

ADVANCED ENERGY INDUSTRIES INC

Form 10-Q

May 06, 2015

Table Of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

---

FORM 10-Q

---

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

For the quarterly period ended March 31, 2015

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

Edgar Filing: ADVANCED ENERGY INDUSTRIES INC - Form 10-Q

As of April 30, 2015 there were 40,892,181 shares of the registrant's Common Stock, par value \$0.001 per share, outstanding.

---

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

|  | Page      |
|--|-----------|
| <u>PART I FINANCIAL STATEMENTS</u>   | <u>3</u>  |
| <u>ITEM 1. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS</u>                                 | <u>3</u>  |
| <u>Condensed Consolidated Balance Sheets</u>   | <u>3</u>  |
| <u>Condensed Consolidated Statements of Operations</u>   | <u>4</u>  |
| <u>Condensed Consolidated Statements of Comprehensive Income</u>                                     | <u>5</u>  |
| <u>Condensed Consolidated Statements of Cash Flows</u>   | <u>6</u>  |
| <u>Notes to Condensed Consolidated Financial Statements</u>  | <u>7</u>  |
| <u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u> | <u>22</u> |
| <u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>                            | <u>29</u> |
| <u>ITEM 4. CONTROLS AND PROCEDURES</u>   | <u>30</u> |
| <u>PART II OTHER INFORMATION</u>   | <u>31</u> |
| <u>ITEM 1. LEGAL PROCEEDINGS</u>   | <u>31</u> |
| <u>ITEM 1A. RISK FACTORS</u>   | <u>31</u> |
| <u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>                           | <u>31</u> |
| <u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>   | <u>31</u> |
| <u>ITEM 4. MINE SAFETY DISCLOSURES</u>   | <u>31</u> |
| <u>ITEM 5. OTHER INFORMATION</u>   | <u>31</u> |
| <u>ITEM 6. EXHIBITS</u>  | <u>32</u> |
| <u>SIGNATURES</u>  | <u>33</u> |
| EX-31.1  |           |
| EX-31.2  |           |
| EX-32.1  |           |
| EX-32.2  |           |

Table Of Contents

## PART I FINANCIAL STATEMENTS

## ITEM 1. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## ADVANCED ENERGY INDUSTRIES, INC.

## Condensed Consolidated Balance Sheets

(In thousands, except per share amounts)

|   | March 31,<br>2015 | December 31,<br>2014 |
|---|-------------------|----------------------|
|   | UNAUDITED         |                      |
| <b>ASSETS</b>   |                   |                      |
| <b>CURRENT ASSETS:</b>  |                   |                      |
| Cash and cash equivalents   | \$ 152,827        | \$ 125,285           |
| Marketable securities   | 3,085             | 3,083                |
| Accounts receivable, net of allowances of \$4,791 and \$3,035, respectively                                       | 121,746           | 124,150              |
| Inventories, net of reserves of \$36,016 and \$41,080, respectively   | 98,052            | 95,082               |
| Deferred income tax assets  | 13,986            | 14,011               |
| Income taxes receivable   | 10,047            | 5,555                |
| Other current assets  | 10,458            | 9,588                |
| Total current assets  | 410,201           | 376,754              |
| Property and equipment, net   | 25,964            | 28,976               |
| <b>OTHER ASSETS:</b>  |                   |                      |
| Deposits and other  | 1,667             | 2,052                |
| Goodwill  | 188,843           | 203,329              |
| Other intangible assets, net  | 42,880            | 47,074               |
| Deferred income tax assets  | 25,668            | 26,384               |
| Total assets  | \$ 695,223        | \$ 684,569           |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                   |                      |
| <b>CURRENT LIABILITIES:</b>   |                   |                      |
| Accounts payable  | \$ 60,568         | \$ 53,040            |
| Income taxes payable  | 2,146             | 1,495                |
| Accrued payroll and employee benefits   | 11,706            | 13,479               |
| Accrued warranty expense  | 15,297            | 17,769               |
| Other accrued expenses  | 16,610            | 19,970               |
| Customer deposits   | 9,004             | 6,817                |
| Total current liabilities   | 115,331           | 112,570              |
| <b>LONG-TERM LIABILITIES:</b>   |                   |                      |
| Deferred income tax liabilities   | 1,722             | 1,439                |
| Uncertain tax positions   | 9,781             | 6,484                |
| Accrued warranty expense  | 16,820            | 18,352               |
| Long term deferred revenue  | 44,623            | 47,246               |
| Other long-term liabilities   | 22,678            | 23,513               |
| Total liabilities   | 210,955           | 209,604              |
| <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; 40,885 and 40,613 issued and outstanding, respectively | 41                | 41                   |
| Additional paid-in capital  | 240,659           | 237,752              |
| Retained earnings   | 247,672           | 226,396              |
| Accumulated other comprehensive (loss) income   | (4,104            | ) 10,776             |

Edgar Filing: ADVANCED ENERGY INDUSTRIES INC - Form 10-Q

|  |            |            |
|--|------------|------------|
| Total stockholders' equity                 | 484,268    | 474,965    |
| Total liabilities and stockholders' equity | \$ 695,223 | \$ 684,569 |

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

3

---

Table Of Contents

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

|  | Three Months Ended March 31, |           |
|--|------------------------------|-----------|
|  | 2015                         | 2014      |
|  | UNAUDITED                    |           |
| SALES  | \$141,118                    | \$140,948 |
| COST OF SALES                                      | 81,374                       | 88,287    |
| GROSS PROFIT                                       | 59,744                       | 52,661    |
| OPERATING EXPENSES:                                |                              |           |
| Research and development                           | 14,242                       | 14,142    |
| Selling, general and administrative                | 21,754                       | 19,731    |
| Amortization of intangible assets                  | 1,891                        | 1,875     |
| Total operating expenses                           | 37,887                       | 35,748    |
| OPERATING INCOME                                   | 21,857                       | 16,913    |
| OTHER INCOME (EXPENSE), NET                        | 1,066                        | (96       |
| Income before income taxes                         | 22,923                       | 16,817    |
| Provision for income taxes                         | 1,647                        | 2,102     |
| NET INCOME   | \$21,276                     | \$14,715  |
| Basic weighted-average common shares outstanding   | 40,740                       | 40,814    |
| Diluted weighted-average common shares outstanding | 41,129                       | 41,870    |
| EARNINGS PER SHARE:                                |                              |           |
| BASIC EARNINGS PER SHARE                           | \$0.52                       | \$0.36    |
| DILUTED EARNINGS PER SHARE                         | \$0.52                       | \$0.35    |

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

Table Of Contents

ADVANCED ENERGY INDUSTRIES, INC.  
 Condensed Consolidated Statements of Comprehensive Income  
 (In thousands)

|  | Three Months Ended March 31, |          |
|--|------------------------------|----------|
|  | 2015                         | 2014     |
|  | UNAUDITED                    |          |
| Net income   | \$21,276                     | \$14,715 |
| Other comprehensive income, net of tax:            |                              |          |
| Foreign currency translation adjustment            | (14,261                      | ) (1,664 |
| Unrealized (losses) gains on marketable securities | (619                         | ) 2      |
| Comprehensive income                               | \$6,396                      | \$13,053 |

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

Table Of Contents

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

|   | Three Months Ended March 31, |           |
|---|------------------------------|-----------|
|   | 2015                         | 2014      |
|   | UNAUDITED                    |           |
| Cash Flows from Operating Activities:   |                              |           |
| Net income  | \$21,276                     | \$14,715  |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities:       |                              |           |
| Depreciation and amortization   | 4,844                        | 4,871     |
| Stock-based compensation expense  | 589                          | 1,764     |
| Provision for deferred income taxes   | —                            | 1         |
| Non-cash reserve for potential bad debt   | 1,880                        | —         |
| Net gain on sale or disposal of assets  | 364                          | 317       |
| Changes in operating assets and liabilities, net of assets acquired:                              |                              |           |
| Accounts receivable   | (2,390                       | ) (11,526 |
| Inventories   | (5,228                       | ) (149    |
| Other current assets  | (2,083                       | ) (176    |
| Accounts payable  | 11,416                       | 7,919     |
| Other current liabilities and accrued expenses  | 1,754                        | (11,479   |
| Income taxes  | (3,781                       | ) 542     |
| Net cash provided by operating activities   | 28,641                       | 6,799     |
| Cash Flows from Investing Activities:   |                              |           |
| Purchases of marketable securities  | —                            | (3,600    |
| Proceeds from sale of marketable securities   | —                            | 2,640     |
| Purchases of property and equipment   | (421                         | ) (1,581  |
| Acquisitions, net of cash acquired  | —                            | (30,302   |
| Net cash used in investing activities   | (421                         | ) (32,843 |
| Cash Flows from Financing Activities  |                              |           |
| Borrowings from lines of credit, net of repayments  | —                            | 1,377     |
| Cash settlement of performance stock units  | —                            | (11,198   |
| Proceeds from exercise of stock options   | 2,029                        | 7,369     |
| Excess tax from stock-based compensation deduction  | 289                          | 670       |
| Other financing activities  | (15                          | ) —       |
| Net cash provided by (used in) financing activities   | 2,303                        | (1,782    |
| Effect of Currency Translation on Cash  | (2,981                       | ) (72     |
| Increase (Decrease) in Cash and Cash Equivalents  | 27,542                       | (27,898   |
| Cash and Cash Equivalents, beginning of period  | 125,285                      | 138,125   |
| Cash and Cash Equivalents, end of period  | \$152,827                    | \$110,227 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:   |                              |           |
| Cash paid for interest  | \$73                         | \$19      |
| Cash paid for income taxes  | 1,311                        | 838       |
| Cash received for refunds of income taxes   | 89                           | 34        |
| Cash held in banks outside the United States of America   | 47,526                       | 39,052    |
| The accompanying notes are an integral part of these Condensed Consolidated Financial Statements. |                              |           |





Table Of Contents

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 for various products, such as semiconductor devices, flat panel displays, thin film renewables, architectural glass, optical coating and consumer products decorative and functional coating. 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, and material and chemical processing. Our high voltage power supplies and modules are used in applications such as semiconductor ion implantation, scanning electron microscopy ("SEM"), chemical analysis such as mass spectrometry and various applications using X-ray technology and electron guns for both analytical and processing applications. 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 and used equipment 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 business segments based on the products and services provided.

Precision Power Products segment ("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 segment ("Inverters") 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 March 31, 2015, and the results of our operations and cash flows for the three months ended March 31, 2015 and 2014.

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, 2014 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, 2014.

Table of Contents

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 is proposed to be effective at the beginning of fiscal year 2018, 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.

In April 2014, the FASB issued guidance redefining discontinued operations and requiring only those disposals of components of an entity, including classifications as held for sale, that represent a strategic shift that has, or will have, a major effect on an entity's operations and financial results to be reported as discontinued operations. In addition, the new standard expands the disclosure requirements of discontinued operations. This pronouncement does not have an impact on our consolidated financial statements and related disclosures.

## NOTE 2. BUSINESS ACQUISITIONS

## Acquisitions

## 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 is included in our Precision Power segment. We paid total consideration of \$31.5 million including contingent consideration, of which \$15.0 million is included in Intangibles, \$16.4 million in Goodwill, and \$0.1 million in Property, plant, and equipment. The acquisition included \$1.4 million of contingent consideration that was paid in the first quarter of 2015. 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.

## 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 | ) |



Table of Contents

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)   | ) |
| Deferred taxes on intangible values        | 2,020     |   |
| Long-term liabilities                      | (22,725)  | ) |
| Total tangible assets, net                 | (14,988)  | ) |
| Amortizable intangible assets:             |           |   |
| Tradename                                  | 336       |   |
| Technology                                 | 4,029     |   |
| Customer relationships                     | 8,225     |   |
| Total amortizable intangible assets        | 12,590    |   |
| Total identifiable net assets              | (2,398)   | ) |
| Gain on bargain purchase                   | (966)     | ) |
| Total fair value of consideration received | \$(3,364) | ) |

A gain (bargain purchase gain) is recorded when the fair value of assets acquired exceeds the fair value of the liabilities assumed and consideration paid. This gain is recorded in Other income on our Consolidated Statements of Operations.

A summary of the intangible assets acquired, amortization method and estimated useful lives as of April 12, 2014 follows (in thousands, except useful life):

|                        | Amount   | Amortization Method | Useful Life |
|------------------------|----------|---------------------|-------------|
| Technology             | \$4,029  | Straight-line       | 10          |
| Tradename              | 336      | Straight-line       | 2.5         |
| Customer relationships | 8,225    | Straight-line       | 15          |
|                        | \$12,590 |                     |             |

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 purchase price accounting is open pending completion of the income tax returns.

UltraVolt, Inc.

On August 4, 2014, Advanced Energy acquired all outstanding common stock of UltraVolt, Inc. ("UltraVolt"), a privately-held provider of high voltage power solutions. Based in Ronkonkoma, New York, UltraVolt offers a comprehensive portfolio of high voltage power supplies and modules ranging from benchtop and rack mount systems to microsize printed circuit board mount modules. Its standard DC-to-DC product line consists of over 1,500 models, which can be combined with accessories and options to create thousands of product configurations. Serving over 100 markets, UltraVolt's fixed-frequency, high-voltage topology provides wide input and output operating ranges while retaining excellent stability and efficiencies. We acquired UltraVolt to expand our high voltage product offerings in our Precision Power Products portfolio.

Table of Contents

ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

|   |          |
|---|----------|
| Cash paid to owners                           | \$30,200 |
| Net working capital adjustment                | 944      |
| Total fair value of consideration transferred | \$31,144 |

The following table summarizes estimated fair values of the assets acquired and liabilities assumed as of August 4, 2014 (in thousands):

|                                     |         |   |
|-------------------------------------|---------|---|
| Cash                                | \$758   |   |
| Accounts receivable                 | 1,694   |   |
| Inventories                         | 2,599   |   |
| Other current assets                | 472     |   |
| Property and equipment              | 424     |   |
| Long-term assets                    | 711     |   |
| Deferred taxes on intangible values | (1,970) | ) |
| Current liabilities                 | (1,053) | ) |
| Total tangible assets, net          | 3,635   |   |

Amortizable intangible assets:

|   |          |
|---|----------|
| Technology                                    | 2,100    |
| Tradenname                                    | 200      |
| Customer relationships                        | 8,600    |
| Total amortizable intangible assets           | 10,900   |
| Total identifiable net assets                 | 14,535   |
| Goodwill                                      | 16,609   |
| Total fair value of consideration transferred | \$31,144 |

A summary of the intangible assets acquired, amortization method and estimated useful lives as of August 4, 2014 follows (in thousands, except useful life):

|                        | Amount   | Amortization Method | Useful Life |
|------------------------|----------|---------------------|-------------|
| Technology             | \$2,100  | Straight-line       | 10          |
| Tradenname             | 200      | Straight-line       | 2.5         |
| Customer relationships | 8,600    | Straight-line       | 12          |
|                        | \$10,900 |                     |             |

The goodwill associated with the acquisition is the result of expected synergies and expansion of the technology into additional markets that we already serve. The purchase price accounting is open pending completion of the income tax returns.

Table of Contents

ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 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 March 31, |          |
|----------------------------|------------------------------|----------|
|                            | 2015                         | 2014     |
| Income before income taxes | \$22,923                     | \$16,817 |
| Provision for income taxes | 1,647                        | 2,102    |
| Effective tax rate         | 7.2                          | % 12.5   |

The effective tax rates for the three months ended March 31, 2015 and 2014 are lower than the federal statutory rate primarily due to the benefit of the earnings in foreign jurisdictions which are subject to lower tax rates.

Our policy is to classify accrued interest and penalties related to unrecognized tax benefits in our income tax provision. For the three months ended March 31, 2015 and 2014, the amount of interest and penalties accrued related to our unrecognized tax benefits was not significant.

## NOTE 4. EARNINGS PER SHARE

Basic earnings per share ("EPS") is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding during the period. The computation of diluted EPS is similar to the computation of basic EPS except that the numerator is increased to exclude charges that would not have been incurred, and the denominator is increased to include the number of additional common shares that would have been outstanding (using the if-converted and treasury stock methods), if securities containing potentially dilutive common shares (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 March 31, |          |
|---|------------------------------|----------|
|   | 2015                         | 2014     |
| Net Income  | \$21,276                     | \$14,715 |
| Basic weighted-average common shares outstanding                      | 40,740                       | 40,814   |
| Assumed exercise of dilutive stock options and restricted stock units | 389                          | 1,056    |
| Diluted weighted-average common shares outstanding                    | 41,129                       | 41,870   |
| Basic earnings per share  | \$0.52                       | \$0.36   |
| Diluted earnings per share  | \$0.52                       | \$0.35   |

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

|               | Three Months Ended March 31, |      |
|---------------|------------------------------|------|
|               | 2015                         | 2014 |
| Stock options | 164                          | 24   |



Table of Contents

ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## NOTE 5. MARKETABLE SECURITIES

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

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

|                             | March 31,<br>2015 |            | December 31,<br>2014 |            |
|-----------------------------|-------------------|------------|----------------------|------------|
|                             | Cost              | Fair Value | Cost                 | Fair Value |
| Total marketable securities | \$3,085           | \$3,085    | \$3,083              | \$3,083    |

The maturities of our marketable securities available for sale as of March 31, 2015 are as follows:

|                         | Earliest<br>4/14/2015 | Latest<br>to 10/8/2015 |
|-------------------------|-----------------------|------------------------|
| Certificates of deposit |                       |                        |

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

As of March 31, 2015, 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 months ended March 31, 2015 and 2014, 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 March 31, 2015 and December 31, 2014 we had outstanding Euro forward contracts.

The notional amount of foreign currency exchange contracts at March 31, 2015 was \$13.3 million and the difference between the fair value and the notional value of these contracts was not significant. During the three months ended March 31, 2015 and 2014, we recognized a gain of \$1.5 million and a loss of \$1.3 million, respectively. These gains and losses were offset by corresponding losses and gains, respectively, on the related underlying 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 March 31, 2015, and December 31, 2014. 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 March 31, 2015, and December 31, 2014.

|                             |                           |         |         |         |
|-----------------------------|---------------------------|---------|---------|---------|
| March 31, 2015              | Level 1<br>(In thousands) | Level 2 | Level 3 | Total   |
| Total marketable securities | \$—                       | \$3,085 | \$—     | \$3,085 |
| December 31, 2014           | Level 1<br>(In thousands) | Level 2 | Level 3 | Total   |
| Total marketable securities | \$—                       | \$3,083 | \$—     | \$3,083 |

Table of Contents

ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

There were no transfers in or out of Level 1, 2, or 3 fair value measurements during the three months ended March 31, 2015.

## 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):

|                              | March 31,<br>2015 | December 31,<br>2014 |
|------------------------------|-------------------|----------------------|
| Parts and raw materials      | \$57,656          | \$64,096             |
| Work in process              | 10,169            | 6,623                |
| Finished goods               | 30,227            | 24,363               |
| Inventories, net of reserves | \$98,052          | \$95,082             |

## NOTE 9. PROPERTY AND EQUIPMENT

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

|                                      | March 31,<br>2015 | December 31,<br>2014 |
|--------------------------------------|-------------------|----------------------|
| Buildings and land                   | \$1,721           | \$1,745              |
| Machinery and equipment              | 50,661            | 49,034               |
| Computer and communication equipment | 24,133            | 24,063               |
| Furniture and fixtures               | 1,512             | 4,251                |
| Vehicles                             | 261               | 246                  |
| Leasehold improvements               | 26,777            | 28,030               |
| Construction in process              | 750               | 815                  |
|                                      | 105,815           | 108,184              |
| Less: Accumulated depreciation       | (79,851           | ) (79,208            |
| Property and equipment, net          | \$25,964          | \$28,976             |

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

|                      | Three Months Ended March 31, |         |
|----------------------|------------------------------|---------|
|                      | 2015                         | 2014    |
| Depreciation expense | \$2,953                      | \$2,996 |

## NOTE 10. GOODWILL

The following summarizes the changes in goodwill during the three months ended March 31, 2015 (in thousands):

|                 | December 31, 2014 | Effect of Currency<br>Translation | March 31, 2015 |
|-----------------|-------------------|-----------------------------------|----------------|
| Precision Power | \$43,873          | \$(1,317                          | ) \$42,556     |
| Inverters       | 159,456           | (13,169                           | ) 146,287      |
| Consolidated    | \$203,329         | \$(14,486                         | ) \$188,843    |

Table of Contents

ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## NOTE 11. INTANGIBLE ASSETS

Other intangible assets subject to amortization consisted of the following as of March 31, 2015 (in thousands, except weighted-average useful life):

|                                  | Gross Carrying<br>Amount as of<br>March 31, 2015 | Effect of<br>Changes in<br>Exchange<br>Rates | Accumulated<br>Amortization | Net Carrying<br>Amount as of<br>March 31, 2015 | Weighted-Average<br>Useful Life in<br>Years |
|----------------------------------|--|--|-----------------------------|--|---|
| Technology-based                 | \$35,608   | \$(2,095 )                                   | \$(19,262 )                 | \$14,251                                       | 7   |
| Customer relationships           | 35,472   | (3,097 )                                     | (5,602 )                    | 26,773   | 11  |
| Trademarks and other             | 6,001  | (202 )                                       | (3,943 )                    | 1,856  | 9   |
| Total amortizable<br>intangibles | \$77,081   | \$(5,394 )                                   | \$(28,807 )                 | \$42,880                                       |   |

Other intangible assets subject to amortization consisted of the following as of December 31, 2014 (in thousands, except weighted-average useful life):

|                                  | Gross Carrying<br>Amount as of<br>December 31,<br>2014 | Effect of<br>Changes in<br>Exchange<br>Rates | Accumulated<br>Amortization | Net Carrying<br>Amount as of<br>December 31,<br>2014 | Weighted-Average<br>Useful Life in<br>Years |
|----------------------------------|--|--|-----------------------------|--|---|
| Technology-based                 | \$35,608   | \$(1,148 )                                   | \$(18,358 )                 | \$16,102   | 7   |
| Customer relationships           | 35,472   | (1,838 )                                     | (4,767 )                    | 28,867   | 11  |
| Trademarks and other             | 6,001  | (105 )                                       | (3,791 )                    | 2,105  | 9   |
| Total amortizable<br>intangibles | \$77,081   | \$(3,091 )                                   | \$(26,916 )                 | \$47,074   |   |

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

|                      | Three Months Ended March 31, |         |
|----------------------|------------------------------|---------|
|                      | 2015                         | 2014    |
| Amortization expense | \$1,891                      | \$1,875 |

Amortization expense related to intangibles for each of the five years 2015 (remaining) through 2019 and thereafter is as follows (in thousands):

| Year Ending December 31, |          |
|--------------------------|----------|
| 2015                     | \$5,160  |
| 2016                     | 5,753    |
| 2017                     | 5,529    |
| 2018                     | 4,375    |
| 2019                     | 3,977    |
| Thereafter               | 18,086   |
|                          | \$42,880 |

Table of Contents

ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## NOTE 12. OTHER ACCRUED EXPENSES

Other accrued expenses consisted of the following (in thousands):

|   | March 31,<br>2015 | December 31,<br>2014 |
|---|-------------------|----------------------|
| Current deferred tax liability            | \$563             | \$609                |
| Accrued restructuring costs (See Note 13) | 263               | 1,386                |
| Current contingent consideration          | —                 | 1,210                |
| Accrued sales and use tax                 | 1,908             | 2,252                |
| Accrued VAT                               | 2,688             | 3,980                |
| Other*                                    | 11,188            | 10,533               |
| Total Other accrued expenses              | \$16,610          | \$19,970             |

\*Other consists of items that are individually less than 5% of total current liabilities.

## NOTE 13. RESTRUCTURING COSTS

In April 2014, we committed to a restructuring plan to take advantage of additional cost savings opportunities in connection with our acquisitions and realignment to a single organizational structure based on product line. The plan called for consolidating certain facilities and rebranding of products to allow us to use our resources more efficiently. All activities under this restructuring plan were completed prior to December 31, 2014. Accrued restructuring costs are included in Other accrued expenses on our Condensed Consolidated Balance Sheet.

The following table summarizes our restructuring liabilities under the 2014 plan (in thousands):

|                                 | Balances at<br>December 31,<br>2014 | Cost paid or<br>otherwise<br>settled | Effect of<br>change in<br>exchange<br>rates | Balances at<br>March 31,<br>2015 |
|---------------------------------|-------------------------------------|--------------------------------------|---|----------------------------------|
| Severance and related costs     | \$992                               | \$(1,003)                            | ) \$12                                      | \$1                              |
| Facility closure costs          | 51                                  | (49)                                 | ) (2)                                       | ) —                              |
| Total restructuring liabilities | \$1,043                             | \$(1,052)                            | ) \$10                                      | \$1                              |

In April 2013, we committed to a restructuring plan to take advantage of additional cost saving opportunities in connection with our acquisition of Refusol. The plan called for consolidating certain facilities, further centralizing our manufacturing and rationalizing certain products to most effectively meet customer needs. Collectively, these steps will enable us to more efficiently use our resources to achieve strategic goals. All activities under this restructuring plan were completed prior to December 31, 2013.

The following table summarizes our restructuring liabilities under the 2013 plan (in thousands):

|                                 | Balances at<br>December 31,<br>2014 | Cost paid or<br>otherwise<br>settled | Effect of<br>change in<br>exchange<br>rates | Balances at<br>March 31,<br>2015 |
|---------------------------------|-------------------------------------|--------------------------------------|---|----------------------------------|
| Severance and related costs     | \$38                                | \$—                                  | \$(4)                                       | ) \$34                           |
| Facility closure costs          | 141                                 | (15)                                 | ) (21)                                      | ) 105                            |
| Total restructuring liabilities | \$179                               | \$(15)                               | ) \$(25)                                    | ) \$139                          |

In September 2011, we approved and committed to several initiatives over the following 16 months to realign our manufacturing and research and development activities in order to foster growth and enhance profitability. These initiatives are

Table of Contents

ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

designed to align research and development activities with the location of our customers and reduce production costs. Under this plan, we reduced our global headcount, consolidated our facilities by terminating or exiting several leases, and recorded impairments for assets no longer in use due to the restructuring of our business. All activities under this restructuring plan were completed prior to December 31, 2012.

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

|                                 | Balances at<br>December 31,<br>2014 | Cost paid or<br>otherwise<br>settled | Effect of<br>change in<br>exchange<br>rates | Balances at<br>March 31,<br>2015 |
|---------------------------------|-------------------------------------|--------------------------------------|---|----------------------------------|
| Severance and related costs     | \$—                                 | \$—                                  | \$—   | \$—                              |
| Facility closure costs          | 164                                 | (41                                  | ) —   | 123                              |
| Total restructuring liabilities | \$164                               | \$(41                                | ) \$—                                       | \$123                            |

## NOTE 14. WARRANTIES

Provisions of our sales agreements include product warranties customary to these types of agreements, ranging from 18 months to 24 months following installation for Precision Power products and 3 years to 10 years following installation for Inverter products. Our provision for the estimated cost of warranties is recorded when revenue is recognized. The warranty provision is based on historical experience by product, configuration and geographic region. We establish accruals for warranty issues that are probable to result in future costs. Changes in product warranty accruals are as follows (in thousands):

|  | Three Months Ended March 31, |          |
|--|------------------------------|----------|
|  | 2015                         | 2014     |
| Balances at beginning of period                          | \$36,121                     | \$22,067 |
| Increases to accruals related to sales during the period | 1,885                        | 1,568    |
| Warranty expenditures                                    | (2,984                       | ) (2,954 |
| Effect of changes in exchange rates                      | (2,905                       | ) (31    |
| Balances at end of period                                | \$32,117                     | \$20,650 |

As of March 31, 2015 \$15.3 million is recorded in Current liabilities and \$16.8 million is recorded in Long-term liabilities in our Condensed Consolidated Balance Sheet.

## NOTE 15. PENSION LIABILITY

In connection with the HiTek acquisition discussed in Note 2. Business Acquisitions, we acquired the HiTek Power Limited Pension Scheme ("HPLPS"). The HPLPS has been closed to new participants and additional accruals since 2006. In order to measure the expense and related benefit obligation, various assumptions are made including discount rates used to value the obligation, expected return on plan assets used to fund these expenses and estimated future inflation rates. These assumptions are based on historical experience as well as current facts and circumstances. An actuarial analysis is used to measure the expense and liability associated with pension benefits. The net amount of the pension liability on our balance sheets as of March 31, 2015 and December 31, 2014 was \$19.1 million and \$20.1 million, respectively, recorded in Other long-term liabilities.

The components of the net periodic pension expense for the three months ended March 31, 2015 were as follows (in thousands):

|                                |        |   |
|--------------------------------|--------|---|
| Expected return on plan assets | \$(163 | ) |
| Interest cost                  | 325    |   |
| Net periodic benefit expense   | \$162  |   |

Table of Contents

ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 16. STOCK-BASED  
COMPENSATION

We recognize stock-based compensation expense in Cost of sales, Research and development, and Selling, general & administrative expenses based on the fair value of the awards issued and the functional area of the employee receiving the award. Stock-based compensation for the three months ended March 31, 2015 and 2014 is as follows (in thousands):

|                                  | Three Months Ended March 31, |         |
|----------------------------------|------------------------------|---------|
|                                  | 2015                         | 2014    |
| Stock-based compensation expense | \$589                        | \$1,764 |

## Stock Options

Stock option awards, other than awards under our 2012-2014 Long Term Incentive Plan ("2012-2014 LTI Plan") and our 2015 Long Term Incentive Plan ("2015 LTI Plan"), are generally granted with an exercise price equal to the market price of our common stock at the date of grant, a four-year vesting schedule, and a term of 10 years.

Under our 2012-2014 LTI Plan, we made grants of performance based options during the first quarter of 2014, which vested in the first quarter of 2015 based on the Company's achievement of return on net assets targets established by our Board of Directors at the beginning of 2014. The fair value of each grant was estimated on the date of grant using the Black-Scholes-Merton option pricing model utilizing an expected volatility of 53.3%, a risk-free rate of 1.7%, a dividend yield of zero, and an expected term of 5.4 years. The weighted-average grant date fair value of the options is \$13.09 per share.

Under our 2015 LTI Plan, we made grants of time-based based options during the first quarter of 2015, which will vest annually over a three-year period. The fair value of each grant was estimated on the date of grant using the Black-Scholes-Merton option pricing model utilizing an expected volatility of 43.4%, a risk-free rate of 1.1%, a dividend yield of zero, and an expected term of 4.3 years. The weighted-average grant date fair value of the options is \$9.53 per share

A summary of our time based stock option activity for the three months ended March 31, 2015 is as follows (in thousands):

|  | Shares |
|--|--------|
| Options outstanding at beginning of period | 642    |
| Options granted                            | 167    |
| Options exercised                          | (122 ) |
| Options forfeited                          | (28 )  |
| Options outstanding at end of period       | 659    |

Changes in outstanding performance based stock options during the three months ended March 31, 2015 were as follows (in thousands):

|  | Shares |
|--|--------|
| Options outstanding at beginning of period | 380    |
| Options exercised                          | (94 )  |
| Options forfeited                          | (143 ) |
| Options outstanding at end of period       | 143    |

## Restricted Stock Units

Restricted Stock Units ("RSU"), except for those under our 2012-2014 LTI Plan and our 2015 LTI Plan, are generally granted with a four-year vesting schedule.

Under our 2012-2014 LTI Plan, we made grants of performance based awards during the first quarter of 2014, which vested in the first quarter of 2015 based on the Company's achievement of return on net assets targets established by our Board of Directors at the beginning of 2014. No further awards are outstanding under this plan.

Under our 2015 LTI Plan, we made grants of performance based and time-based awards during the first quarter of 2015. The time-based awards will vest annually over a three-year period and the performance based awards will vest

in the next year

17

---

Table of Contents

ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

based on the Company's achievement of return on net assets targets established by our Board of Directors at the beginning of 2015. The awards were granted with an exercise price equal to the market price of our common stock at the date of grant.

A summary of our time-based unvested RSU activity for the three months ended March 31, 2015 is as follows (in thousands):

|                                | Shares |
|--------------------------------|--------|
| Balance at beginning of period | 115    |
| RSUs granted                   | 30     |
| RSUs vested                    | (12 )  |
| RSUs forfeited                 | (6 )   |
| Balance at end of period       | 127    |

Changes in the unvested performance based RSUs during the three months ended March 31, 2015 were as follows (in thousands):

|                                | Shares |
|--------------------------------|--------|
| Balance at beginning of period | 242    |
| RSUs granted                   | 60     |
| RSUs vested                    | (75 )  |
| RSUs forfeited                 | (167 ) |
| Balance at end of period       | 60     |

**NOTE 17. ACCUMULATED OTHER COMPREHENSIVE INCOME**

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

|  | Foreign Currency<br>Adjustments | Unrealized Gains<br>(Losses) on<br>Marketable<br>Securities | Total Accumulated<br>Other<br>Comprehensive<br>Income |
|--|---------------------------------|---|---|
| Balances at December 31, 2014                    | \$ 10,249                       | \$ 527  | \$ 10,776   |
| Current period other comprehensive income (loss) | (14,261 )                       | (619 )  | (14,880 )   |
| Balances at March 31, 2015                       | \$(4,012 )                      | \$(92 )   | \$(4,104 )  |

**NOTE 18. COMMITMENTS AND CONTINGENCIES**

We have firm purchase commitments and agreements with various suppliers to ensure the availability of components. The obligation as of March 31, 2015 is approximately \$64.7 million. Our policy with respect to all purchase commitments, is to record losses, if any, when they are probable and reasonably estimable. We continuously monitor these commitments for exposure to potential losses and will record a provision for losses when it is deemed necessary. We are involved in disputes and legal actions arising in the normal course of our business. There have been no material developments in legal proceedings in which we are involved during the three months ended March 31, 2015.



Table of Contents

ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## NOTE 19. RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2015 and 2014, we engaged in the following transactions with companies related to members of our Board of Directors, as described below (in thousands):

|                                 | Three Months Ended March 31, |        |
|---------------------------------|------------------------------|--------|
|                                 | 2015                         | 2014   |
| Sales to related parties        | \$ 199                       | \$ 127 |
| Rent expense to related parties | —                            | 435    |
| Sales - Related Parties         |                              |        |

Members of our Board of Directors hold various executive positions and serve as directors at other companies, including companies that are our customers. During the three months ended March 31, 2015 and March 31, 2014, we had sales to two customers as noted above. As of March 31, 2015, we had aggregate accounts receivable from both customers of \$0.1 million. As of December 31, 2014, we had aggregate accounts receivable of \$0.1 million from three customers.

## NOTE 20. SEGMENT INFORMATION

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

Our Inverters segment offers both a transformer-based and a transformerless advanced grid-tied PV inverter solution primarily 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. Our Inverters segment focuses on commercial and utility-scale solar projects and installations, selling primarily to distributors, engineering, procurement, and construction contractors, developers, and utility companies. Our Inverters revenue has seasonal variations. Installations of inverters are normally lowest during the first quarter as a result of typically poor weather and as a result, reduced installation scheduling by our customers.

Our chief operating decision maker, who is our Chief Executive Officer, and other management personnel regularly review our performance and make resource allocation decisions by reviewing the results of our two business segments separately. Revenue and operating profit is reviewed by our chief operating decision maker.

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

|                 | Three Months Ended March 31, |            |
|-----------------|------------------------------|------------|
|                 | 2015                         | 2014       |
| Precision Power | \$ 105,840                   | \$ 82,872  |
| Inverters       | 35,278                       | 58,076     |
| Total           | \$ 141,118                   | \$ 140,948 |

Table of Contents

ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

|                                | Three Months Ended March 31, |          |
|--------------------------------|------------------------------|----------|
|                                | 2015                         | 2014     |
| Precision Power                | \$31,103                     | \$23,211 |
| Inverters                      | (9,246                       | ) (6,298 |
| Total segment operating income | 21,857                       | 16,913   |
| Other income (expense), net    | 1,066                        | (96      |
| Income before income taxes     | \$22,923                     | \$16,817 |

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

|  | March 31, 2015 | December 31, 2014 |
|--|----------------|-------------------|
| Precision Power                              | \$50,190       | \$51,414          |
| Inverters                                    | 73,228         | 69,612            |
| Total segment assets                         | 123,418        | 121,026           |
| Unallocated corporate property and equipment | 598            | 2,617             |
| Unallocated corporate assets                 | 571,207        | 560,926           |
| Consolidated total assets                    | \$695,223      | \$684,569         |

"Corporate" is a non-operating business segment with the main purpose of supporting operations. Unallocated corporate assets include accounts receivable, deferred income taxes, other current assets and intangible assets.

During the three months ended March 31, 2015, we had two customers which individually accounted for 10% or more of our sales. Sales to Applied Materials, Inc. and LAM Research were \$35.4 million and \$21.9 million or 25.1% and 15.5%, respectively, of total sales for the three month period. During the three months ended March 31, 2014, we had two customer individually accounting for 10% or more of our sales. Sales to Applied Materials, Inc. and LAM Research were \$27.0 million and \$17.8 million or 19.2% and 12.6%, respectively, of total sales during the three month period. Our sales to Applied Materials, Inc. and LAM Research include precision power products used in semiconductor processing and solar, flat panel display, and architectural glass applications. No other customer accounted for 10% or more of our sales during these periods.

**NOTE 21. CREDIT FACILITIES**

In October 2012, we, along with two of our wholly-owned subsidiaries, AE Solar Energy, Inc. and Sekidenko, Inc., entered into a Credit Agreement, subsequently amended in November 2012 and August 2013, (the "Credit Agreement") with Wells Fargo Bank, National Association ("Wells Fargo"), as agent for and on behalf of certain lenders (each a "Lender"), which provides for a new secured revolving credit facility of up to \$50.0 million (the "Credit Facility"). The Credit Facility provides us with the ability to borrow up to \$50.0 million, although the amount of the Credit Facility may be increased by an additional \$25.0 million up to a total of \$75.0 million subject to receipt of lender commitments and other conditions. Borrowings under the Credit Facility are subject to a borrowing base based upon our domestic accounts receivable and inventory and are available for various corporate purposes, including general working capital, capital expenditures, and certain permitted acquisitions. The Credit Agreement also permits us to issue letters of credit which reduce availability under the Credit Agreement. The maturity date of the Credit Facility is October 12, 2017. As of March 31, 2015, we had \$49.4 million of availability on our Wells Fargo Credit Facility.

At our election, the loans comprising each borrowing will bear interest at a rate per annum equal to either: (a) a "base rate" plus between one-half (0.5%) and one (1.0%) full percentage point depending on the amount available for additional draws under the Credit Facility ("Base Rate Loan"); or (b) the LIBOR rate then in effect plus between one and one-half (1.5%) and two (2%) percentage points depending on the amount available for additional draws under the Credit Facility. The "base rate" for any Base Rate Loan will be the greatest of the federal funds rate plus one-half (0.5%) percentage point; the one-month LIBOR rate plus one (1.0%) percentage point; and Wells Fargo's "prime rate" then in effect. As of March 31, 2015, the rate in effect was 3.75%.

The Credit Agreement requires us to pay certain fees to the Lenders and contains affirmative and negative covenants, which, among other things, require us to deliver to the Lenders specified quarterly and annual financial information, and limit us and our Guarantors (as defined below), subject to various exceptions and thresholds, from, among other things: (i) creating liens on our assets; (ii) merging with other companies or engaging in other extraordinary corporate transactions; (iii) selling certain

Table Of Contents

assets or properties; (iv) entering into transactions with affiliates; (v) making certain types of investments; (vi) changing the nature of our business; and (vii) paying certain distributions or certain other payments to affiliates. Additionally, there are the following financial covenants: (i) during any period in which \$12.5 million or less is available to us under the Credit Facility and for sixty (60) days thereafter, the Credit Agreement requires the maintenance of a defined consolidated fixed charge coverage ratio; and (ii) if there is any indebtedness under any issued and outstanding convertible notes, we are required to maintain a specified level of liquidity.

The Credit Agreement requires us to pay certain fees to the Lenders, including a \$2,500 collateral management fee for each month that the Credit Facility is in place, and a fee based on the unused amount of the Credit Facility. During the three months ended March 31, 2015 and 2014, we expensed \$0.1 million and \$0.2 million, respectively, in interest and fees related to unused line of credit fees and amortization of debt issuance costs. We did not borrow against the Credit Facility during the three months ended March 31, 2015.

Pursuant to a Guaranty and Security Agreement (the "GS Agreement"), borrowings under the Credit Facility are guaranteed by our wholly-owned subsidiaries Aera Corporation and AEI US Subsidiary, Inc., (collectively the "Guarantors"). Under the GS Agreement, we and the Guarantors granted the Lenders a security interest in certain, but not all, of our and the Guarantors' assets.

As part of the acquisition of Refusol described in Note 2. Business Acquisitions, we assumed the outstanding debt of Refusol as of the acquisition date. There were three outstanding loans with banks related to this debt, of which one was repaid and cancelled during the third quarter of 2013.

Refusol, GmbH had an outstanding loan agreement with Commerzbank Aktiengesellschaft ("Commerzbank") for up to 8.0 million Euros ("Commerzbank Loan Agreement"). The agreement allowed Refusol to borrow up to 8.0 million Euros through various types of instruments including an overdraft (revolving) facilities, money market (term) loans, surety loans, or guarantees. There was no maturity date. Borrowings under the revolving credit facility bore interest at 5.32%. Surety and guarantee loans bore interest at 1.5%. The Commerzbank Loan Agreement required the payment of a credit commission of 0.5% of the total loan amount. The agreement contained various covenants including a financial covenant requiring a specified level of equity. This line of credit was repaid and cancelled in the second quarter of 2014.

Refusol, GmbH also had an outstanding loan agreement with Bayerische Landesbank ("Bayern") which allowed it to borrow up to 4.0 million Euros either as overdraft facilities, term loans, or guarantees with repayment occurring one lump sum at the maturity date of the individual transaction with respect to term loans, or maturity of the loan agreement which was July 31, 2013 (the "Bayern Loan Agreement"). The overdraft facility bore interest at 4.5%. Term loans bore interest at the money market rate established by Bayern at the time of the loan plus a margin of 1.9%. Guarantees bore interest at 1.25% and had an issuing fee per guarantee. Loan commitment fees were 0.25% on the unused portion of the total loan amount. The Bayern Loan Agreement contained certain reporting requirements and a financial covenant requiring a specified level of equity.

Upon expiration of this agreement, Refusol, GmbH entered into a new loan agreement with Bayerische Landesbank ("Bayern") under which it had the ability to borrow up to 4.0 million Euros (equal to \$5.5 million on March 31, 2015) as either bank overdrafts, term loans, guarantees, or letters of credit. The overdraft facility bore interest at 3.9%, guarantees bore a rate of 1.64% and interest on term loans was a fixed rate set for each term loan period based on money market rates. Loan commitment fees were 0.25%. This line of credit was repaid and cancelled in the third quarter of 2014.

Refusol, Inc., a wholly-owned subsidiary of Refusol, GmbH located in the United States, had a revolving line of credit with Wells Fargo with an aggregate principal amount of \$1.5 million and a maturity date of July 1, 2013. Borrowings under the line of credit were secured by all of Refusol, Inc.'s accounts receivable, inventory, and property, plant, and equipment and a letter of credit issued under the Commerzbank Loan Agreement. The line of credit bore interest at either (a) a fluctuating rate per annum one quarter of one percent (0.25%) above the Prime Rate or (b) the LIBOR rate then in effect plus two percent (2.0%). Refusol, Inc. had the option to select the method of interest each month. A commitment fee of 0.125% was payable by Refusol, Inc. on the unused portion of the line of credit. The line of credit contained certain affirmative and negative covenants limiting Refusol, Inc.'s ability to borrow additional funds or guarantee the debt of others. This line of credit was paid down and cancelled on its maturity date of July 1, 2013.



Table Of Contents

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," "could," 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, 2014. 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 and control products that transform power into various usable forms. Our products enable manufacturing processes that use thin film and plasma enhanced chemical and physical processing for various products, industrial electro-thermal applications for material and chemical processes, precision power for analytical instrumentation, as well as grid-tied power conversion. We also supply thermal instrumentation products for advanced temperature control in these markets. 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 convert it into power that is predictable, repeatable and customizable. Our power conversion products are primarily used in processing equipment that is used by semiconductor, solar panel and similar thin film manufacturers including flat panel display, data storage, hard and optical coating, and architectural glass manufacturers.

Our power control modules, through the acquisition of this product line from AEG Power Solutions, provide power control solutions for industrial applications where heat treatment and processing are used such as glass manufacturing, metal fabrication and treatment, and material and chemical processing.

Our high voltage products, through the acquisition of HiTek Power and UltraVolt provide high voltage power supplies that are used in diverse applications including semiconductor ion implantation and scanning electron microscopy, medical equipment, instrumentation applications such as x-ray and mass spectroscopy, as well as general electron gun sources for scientific and industrial applications.

Our thermal instrumentation products, used primarily in the semiconductor industry, provide temperature measurement and control solutions for applications in which time-temperature cycles affect 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 grid-tied power conversion inverter products offer advanced transformer-based or transformerless grid-tied PV solutions 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. These products are used for commercial and utility-scale solar projects and installations, and are sold primarily to distributors; engineering, procurement, and construction (EPC) 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 resultant reduced installation scheduling by our customers.

Our network of global service support centers offer repair services, upgrades and refurbishments and used equipment to businesses that use our products.



Table Of Contents

As we announced in December 2014, we are exploring strategic alternatives for our Inverter business. We expect to complete the process of evaluating these alternatives in the second quarter. We may see an impact on customer demand as a result of this process.

As also noted in Note 2. Business Acquisitions in Part I Item 1 of this Form 10-Q, we acquired the assets of Power Control Modules ("PCM") on January 27, 2014. The financial results discussed below include the financial results of PCM for the period January 27, 2014 to December 31, 2014 and the three months ended March 31, 2015.

Additionally, on April 12, 2014, we acquired HiTek Power Group ("HiTek"), a privately held provider of high voltage power solutions, based in the United Kingdom. The financial results discussed below include the financial results of HiTek for the period April 12, 2014 to December 31, 2014 and the three months ended March 31, 2015. Note 2.

Business Acquisitions in Part I Item 1 of this Form 10-Q describes the acquisition of HiTek.

Furthermore, on August 4, 2014, we acquired UltraVolt, Inc., a privately held provider of high voltage power solutions, based in Ronkonkoma, New York. The financial results discussed below include the financial results of UltraVolt for the period August 4, 2014 to December 31, 2014 and the three months ended March 31, 2015. Note 2.

Business Acquisitions in Part I Item 1 of this Form 10-Q describes the acquisition of UltraVolt.

Our analysis presented below is organized to provide the information we believe will be helpful 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. Also included in the following analysis are measures that are not in accordance with U.S. GAAP. A reconciliation of the non-GAAP measures to U.S. GAAP is provided below.

**Results of Operations**

The following table sets forth, for the periods indicated, certain data derived from our Condensed Consolidated Statements of Operations (in thousands):

|                              | Three Months Ended March 31, |           |
|------------------------------|------------------------------|-----------|
|                              | 2015                         | 2014      |
| Sales                        | \$141,118                    | \$140,948 |
| Gross profit                 | 59,744                       | 52,661    |
| Operating expenses           | 37,887                       | 35,748    |
| Operating income             | 21,857                       | 16,913    |
| Other income (expenses), net | 1,066                        | (96)      |
| Income before income taxes   | 22,923                       | 16,817    |
| Provision for income taxes   | 1,647                        | 2,102     |
| Income net of income taxes   | \$21,276                     | \$14,715  |

The following table sets forth, for the periods indicated, the percentage of sales represented by certain items reflected in our Condensed Consolidated Statements of Operations:

|                              | Three Months Ended March 31, |         |   |
|------------------------------|------------------------------|---------|---|
|                              | 2015                         | 2014    |   |
| Sales                        | 100.0                        | % 100.0 | % |
| Gross profit                 | 42.3                         | 37.4    |   |
| Operating expenses           | 26.8                         | 25.4    |   |
| Operating income             | 15.5                         | 12.0    |   |
| Other income (expenses), net | 0.8                          | (0.1)   | ) |
| Income before income taxes   | 16.2                         | 11.9    |   |
| Provision for income taxes   | 1.2                          | 1.5     |   |
| Income net of income taxes   | 15.0                         | % 10.4  | % |



Table Of Contents

## SALES

The following tables summarize sales, and percentages of sales, by segment for the three months ended March 31, 2015 and 2014 (in thousands):

|                                     | Three Months Ended March 31, |                  | 2014        | % of Total Sales | Increase/ (Decrease) | Percent Change |   |   |
|-------------------------------------|------------------------------|------------------|-------------|------------------|----------------------|----------------|---|---|
|                                     | 2015                         | % of Total Sales |             |                  |                      |                |   |   |
| Precision Power Products:           |                              |                  |             |                  |                      |                |   |   |
| Semiconductor capital equipment     | \$73,221                     | 51.9             | % \$56,315  | 39.9             | % \$16,906           | 30.0           | % |   |
| Non-semiconductor capital equipment | 20,387                       | 14.5             | 14,780      | 10.5             | 5,607                | 37.9           |   |   |
| Global support                      | 12,231                       | 8.6              | 11,777      | 8.4              | 454                  | 3.9            |   |   |
| Total Precision Power Products      | 105,839                      | 75.0             | 82,872      | 58.8             | 22,967               | 27.7           |   |   |
| Inverters                           | 35,279                       | 25.0             | 58,076      | 41.2             | (22,797)             | (39.3)         | ) | ) |
| Total sales                         | \$141,118                    | 100.0            | % \$140,948 | 100.0            | % \$170              | 0.1            | % |   |
| Total Sales                         |                              |                  |             |                  |                      |                |   |   |

Overall, our sales increased \$0.2 million, or 0.1%, to \$141.1 million for the three months ended March 31, 2015 from \$140.9 million for the three months ended March 31, 2014. Semiconductor results hit a record high which was offset by a decline in our Inverter sales given continued softness in the inverter market and weakness in industrial and flat panel display applications.

## Precision Power Products

Results for Precision Power Products for the three months ended March 31, 2015 and 2014 were as follows (in thousands):

|                  | Three Months Ended March 31, |          |
|------------------|------------------------------|----------|
|                  | 2015                         | 2014     |
| Sales            | \$105,839                    | \$82,872 |
| Operating income | 31,103                       | 23,211   |

Precision Power Products sales increased 27.7% to \$105.8 million, or 75.0% of sales, for the three months ended March 31, 2015 versus \$82.9 million, or 58.8% of sales, for the three months ended March 31, 2014 largely driven by semiconductor sales, which improved in the first quarter, due to increased sales to existing customers, as well as the addition of the HiTek power line.

In the three months ended March 31, 2015, Precision Power Products sales to the semiconductor market increased 30.0% to a record \$73.2 million from \$56.3 million for the three months ended March 31, 2014. Market conditions remained strong across the semiconductor market driven by our leadership in etch applications. We expect current investment levels to decrease in the second quarter with uncertainty for the rest of 2015 depending on 3D NAND and foundry expansion plans.

Sales in the non-semiconductor capital equipment markets increased 37.9% to \$20.4 million, or 14.5% of sales, for the three months ended March 31, 2015 compared to \$14.8 million, or 10.5% of sales, for the three months ended March 31, 2014. Outside of semiconductor capital equipment, other markets served by Precision Power Products include solar panel, flat panel display, power control modules, data storage, architectural glass and other industrial manufacturing markets. Our customers in these markets are primarily global and regional OEMs. As we have diversified our product offerings over the past year through the acquisitions of PCM, HiTek and UltraVolt, we have expanded our reach to new customers.

Our global support revenue increased 3.9% to \$12.2 million, or 8.6% of total sales, for the three months ended March 31, 2015, compared to \$11.8 million, or 8.4% of sales, for the three months ended March 31, 2014.

Operating income for Precision Power Products was \$31.1 million for the three months ended March 31, 2015, an increase of \$7.9 million from the same period of 2014. High sales volumes continued to drive improved manufacturing efficiencies and a shift to higher margin product mix resulted in the increase in operating income.



Table Of Contents

## Inverters

Results for our Inverters segment for the three months ended March 31, 2015 and 2014 are as follows (in thousands):

|                | Three Months Ended March 31, |          |
|----------------|------------------------------|----------|
|                | 2015                         | 2014     |
| Sales          | \$35,278                     | \$58,076 |
| Operating loss | (9,246                       | ) (6,298 |

Inverters sales were \$35.3 million, or 25.0% of sales, for the three months ended March 31, 2015 as compared to \$58.1 million, or 41.2% of sales, for the three months ended March 31, 2014. Inverter sales were impacted by market trends in our core inverter markets in the US and Europe, increasing price pressure, as well as a shift to geographic regions and market segments that we do not serve. In addition, our business was impacted by the announcement of our ongoing strategic review of alternatives for our Inverter business which we expect to complete during the second quarter of 2015. Despite global market growth, the US commercial and utility markets, as well as the European commercial market, underperformed at the start of 2015. Factors affecting the US commercial market were seasonal with an especially weak first quarter due to winter weather and we expect a modest recovery in the second quarter. The US utility market experienced continued weakness due to uncertainty regarding the timing of projects related to solar panel tariffs as well as investment tax credit uncertainty.

Operating loss for Inverters was \$9.2 million for the three months ended March 31, 2015 as compared to \$6.3 million for the three months ended March 31, 2014. Lower sales volume, partially offset by lower operating expenses, contributed to the loss.

## Backlog

Our overall backlog was \$72.7 million at March 31, 2015 as compared to \$87.9 million at December 31, 2014. The decrease is primarily the result of a decrease in Inverters backlog.

## GROSS PROFIT

Our gross profit was \$59.7 million, or 42.3% of sales, for the three months ended March 31, 2015, as compared to \$52.7 million, or 37.4% of sales for the three months ended March 31, 2014. The year-over-year increase in absolute dollars was a result of a shift in product mix to higher margin products.

## OPERATING EXPENSE

The following table summarizes our operating expenses as a percentage of sales for the three months ended March 31, 2015 and 2014 (in thousands):

|                                      | Three Months Ended March 31, |        |          |      |   |  |
|--------------------------------------|------------------------------|--------|----------|------|---|--|
|                                      | 2015                         |        | 2014     |      |   |  |
| Research and development             | \$14,242                     | 10.1 % | \$14,142 | 10.0 | % |  |
| Selling, general, and administrative | 21,754                       | 15.4   | 19,731   | 14.0 |   |  |
| Amortization of intangible assets    | 1,891                        | 1.3    | 1,875    | 1.3  |   |  |
| Total operating expenses             | \$37,887                     | 26.8 % | \$35,748 | 25.3 | % |  |

## Research and Development

The markets we serve constantly present opportunities to develop products for new or emerging applications and require technological changes driving for higher performance, lower cost, and other attributes that we expect may 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, are 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.

Research and development expenses for the three months ended March 31, 2015 were \$14.2 million, or 10.1% of sales, as compared to \$14.1 million, or 10.0% of sales, for the three months ended March 31, 2014. Research and development costs

Table Of Contents

remained relatively flat in the three months ended March 31, 2015 as compared to the same periods in 2014 as a result of our focus on continuing to invest in new product research and development.

**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, including acquisition-related activities.

Selling, general and administrative ("SG&A") expenses increased for three months ended March 31, 2015 as compared to the same period in 2014 primarily due to the recording of an accrual for a potential bad debt that was made in the first quarter of 2015 of \$1.9 million.

**Amortization Expense**

Amortization of intangible assets expense was flat at \$1.9 million for the three months ended March 31, 2015 and 2014.

**Other Income (Expenses), net**

Other income (expenses), net consists primarily of interest income and expense, foreign exchange gains and losses, gains and losses on sales of fixed assets, and other miscellaneous items. Other income (expenses), net was a gain of \$1.1 million for the three months ended March 31, 2015 and negligible for the three months ended March 31, 2014. The change is primarily due to the fluctuation in foreign exchange rates and the location of our cash in different countries.

**Provision for Income Taxes**

We recorded an income tax provision for the three months ended March 31, 2015 of \$1.6 million compared to \$2.1 million for the three months ended March 31, 2014, resulting in effective tax rates of 7.2% and 12.5%, respectively. The effective tax rates for the three months ended March 31, 2015 and 2014 are lower than the federal statutory rate primarily due to the benefit of the earnings in foreign jurisdictions which are subject to lower tax rates. The change in rates between the corresponding periods is due to changes in sales mix between tax jurisdictions.

Our future effective income tax rate depends on various factors, such as changes in tax laws, regulations, accounting principles, or interpretations thereof and the geographic composition of our pre-tax income. We carefully monitor these factors and adjust our effective income tax rate accordingly.

**Non-GAAP Results**

To evaluate business performance against business objectives and for planning purposes, management uses non-GAAP results. We believe these measures will enhance investors' ability to review our business from the same perspective as management and facilitate comparisons of this period's results with prior periods. These non-GAAP measures are not in accordance with U.S. GAAP and may differ from non-GAAP methods of accounting and reporting used by other companies. The presentation of this additional information should not be considered a substitute for results prepared in accordance with U.S. GAAP.

Table Of Contents

The non-GAAP results presented below exclude the impact of stock-based compensation, amortization of intangible assets, restructuring costs, tax release items, acquisition-related costs, and other nonrecurring expenses (in thousands):

|  | Three Months Ended March 31, |          |
|--|------------------------------|----------|
|  | 2015                         | 2014     |
| Income, net of tax, as reported                    | \$21,276                     | \$14,715 |
| Adjustments, net of tax:                           |                              |          |
| Acquisition-related costs                          | —                            | 228      |
| Stock-based compensation                           | 547                          | 1,544    |
| Amortization of intangible assets                  | 1,755                        | 1,642    |
| Non-GAAP income, net of tax                        | \$23,578                     | \$18,129 |
| Diluted weighted-average common shares outstanding | 41,129                       | 41,870   |
| Non-GAAP Earnings Per Share                        | \$0.57                       | \$0.43   |

## Impact of Inflation

In recent years, inflation has not had a significant impact on our operations. However, we continuously monitor operating price increases, particularly in connection with the supply of component parts used in our manufacturing process. To the extent permitted by competition, we pass increased costs on to our customers by increasing sales prices over time. From time to time, we may also receive pressure from customers to decrease sales prices due to reductions in the cost structure of our products from cost improvement initiatives and decreases in component part prices.

## Liquidity and Capital Resources

## LIQUIDITY

We believe that adequate liquidity and cash generation is important to the execution of our strategic initiatives. Our ability to fund our operations, acquisitions, capital expenditures, and product development efforts may 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, investments, and cash generated from current operations as well as our credit facilities discussed in Note 21. Credit Facilities in Part I Item 1 of this Form 10-Q. At March 31, 2015, we had \$155.9 million in cash, cash equivalents, and marketable securities and \$49.4 million of availability on our Wells Fargo Credit Facility. We believe that our current cash levels and our cash flows from future operations will be adequate to meet anticipated working capital needs, anticipated levels of capital expenditures, and contractual obligations for the next twelve months. We may seek additional financing from time to time.

## CASH FLOWS

A summary of our cash provided by and used in operating, investing and financing activities is as follows (in thousands):

|   | Three Months Ended March 31, |           |
|---|------------------------------|-----------|
|   | 2015                         | 2014      |
| Net cash provided by operating activities           | \$28,641                     | \$6,799   |
| Net cash used in investing activities               | (421)                        | (32,843)  |
| Net cash provided by (used in) financing activities | 2,303                        | (1,782)   |
| Effect of Currency Translation on Cash              | (2,981)                      | (72)      |
| Increase (Decrease) in Cash and Cash Equivalents    | 27,542                       | (27,898)  |
| Cash and Cash Equivalents, beginning of period      | 125,285                      | 138,125   |
| Cash and Cash Equivalents, end of period            | \$152,827                    | \$110,227 |

Table Of Contents

## 2015 CASH FLOWS COMPARED TO 2014

## Net cash provided by (used in) operating activities

Net cash provided by operating activities for the three months ended March 31, 2015 was \$28.6 million, compared to \$6.8 million for the same period ended March 31, 2014. The increase of \$21.8 million in net cash flows from operating activities is primarily the result of higher net income in the current quarter as well as lower accounts receivable in their functional currencies and higher accounts payable, offset by higher inventory balances.

## Net cash used in investing activities

Net cash used in investing activities for the three months ended March 31, 2015 was \$0.4 million, a decrease of \$32.4 million from the same period ended March 31, 2014. The decrease in cash used driven by the \$30.3 million cash payment for the acquisition of PCM in 2014. Capital expenditures for the three months ended March 31, 2015 were \$1.2 million also lower compared to the same period in 2014.

## Net cash provided by (used in) financing activities

Net cash provided by financing activities in the three months ended March 31, 2015 was \$2.3 million, a \$4.1 million change from the cash used in financing activities of \$1.8 million in the same period of 2014. This was primarily due to the settlement of performance stock units in cash of \$11.2 million in the first quarter of 2014. Additionally, the exercise of stock options provided \$2.0 million of cash in 2015 as compared to \$7.4 million in 2014.

## Effect of currency translation on cash

During the three months ended March 31, 2015, currency translation had a negative \$3.0 million impact on cash compared to a negative impact of \$0.1 million in the same period of 2014 primarily due to the decline in the Euro between December 31, 2014 and March 31, 2015. Our foreign operations primarily sell product and incur expenses in the related local currency. Exchange rate fluctuations could require us to increase prices to foreign customers, which could result in lower net sales by us to such customers. Alternatively, if we do not adjust the prices for our products in response to unfavorable currency fluctuations, our results of operations could be materially and adversely impacted. Given recent acquisitions in Europe, our exposure to fluctuations in the value of the Euro and Pound Sterling is becoming more significant. The functional currencies of our worldwide operations include U.S. dollar ("USD"), Canadian Dollar ("CAD"), Swiss Franc ("CHF"), Chinese Yuan ("CNY"), Euro ("EUR"), Pound Sterling ("GBP"), Indian Rupee ("INR"), Japanese Yen ("JPY"), South Korean Won ("KRW"), and New Taiwan Dollar ("TWD"). Our purchasing and sales activities are primarily denominated in USD, CNY, EUR, and JPY. The change in these key currency rates during the three months ended March 31, 2015 and 2014 are as follows:

| From | To  | Three Months Ended March 31, |         |
|------|-----|------------------------------|---------|
|      |     | 2015                         | 2014    |
| CAD  | USD | (8.3                         | )% (3.9 |
| CHF  | USD | 2.3                          | 1.0     |
| CNY  | USD | 0.1                          | (2.6    |
| EUR  | USD | (11.1                        | ) 0.2   |
| GBP  | USD | (4.8                         | ) 0.6   |
| INR  | USD | 1.4                          | 2.8     |
| JPY  | USD | (0.1                         | ) 2.0   |
| KRW  | USD | (0.9                         | ) (0.8  |
| TWD  | USD | 1.2                          | (1.9    |

## 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

Table Of Contents

accompanying notes. Note 1 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2014 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, 2014, 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 inventories. 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.

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 and credit facility. 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 March 31, 2015, our investments consisted primarily of certificates of deposit, all with maturity of less than 2 years. As a measurement of the sensitivity of our portfolio and assuming that our investment portfolio balances remain constant, a hypothetical decrease of 100 basis points (1%) in interest rates would decrease annual pre-tax earnings by a nominal amount.

We had no debt outstanding as of March 31, 2015 under one debt instrument with variable interest rates and principal payments. Assuming a full drawdown on all of our outstanding loan agreements subject to variable interest rates, and holding other variables constant, a hypothetical immediate one percentage point change in interest rates would be expected to have an annualized impact on pre-tax earnings and cash flows of approximately \$0.5 million.

**Foreign Currency Exchange Rate Risk**

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

Our reported financial results of operations, including the reported value of our assets and liabilities, are also impacted by changes in foreign currency exchange rates. Assets and liabilities of many of our subsidiaries outside the U.S. are translated at period end rates of exchange for each reporting period. Operating results and cash flow statements are translated at weighted-average rates of exchange during each reporting period. Although these translation changes have no immediate cash impact, the translation changes may impact future borrowing capacity, 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 attempt to mitigate 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 change in one or more particular exchange rates.





Table Of Contents

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, 2014.

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 ("Act") 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 (Yuval Wasserman, Chief Executive Officer) and Principal Financial Officer (William G. Trupkiewicz, Chief Accounting 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 Accounting 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 Accounting Officer concluded that our disclosure controls and procedures were effective as of March 31, 2015. The conclusions of the Chief Executive Officer and Chief Accounting 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.

Changes in Internal Control over Financial Reporting

As of March 30, 2015, our former Chief Financial Officer left the Company and at that date, William G. Trupkiewicz, our Chief Accounting Officer, became our Principal Financial Officer. Mr. Trupkiewicz has over 30 years experience as a Certified Public Accountant and has served as Controller, Treasurer, Chief Accounting Officer, and Interim Chief Financial Officer of public and non-public companies during that time.

There was no change in our internal control over financial reporting 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.

Table Of Contents

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are involved in disputes and legal actions arising in the normal course of our business.

There have been no material developments in legal proceedings in which we are involved during the quarter ended March 31, 2015. 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, 2014.

ITEM 1A. RISK FACTORS

Item 1A, "Risk Factors," of our Annual Report on Form 10-K for the year ended December 31, 2014 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.

Our evolving manufacturing footprint may increase our risk.

The nature of our manufacturing is evolving as we continue to grow by acquisition. Historically, our principal manufacturing location was in China; however, we have also added specialized manufacturing at our Littlehampton, UK and Ronkonkoma, NY facilities. From time to time we may migrate manufacturing of specific products between facilities or to third party manufacturers. If we do not successfully coordinate the timely manufacturing and distribution of our products during this time, we may have insufficient supply of products to meet customer demand, we could lose sales, we may experience a build-up in inventory, or we may incur additional costs.

The expiration, elimination or reduction of solar rebates, credits and incentives may adversely impact our business.

Federal, state and local government bodies provide incentives to end users, distributors, system integrators and manufacturers of solar energy systems to promote solar electricity in the form of rebates, tax credits and other financial incentives such as system performance payments and payments for renewable energy credits associated with renewable energy generation. We rely on these governmental rebates, tax credits and other financial incentives to lower the cost of installing solar systems and to incent customers to purchase solar systems. The timing and availability of these grant programs in North America and Europe as well as the reduction of the investment tax credit for solar facilities in the United States after 2016 could materially impact our financial condition and results of operations.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

Table Of Contents

ITEM 6. EXHIBITS

- 10.67 2015 Long-Term Incentive (LTI) Plan
- 10.68 2015 Short-Term Incentive (STI) Plan
- 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 Chief Accounting 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 Chief Accounting Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

Attached as Exhibit 101 to this report are the following materials from Advanced Energy, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Statements of Earnings, (ii) the Condensed Consolidated Statements of Comprehensive Earnings, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Cash Flows, (v) the Condensed Consolidated Statements of Stockholders' Equity, and (vi) the Notes to the Condensed Consolidated Financial Statements.

Table Of Contents

SIGNATURES

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: May 6, 2015

/s/ William G. Trupkiewicz  
William G. Trupkiewicz  
Chief Accounting Officer

Table Of Contents

INDEX TO EXHIBITS

|         |   |
|---------|---|
| 10.67   | 2015 Long-Term Incentive (LTI) Plan   |
| 10.68   | 2015 Short-Term Incentive (STI) Plan  |
| 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 Chief Accounting 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 Chief Accounting Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                   |
| 101.INS | XBRL Instance Document  |
| 101.SCH | XBRL Taxonomy Extension Schema Document   |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document  |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document  |

Attached as Exhibit 101 to this report are the following materials from Advanced Energy, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Statements of Earnings, (ii) the Condensed Consolidated Statements of Comprehensive Earnings, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Cash Flows, (v) the Condensed Consolidated Statements of Stockholders' Equity, and (vi) the Notes to the Condensed Consolidated Financial Statements.