

ADVANCED ENERGY INDUSTRIES INC

Form 10-Q

August 07, 2014

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q

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

For the quarterly period ended June 30, 2014

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)

1625 Sharp Point Drive, Fort Collins, CO

(Address of principal executive offices)

84-0846841

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

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

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As of July 31, 2014 there were 39,934,085 shares of the registrant's Common Stock, par value \$0.001 per share, outstanding.

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## PART I FINANCIAL STATEMENTS

## ITEM 1. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## ADVANCED ENERGY INDUSTRIES, INC.

## Condensed Consolidated Balance Sheets \*

(In thousands, except per share amounts)

	June 30, 2014	December 31, 2013
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 117,549	\$ 138,125
Marketable securities	12,633	11,568
Accounts receivable, net of allowances of \$4,236 and \$2,920, respectively	121,262	125,782
Inventories, net of reserves of \$20,566 and \$15,349, respectively	118,187	109,771
Deferred income tax assets	10,755	10,746
Income taxes receivable	4,760	10,027
Other current assets	13,084	10,950
Total current assets	398,230	416,969
Property and equipment, net	32,821	34,888
<b>OTHER ASSETS:</b>		
Deposits and other	2,478	2,421
Goodwill	206,863	157,800
Other intangible assets, net	44,755	19,411
Deferred income tax assets	19,000	21,488
Total assets	\$ 704,147	\$ 652,977
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 72,210	\$ 55,623
Income taxes payable	1,299	2,324
Accrued payroll and employee benefits	9,321	12,892
Accrued warranty expense	18,545	10,198
Other accrued expenses	25,542	20,704
Customer deposits	8,131	6,955
Notes payable	4,647	13,661
Total current liabilities	139,695	122,357
<b>LONG-TERM LIABILITIES:</b>		
Deferred income tax liabilities	3,956	1,500
Uncertain tax positions	6,376	5,781
Accrued warranty expense	19,045	11,869
Long term deferred revenue	45,722	43,171
Other long-term liabilities	24,391	3,837
Total liabilities	239,185	188,515
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, \$0.001 par value, 1,000 shares authorized, none issued and outstanding	—	—
Common stock, \$0.001 par value, 70,000 shares authorized; 39,888 and 40,503 issued and outstanding, respectively	40	41
Additional paid-in capital	228,350	251,550
Retained earnings	204,775	179,414

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Accumulated other comprehensive income	31,797	33,457
Total stockholders' equity	464,962	464,462
Total liabilities and stockholders' equity	\$704,147	\$652,977

\* Amounts as of June 30, 2014 are unaudited.

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

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

	Three Months Ended		Six Months Ended June	
	June 30,		30,	
	2014	2013	2014	2013
SALES	\$146,285	\$139,711	\$287,233	\$251,525
COST OF SALES	93,739	86,452	182,026	156,427
GROSS PROFIT	52,546	53,259	105,207	95,098
OPERATING EXPENSES:				
Research and development	15,736	15,740	29,878	29,993
Selling, general and administrative	22,828	22,910	42,559	40,564
Amortization of intangible assets	2,226	1,975	4,101	4,188
Restructuring charges and asset impairment	244	24,206	244	24,206
Total operating expenses	41,034	64,831	76,782	98,951
OPERATING INCOME (LOSS)	11,512	(11,572)	28,425	(3,853)
OTHER INCOME (EXPENSE), NET	25	(330)	(71)	(533)
Income (loss) before income taxes	11,537	(11,902)	28,354	(4,386)
Provision (benefit) for income taxes	891	(2,120)	2,993	(1,430)
NET INCOME (LOSS)	\$10,646	\$(9,782)	\$25,361	\$(2,956)
Basic weighted-average common shares outstanding	40,540	39,453	40,677	39,114
Diluted weighted-average common shares outstanding	41,147	40,150	41,419	39,899
EARNINGS (LOSS) PER SHARE:				
BASIC EARNINGS (LOSS) PER SHARE	\$0.26	\$(0.25)	\$0.62	\$(0.08)
DILUTED EARNINGS (LOSS) PER SHARE	\$0.26	\$(0.24)	\$0.61	\$(0.07)

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 Comprehensive Income (Unaudited)

(In thousands)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Net income (loss)	\$10,646	\$(9,782 )	\$25,361	\$(2,956 )
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	3	(690 )	(1,661 )	(3,524 )
Unrealized gains (losses) on marketable securities	(1 )	—	1	(7 )
Comprehensive income (loss)	\$10,648	\$(10,472 )	\$23,701	\$(6,487 )

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)

	Six Months Ended June 30,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$25,361	\$(2,956)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	10,326	10,592
Stock-based compensation expense	3,259	5,204
Provision for deferred income taxes	2,481	4,117
Restructuring charges and asset impairment	—	24,206
Net gain on sale or disposal of assets	873	312
Changes in operating assets and liabilities, net of assets acquired:		
Accounts receivable	7,577	(39,601)
Inventories	(3,374)	(3,561)
Other current assets	3,189	66
Accounts payable	13,063	8,243
Other current liabilities and accrued expenses	(20,451)	(2,224)
Income taxes	4,769	(14,410)
Net cash provided by (used in) operating activities	47,073	(10,012)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of marketable securities	(5,402)	(13,056)
Proceeds from sale of marketable securities	4,315	26,613
Purchases of property and equipment	(3,453)	(3,825)
Acquisitions, net of cash acquired	(26,938)	(77,211)
Net cash used in investing activities	(31,478)	(67,479)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings from lines of credit, net of repayments	(9,044)	1,555
Settlement of performance stock units	(11,198)	—
Purchase and retirement of common stock	(25,000)	—
Proceeds from exercise of stock options	8,920	16,937
Excess tax from stock-based compensation deduction	818	(678)
Other financing activities	(5)	(52)
Net cash provided by (used in) financing activities	(35,509)	17,762
EFFECT OF CURRENCY TRANSLATION ON CASH	(662)	227
DECREASE IN CASH AND CASH EQUIVALENTS	(20,576)	(59,502)
CASH AND CASH EQUIVALENTS, beginning of period	138,125	146,564
CASH AND CASH EQUIVALENTS, end of period	\$117,549	\$87,062
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid for interest	\$102	\$26
Cash paid for income taxes	948	13,895
Cash received for refunds of income taxes	5,034	2,929
Cash held in banks outside the United States of America	53,531	30,739

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

NOTE 1. BASIS OF PRESENTATION

Advanced Energy Industries, Inc., a Delaware corporation, and its wholly-owned subsidiaries ("we," "us," "our," "Advanced Energy," or the "Company") design, manufacture, sell, and support power conversion and control products that transform power into various usable forms. Our products enable manufacturing processes that use thin film deposition for various products, such as semiconductor devices, flat panel displays, thin film renewables, and architectural glass. We also supply thermal instrumentation products for advanced temperature control in the thin film process for these same markets. Our power control modules provide power control solutions for industrial applications where heat treatment and processing are used such as glass manufacturing, metal fabrication and treatment, material and chemical processing. Our solar inverter products support renewable power generation solutions primarily for commercial, and utility-scale solar projects and installations. Our network of global service support centers provides a recurring revenue opportunity as we 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 photovoltaic ("PV") sites of all sizes.

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

Precision Power Products strategic business unit ("Precision Power Products") offers products for direct current ("DC"), pulsed DC mid-frequency, high voltage, and radio frequency ("RF") power supplies, matching networks and RF instrumentation as well as thermal instrumentation and digital power controller products.

Inverters strategic business unit ("Inverters SBU") offers both a transformer-based or transformerless advanced grid-tied PV inverter solution for 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 the Company at June 30, 2014, and the results of our operations and cash flows for the three and six months ended June 30, 2014 and 2013.

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, 2013 and other financial information filed with the SEC.

ESTIMATES AND ASSUMPTIONS

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

CRITICAL ACCOUNTING POLICIES

Our accounting policies are described in our audited Consolidated Financial Statements and Notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2013.



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ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## NEW ACCOUNTING STANDARDS

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

In May 2014, the FASB issued guidance on revenue from contracts with customers, which implements a five step process of how an entity should recognize revenue in order to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance will be effective at the beginning of fiscal year 2017, and early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. We are currently evaluating the impact that the adoption will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing reporting.

## NOTE 2. BUSINESS ACQUISITIONS

## Acquisitions

## Refusol Holding

On April 8, 2013, we acquired all the outstanding shares of Refusol Holding GmbH pursuant to a Sale and Purchase Agreement (the "Agreement") between AEI Holdings, GmbH (formerly Blitz S13-103, GmbH) ("AEI Holdings"), an indirect wholly-owned subsidiary of Advanced Energy Industries, Inc.; Jolaos Verwaltungs GmbH ("Jolaos") and Prettl Beteiligungs Holding GmbH. Refusol Holding GmbH ("Refusol Holding") owns all of the shares of Refusol GmbH and its subsidiaries (collectively and together with Refusol Holding, "Refusol"). Refusol develops, manufactures, distributes and services photovoltaic inverters. The acquisition of Refusol is intended to broaden our portfolio and extend our geographic distribution.

Consideration paid totaled approximately \$87.2 million, consisting of a cash payment of \$75.4 million, net of cash acquired and a working capital reduction and assumption of debt totaling \$11.9 million. The agreement called for additional cash consideration if certain stretch financial targets were met by our Inverters business unit and Refusol, on a combined basis, at the end of the twelve (12) calendar months following April 1, 2013. These financial targets were not met.

The preliminary base price is subject to a post-closing adjustment based on confirmation of the financial statements of Refusol effective as of the closing date. AEI Holdings and Jolaos are in disagreement on various accounting adjustments to the closing date financial statements of Refusol. After repeated unsuccessful attempts to have Jolaos submit the dispute to an independent German accounting firm as required under the Agreement, AEI Holdings petitioned the designated court in Stuttgart, Germany to review the dispute.

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

Cash paid to owners	\$79,550	
Debt assumed	11,873	
Working capital adjustment	(2,340	)
Cash acquired	(1,836	)
Total fair value of consideration transferred	\$87,247	

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ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table summarizes estimated fair values of the assets acquired and liabilities assumed as of April 8, 2013 (in thousands):

Accounts receivable	\$8,868	
Inventories	13,610	
Other current assets	6,769	
Property and equipment	4,708	
Other long-term assets	130	
Deferred tax assets	(3,156)	)
Current liabilities	(33,397)	)
Long-term liabilities	(41,646)	)
	(44,114)	)
Amortizable intangible assets:		
Trademarks	1,300	
Technology	5,700	
Customer relationships	3,500	
Total amortizable intangible assets	10,500	
Total identifiable net assets	(33,614)	)
Goodwill	120,861	
Total fair value of consideration transferred	\$87,247	

A summary of the intangible assets acquired, amortization method and estimated useful lives as of April 8, 2013 follows (in thousands, except useful life):

	Amount	Amortization Method	Useful Life
Trademarks	\$1,300	Straight-line	1.5
Technology	5,700	Straight-line	5
Customer relationships	3,500	Straight-line	5
	\$10,500		

During the six months ended June 30, 2014 we made purchase price accounting adjustments to Goodwill of \$29.4 million, primarily consisting of adjustments to the opening balance of accrued warranty and other accrued expenses. Goodwill and intangible assets are recorded in the functional currency of the entity and are subject to changes due to translation at each balance sheet date. The goodwill associated with the acquisition is the result of expected synergies and expansion of the technology into additional markets that we already serve.

Pro Forma Results for Refusol Acquisition

The following unaudited pro forma financial information presents the combined results of operations of Advanced Energy and Refusol as if the acquisition had occurred as of January 1, 2013. The pro forma financial information is presented for informational purposes and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at January 1, 2013. The unaudited pro forma financial information for the three and six months ended June 30, 2013 includes the historical results of Advanced Energy for the three and six months ended June 30, 2013 and the historical results of Refusol for the same period.

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ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The unaudited pro forma results for all periods presented include amortization charges for acquired intangible assets and related tax effects. The unaudited pro forma results follow (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Sales	\$ 146,285	\$ 140,154	\$ 287,233	\$ 271,608
Net income (loss)	10,646	(10,414 )	25,361	(7,662 )
Earnings (loss) per share:				
Basic	\$0.26	\$(0.26 )	\$0.62	\$(0.20 )
Diluted	\$0.26	\$(0.26 )	\$0.61	\$(0.19 )

**Power Control Module**

On January 27, 2014, we acquired the intellectual property related to AEG Power Solutions' Power Control Modules ("PCM"). PCM is comprised of the Thyro-Family of products and accessories and serves numerous power control applications in different industries ranging from materials thermal processing through chemical processing, glass manufacturing and numerous other general industrial power applications. This acquisition is expected to broaden our product offerings and will be added to our Precision Power Products SBU. We paid total consideration of \$31.1 million including contingent consideration, of which \$16.4 million is included in Intangibles, \$14.6 million in Goodwill, and \$0.1 million in Property, plant, and equipment. Included in Goodwill is \$1.0 million of contingent consideration payable if certain milestone targets are met. Goodwill and intangible assets are recorded in the functional currency of the entity and are subject to changes due to translation at each balance sheet date. The goodwill associated with the acquisition is the result of expected synergies and expansion of our product offerings into new markets. Advanced Energy is in the process of finalizing valuations of the intangibles associated with the acquisition.

**HiTek Power Group**

On April 12, 2014, Advanced Energy acquired all outstanding common stock of HiTek Power Group ("HiTek"), a privately-held provider of high voltage power solutions. Based in the United Kingdom, HiTek offers a comprehensive portfolio of high voltage and custom built power conversion products, ranging from 100V to 500kV, designed to meet the demanding requirements of OEMs worldwide. These products target applications including semiconductor wafer processing and metrology, scientific instrumentation, mass spectrometry, industrial printing, and analytical x-ray systems for industrial and analytical applications. HiTek's unique product architecture, encapsulation technology and control algorithms, combined with deep knowledge of its customer-specific applications, have made it a leading provider of critical, high-end, high voltage power solutions. We acquired HiTek to expand our product offerings in our Precision Power Products portfolio.

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

Cash paid to owners		\$3,525	
Cash acquired		(6,889	)
Total fair value of consideration received		\$ (3,364	)

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ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table summarizes estimated fair values of the assets acquired and liabilities assumed as of April 12, 2014 (in thousands):

Accounts receivable	\$2,867	
Inventories	4,980	
Other current assets	415	
Property and equipment	1,291	
Current liabilities	(3,836	)
Long-term liabilities	(22,725	)
	(17,008	)
Amortizable intangible assets:		
Tradename	336	
Technology	4,029	
Customer relationships	8,225	
Total amortizable intangible assets	12,590	
Total identifiable net assets	(4,418	)
Goodwill	1,054	
Total fair value of consideration received	\$(3,364	)

Goodwill and intangible assets are recorded in the functional currency of the entity and are subject to changes due to translation at each balance sheet date. The goodwill associated with the acquisition is the result of expected synergies and expansion of the technology into additional markets that we already serve. Advanced Energy is in the process of finalizing the valuations of the accounts receivable, inventories, property, plant and equipment, intangibles, deferred taxes, and pension liability associated with the acquisition.

**NOTE 3. INCOME TAXES**

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Income (loss) before income taxes	\$ 11,537	\$(11,902 )	\$ 28,354	\$(4,386 )
Provision (benefit) for income taxes	891	(2,120 )	2,993	(1,430 )
Effective tax rate	7.7	% 17.8	% 10.6	% 32.6 %

The effective tax rates for the three and six months ended June 30, 2014 differ from the federal statutory rate of 35% primarily due to the benefit of earnings in foreign jurisdictions which are subject to lower tax rates. The effective tax rate is also impacted by discrete items recorded in the period. The effective tax rate for the period does not reflect the benefit for the US research and development tax credit which expired December 31, 2013. For the three and six months ended June 30, 2013, the effective tax rate reflected benefits attributable to restructuring expenses and the January 2, 2013 reinstatement of the 2012 US research and development tax credit.

Our policy is to classify accrued interest and penalties related to unrecognized tax benefits in our income tax provision. For the three and six months ended June 30, 2014 and 2013, the amount of interest and penalties accrued related to our unrecognized tax benefits was not significant.

**NOTE 4. EARNINGS PER SHARE**

Basic earnings per share ("EPS") is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding during the period. The computation of diluted EPS is similar to the computation of basic EPS except that the numerator is increased to exclude charges that would not have been incurred, and the denominator is increased to include the number of additional common shares that would have been outstanding (using the if-converted and





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ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

treasury stock methods), if securities containing potentially dilutive common shares (e.g., stock options and restricted stock units) had been converted to common shares, and if such assumed conversion is dilutive.

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

	Three Months Ended		Six Months Ended June	
	June 30, 2014	2013	30, 2014	2013
Net Income (loss)	\$10,646	\$(9,782)	\$25,361	\$(2,956)
Basic weighted-average common shares outstanding	40,540	39,453	40,677	39,114
Assumed exercise of dilutive stock options and restricted stock units	607	697	742	785
Diluted weighted-average common shares outstanding	41,147	40,150	41,419	39,899
Net Income (loss):				
Basic earnings (loss) per share	\$0.26	\$(0.25)	\$0.62	\$(0.08)
Diluted earnings (loss) per share	\$0.26	\$(0.24)	\$0.61	\$(0.07)

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

	Three Months Ended		Six Months Ended June	
	June 30, 2014	2013	30, 2014	2013
Stock options	79	695	52	780
Stock Buyback				

In May 2014, our Board of Directors authorized a program to repurchase up to \$25.0 million of our stock over a twelve-month period. Under this program, during the three and six months ended June 30, 2014, we repurchased and retired 1.4 million shares of our common stock for a total of \$25.0 million. As of June 30, 2014 we have completed the share repurchase program.

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

**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.

Our marketable securities consist entirely of certificates of deposit as follows (in thousands):

	June 30, 2014		December 31, 2013	
	Cost	Fair Value	Cost	Fair Value
Total marketable securities	\$12,633	\$12,633	\$11,568	\$11,568

The maturities of our marketable securities available for sale as of June 30, 2014 are as follows:

	Earliest	Latest
Certificates of deposit	7/29/2014	to 6/13/2016

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

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ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

As of June 30, 2014, 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 attempt to mitigate these risks through the use of derivative financial instruments, primarily forward contracts. During the three and six months ended June 30, 2014 and 2013, we entered into foreign currency exchange forward contracts to attempt to mitigate the exchange rate risk associated with intercompany debt denominated in nonfunctional currencies. These derivative instruments are not designated as hedges; however, they tend to offset the fluctuations of our intercompany debt due to foreign exchange rate changes. These forward contracts are typically for one month periods. At June 30, 2014 we had outstanding Euro forward contracts. At December 31, 2013 we had outstanding Euro, Swiss Franc, and Canadian Dollar forward contracts.

The notional amount of foreign currency exchange contracts at June 30, 2014 and 2013 was \$11.6 million and \$39.0 million, and the difference between the fair value and the notional value of these contracts was not significant. During the three months ended June 30, 2014 and 2013, we recognized an insignificant loss and gain, respectively. For the six months ended June 30, 2014 and 2013, we recognized a loss of \$1.4 million and a gain of \$0.6 million, respectively, 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 (expense), net, in our Condensed Consolidated Statements of Operations.

## NOTE 7. ASSETS 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, 2014, and December 31, 2013. The tables indicate the fair value hierarchy of the valuation techniques utilized to determine such fair value. We did not have any financial liabilities measured at fair value, on a recurring basis, as of June 30, 2014, and December 31, 2013.

June 30, 2014	Level 1 (In thousands)	Level 2	Level 3	Total
Total marketable securities	\$—	\$12,633	\$—	\$12,633

  

December 31, 2013	Level 1 (In thousands)	Level 2	Level 3	Total
Total marketable securities	\$—	\$11,568	\$—	\$11,568

There were no transfers in or out of Level 1, 2, or 3 fair value measurements during the three and six months ended June 30, 2014.

## 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, net of reserves, are as follows (in thousands):

	June 30, 2014	December 31, 2013
Parts and raw materials	\$81,137	\$75,815
Work in process	9,853	3,507
Finished goods	27,197	30,449
Inventories, net of reserves	\$118,187	\$109,771



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ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## NOTE 9. PROPERTY AND EQUIPMENT

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

	June 30, 2014	December 31, 2013
Buildings and land	\$1,885	\$1,807
Machinery and equipment	47,769	41,451
Computer and communication equipment	24,083	23,117
Furniture and fixtures	4,575	4,028
Vehicles	312	367
Leasehold improvements	27,537	24,369
Construction in process	1,525	5,426
	107,686	100,565
Less: Accumulated depreciation	(74,865	) (65,677
Property and equipment, net	\$32,821	\$34,888

Depreciation expense, recorded in general and administrative expenses and cost of goods sold, is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Depreciation expense	\$3,229	\$3,331	\$6,225	\$6,404

## NOTE 10. GOODWILL

The following summarizes the changes in goodwill during the six months ended June 30, 2014 (in thousands):

Gross carrying amount, beginning of period	\$157,800
Additions (see Note 2)	45,073
Translation adjustments	3,990
Gross carrying amount, end of period	\$206,863

## NOTE 11. INTANGIBLE ASSETS

Other intangible assets consisted of the following as of June 30, 2014 (in thousands, except weighted-average useful life):

	Gross Carrying Amount (net of impairment)	Effect of Changes in Exchange Rates	Accumulated Amortization	Net Carrying Amount	Weighted-Average Useful Life in Years
Amortizable intangibles:					
Technology-based	\$33,508				