

ADVANCED ENERGY INDUSTRIES INC

Form 10-Q

August 05, 2010

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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, 2010.**

or

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

**For the transition period from    to    .**

**Commission file number: 000-26966**

**ADVANCED ENERGY INDUSTRIES, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

**84-0846841**

(State or other jurisdiction of incorporation or organization)

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

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

**80525**

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: **(970) 221-4670**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  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 August 3, 2010, there were 43,249,657 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. AND SUBSIDIARIES****Condensed Consolidated Balance Sheets \*****(In thousands, except per share amounts)**

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 116,795	\$ 133,106
Marketable securities	12,066	44,401
Accounts receivable, net of allowances of \$3,228 and \$1,470, respectively	75,175	50,267
Inventories	56,611	28,567
Deferred income tax assets	9,183	9,222
Income taxes receivable	3,245	
Assets of business held for sale	30,180	26,460
Other current assets	7,533	5,641
Total current assets	310,788	297,664
PROPERTY AND EQUIPMENT, net	22,244	18,687
<b>OTHER ASSETS:</b>		
Deposits and other	8,814	9,295
Goodwill	47,920	
Other intangible assets, net	50,219	
Deferred income tax assets	20,268	19,479
Total assets	\$ 460,253	\$ 345,125
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 35,549	\$ 23,802
Income taxes payable		3,503
Accrued payroll and employee benefits	11,583	6,118
Accrued warranty expense	5,818	7,005
Other accrued expenses	7,604	4,277
Customer deposits and deferred revenue	5,746	3,152
Acquisition related contingent liability	38,967	
Liabilities of business held for sale	1,493	1,477
Total current liabilities	106,760	49,334
<b>LONG-TERM LIABILITIES:</b>		
Deferred income tax liabilities	18,746	1,200
Uncertain tax positions	15,519	14,987

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Accrued warranty expense	3,815	
Other long-term liabilities	4,780	1,270
Total liabilities	149,620	66,791
Commitments and contingencies (Note 15)		
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; 43,185 and 42,044 shares issued and outstanding, respectively	43	42
Additional paid-in capital	252,530	233,623
Retained earnings	37,097	17,261
Accumulated other comprehensive income	20,963	27,408
Total stockholders equity	310,633	278,334
Total liabilities and stockholders equity	\$ 460,253	\$ 345,125

\* Amounts as of June 30, 2010 are unaudited. Amounts as of December 31, 2009 are derived from the December 31, 2009 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. AND SUBSIDIARIES**  
**Condensed Consolidated Statements of Operations (Unaudited)**  
(In thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
SALES	\$ 100,107	\$ 31,551	\$ 169,794	\$ 60,313
COST OF SALES	55,548	24,619	96,028	47,647
 GROSS PROFIT	 44,559	 6,932	 73,766	 12,666
 OPERATING EXPENSES:				
Research and development	13,515	10,308	24,657	20,965
Selling, general and administrative	17,183	9,359	29,412	17,922
Impairment of goodwill				63,260
Amortization of intangible assets	767		767	102
Restructuring charges		739		4,135
 Total operating expenses	 31,465	 20,406	 54,836	 106,384
 INCOME (LOSS) FROM CONTINUING OPERATIONS	 13,094	 (13,474)	 18,930	 (93,718)
OTHER INCOME, NET	220	627	605	909
 Income (loss) from continuing operations before income taxes	 13,314	 (12,847)	 19,535	 (92,809)
PROVISION FOR INCOME TAXES	1,857	2,970	3,228	2,328
 <b>Earnings (loss) from continuing operations</b>	 <b>11,457</b>	 <b>(15,817)</b>	 <b>16,307</b>	 <b>(95,136)</b>
 INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF INCOME	 2,162	 (217)	 3,529	 (661)
 <b>NET INCOME (LOSS)</b>	 <b>\$ 13,619</b>	 <b>\$ (16,034)</b>	 <b>\$ 19,836</b>	 <b>\$ (95,797)</b>
 BASIC WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	 42,806	 41,948	 42,440	 41,915
DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	43,327	41,948	43,004	41,915

**EARNINGS PER SHARE:**

## CONTINUING OPERATIONS:

BASIC EARNINGS (LOSS) PER SHARE	\$ 0.27	\$ (0.38)	\$ 0.38	\$ (2.27)
DILUTED EARNINGS (LOSS) PER SHARE	\$ 0.26	\$ (0.38)	\$ 0.38	\$ (2.27)

INCOME (LOSS) FROM DISCONTINUED  
OPERATIONS, NET OF INCOME TAXES:

BASIC EARNINGS (LOSS) PER SHARE	\$ 0.05	\$ (0.01)	\$ 0.08	\$ (0.02)
DILUTED EARNINGS (LOSS) PER SHARE	\$ 0.05	\$ (0.01)	\$ 0.08	\$ (0.02)

**NET INCOME (LOSS):**

<b>BASIC EARNINGS (LOSS) PER SHARE</b>	<b>\$ 0.32</b>	<b>\$ (0.38)</b>	<b>\$ 0.47</b>	<b>\$ (2.28)</b>
<b>DILUTED EARNINGS (LOSS) PER SHARE</b>	<b>\$ 0.31</b>	<b>\$ (0.38)</b>	<b>\$ 0.46</b>	<b>\$ (2.28)</b>

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



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

	<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 19,836	\$ (95,797)
Adjustments to reconcile net income (loss) to net cash provided by operating activities, net of assets and liabilities acquired:		
Depreciation and amortization	4,709	3,936
Goodwill impairment charge		63,260
Stock-based compensation expense	3,820	2,904
Provision (benefit) for deferred income taxes	1,351	(681)
Restructuring charges		4,135
Net loss on disposal of assets		165
Changes in operating assets and liabilities, net of assets acquired:		
Accounts receivable	(20,526)	23,069
Inventories	(23,709)	6,628
Other current assets	(1,708)	162
Accounts payable	6,196	(221)
Other current liabilities and accrued expenses	12,282	(8,850)
Income taxes	(6,788)	2,277
Non-current assets	493	(1,804)
Non-current liabilities	133	(235)
Net cash used in operating activities	(3,911)	(1,052)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of marketable securities	(106,152)	(141,559)
Proceeds from sale of marketable securities	138,519	165,996
Purchase of PV Powered, Inc., net of cash acquired	(35,977)	
Purchase of property and equipment	(2,932)	(1,402)
Net cash provided by (used in) investing activities	(6,542)	23,035
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on capital lease obligations	(65)	(52)
Proceeds from exercise of stock options	401	100
Net cash provided by financing activities	336	48

<b>EFFECT OF CURRENCY TRANSLATION ON CASH</b>	(6,194)	(1,063)
<b>INCREASE (DECREASE ) IN CASH AND CASH EQUIVALENTS</b>	(16,311)	20,968
CASH AND CASH EQUIVALENTS, beginning of period	133,106	116,448
CASH AND CASH EQUIVALENTS, end of period	\$ 116,795	\$ 137,416
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid for interest	\$ 23	\$ 2
Cash paid for income taxes	11,445	1,551
Cash received for refunds of income taxes	1,667	
Cash held in banks outside the United States	27,788	69,183
<b>NONCASH TRANSACTIONS:</b>		
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. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**

**NOTE 1. BASIS OF PRESENTATION**

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, 2010, and the results of our operations and cash flows for the three and six months ended June 30, 2010 and 2009.

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 the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2009 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. Significant estimates are used when establishing 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, establishing the fair value of investments, the fair value and forfeiture rate of stock-based compensation, accounting for income taxes and assessing excess and obsolete inventory. Management evaluates these estimates and judgments on an ongoing basis and bases its estimates on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results may differ from these estimates under different assumptions or conditions.

**RECLASSIFICATIONS** In June 2010, the Company approved a plan to sell its Aera<sup>®</sup> mass flow control and related product lines ( gas flow control business ) in Hachioji, Japan (see Note 2, *Business Acquisition and Disposition*). Accordingly, the financial results of the gas flow control business have been retroactively reclassified as discontinued operations.

**NEW ACCOUNTING PRONOUNCEMENTS** In October 2009, the Financial Accounting Standards Board ( FASB ) issued a pronouncement that establishes the accounting and reporting guidance for arrangements including multiple revenue-generating activities and amends the criteria for separating deliverables and measuring and allocating arrangement consideration to one or more units of accounting. The amendments also establish a selling price hierarchy for determining the selling price of a deliverable. Significantly enhanced disclosures will be required to provide information about a vendor s multiple-deliverable revenue arrangements, including information about the nature and terms, significant deliverables, and its performance within arrangements. The amendments also require providing information about the significant judgments made, changes to those judgments and about how the application of the relative selling-price method affects the timing or amount of revenue recognition. The amendments are effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early application is permitted. We are currently evaluating this new pronouncement and the impact, if any, it may have on our results of operations or financial position.

From time to time, new accounting pronouncements are issued by the FASB or other standards setting bodies that are adopted by the Company as of the specified effective date. Unless otherwise discussed, our management believes that the impact of recently issued standards that are not yet effective will not have a material impact on our Consolidated Financial Statements upon adoption.



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On May 3, 2010, Advanced Energy acquired PV Powered, Inc., a privately-held Oregon corporation ( PV Powered ) and a leading solar inverter company based in Bend, Oregon, pursuant to an Agreement and Plan of Merger dated March 24, 2010 between Advanced Energy, PV Powered and Neptune Acquisition Sub, Inc. ( Acquisition Sub ), an Oregon corporation and wholly-owned subsidiary of Advanced Energy, and Amendment No. 1 to the Agreement and Plan of Merger dated April 21, 2010 (together with the Agreement and Plan of Merger, the Merger Agreement ). Pursuant to the Merger Agreement, Acquisition Sub merged with and into PV Powered, with PV Powered being the surviving corporation and a wholly-owned subsidiary of Advanced Energy (the Merger or Acquisition ).

Advanced Energy acquired all of the outstanding PV Powered common stock for total consideration with a fair value of approximately \$89.6 million on May 3, 2010 consisting of approximately \$36.0 million of cash, net of cash acquired, Advanced Energy common stock with a market value of approximately \$14.7 million and contingent consideration payable to the former shareholders of PV Powered if certain financial targets are met during the year ending December 31, 2010 with an estimated fair value of approximately \$39.0 million as of May 3, 2010.

Shareholders of PV Powered received approximately \$36.7 million of cash less certain closing date indebtedness plus approximately 1.0 million shares of Advanced Energy common stock for PV Powered s common stock, options and warrants outstanding as of May 3, 2010. Fractional shares generated by the conversion were settled for cash. Additional cash consideration in an amount of up to \$40.0 million is payable to the shareholders of PV Powered if certain financial targets are met during the year ended December 31, 2010. The fair value of the \$40.0 million of contingent consideration was estimated to be \$39.0 million as of May 3, 2010 based on a projected cash payout of \$39.4 million in February 2011.

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 Photovoltaic ( PV ) inverters utilized in residential, commercial roof top and ground mount systems in the North American market. PV Powered has approximately 90 employees and recognized \$21.4 million of revenues in 2009. Its inverters range in size from 30kw to 260kw for the commercial market and 1kw to 5kw for the residential market, with market leading efficiency ratings.

PV Powered will continue to operate out of its facilities in Bend, Oregon as a subsidiary of Advanced Energy. The acquisition of PV Powered enables Advanced Energy to offer the solar inverter market a more complete suite of products in a wider power range and increases the number of solar array opportunities for which the Company s products can be considered for purchase.

Advanced Energy has recorded its acquisition of PV Powered using the acquisition method of accounting and, in accordance with authoritative accounting guidance for business combinations, the purchase price was allocated to the tangible assets, intangible assets and liabilities acquired based on estimated fair values on May 3, 2010. 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.

Direct transaction costs include investment banking, legal and accounting fees and other external costs directly related to the Acquisition and totaled approximately \$0.8 million and are included in selling, general and administrative expense in the Condensed Consolidated Statement of Operations.

The components of the fair value of the total consideration transferred for the PV Powered Acquisition on May 3, 2010 is as follows (in thousands):

Cash paid to owners	\$ 36,701
Cash acquired	(724)
Common stock issued - 997,966 shares	14,690
Present value of contingent consideration liability	38,967
Total fair value of consideration transferred	 \$ 89,634



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The following table summarizes preliminary 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	2,746
Property and equipment	4,065
Deposits and other noncurrent assets	67
Accounts payable	(5,480)
Accrued liabilities	(2,744)
Deferred tax liabilities	(18,604)
Other long-term liabilities	(2,739)
	(9,272)
Amortizable intangible assets:	
Trademarks	5,277
Technology	27,887
In process research and development	15,112
Customer relationships	2,017
Backlog	693
Total amortizable intangible assets	50,986
Total identifiable net assets	41,714
Goodwill	47,920
Total fair value of consideration transferred	\$ 89,634

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

	<b>Amount (In thousands)</b>	<b>Amortization Method</b>	<b>Useful Life</b>
Trademarks	\$ 5,277	Accelerated	10 years
Technology	27,887	Accelerated	7 years
In process research and development	15,112	Accelerated	8 years
Customer relationships	2,017	Accelerated	10 years
Backlog	693	Straight-line	6 months

\$ 50,986

8 years

The cost of the Acquisition may increase or decrease based on the final amount payable to the former shareholders of PV Powered related to the financial targets to be met during the year ending December 31, 2010. Advanced Energy is in the process of finalizing valuations of other intangibles, estimates of the fair value of liabilities associated with the acquisition and deferred taxes and expects to complete the acquisition accounting and required disclosures prior to December 31, 2010. The amortization of in process research and development will not begin until the specific project is complete and put into production.

The results of PV Powered operations are included in Advanced Energy's Condensed Consolidated Statement of Operations beginning May 3, 2010 as follows (in thousands):

**May 3, 2010 to June 30, 2010**

Revenue	\$ 10,391
Net income	831

*Pro forma results for PV Powered acquisition*

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The following unaudited pro forma financial information presents the combined results of operations of Advanced Energy and PV Powered as if the acquisition had occurred as of the beginning of each of the periods presented. 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 the beginning of each of the periods presented. The unaudited pro forma financial information for the three and six months ended June 30, 2010 includes the historical results of Advanced Energy for the three months and six months ended June 30, 2010, historical results of PV Powered for the period January 1, 2010 to May 2, 2010, and the post-acquisition results of PV Powered for the period May 3, 2010 to June 30, 2010.

The unaudited pro forma results for all periods presented include amortization charges for acquired intangible assets and related tax effects. These pro forma results include the treatment of the pending sale of the flow control and related product lines as discontinued operations. The unaudited pro forma results follow:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(In thousands, except per share data)</b>			
Revenue	\$ 102,556	\$ 34,216	\$ 181,654	\$ 64,849
Net income (loss)	12,441	(18,702)	17,672	(100,746)
Earnings per share:				
Basic	\$ 0.28	\$ (0.44)	\$ 0.40	\$ (2.35)
Diluted	0.28	(0.44)	0.40	(2.35)

**Disposition**

On July 21, 2010, the Company entered into a definitive agreement to sell its Aera<sup>®</sup> mass flow control and related product lines and related inventory, building, equipment and accrued warranties for approximately \$44.0 million, subject to adjustment based on the inventory balance at closing. The purchase price will be increased for each dollar over \$8 million of inventory included in its gas flow control business assets at closing. Conversely, the purchase price will be decreased for each dollar under \$8 million of inventory included in the gas flow control business assets at closing. The assets sold in the transaction include inventory, real property in Hachioji, Japan, equipment, certain contracts and intellectual property. Subject to the satisfaction of customary closing conditions, the Company anticipates the closing of this transaction within the third quarter of 2010, and accordingly, the Company expects to record a pre-tax gain of approximately \$17.5 million in the quarter ending September 30, 2010. In accordance with authoritative accounting guidance for reporting discontinued operations, the results of its gas flow control business are now presented as discontinued operations for all periods in the Condensed Consolidated Financial Statements.

Operating results of discontinued operations are as follows:

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	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>			
Sales	\$ 15,084	\$ 4,016	\$ 26,949	