalents, beginning of the period | 130,914    | 133,106    |
| Cash and cash equivalents, end of the period       | \$ 135,564 | \$ 116,795 |

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Our cash flows from discontinued operations are not reported separately in our Condensed Consolidated Statements of Cash Flows as it would be impractical to quantify cash flows from our gas flow control business. We do not expect the absence of cash flows applicable to our discontinued operations to have a significant impact on our future liquidity and capital resources.

*Net cash provided by operating activities* increased by \$17.4 million to \$13.5 million for the six month period ended June 30, 2011 compared to net cash flows used by operating activities of \$3.9 million for the same period of 2010. This increase was driven by our increase in net income, the collection of accounts receivable on increased sales and was offset by the payment of bonuses accrued at December 31, 2010 and the payment of accounts payable during six months ended June 30, 2011.

*Net cash used in investing activities* increased by \$2.6 million to \$9.1 million for the six month period ended June 30, 2011 compared to \$6.5 million used in the same period of 2010.

The increase in cash used for investing activities was primarily the result of increased purchases of property and equipment to sustain our engineering and new product development efforts and to increase production capacity for solar inverters. Investments in marketable securities used \$0.4 million of cash in the six months ended June 30, 2011 as compared to providing \$32.4 million of cash in the six months ended June 30, 2010 which we used to fund our \$36.0 million cash outlay for the acquisition of PV Powered on May 3, 2010.

*Net cash provided by financing activities* increased by \$0.9 million to \$1.2 million during the six months ended June 30, 2011 compared to \$0.3 million during the same period in 2010 as a result of the exercise of stock options.

*Effect of currency translation on cash* changed \$5.2 million to negative \$1.0 million for the six month period ended June 30, 2011 compared to negative \$6.2 million for the six months ended June 30, 2010. The functional currencies of our worldwide operations primarily include U.S. dollar ( USD ), Japanese Yen ( JPY ), Chinese Yuan ( CNY ), New Taiwan Dollar ( TWD ), South Korean Won ( KWN ), British Pound ( GBP ) and Euro ( EUR ). Our purchasing and sales activities are primarily denominated in USD, JPY, CNY and EUR. The change in these key currency rates during the six months ended June 30, 2011 and 2010 are as follows:

| <b>From</b> | <b>To</b> | <b>2011</b> | <b>2010</b> |
|-------------|-----------|-------------|-------------|
| CNY         | USD       | 2.2%        | 0.7%        |
| EUR         | USD       | 8.2%        | (14.8%)     |
| JPY         | USD       | 1.1%        | 4.3%        |
| KWN         | USD       | 5.2%        | (5.1%)      |
| TWD         | USD       | 1.3%        | (0.9%)      |
| GBP         | USD       | 3.2%        | (7.5%)      |

As of June 30, 2011, we have \$145.7 million in cash, cash equivalents, and marketable securities of which \$49.4 million was held in banks outside the United States. We believe that our current cash levels and cash flows from future operations will be adequate to meet anticipated working capital needs, capital expenditures and contractual obligations for the next 12 months. During the second half of 2011 we plan to repatriate \$30.0 million of cash held in Japan as the remaining cash held in that country is sufficient to fund local operations. The repatriated cash will be used to fund working capital and capital investments in the United States.

**Off-Balance-Sheet Arrangements**

We have no off-balance-sheet arrangements or variable interest entities.

**Critical Accounting Policies and Estimates**

The preparation of financial statements and related disclosures in conformity with U.S. GAAP requires us to make judgments, assumptions and estimates that affect the amounts reported in the Condensed Consolidated Financial Statements and accompanying notes. Note 1 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2010 describes the significant accounting policies and methods used in the preparation of our Consolidated Financial Statements. Our critical accounting estimates, discussed in the Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2010, include estimates for allowances for doubtful

accounts, determining useful lives for depreciation and amortization, the valuation of assets and liabilities acquired in business combinations, assessing the need for impairment charges for identifiable intangible assets and goodwill, establishing warranty reserves, accounting for income taxes, and assessing excess and obsolete inventory. Such accounting policies and estimates require significant judgments and assumptions to be used in the preparation of the Condensed Consolidated Financial Statements and actual results could differ materially from the amounts reported based on variability in factors affecting these estimates.



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Our management discusses the development and selection of our critical accounting policies and estimates with the Audit Committee of our Board of Directors at least annually. Our management also internally discusses the adoption of new accounting policies or changes to existing policies at interim dates, as it deems necessary or appropriate.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**Interest Rate Risk**

Our market risk exposure relates to changes in interest rates in our investment portfolio. We generally place our investments with high-credit quality issuers and, by policy, are averse to principal loss and seek to protect and preserve our invested funds by limiting default risk, market risk and reinvestment risk. As of June 30, 2011, our investments consisted primarily of commercial paper, certificates of deposit, corporate bonds, and agency bonds. As a measurement of the sensitivity of our portfolio and assuming that our investment portfolio balances were to remain constant, a hypothetical decrease of 100 basis points in interest rates would decrease annual pre-tax earnings by approximately \$0.1 million.

**Foreign Currency Exchange Rate Risk**

We are impacted by changes in foreign currency rates through sales and purchasing transactions when we sell products in currencies different from the currency in which the product and manufacturing costs were incurred. Our purchasing and sales activities are primarily denominated in USD, JPY, CNY and EUR. As these currencies fluctuate against each other, and against other currencies, we are exposed to foreign currency exchange rate risk on sales, purchasing transactions and labor.

Our reported results of operations and the reported value of our assets and liabilities are also impacted by changes in foreign currency exchange rates. The assets and liabilities of many of our subsidiaries outside the U.S. are translated at period end rates of exchange for each reporting period. Earnings and cash flow statements are translated at weighted-average rates of exchange. Although these translation changes have no immediate cash impact, the translation changes may impact future borrowing capacity, debt covenants and overall value of our net assets. From time to time, we enter into foreign currency exchange rate contracts to hedge against changes in foreign currency exchange rates on assets and liabilities expected to be settled at a future date. Market risk arises from the potential adverse effects on the value of derivative instruments that result from a change in foreign currency exchange rates. We minimize our market risk applicable to foreign currency exchange rate contracts by establishing and monitoring parameters that limit the types and degree of our derivative contract instruments. We enter into derivative contract instruments for risk management purposes only. We do not enter into or issue derivatives for trading or speculative purposes.

Currency exchange rates vary daily and often one currency strengthens against the USD while another currency weakens. Because of the complex interrelationship of the worldwide supply chains and distribution channels, it is difficult to quantify the impact of a particular change in exchange rates.

See the Risk Factors set forth in Part I, Item 1A of our Annual Report on Form 10-K for more information about the market risks to which we are exposed. There have been no material changes in our exposure to market risk from December 31, 2010.

**ITEM 4. CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures*

We have established disclosure controls and procedures, which are designed to ensure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. These disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that we file or submit under the Act is accumulated and communicated to management, including our Principal Executive Officer (Hans Georg Betz, Chief Executive Officer and President) and Principal Financial Officer (Danny C. Herron, Executive Vice President & Chief Financial Officer), as appropriate, to allow timely decisions regarding required disclosures.

As of the end of the period covered by this report, we conducted an evaluation, with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the disclosure controls and procedures pursuant to the Exchange Act Rule 13a-15(b). Based upon this evaluation, the

Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2011. The conclusions of the Chief Executive Officer and Chief Financial Officer from this evaluation were communicated to the Audit Committee. We intend to continue to review and document our disclosure controls and procedures, including our internal controls and procedures for financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that our systems evolve with our business.

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### *Changes in Internal Control over Financial Reporting*

There were no changes in our internal control over financial reporting, except as discussed below, that occurred during the fiscal quarter covered by this Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

As discussed in Note 2, *Acquisition and Disposition*, to our Condensed Consolidated Financial Statements, on May 3, 2010, we acquired PV Powered. We considered the results of our pre-acquisition due diligence activities, the continuation by PV Powered of their established internal control over financial reporting, and our implementation of additional internal control over financial reporting activities related to PV Powered as part of our overall evaluation of disclosure controls and procedures as of June 30, 2011. The objective of PV Powered's established internal control over financial reporting is consistent, in all material respects, with our objectives. However, we believe the design of PV Powered's established internal control over financial reporting is sufficiently different from our overall design and the controls implemented to integrate PV Powered's financial operations into our existing operations constitute a change in internal controls. We are in the process of implementing changes to better align PV Powered's reporting and controls with the rest of Advanced Energy including the completion of systems integration during the third quarter of 2011.

## **PART II OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

We are involved in disputes and legal actions from time to time in the ordinary course of our business.

There have been no material developments in legal proceedings in which we are involved during the three months and six months ended June 30, 2011. For a description of previously reported legal proceedings refer to Part I, Item 3,

Legal Proceedings of our Annual Report on Form 10-K for the year ended December 31, 2010.

### **ITEM 1A. RISK FACTORS**

Item 1A, Risk Factors, of our Annual Report on Form 10-K for the year ended December 31, 2010 describes some of the risks and uncertainties associated with our business. The risk factors set forth below update such disclosures. Other factors may also exist that we cannot anticipate or that we currently do not consider to be significant based on information that is currently available. These risks and uncertainties have the potential to materially affect our business, financial condition, results of operations, cash flows and future results. Such risks and uncertainties also may impact the accuracy of forward-looking statements included in this Form 10-Q and other reports we file with the Securities and Exchange Commission.

#### **Natural disasters, health pandemics and other catastrophic events can disrupt our business.**

Catastrophic events in countries in which we do business can prevent or inhibit us or our customers from conducting normal business operations, disrupt our supply chain or information technology systems, and have other adverse effects on us, our customers and our suppliers. The recent earthquake and tsunami that occurred in Japan in March 2011, and the ensuing effects on the Japanese economy and infrastructure, have adversely affected many of our Thin Films customers. Both we and they rely on raw materials and components made in Japan. If we are unable to obtain the requisite raw materials and components in Japan from other sources, our manufacturing processes may be delayed, which would adversely affect our customer relationships and operating results.

#### **We are exposed to risks as a result of ongoing changes specific to the solar industry.**

An significant portion of our business, both in Thin Films and Renewables, is in the emerging solar market, which, in addition to the general industry changes described in the risk factor *The industries in which we compete are subject to volatile and unpredictable cycles*, in Item 1A, Risk Factors, of our Annual Report on Form 10-K for the year ended December 31, is also characterized by ongoing changes particular to the solar industry. Our business is subject to changes in technology or demand for solar products arising from, among other things, adoption of our products by our customers, compatibility of our solar inverter technology with our customers' products or certain solar panel providers, customers' and end-users' access to affordable financial capital, the cost and performance of solar technology compared to other energy sources, the adequacy of or changes in government energy policies, including the availability and amount of government incentives for solar power, the continuation of renewable portfolio standards, volatility in pricing of solar array components, such as solar panels, increased competition in the solar inverter equipment market and the extent of investment or participation in solar by utilities or other companies that generate,

transmit or distribute power to end users. There is also increased market volatility as the size of utility scale solar projects is increasing to hundreds of megawatts of capacity. Such large scale solar projects require significant financial resources on our part should we be selected as the supplier for solar inverters. We are beginning to see requirements in the solar industry for performance guarantees related to solar inverters and associated liquidated damages provisions. This could result in financial exposure for our business if our solar inverters do not meet reliability or uptime requirements. Lastly, customers using our solar inverters are beginning to evaluate multi-year service agreements from us for onsite maintenance and support of our inverters and even the solar site. These agreements, however, are subject to annual renewal and may not be renewed by the customers.

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If we do not successfully manage the risks resulting from these ongoing changes occurring in the solar industry, we may miss out on substantial opportunities for revenue and our business, financial condition and results of operations could be materially and adversely affected.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. REMOVED AND RESERVED**

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

- 10.1 Amendment to Leadership Corporate Incentive Plan. (1)\*
- 31.1 Certification of the Chief Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Principal Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of the Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(1) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 (File No. 000-26966), filed May 6, 2011.

\* Compensation Plan

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**SIGNATURE**

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.

Dated: August 2, 2011

/s/ Danny C. Herron  
Danny C. Herron  
Executive Vice President & Chief Financial  
Officer

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**INDEX TO EXHIBITS**

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