

ADVANCED ENERGY INDUSTRIES INC

Form 10-Q

November 05, 2015

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

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FORM 10-Q

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

For the quarterly period ended September 30, 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

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As of October 31, 2015 there were 41,041,983 shares of the registrant's Common Stock, par value \$0.001 per share, outstanding.

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## PART I FINANCIAL STATEMENTS

## ITEM 1. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## ADVANCED ENERGY INDUSTRIES, INC.

## Condensed Consolidated Balance Sheets

(In thousands, except per share amounts)

	September 30, 2015	December 31, 2014
	UNAUDITED	
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 184,296	\$ 125,285
Marketable securities	14,708	3,083
Accounts receivable, net of allowances of \$24,416 and \$3,035, respectively	90,755	124,150
Inventories, net of reserves of \$40,855 and \$41,080, respectively	71,712	95,082
Deferred income tax assets	13,767	14,011
Income taxes receivable	5,955	5,555
Other current assets	12,224	9,588
Total current assets	393,417	376,754
Property and equipment, net	12,519	28,976
<b>OTHER ASSETS:</b>		
Deposits and other	1,540	2,052
Goodwill	43,479	203,329
Other intangible assets, net	36,599	47,074
Deferred income tax assets	26,107	26,384
Total assets	\$ 513,661	\$ 684,569
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 50,117	\$ 53,040
Income taxes payable	1,144	1,495
Accrued payroll and employee benefits	11,375	13,479
Accrued warranty expense	10,749	17,769
Other accrued expenses	27,747	19,970
Customer deposits	2,742	6,817
Deferred income tax liabilities	38,865	—
Total current liabilities	142,739	112,570
<b>LONG-TERM LIABILITIES:</b>		
Deferred income tax liabilities	2,322	1,439
Uncertain tax positions	8,874	6,484
Accrued warranty expense	18,588	18,352
Long term deferred revenue	45,471	47,246
Other long-term liabilities	20,298	23,513
Total liabilities	238,292	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; 41,035 and 40,613 issued and outstanding, respectively	41	41
Additional paid-in capital	243,731	237,752
Retained earnings	31,645	226,396

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Accumulated other comprehensive income	(48	) 10,776
Total stockholders' equity	275,369	474,965
Total liabilities and stockholders' equity	\$513,661	\$684,569

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	UNAUDITED		UNAUDITED	
SALES	\$130,800	\$143,147	\$408,709	\$430,380
COST OF SALES	77,763	95,204	255,650	277,230
GROSS PROFIT	53,037	47,943	153,059	153,150
OPERATING EXPENSES:				
Research and development	11,696	15,074	39,985	44,952
Selling, general and administrative	16,484	20,223	78,784	62,782
Amortization of intangible assets	1,267	2,238	5,052	6,339
Restructuring charges and asset impairment*	13,930	1,183	182,323	1,427
Total operating expenses	43,377	38,718	306,144	115,500
OPERATING INCOME (LOSS)	9,660	9,225	(153,085 )	37,650
OTHER (EXPENSE) INCOME, NET	(867 )	(618 )	354	(689 )
Income (loss) before income taxes	8,793	8,607	(152,731 )	36,961
(Benefit) provision for income taxes	(7,639 )	(3,695 )	42,020	(702 )
NET INCOME (LOSS)	\$16,432	\$12,302	\$(194,751 )	\$37,663
Basic weighted-average common shares outstanding	41,027	39,998	40,905	40,450
Diluted weighted-average common shares outstanding	41,319	40,470	40,905	41,102
EARNINGS PER SHARE:				
BASIC EARNINGS PER SHARE	\$0.40	\$0.31	\$(4.76 )	\$0.93
DILUTED EARNINGS PER SHARE	\$0.40	\$0.30	\$(4.76 )	\$0.92

\*See Note 13. Restructuring Costs in Part I Item 1 of this Form 10-Q.

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

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## ADVANCED ENERGY INDUSTRIES, INC.

## Condensed Consolidated Statements of Comprehensive (Loss) Income

(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	UNAUDITED		UNAUDITED	
Net income (loss)	\$16,432	\$12,302	\$(194,751)	\$37,663
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	(2,498 )	(14,373 )	(10,211 )	(16,034 )
Unrealized (losses) gains on marketable securities	11	5	(613 )	6
Comprehensive income (loss)	\$13,945	\$(2,066 )	\$(205,575)	\$21,635

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

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

	Nine Months Ended September 30,	
	2015	2014
	UNAUDITED	
Cash Flows from Operating Activities:		
Net (loss) income	\$(194,751	) \$37,663
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization	11,911	15,713
Stock-based compensation expense	2,245	4,747
Provision for deferred income taxes	38,631	(521
Restructuring charges and asset impairment	168,285	—
Non-cash reserve for potential bad debts	15,473	—
Inventory impairment	18,369	—
Net gain on sale or disposal of assets	365	1,107
Changes in operating assets and liabilities, net of assets acquired:		
Accounts receivable	13,029	16,538
Inventories	2,959	(3,112
Other current assets	(937	) 6,015
Accounts payable	(1,114	) (128
Other current liabilities and accrued expenses	(1,672	) (17,444
Income taxes	(738	) (3,258
Net cash provided by operating activities	72,055	57,320
Cash Flows from Investing Activities:		
Purchases of marketable securities	(27,546	) (5,591
Proceeds from sale of marketable securities	15,891	14,398
Purchases of property and equipment	(3,191	) (4,817
Acquisitions, net of cash acquired	(128	) (57,138
Net cash used in investing activities	(14,974	) (53,148
Cash Flows from Financing Activities		
Borrowings from lines of credit, net of repayments	—	(13,691
Cash settlement of performance stock units	—	(11,198
Purchase and retirement of common stock	—	(25,000
Proceeds from exercise of stock options	3,503	10,273
Excess tax from stock-based compensation deduction	586	1,143
Other financing activities	(17	) 35
Net cash provided by (used in) financing activities	4,072	(38,438
Effect of Currency Translation on Cash	(2,142	) (818
Increase (Decrease) in Cash and Cash Equivalents	59,011	(35,084
Cash and Cash Equivalents, beginning of period	125,285	138,125
Cash and Cash Equivalents, end of period	\$184,296	\$103,041
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$217	\$170
Cash paid for income taxes	5,985	5,763
Cash received for refunds of income taxes	5,365	5,136



Cash held in banks outside the United States of America	99,272	56,115
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The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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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 direct current ("DC"), pulsed DC mid-frequency, radio frequency ("RF") power supplies, matching networks and RF instrumentation 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") offers products for direct current, pulsed DC mid-frequency, high voltage, and radio frequency 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 June 2015 the Company completed its six-month long process of seeking strategic alternatives for its inverter business and no satisfactory offers were received for all or a part of the inverter business. On June 29, 2015, we announced our decision to wind down our solar Inverter business to focus solely on our Precision Power business. This decision resulted in the cancellation of customer orders, reduction in future customer orders, decline in backlog, worsening product margin, lower average selling prices, and a decline in Inverter customer confidence of our ability and intent to continue to service their needs. These events were evaluated by management and it was determined that a triggering event had occurred, requiring the assessment of asset recoverability. For indefinite-lived intangible assets, significant judgment is applied in testing for impairment. This judgment includes developing cash flow projections, selecting appropriate discount rates, identifying relevant market comparables, and incorporating general economic and market conditions, which are considered level 3 inputs. We evaluated the likelihood of collectability of receivables, evaluated the recoverability of inventory and analyzed projections of estimated future cash flows - from both the wind down operations and the ultimate disposal of assets and settlement of liabilities during the wind down which indicated that future cash flows would be negative. This assessment utilized the income approach, based on discounted cash flows, which are derived from internal forecasts and economic expectations. The result of this assessment was the recording of asset impairments during the three and nine months ended September 30, 2015 as follows:

Asset Category	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015	Reflected in this line of the Statement of Operations
Accounts receivable	\$ (4,068	) \$ 13,593	Selling, general and administrative
Inventory Excess and Obsolete reserve	3,375	18,369	Cost of sales
	—	12,281	

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Property, plant and equipment			Restructuring charges and asset impairment*
Intangible assets	—	3,893	Restructuring charges and asset impairment*
Goodwill	—	149,916	Restructuring charges and asset impairment*
Total asset impairments	\$(693	) \$198,052	

\*Note: See Note 13. Restructuring Costs in Part I Item 1 of this Form 10-Q.

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ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 September 30, 2015, and the results of our operations and cash flows for the three and nine months ended September 30, 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.

**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 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 for the quarter ended September 30, 2015. However, it is our expectation that the wind down of Inverters will qualify as Discontinued Operations in a future period.

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.

**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

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ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 portfolio. 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 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)	)

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 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.

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ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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.

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 portfolio.

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	1,073
Total fair value of consideration transferred	\$31,273

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	264	
Property and equipment	424	
Long-term assets	711	
Deferred taxes on intangible values	(2,087)	)
Current liabilities	(1,053)	)
Total tangible assets, net	3,310	

Amortizable intangible assets:

Technology	2,100
Tradename	200
Customer relationships	8,600
Total amortizable intangible assets	10,900
Total identifiable net assets	14,210
Goodwill	17,063
Total fair value of consideration transferred	\$31,273

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ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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
Tradename	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.

**NOTE 3. INCOME TAXES**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Income (loss) before income taxes	\$8,793	\$8,607	\$(152,731 )	\$36,961
(Benefit) provision for income taxes	(7,639 )	(3,695 )	42,020	(702 )
Effective tax rate	(86.9 )%	(42.9 )%	(27.5 )%	(1.9 )%

The tax expense and effective tax rates for the three and nine months ended September 30, 2015 are significantly impacted by the current period charges related to the inverter business restructuring. These charges include restructuring expenses not deductible for tax purposes, the exclusion of losses recorded in tax jurisdictions for which tax benefits are not being recognized, and the recognition of discrete tax expense in the quarter related to a change in the determination of the realizability of certain deferred tax assets. The income tax provision for the three and nine months ended September 30, 2015 was calculated under the annual effective tax rate method, which resulted in a significant tax expense in the second quarter, and a tax benefit in the third quarter. The Company anticipates that the annual effective tax rate method will result in the recording of a significant tax benefit in the fourth quarter of 2015. At September 30, 2015, the Company has recorded the current income tax payable amount as a deferred income tax liability as the Company expects this tax liability to completely reverse in the fourth quarter.

The effective tax rates for the three and nine months ended September 30, 2015 and 2014 are favorably impacted by the benefit of 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 September 30, 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.



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ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net Income (loss)	\$16,432	\$12,302	\$(194,751)	\$37,663
Basic weighted-average common shares outstanding	41,027	39,998	40,905	40,450
Assumed exercise of dilutive stock options and restricted stock units	292	472	—	652
Diluted weighted-average common shares outstanding	41,319	40,470	40,905	41,102
Basic earnings per share	\$0.40	\$0.31	\$(4.76)	\$0.93
Diluted earnings per share	\$0.40	\$0.30	\$(4.76)	\$0.92

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Stock options	172	91	151	77
Restricted stock units	4	—	2	—

Of the shares listed above, incremental shares of 328,766 attributable to the assumed exercise of outstanding options and restricted stock units with exercise prices that were lower than the average price of our stock were not included in the calculation of diluted loss per share for the nine months ended September 30, 2015 as their effect would have been anti-dilutive due to the loss in the period.

**Stock Buyback**

In May 2014, our Board of Directors authorized a program to repurchase up to \$25.0 million of our stock over a twelve-month period. Under this program, during the three and six months ended June 30, 2014, we repurchased and retired 1.4 million shares of our common stock for a total of \$25.0 million. We completed the share repurchase program as of June 30, 2014. All shares repurchased were executed in the open market and no shares were repurchased from related parties. Repurchased shares were retired and assumed the status of authorized and unissued shares.

In September 2015, our Board of Directors authorized a program to repurchase up to \$150.0 million of our stock over a thirty-month period. Under this program, during the three and nine months ended September 30, 2015, we did not repurchase any shares.

**NOTE 5. MARKETABLE SECURITIES**

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

Our marketable securities consist of commercial paper and certificates of deposit as follows (in thousands):

	September 30,		December 31,	
	2015		2014	
	Cost	Fair Value	Cost	Fair Value
Commercial paper	\$6,239	\$6,246	\$—	\$—

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Certificates of deposit	8,462	8,462	3,083	3,083
Total marketable securities	\$14,701	\$14,708	\$3,083	\$3,083

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ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The maturities of our marketable securities available for sale as of September 30, 2015 are as follows:

	Earliest		Latest
Commercial paper	10/7/2015	to	2/22/2016
Certificates of deposit	10/8/2015	to	9/18/2017

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 September 30, 2015, we do not believe any of the underlying issuers of our marketable securities are at risk of default.

NOTE 6. DERIVATIVE FINANCIAL INSTRUMENTS

We are impacted by changes in foreign currency exchange rates. We attempt to mitigate these risks through the use of derivative financial instruments, primarily forward contracts. During the three and nine months ended September 30, 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. We did not have foreign currency exchange contracts outstanding as of September 30, 2015. At December 31, 2014 we had outstanding Euro forward contracts.

As of September 30, 2015, we did not have any foreign currency exchange contracts. The notional amount of foreign currency exchange contracts at September 30, 2014 was \$10.7 million, and the difference between the fair value and the notional value of these contracts was not significant. During the three months ended September 30, 2014, we recognized an insignificant gain. For the nine months ended September 30, 2015 and 2014, we recognized a gain of \$1.9 million and a loss of \$0.5 million, respectively, on our foreign currency exchange contracts. 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 September 30, 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 September 30, 2015, and December 31, 2014.

September 30, 2015	Level 1	Level 2	Level 3	Total
	(In thousands)			
Commercial paper	\$—	\$6,246	\$—	\$6,246
Certificates of deposit	—	8,462	—	8,462
Total marketable securities	\$—	\$14,708	\$—	\$14,708
December 31, 2014	Level 1	Level 2	Level 3	Total
	(In thousands)			
Certificates of deposit	\$—	\$3,083	\$—	\$3,083
Total marketable securities	\$—	\$3,083	\$—	\$3,083

There were no transfers in or out of Level 1, 2, or 3 fair value measurements during the three and nine months ended September 30, 2015.



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ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 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):

	September 30, 2015	December 31, 2014
Parts and raw materials	\$45,354	\$64,096
Work in process	8,040	6,623
Finished goods	18,318	24,363
Inventories, net of reserves	\$71,712	\$95,082

The Company recorded impairment charges on its inventory of \$3.4 million and \$18.4 million for the three and nine months ended September 30, 2015 related to the wind down of the Inverter business (see Note 1. Basis of Presentation in Part I Item 1 of this Form 10-Q).

## NOTE 9. PROPERTY AND EQUIPMENT

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

	September 30, 2015	December 31, 2014
Buildings and land	\$1,610	\$1,745
Machinery and equipment	43,304	49,034
Computer and communication equipment	25,073	24,063
Furniture and fixtures	1,527	4,251
Vehicles	323	246
Leasehold improvements	27,917	28,030
Construction in process	—	815
	99,754	108,184
Less: Accumulated depreciation	(87,235	) (79,208
Property and equipment, net	\$12,519	\$28,976

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Depreciation expense	\$1,050	\$3,149	\$6,859	\$9,374

The Company recorded impairment charges on its Inverter property and equipment of \$12.3 million for the nine months ended September 30, 2015 related to the wind down of the Inverter business (see Note 13. Restructuring Costs in Part I Item 1 of this Form 10-Q).

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ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## NOTE 10. GOODWILL

The following summarizes the changes in goodwill during the nine months ended September 30, 2015 (in thousands):

	December 31, 2014	Additions	Impairment*	Effect of Currency Translation	September 30, 2015
Precision Power	\$43,873	\$453	\$—	\$(847 )	\$43,479
Inverters	159,456	—	(149,916 )	(9,540 )	—
Consolidated	\$203,329	\$453	\$(149,916 )	\$(10,387 )	\$43,479

\*See Note 1. Basis of Presentation and Note 13. Restructuring Costs in Part I Item 1 of this Form 10-Q.

## NOTE 11. INTANGIBLE ASSETS

Other intangible assets subject to amortization consisted of the following as of September 30, 2015 (in thousands, except weighted-average useful life):

	Gross Carrying Amount as of September 30, 2015	Effect of Changes in Exchange Rates	Impairment*	Accumulated Amortization	Net Carrying Amount as of September 30, 2015	Weighted-Average Useful Life in Years
Technology-based	\$35,608	\$(1,786 )	\$(2,171 )	\$(20,656 )	\$10,995	8
Customer relationships	35,472	(2,669 )	(1,669 )	(7,114 )	24,020	12
Trademarks and other	6,001	(166 )	(53 )	(4,198 )	1,584	10
Total amortizable intangibles	\$77,081	\$(4,621 )	\$(3,893 )	\$(31,968 )	\$36,599	

\*See Note 1. Basis of Presentation and Note 13. Restructuring Costs in Part I Item 1 of this Form 10-Q.

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

	Gross Carrying Amount as of December 31, 2014	Effect of Changes in Exchange Rates	Accumulated Amortization	Net Carrying Amount as of December 31, 2014	Weighted-Average Useful Life in 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 intangibles	\$77,081	\$(3,091 )	\$(26,916 )	\$47,074	

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Amortization expense	\$1,267	\$2,238	\$5,052	\$6,339

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ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 (remaining)	\$ 1,256
2016	4,814
2017	4,077
2018	4,064
2019	4,047
Thereafter	18,341
	\$36,599

## NOTE 12. OTHER ACCRUED EXPENSES

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

	September 30,	December 31,
	2015	2014
Accrued restructuring costs (See Note 13)	\$4,641	\$1,386
Current contingent consideration	—	1,210
Accrued sales and use tax	2,522	2,252
Accrued VAT	2,794	3,980
Other*	17,790	11,142
Total Other accrued expenses	\$27,747	\$19,970

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

## NOTE 13. RESTRUCTURING COSTS

In June 2015, we committed to a restructuring plan in relation to the wind down of our Inverter business. We expect to record changes within the original estimated pre-tax range of approximately \$260 million to \$290 million, the majority of which was recorded in the second and third quarters of 2015. We expect to incur an additional \$15 million to \$20 million over the next three months as we wind down the Inverter activities. Of this amount, approximately \$10 million to \$15 million relate to the write down of inventory and other assets, \$1 million to employee termination costs, and the remaining \$3 million for other costs to exit the business, primarily the costs to exit facilities.

The following table summarizes the components of our restructuring costs incurred under the 2015 plan (in thousands):

	Three Months Ended	Nine Months Ended
	September 30,	September 30,
	2015	2015
Severance and related costs	\$5,581	\$5,689
Asset impairments	—	168,285
Contract settlement costs	8,025	8,025
Facility closure costs	324	324
Total restructuring charges	\$13,930	\$182,323

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ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table summarizes our liabilities under the 2015 plan (in thousands):

	Balances at December 31, 2014	Costs incurred and charged to expense	Cost paid or otherwise settled	Effect of change in exchange rates	Balances at September 30, 2015
Severance and related costs	\$—	\$5,689	\$(2,615)	) \$35	\$3,109
Asset impairments*	—	168,285	(166,853)	) (14)	) 1,418
Contract Settlement	—	8,025	(8,025)	) —	—
Facility closure costs	—	324	(324)	) —	—
Total restructuring liabilities	\$—	\$182,323	\$(177,817)	) \$21	\$4,527

\*Asset impairments primarily include property and equipment of \$12.3 million (see Note 9. Property and Equipment in Part I Item 1 of this Form 10-Q), goodwill of \$149.9 million (see Note 10. Goodwill in Part I Item 1 of this Form 10-Q), and intangibles of \$3.9 million (see Note 11. Intangibles in Part I Item 1 of this Form 10-Q).

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 December 31, 2014	Cost paid or otherwise settled	Effect of change in exchange rates	Balances at September 30, 2015
Severance and related costs	\$992	\$(990)	) \$(2)	) \$—
Facility closure costs	51	(49)	) (2)	) —
Total restructuring liabilities	\$1,043	\$(1,039)	) \$(4)	) \$—

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 December 31, 2014	Cost paid or otherwise settled	Effect of change in exchange rates	Balances at September 30, 2015
Severance and related costs	\$38	\$(38)	) \$—	\$—
Facility closure costs	141	(54)	) (12)	) 75
Total restructuring liabilities	\$179	\$(92)	) \$(12)	) \$75

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 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.





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ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table summarizes our restructuring liabilities under the 2011 plan (in thousands):

	Balances at December 31, 2014	Cost paid or otherwise settled	Effect of change in exchange rates	Balances at September 30, 2015
Facility closure costs	\$164	\$(125	) \$—	\$39
Total restructuring liabilities	\$164	\$(125	) \$—	\$39

## 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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Balances at beginning of period	\$31,247	\$37,590	\$36,121	\$22,067
Warranty liabilities acquired	—	26	—	19,710
Increases to accruals related to sales during the period	1,186	4,184	4,986	7,609
Warranty expenditures	(3,048	) (5,077	) (9,751	) (12,683
Effect of changes in exchange rates	(48	) (2,474	) (2,019	) (2,454
Balances at end of period	\$29,337	\$34,249	\$29,337	\$34,249

As of September 30, 2015 \$10.7 million is recorded in Current liabilities and \$18.6 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 September 30, 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 and nine months ended September 30, 2015 and 2014 were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Expected return on plan assets	\$(166	) \$(181	) \$(494	) \$(362
Interest cost	332	361	986	722
Net periodic expense	\$166	\$180	\$492	\$360

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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 and nine months ended September 30, 2015 and 2014 is as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Stock-based compensation expense	\$803	\$1,488	\$2,245	\$4,747

## 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 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 nine months ended September 30, 2015 is as follows (in thousands):

	Shares
Options outstanding at beginning of period	642
Options granted	171
Options exercised	(194 )
Options forfeited	(38 )
Options expired	(1 )
Options outstanding at end of period	580

Changes in outstanding performance based stock options during the nine months ended September 30, 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 three- or four-year vesting schedule.

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ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 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 nine months ended September 30, 2015 is as follows (in thousands):

	Shares
Balance at beginning of period	115
RSUs granted	151
RSUs vested	(74 )
RSUs forfeited	(12 )
Balance at end of period	180

Changes in the unvested performance based RSUs during the nine months ended September 30, 2015 were as follows (in thousands):

	Shares
Balance at beginning of period	242
RSUs granted	62
RSUs vested	(75 )
RSUs forfeited	(169 )
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 Adjustments	Unrealized Gains (Losses) on Marketable Securities	Total Accumulated Other Comprehensive Income
Balances at December 31, 2014	\$10,249	\$527	\$10,776
Current period other comprehensive (loss) income	(10,211 )	(613 )	(10,824 )
Balances at September 30, 2015	\$38	\$(86 )	\$(48 )

**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 September 30, 2015 is approximately \$55.3 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. Additionally, we have a commitment to fund our defined benefit obligation in the amount of \$0.8 million per year through 2024. For more information on the defined benefit obligation, please see Note 15. Pension Liability in Part I Item 1 of this Form 10-Q.

We are undergoing a customs audit related to the years 2008 - 2013. The settlement is not expected to have a material impact on our condensed consolidated financial statements. 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 and nine months ended September 30, 2015.



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ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## NOTE 19. RELATED PARTY TRANSACTIONS

During the three and nine months ended September 30, 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		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Sales to related parties	\$56	\$26	\$367	\$253
Rent expense paid to related party lessor	—	472	—	1,378

## 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 September 30, 2015 and September 30, 2014, we had sales to one such customer as noted above. During the nine months ended September 30, 2015 and September 30, 2014, we had sales to two and one such customers, respectively, as noted above. As of September 30, 2015, we had aggregate accounts receivable from one such customer of \$0.2 million. As of December 31, 2014, we had aggregate accounts receivable of \$0.1 million from three such 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. On June 29, 2015, we announced our intention to wind down operations of our Solar Inverter business. For more information on this wind down, please refer to Note 13. Restructuring Costs in Part I Item 1 of this Form 10-Q.

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		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Precision Power	\$107,851	\$91,192	\$318,300	\$255,896
Inverters	22,949	51,955	90,409	174,484
Total	\$130,800	\$143,147	\$408,709	\$430,380



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ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Precision Power	\$30,600	\$22,882	\$90,335	\$64,455
Inverters	(7,010 )	(12,474 )	(61,097 )	(25,378 )
Total segment operating income	23,590	10,408	29,238	39,077
Restructuring charges	(13,930 )	(1,183 )	(182,323 )	(1,427 )
Other (expense) income, net	(867 )	(618 )	354	(689 )
Income (loss) before income taxes	\$8,793	\$8,607	\$(152,731 )	\$36,961

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

	September 30, 2015	December 31, 2014
Precision Power	\$51,716	\$51,414
Inverters	32,515	69,612
Total segment assets	84,231	121,026
Unallocated corporate property and equipment	—	2,617
Unallocated corporate assets	429,430	560,926
Consolidated total assets	\$513,661	\$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 and nine months ended September 30, 2015, we had two customers which individually accounted for 10% or more of our sales. Sales to Applied Materials, Inc. and LAM Research were \$33.8 million and \$22.8 million or 25.8% and 17.4%, respectively, of total sales for the three month period and \$98.0 million and \$70.0 million or 24.0% and 17.1% for the nine month period. During the three months ended September 30, 2014, we had two customers individually accounting for 10% or more of our sales. Sales to Applied Materials, Inc. and LAM Research were \$28.2 million and \$20.9 million or 19.7% and 14.6%, respectively, of total sales during the three months ended September 30, 2014. During the nine months ended September 30, 2014, we had sales to two customers which individually accounted for over 10% of our sales. Sales to Applied Materials, Inc. and LAM Research were \$76.4 million and \$53.7 million or 17.5% and 12.5%, respectively. 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 September 30, 2015, we had \$21.1 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

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ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 September 30, 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 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 nine months ended September 30, 2015 and 2014, we expensed \$0.3 million and \$0.3 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 nine months ended September 30, 2015. During the quarter ended September 30, 2015, the lender issued a letter of credit in the amount of \$2.0 million related to a customer contract.

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.

In 2013 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 as 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 Bayern under which it had the ability to borrow up to 4.0 million Euros (equal to \$5.5 million on September 30, 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.



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

Special Note on Forward-Looking Statements

This Form 10-Q and the information we are incorporating by reference 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," "might," "continue," "enables," "plan," "intend," "should," "could," "would," 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, and precision power for analytical instrumentation. 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. We refer to this as our "core business" ("AE without Inverters").

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

On June 29, 2015, we announced our decision to wind down our solar Inverter business to focus solely on our Precision Power business. For more information on this wind down, please refer to Note 1. Basis of Presentation in Part I Item 1 of this Form 10-Q.

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 and nine months ended September 30, 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

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period April 12, 2014 to December 31, 2014 and the three and nine months ended September 30, 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 and nine months ended September 30, 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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Sales	\$ 130,800	\$ 143,147	\$ 408,709	\$ 430,380
Gross profit	53,037	47,943	153,059	153,150
Operating expenses	43,377	38,718	306,144	115,500
Operating income (loss)	9,660	9,225	(153,085 )	37,650
Other (expense) income, net	(867 )	(618 )	354	(689 )
Income (loss) before income taxes	8,793	8,607	(152,731 )	36,961
(Benefit) provision for income taxes	(7,639 )	(3,695 )	42,020	(702 )
Income (loss) net of income taxes	\$ 16,432	\$ 12,302	\$ (194,751 )	\$ 37,663

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 September 30,		Nine Months Ended September 30,		
	2015	2014	2015	2014	
Sales	100.0	% 100.0	% 100.0	% 100.0	%
Gross profit	40.5	33.5	37.4	35.6	
Operating expenses	33.2	27.0	74.9	26.8	
Operating income (loss)	7.3	6.5	(37.5 )	8.8	
Other (expense) income, net	(0.7 )	(0.4 )	0.1	(0.2 )	
Income (loss) before income taxes	6.7	6.0	(37.4 )	8.6	
(Benefit) provision for income taxes	(5.8 )	(2.6 )	10.3	(0.2 )	
Income (loss) net of income taxes	12.5	% 8.6	% (47.7 )	% 8.8	%

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## SALES

The following tables summarize sales, and percentages of sales, by segment for the three and nine months ended September 30, 2015 and 2014 (in thousands):

	Three Months Ended September 30,						
	2015	% of Total Sales	2014	% of Total Sales	Increase/ (Decrease)	Percent Change	
Core Business:							
Semiconductor capital equipment	\$72,859	55.7	% \$57,934	40.5	% \$14,925	25.8	%
Non-semiconductor capital equipment	21,378	16.4	20,490	14.3	888	4.3	
Global support	13,614	10.3	12,768	8.9	846	6.6	
Total Core Business	107,851	82.5	91,192	63.7	16,659	18.3	
Inverters	22,949	17.5	51,955	36.3	(29,006 )	(55.8 )	
Total sales	\$130,800	100.0	% \$143,147	100.0	% \$(12,347 )	(8.6 )	)%
	Nine Months Ended September 30,						
	2015	% of Total Sales	2014	% of Total Sales	Increase/ (Decrease)	Percent Change	
Core Business:							
Semiconductor capital equipment	\$216,246	52.9	% \$163,510	37.9	% \$52,736	32.3	%
Non-semiconductor capital equipment	63,022	15.4	56,181	13.1	6,841	12.2	
Global support	39,032	9.6	36,205	8.4	2,827	7.8	
Total Core Business	318,300	77.9	255,896	59.4	62,404	24.4	
Inverters	90,409	22.1	174,484	40.6	(84,075 )	(48.2 )	
Total sales	\$408,709	100.0	% \$430,380	100.0	% \$(21,671 )	(5.0 )	)%
Total Sales							

Overall, our sales decreased \$12.3 million, or 8.6%, to \$130.8 million for the three months ended September 30, 2015 from \$143.1 million for the three months ended September 30, 2014. Sales decreased \$21.7 million, or 5.0%, to \$408.7 million to for the nine months ended September 30, 2015 from \$430.4 million for the nine months ended September 30, 2014. This shift in sales for both periods was driven by decreased Inverter sales as a result of the wind down, only partially offset by an increase in our core business sales.

## Core Business

Results for AE without Inverters for the three and nine months ended September 30, 2015 and 2014 were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Sales	\$107,851	\$91,192	\$318,300	\$255,896
Operating income	30,600	22,882	90,335	64,455

Sales increased 18.3% to \$107.9 million, or 82.5% of sales, for the three months ended September 30, 2015 versus \$91.2 million, or 63.7% of sales, for the three months ended September 30, 2014 primarily due to an increase in semiconductor sales. Sales increased to \$318.3 million for the nine months ended September 30, 2015 from \$255.9 million for the nine months ended September 30, 2014 largely driven by an increase in semiconductor sales to existing customers, as well as the addition of the high voltage product line in 2014.

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In the three months ended September 30, 2015, our core business sales to the semiconductor market increased 25.8% to \$72.9 million from \$57.9 million for the three months ended September 30, 2014 reflecting year over year market strength in the semiconductor market and our leadership in etch applications. We expect sales in the fourth quarter of 2015 to be lower, in line with the semiconductor market.

Sales in the non-semiconductor capital equipment markets increased 4.3% to \$21.4 million, or 16.4% of sales, for the three months ended September 30, 2015 compared to \$20.5 million, or 14.3% of sales, for the three months ended September 30, 2014. Outside of semiconductor capital equipment, other markets served by our core business 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 6.6% to \$13.6 million, or 10.3% of total sales, for the three months ended September 30, 2015, compared to \$12.8 million, or 8.9% of sales, for the three months ended September 30, 2014. For the nine months ended September 30, 2015, our global support revenue increased 7.8% to \$39.0 million, or 9.6% of total sales, compared to \$36.2 million, or 8.4% of sales for the nine months ended September 30, 2014

Operating income for our core business was \$30.6 million and \$90.3 million for the three months and nine months ended September 30, 2015, respectively, an increase of \$7.7 million and \$25.9 million, respectively, from the same periods in 2014. Higher sales volumes resulted in the increase in operating income between periods.

**Inverters**

On June 29, 2015, we announced the conclusion of our strategic review and our decision to wind down Inverter operations. Results for our Inverters segment for the three and nine months ended September 30, 2015 and 2014 are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Sales	\$22,949	\$51,955	\$90,409	\$174,484
Operating loss	(7,010)	(12,474)	(61,097)	(25,378)

Inverters sales were \$22.9 million, or 17.5% of sales, for the three months ended September 30, 2015 as compared to \$52.0 million, or 36.3% of sales, for the three months ended September 30, 2014. Inverters sales were \$90.4 million for the nine months ended September 30, 2015 as compared to \$174.5 million for the nine months ended September 30, 2014. Inverter sales were significantly impacted by our decision to wind down the business as of June 29, 2015. We expect to substantially complete our wind down activities by the end of 2015.

Operating loss for Inverters was \$7.0 million for the three months ended September 30, 2015 as compared to \$12.5 million for the three months ended September 30, 2014 and \$61.1 million versus \$25.4 million for the nine months ended September 30, 2015 and 2014. Lower sales volume as discussed above, and write-offs of inventory and accounts receivable related to our decision to wind down the Inverter business contributed to the increased losses. For more information on this wind down, please refer to Note 1. Basis of Presentation in Part I Item 1 of this Form 10-Q.

**Backlog**

Our overall backlog was \$51.4 million at September 30, 2015 as compared to \$87.9 million at December 31, 2014. The decrease is primarily the result of a decrease in Inverters backlog coupled with reduced orders related to a forecasted decline in the semiconductor market in the fourth quarter.

**GROSS PROFIT**

Our gross profit was \$53.0 million, or 40.5% of sales, for the three months ended September 30, 2015, as compared to \$47.9 million, or 33.5% of sales for the three months ended September 30, 2014 driven primarily by a shift in product mix away from lower margin Inverter sales, partially offset by the \$3.4 million inventory impairment related to the wind down of our Inverter business recorded in the third quarter of 2015. Our gross profit was \$153.1 million, or 37.4%, for the nine months ended September 30, 2015 versus \$153.2 million, or 35.6%, for the nine months ended September 30, 2014. The year-over-year decrease in absolute dollars was due to the recording of a \$18.4 million inventory impairment related to the wind down of our Inverter





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business in the second and third quarters of 2015. This was largely offset by an increase in our margin as a result of a shift in product mix to higher margin core business products.

**OPERATING EXPENSE**

The following table summarizes our operating expenses as a percentage of sales for the three and nine months ended September 30, 2015 and 2014 (in thousands):

	Three Months Ended September 30,			Nine Months Ended September 30,				
	2015		2014	2015		2014		
Research and development	\$11,696	8.9 %	\$15,074	10.5 %	\$39,985	9.8 %	\$44,952	10.4 %
Selling, general, and administrative	16,484	12.6	20,223	14.1	78,784	19.3	62,782	14.6
Amortization of intangible assets	1,267	1.0	2,238	1.6	5,052	1.2	6,339	1.5
Restructuring charges and asset impairment	13,930	10.6	1,183	0.8	182,323	44.6	1,427	0.3
Total operating expenses	\$43,377	33.2 %	\$38,718	27.0 %	\$306,144	74.9 %	\$115,500	26.8 %

**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 September 30, 2015 were \$11.7 million, or 8.9% of sales, as compared to \$15.1 million, or 10.5% of sales, for the three months ended September 30, 2014 due primarily to decreased costs related to the Inverter wind down. Research and development costs were down in both periods of 2015 largely due to the wind down of our Inverter business.

**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 decreased \$3.7 million for three months ended September 30, 2015 as compared to the same period in 2014 as a result of recoveries of previously reserved accounts receivable. SG&A increased \$16.0 million for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 primarily due to the recording of accruals of potential Inverter bad debts of \$13.6 million made in the second and third quarters of 2015, as discussed in Note 1. Basis of Presentation in Part I Item 1 of this Form 10-Q.

**Restructuring**

In June 2015, we committed to a restructuring plan in relation to the wind down of our Inverter business. We expect to record changes within the original estimated pre-tax range of approximately \$260 million to \$290 million, the majority of which was recorded in the second and third quarters of 2015. We expect to incur an additional \$15 million to \$20 million over the next three months as we wind down the Inverter activities. Of this amount, approximately \$10 million to \$15 million relate to the write down of inventory and other assets, \$1 million to employee termination costs, and the remaining \$3 million for other costs to exit the business, primarily the costs to exit facilities.

**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 loss of \$0.9 million and a gain of \$0.4 million for the three and nine months ended September 30, 2015, respectively. For the

three and nine months ended

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September 30, 2014, Other income (expenses) was a loss of \$0.6 million and \$0.7 million, respectively. The change is primarily due to the fluctuation in foreign exchange rates.

Provision for Income Taxes

We recorded an income tax benefit for the three months ended September 30, 2015 of \$7.6 million compared to \$3.7 million for the three months ended September 30, 2014, resulting in effective tax rates of (86.9)% and (42.9)%, respectively. The tax expense and effective tax rates for the three and nine months ended September 30, 2015 are significantly impacted by the current period charges related to the inverter business restructuring. These charges include restructuring expenses not deductible for tax purposes, the exclusion of losses recorded in tax jurisdictions for which tax benefits are not being recognized, and the recognition of discrete tax expense in the quarter related to a change in the determination of the realizability of certain deferred tax assets. The income tax provision for the three and nine months ended September 30, 2015 was calculated under the annual effective tax rate method, which resulted in a significant tax expense in the second quarter, and a tax benefit in the third quarter. The Company anticipates that the annual effective tax rate method will result in the recording of a significant tax benefit in the fourth quarter of 2015. At September 30, 2015, the Company has recorded the current income tax payable amount as a deferred income tax liability as the Company expects this tax liability to completely reverse in the fourth quarter.

The effective tax rates for the three and nine months ended September 30, 2015 are favorably impacted by the benefit of earnings in foreign jurisdictions which are subject to lower tax rates. We anticipate our full year effective tax rate will be approximately 1% to 2%.

The effective tax rates for the three and nine months ended September 30, 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 September 30, 2015 and 2014, the amount of interest and penalties accrued related to our unrecognized tax benefits was not significant.

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.

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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		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net (loss) income, as reported	\$16,432	\$12,302	\$(194,751)	\$37,663
Adjustments, net of tax:				
Restructuring charges	12,927	1,102	179,990	1,327
Acquisition-related costs	—	56	—	718
Stock-based compensation	746	1,385	2,085	4,309
Amortization of intangible assets	1,175	2,084	4,687	5,778
Nonrecurring tax items	(9,499)	) —	40,773	—
Nonrecurring accounts receivable (recovery) impairment	(3,775)	) —	12,614	—
Nonrecurring inventory impairment	3,132	—	17,046	—
Nonrecurring executive severance	—	—	—	800
Non-GAAP income, net of tax	\$21,138	\$16,929	\$62,444	\$50,595
Diluted weighted-average common shares outstanding	41,319	40,470	41,233	41,102
Non-GAAP Earnings Per Share	\$0.51	\$0.42	\$1.51	\$1.23

\*Note: The impact of the non-tax deductible goodwill impairment recorded in our second quarter exaggerated our income tax rate resulting in significant book tax expense as compared to our pre-tax book loss. Therefore for preparation of our non-GAAP information we have applied an estimated normalized tax rate of 7.2%, which is consistent with our pre-restructuring Q1 tax rate in order to tax effect the non-GAAP items above. Additionally, we assessed the tax impact of this one time event by applying this estimated tax rate to our “book operating income excluding restructuring” in order to arrive at our Q3 estimated non-GAAP non-recurring tax add-back of (\$9.5 million) and 2015 YTD estimated non-GAAP non-recurring tax add-back of \$40.8 million shown above.

Based on the decision by the Company to exit the Inverter segment in a wind-down of operations as of June 29, 2015, we ceased allocating corporate overhead to the Inverter segment. These costs included departments and services which were historically shared between the Inverter segment and the Precision Power segment. In order to present the following non-GAAP historical periods by segment on a consistent basis, we have eliminated from the historical GAAP segment presentation for Inverters through June 30, 2015, the corporate overhead expenses previously allocated to Inverters and these costs have been reflected as burdening the Precision Power segment.

	Three months ended			Nine months ended		
	September 30, 2015			September 30, 2015		
	As reported	Amounts related to Inverter	Amounts excluding Inverter	As reported	Amounts related to Inverter	Amounts excluding Inverter
Revenues	\$130,800	\$22,949	\$107,851	\$408,709	\$90,409	\$318,300
Operating income as reported	\$9,660	\$(20,940)	\$30,600	\$(153,085)	\$(239,934)	\$86,849
Adjustments						
Restructuring charges	13,930	13,930	—	182,323	182,323	—
Stock-based compensation	803	66	737	2,245	326	1,919
Nonrecurring inventory impairment	3,375	3,375	—	18,369	18,369	—
Nonrecurring accounts receivable impairment, net of recoveries	(4,068)	) (4,068)	) —	13,593	13,593	—
Amortization of intangible assets	1,267	169	1,098	5,052	1,755	3,297

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Non-GAAP Operating income (loss)	\$24,967	\$(7,468	) \$32,435	\$68,497	\$(23,568	) \$92,065
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	Three months ended September 30, 2014			Nine months ended September 30, 2014		
	As reported	Amounts related to Inverter	Amounts excluding Inverter	As reported	Amounts related to Inverter	Amounts excluding Inverter
Revenues	\$ 143,147	\$ 51,955	\$ 91,192	\$ 430,380	\$ 174,484	\$ 255,896
Operating income as reported	\$ 9,225	\$(11,394)	\$ 20,619	\$ 37,650	\$(19,616)	\$ 57,266
Adjustments						
Restructuring charges	1,183	1,183	—	1,427	1,372	55
Acquisition-related costs	60	—	60	790	—	790
Stock-based compensation	1,488	327	1,161	4,747	1,054	3,693
Amortization of intangible assets	2,238	883	1,355	6,339	3,108	3,231
Nonrecurring executive severance	—	—	—	867	—	867
Non-GAAP Operating income (loss)	\$ 14,194	\$(9,001)	\$ 23,195	\$ 51,820	\$(14,082)	\$ 65,902

## 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 September 30, 2015, we had \$199.0 million in cash, cash equivalents, and marketable securities and \$21.1 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.

On September 16, 2015, we announced a formalized capital deployment strategy which is centered on increasing shareholder value by investing in long-term growth opportunities and making distributions to shareholders. Our capital deployment strategy includes the following:

- organic investments to grow our market leadership in semiconductor applications, expand into industrial markets and increase its geographic presence;
- acquisitions to increase the company's total addressable market with a particular focus on industrial products and applications;
- share repurchases to meaningfully reduce share count over time; and
- a more flexible capital structure that may include debt to fund key investments.





Table Of Contents**CASH FLOWS**

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

	Nine Months Ended September 30,	
	2015	2014
Net cash provided by operating activities	\$72,055	\$57,320
Net cash used in investing activities	(14,974	) (53,148
Net cash provided by (used in) financing activities	4,072	(38,438
Effect of Currency Translation on Cash	(2,142	) (818
Increase (Decrease) in Cash and Cash Equivalents	59,011	(35,084
Cash and Cash Equivalents, beginning of period	125,285	138,125
Cash and Cash Equivalents, end of period	\$184,296	\$103,041

**2015 CASH FLOWS COMPARED TO 2014****Net cash provided by operating activities**

Net cash provided by operating activities for the nine months ended September 30, 2015 was \$72.1 million, compared to \$57.3 million for the same period ended September 30, 2014. The increase of \$14.7 million in net cash flows from operating activities is primarily the result of higher margins due to a shift in product mix coupled with lower Inverter spending due to the wind down.

**Net cash used in investing activities**

Net cash used in investing activities for the nine months ended September 30, 2015 was \$15.0 million, a decrease of \$38.2 million from the same period ended September 30, 2014. The decrease in cash used was driven by the \$30.3 million cash and \$31.3 million payments for the acquisitions of PCM and UltraVolt, respectively, in 2014. This was only partially offset by a \$22.0 million increase in cash used to purchase marketable securities for the nine months ended September 30, 2015.

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

Net cash provided by financing activities in the nine months ended September 30, 2015 was \$4.1 million, a \$42.5 million change from the cash used in financing activities of \$38.4 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, the \$25 million stock buy-back that was completed in the second quarter of 2014, and a use of \$13.7 million to repay our external notes receivable in 2014. Additionally, the exercise of stock options provided only \$3.5 million of cash in 2015 as compared to \$10.3 million in 2014.

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## Effect of currency translation on cash

During the nine months ended September 30, 2015, currency translation had a negative \$2.1 million impact on cash compared to a negative impact of \$0.8 million in the same period of 2014 primarily due to the decline in the Euro between December 31, 2014 and September 30, 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 nine months ended September 30, 2015 and 2014 are as follows:

From	To	Nine Months Ended September 30,		
		2015	2014	
CAD	USD	(13.0	)% (5.2	)%
CHF	USD	2.0	(6.5	)
CNY	USD	(2.4	) (1.4	)
EUR	USD	(7.6	) (8.1	)
GBP	USD	(2.9	) (2.1	)
INR	USD	(3.7	) (0.1	)
JPY	USD	(0.1	) (4.0	)
KRW	USD	(7.7	) 0.3	)
TWD	USD	(4.2	) (1.6	)

## Off Balance Sheet Arrangements

We have no off-balance sheet arrangements or variable interest entities except for our commitment to fund our defined benefit obligation in the amount of \$0.8 million per year through 2024. See Note 15 - Pension Liability of our Consolidated Financial Statements.

## Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with U.S. GAAP requires us to make judgments, assumptions and estimates that affect the amounts reported in the Condensed Consolidated Financial Statements and accompanying notes. Note 1 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 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.



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**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 September 30, 2015, our investments consisted primarily of commercial paper and certificates of deposit, all with maturity of less than 2 years (see Note 5. Marketable Securities in Part I Item 1 of this Form 10-Q). 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 approximately \$0.1 million.

We had no debt outstanding as of September 30, 2015 under one debt instrument with variable interest rates and principal payments (see Note 21. Credit Facility in Part I Item 1 of this Form 10-Q). 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.

See the "Risk Factors" set forth in Part I, Item 1A of our Annual Report on Form 10-K and Part II, Item 1A of this Form 10-Q 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



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Executive Officer (Yuval Wasserman, Chief Executive Officer) and Principal Financial Officer (Thomas Liguori, Chief Financial Officer), as appropriate, to allow timely decisions regarding required disclosures.

As of the end of the period covered by this report, we conducted an evaluation, with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the disclosure controls and procedures pursuant to the Exchange Act Rule 13a-15(b). Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2015. The conclusions of the Chief Executive Officer and Chief Financial Officer from this evaluation were communicated to the Audit Committee. We intend to continue to review and document our disclosure controls and procedures, including our internal controls and procedures for financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that our systems evolve with our business.

**Changes in Internal Control over Financial Reporting**

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.

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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 September 30, 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

Our business, financial condition, operating results and cash flows can be impacted by a number of factors, including, but not limited to those set forth below, any of which could cause our results to be adversely impacted and could result in a decline in the value or loss of an investment in our common stock. 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.

The wind down plan for our inverter operations may adversely impact our business

There are risks and uncertainties inherent to the inverter operations wind down that could adversely impact our overall business including, but not limited to: (a) changes in our estimates of wind down costs and duration, including the cost to exit facilities; (b) potential decreases in customer orders and sales and disruptions in operations, supplier relationships and employee relations, (c) other facts we discover that would require us to record additional charges that may be materially different from our initial expectations about the costs of the wind down, (d) the Company's ability to realize its plan to avoid costs as it winds down the Solar Inverter business, (e) the accuracy of the estimates and assumptions on which the Company's financial statement projections are based, including estimates and assumptions related to the wind down of the Solar Inverter business, (f) the effects of global macroeconomic conditions upon demand for our products; (g) the impact of price changes resulting from a variety of factors; (h) the timing of orders received from customers; (i) the Company's ability to realize benefits from cost improvement efforts including avoided costs, restructuring plans and inorganic growth; (j) the Company's ability to obtain materials and manufacture products, including the requirement for sourcing material to support future warranty obligations; and (k) unanticipated changes to management's estimates, reserves or allowances. If we do not successfully coordinate the wind down activities we could experience interruptions, including distraction of management, to other product lines. Furthermore, we may continue to incur costs related to Inverter operations, such as warranty expenses, even after that segment has been wound down.

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.

Our products may suffer from defects or errors leading to damage or warranty claims.

Our products use complex system designs and components that may contain errors or defects, particularly when we incorporate new technology into our products or release new versions. If any of our products are defective or fail because of their design, we might be required to repair, redesign or recall those products, pay damages (including liquidated damages) or warranty claims, and we could suffer significant harm to our reputation. We accrue a warranty reserve for estimated costs to provide warranty services including the cost of technical support, product repairs, and product replacement for units that cannot be repaired. Our estimate of costs to fulfill our warranty obligations is based on historical experience and expectation of future conditions. To the extent we experience increased warranty claim activity or increased costs associated with servicing those claims, our warranty accrual will increase, resulting in decreased gross profit. In 2014 and 2015, we have experienced increased warranty costs for our inverter product lines.





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Raw material, part, component, and subassembly shortages, exacerbated by our dependence on sole and limited source suppliers, could affect our ability to manufacture products and systems and could delay our shipments.

Our business depends on our ability to manufacture products that meet the rapidly changing demands of our customers. Our ability to manufacture our products timely depends in part on the timely delivery of raw materials, parts, components, and subassemblies from suppliers. We rely on sole and limited source suppliers for some of our raw materials, parts, components, and subassemblies that are critical to the manufacturing of our products.

This reliance involves several risks, including the following:

- the inability to obtain an adequate supply of required parts, components, or subassemblies;
- supply shortages, if a sole or limited source provider ceases operations;
- the need to fund the operating losses of a sole or limited source provider;
- reduced control over pricing and timing of delivery of raw materials and parts, components, or subassemblies;
- the need to qualify alternative suppliers;
- suppliers that may provide parts, components or subassemblies that are defective, contain counterfeit goods or are otherwise misrepresented to us in terms of form, fit or function; and
- the inability of our suppliers to develop technologically advanced products to support our growth and development of new products.

Qualifying alternative suppliers could be time consuming and lead to delays in, or prevention of delivery of products to our customers, as well as increased costs. If we are unable to qualify additional suppliers and manage relationships with our existing and future suppliers successfully, if our suppliers experience financial difficulties including bankruptcy, or if our suppliers cannot meet our performance or quality specifications or timing requirements, we may experience shortages, delays, or increased costs of raw materials, parts, components, or subassemblies. This in turn could limit or prevent our ability to manufacture and ship our products, which could materially and adversely affect our relationships with our current and prospective customers and our business, financial condition, and results of operations. From time to time, our sole or limited source suppliers have given us notice that they are ending supply of critical parts, components, and subassemblies that are required for us to deliver product. In those cases, we have been required to make last time purchases of such supplies in advance of product demand from our customers. If we cannot qualify alternative suppliers before these end-of-life supplies are utilized in our products, we may be unable to deliver further product to our customers. To mitigate the risk of not having a supply of critical parts, components, and subassemblies for our products, we proactively make additional purchases which we believe addresses such risk.

Our orders of raw materials, parts, components, and subassemblies are based on demand forecasts.

We place orders with many of our suppliers based on our customers' quarterly forecasts and our annual forecasts. These forecasts are based on our customers' and our expectations as to demand for our products. As the quarter and the year progress, such demand can change rapidly or we may realize that our customers' expectations were overly optimistic or pessimistic, especially when industry or general economic conditions change. Orders with our suppliers cannot always be amended in response. In addition, in order to assure availability of certain components or to obtain priority pricing, we have entered into contracts with some of our suppliers that require us to purchase a specified amount of components and subassemblies each quarter, even if we are not able to use such components or subassemblies. Moreover, we have obligations to some of our customers to hold a minimum amount of finished goods in inventory, in order to fulfill just in time orders, regardless of whether the customers expect to place such orders. We currently have firm purchase commitments and agreements with various suppliers to ensure the availability of components. Our obligation to our suppliers at September 30, 2015 under these purchase commitments and agreements was \$55.3 million. If demand for our products does not continue at current levels, we might not be able to use all of the components that we are required to purchase under these commitments and agreements, and our reserves for excess and obsolete inventory may increase, which could have a material adverse effect on our results of operations. If demand for our products exceeds our customers' and our forecasts, we may not be able to timely obtain sufficient raw materials, parts, components, or subassemblies, on favorable terms or at all, to fulfill the excess demand.

We generally have no long-term contracts with our customers requiring them to purchase any specified quantities from us.

Our sales are primarily made on a purchase order basis, and we generally have no long-term purchase commitments from our customers, which is typical in the industries we serve. As a result, we are limited in our ability to predict the level of

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future sales or commitments from our current customers, which may diminish our ability to allocate labor, materials, and equipment in the manufacturing process effectively. In addition, we may accumulate inventory in anticipation of sales that do not materialize, resulting in excess and obsolete inventory write-offs.

We are exposed to risks associated with worldwide financial markets and the global economy.

Our business depends on the expansion of manufacturing capacity in our end markets and the installation base for the products we sell. In the past, severe tightening of credit markets, turmoil in the financial markets, and a weakening global economy have contributed to slowdowns in the industries in which we operate. Some of our key markets depend largely on consumer spending. Economic uncertainty, such as that recently experienced in the PRC, exacerbates negative trends in consumer spending and may cause our customers to push out, cancel, or refrain from placing equipment orders.

Difficulties in obtaining capital and uncertain market conditions may also lead to a reduction of our sales and greater instances of nonpayment. These conditions may similarly affect our key suppliers, which could affect their ability to deliver parts and result in delays for our products. Further, these conditions and uncertainty about future economic conditions could make it challenging for us to forecast our operating results and evaluate the risks that may affect our business, financial condition, and results of operations. As discussed in “Our orders of raw materials, parts, components, and subassemblies are based on demand forecasts,” a significant percentage of our expenses are relatively fixed and based, in part, on expectations of future net sales. If a sudden decrease in demand for our products from one or more customers were to occur, the inability to adjust spending quickly enough to compensate for any shortfall would magnify the adverse impact of a shortfall in net sales on our results of operations. Conversely, if market conditions were to unexpectedly recover and demand for our products were to increase suddenly, we might not be able to respond quickly enough, which could have a negative impact on our results of operations and customer relations.

The industries in which we compete are subject to volatile and unpredictable cycles.

As a supplier to the global semiconductor, flat panel display, solar, and related industries, we are subject to business cycles, the timing, length, and volatility of which can be difficult to predict. These industries historically have been cyclical due to sudden changes in customers’ manufacturing capacity requirements and spending, which depend in part on capacity utilization, demand for customers’ products, inventory levels relative to demand, and access to affordable capital. These changes have affected the timing and amounts of customers’ purchases and investments in technology, and continue to affect our orders, net sales, operating expenses, and net income. In addition, we may not be able to respond adequately or quickly to the declines in demand by reducing our costs. We may be required to record significant reserves for excess and obsolete inventory as demand for our products changes.

To meet rapidly changing demand in each of the industries we serve, we must effectively manage our resources and production capacity. During periods of decreasing demand for our products, we must be able to appropriately align our cost structure with prevailing market conditions, effectively manage our supply chain, and motivate and retain key employees. During periods of increasing demand, we must have sufficient manufacturing capacity and inventory to fulfill customer orders, effectively manage our supply chain, and attract, retain, and motivate a sufficient number of qualified individuals. If we are not able to timely and appropriately adapt to changes in our business environment or to accurately assess where we are positioned within a business cycle, our business, financial condition, or results of operations may be materially and adversely affected.

Cyclical in the semiconductor equipment industry impacts our results of operations.

Our business is affected by the capital equipment expenditures of semiconductor manufacturers, which in turn is affected by the current and anticipated market demand for integrated circuits and products using integrated circuits.

The semiconductor industry is cyclical in nature and has experienced periodic and severe downturns and upturns.

Business conditions, therefore, historically have changed rapidly and unpredictably.

Fluctuating levels of investment by semiconductor manufacturers could continue to materially affect our revenues and operating results. Where appropriate, we will attempt to respond to these fluctuations with cost management programs aimed at aligning our expenditures with anticipated revenue streams, which sometimes result in restructuring charges.

Even during periods of reduced revenues, we must continue to invest in research and development and maintain extensive ongoing worldwide customer service and support capabilities to remain competitive, which may have a temporary adverse effect on our results of operations. During periods of increased demand, we may have difficulty

obtaining sufficient components and subassemblies or increasing production quickly enough to meet our customers' requirements.

We may not realize the expected results from the implementation of restructuring plans.

During the second half of 2011 as well as the second quarters of 2013, 2014, and 2015, we implemented restructuring plans to align our cost structure with current industry conditions in our Precision Power and Inverter segments. As part of these

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restructuring plans we reduced staff, exited excess office and warehouse space, relocated engineering and research and development resources closer to our customers, and transferred various operating activities, such as supply chain management, manufacturing, engineering and other activities, to our Shenzhen, China facility. This means we are even more dependent on our China-based operations. As with any restructuring initiative, there could be many unintended results and there are always risks that execution may not meet expectations in the future. If we are unable to effectively execute the initiatives under the plan or our customers' requirements change, we may not realize the expected results or could incur restructuring charges greater than anticipated, which could materially affect our financial condition and results of operations. Please see "The wind down plan for our inverter operations may adversely impact our business," risk factor listed above.

A significant portion of our sales and accounts receivable are concentrated among a few customers.

Our ten largest customers accounted for 63.6% of our sales for the nine months ended September 30, 2015 and 48.1% of our sales for the nine months ended September 30, 2014. During the nine months ended September 30, 2015, we had sales to two customers which individually accounted for over 10% of our sales. Sales to Applied Materials, Inc. and LAM Research were \$98.0 million and \$70.0 million or 24.0% and 17.1%, respectively. We had sales to two customers which individually accounted for over 10% of our sales during the nine months ended September 30, 2014. Sales to Applied Materials, Inc., and LAM Research were \$76.4 million and \$53.7 million, or 17.5% and 12.5%, respectively. 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. Sales to our inverter customers have been declining in part due to our announced wind down and as a result our sales and receivables will become more concentrated. Please see "The wind down plan for our inverter operations may adversely impact our business," risk factor listed above.

Market pressures may reduce or eliminate our profitability.

Our customers continually exert pressure on us to reduce our prices and extend payment terms. Given the nature of our customer base and the highly competitive markets in which we compete, we may be required to reduce our prices or extend payment terms to remain competitive. We may not be able to reduce our expenses in an amount sufficient to offset potential margin declines. The decrease in cash flow could materially and adversely impact our financial condition.

If we are unable to adjust our business strategy successfully for some of our product lines to reflect the increasing price sensitivity on the part of our customers, our business and financial condition could be harmed.

Our business strategy for many of our product lines has been focused on product performance and technology innovation to provide enhanced efficiencies and productivity. As a result of recent economic conditions and changes in various markets that we serve, our customers have experienced significant cost pressures. We have observed increased price sensitivity on the part of our customers. If competition against any of our product lines should come to focus solely on price rather than on product performance and technology innovation, we will need to adjust our business strategy and product offerings accordingly, and if we are unable to do so, our business, financial condition, and results of operations could be materially and adversely affected.

The markets in which we operate are highly competitive.

We face substantial competition, primarily from established companies, some of which have greater financial, marketing, and technical resources than we do. We expect our competitors will continue to develop new products in direct competition with ours, improve the design and performance of their products, and introduce new products with enhanced performance characteristics.

To remain competitive, we must improve and expand our products and product offerings. In addition, we may need to maintain a high level of investment in research and development and expand our sales and marketing efforts, particularly outside of the United States. We might not be able to make the technological advances and investments necessary to remain competitive. If we were unable to improve and expand our products and product offerings, our business, financial condition, and results of operations could be materially and adversely affected.

Our competitive position could be weakened if we are unable to convince end users to specify that our products be used in the equipment sold by our customers.

The end users in our markets may direct equipment manufacturers to use a specified supplier's product in their equipment at a particular facility. This occurs with frequency because our products are critical in manufacturing process control for thin-film applications. Our success, therefore, depends in part on our ability to have end users specify that our products be used at their facilities. In addition, we may encounter difficulties in changing established relationships of competitors that already have a large installed base of products within such facilities.

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We must achieve design wins to retain our existing customers and to obtain new customers, although design wins achieved do not necessarily result in substantial sales.

The constantly changing nature of technology in the markets we serve causes equipment manufacturers to continually design new systems. We must work with these manufacturers early in their design cycles to modify our equipment or design new equipment to meet the requirements of their new systems. Manufacturers typically choose one or two vendors to provide the components for use with the early system shipments. Selection as one of these vendors is called a design win. It is critical that we achieve these design wins in order to retain existing customers and to obtain new customers.

We believe that equipment manufacturers often select their suppliers based on factors including long-term relationships and end user demand. Accordingly, we may have difficulty achieving design wins from equipment manufacturers who are not currently our customers. In addition, we must compete for design wins for new systems and products of our existing customers, including those with whom we have had long-term relationships. Our efforts to achieve design wins are time consuming, expensive, and may not be successful. If we are not successful in achieving design wins, or if we do achieve design wins but our customers' systems that utilize our products are not successful, our business, financial condition, and results of operations could be materially and adversely impacted. Once a manufacturer chooses a component for use in a particular product, it is likely to retain that component for the life of that product. Our sales and growth could experience material and prolonged adverse effects if we fail to achieve design wins. However, design wins do not always result in substantial sales, as sales of our products are dependent upon our customers' sales of their products.

We are highly dependent on our intellectual property.

Our success depends significantly on our proprietary technology. We attempt to protect our intellectual property rights through patents and non-disclosure agreements; however, we might not be able to protect our technology, and competitors might be able to develop similar technology independently. In addition, the laws of some foreign countries might not afford our intellectual property the same protections as do the laws of the United States. Our intellectual property is not protected by patents in several countries in which we do business, and we have limited patent protection in other countries, including the PRC. The cost of applying for patents in foreign countries and translating the applications into foreign languages requires us to select carefully the inventions for which we apply for patent protection and the countries in which we seek such protection. Generally, our efforts to obtain international patents have been concentrated in the European Union and certain industrialized countries in Asia, including Korea, Japan, and Taiwan. If we are unable to protect our intellectual property successfully, our business, financial condition, and results of operations could be materially and adversely affected.

The PRC commercial law is relatively undeveloped compared to the commercial law in the United States. Limited protection of intellectual property is available under PRC law. Consequently, manufacturing our products in the PRC may subject us to an increased risk that unauthorized parties may attempt to copy our products or otherwise obtain or use our intellectual property. We cannot give assurance that we will be able to protect our intellectual property rights effectively or have adequate legal recourse in the event that we encounter infringements of our intellectual property in the PRC.

Activities necessary to integrate acquisitions may result in costs in excess of current expectations or be less successful than anticipated.

In 2012, 2013 and 2014, we acquired Solvix, Refusol, the Power Controls Modules product line of AEG Power Solutions, HiTek, and UltraVolt respectively, and we may acquire other businesses in the future. The success of such transactions will depend on, among other things, our ability to integrate assets and personnel acquired in these transactions and to apply our internal controls process to these acquired businesses. The integration of acquisitions may require significant attention from our management, and the diversion of management's attention and resources could have a material adverse effect on our ability to manage our business. Furthermore, we may not realize the degree or timing of benefits we anticipated when we first entered into the acquisition transaction. If actual integration costs are higher than amounts originally anticipated, if we are unable to integrate the assets and personnel acquired in an acquisition as anticipated, or if we are unable to fully benefit from anticipated synergies, our business, financial condition, results of operations, and cash flows could be materially adversely affected.

Return on investments or interest rate declines on plan investments could result in additional unfunded pension obligations for the HiTek Power pension plan.

We currently have unfunded obligations in the HiTek Power pension plan. The extent of future contributions to the pension plan depends heavily on market factors such as the discount rate and the actual return on plan assets. We estimate future contributions to the plan using assumptions with respect to these and other items. While our management believes that these assumptions are



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appropriate, changes to those assumptions could have a significant effect on future contributions. Additionally, a material deterioration in the funded status of the plan could increase pension expenses and reduce our profitability. See Note 15 to our Consolidated Financial Statements.

We must continually design and introduce new products into the markets we serve to respond to competition and rapid technological changes.

As we operate in a highly competitive environment where innovation is critical, our future success depends on many factors, including the effective commercialization and customer acceptance of our products and services. The development, introduction and support of a broadening set of products is critical to our continued success. Our results of operations could be adversely affected if we do not continue to develop new products, improve and develop new applications for existing products, and differentiate our products from those of competitors resulting in their adoption by customers.

We conduct manufacturing at only a few sites and our sites are not generally interchangeable.

Our power products for the semiconductor industry are manufactured in Shenzhen, PRC. Our high voltage products are manufactured in Ronkonkoma, New York and Littlehampton, United Kingdom. Our thermal instrumentation products that are used in the semiconductor industry are manufactured in Vancouver, Washington. Each facility is under operating lease and interruptions in operations could be caused by early termination of existing leases by landlords or failure by landlords to renew existing leases upon expiration, including the possibility that suitable operating locations may not be available in proximity to existing facilities which could result in labor or supply chain supply risks. For instance, our Shenzhen, PRC manufacturing facility currently has a lease which expires in July 2017 that we are looking to further extend. Each facility manufactures different products, and therefore, is not interchangeable. Natural or other uncontrollable occurrences at any of our manufacturing facilities could significantly reduce our productivity at such site and could prevent us from meeting our customers' requirements in a timely manner, or at all. Our losses from any such occurrence could significantly affect our operations and results of operations for a prolonged period of time.

Our restructuring and other cost-reduction efforts have included transitioning manufacturing operations to our facility in Shenzhen from other manufacturing facilities, such as Fort Collins, Colorado and Littlehampton, UK, which renders us increasingly reliant upon our Shenzhen facility. A disruption in manufacturing at our Shenzhen facility, from whatever cause, could have a significantly adverse effect on our ability to fulfill customer orders, our ability to maintain customer relationships, our costs to manufacture our products and, as a result, our results of operations and financial condition.

Our results of operations could be affected by natural disasters and other events in the locations in which we or our customers or suppliers operate.

We have manufacturing and other operations in locations subject to natural occurrences such as severe weather and geological events including earthquakes or tsunamis that could disrupt operations. In addition, our suppliers and customers also have operations in such locations. A natural disaster, fire, explosion, or other event that results in a prolonged disruption to our operations, or the operations of our customers or suppliers, may materially adversely affect our business, results of operations, or financial condition.

We are subject to risks inherent in international operations.

Sales to our customers outside the United States were approximately 36.5% and 35.9% of our total sales for the nine months ended September 30, 2015 and 2014. The recent acquisitions of the power controls modules, and high voltage product lines have increased our presence in international locations. India is becoming a focus of possible expansion for sales, research and development, and manufacturing. Our success producing goods internationally and competing in international markets is subject to our ability to manage various risks and difficulties, including, but not limited to:

- our ability to effectively manage our employees at remote locations who are operating in different business environments from the United States;

- our ability to develop and maintain relationships with suppliers and other local businesses;

- compliance with product safety requirements and standards that are different from those of the United States;

- variations and changes in laws applicable to our operations in different jurisdictions, including enforceability of intellectual property and contract rights;

trade restrictions, political instability, disruptions in financial markets, and deterioration of economic conditions;

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customs regulations and the import and export of goods (including, but not limited to, any United States imposition of antidumping or countervailing duty orders, safeguards, remedies, or compensation with respect to our products or subcomponents of our products, particularly those produced in the PRC);

- the ability to provide sufficient levels of technical support in different locations;
- our ability to obtain business licenses that may be needed in international locations to support expanded operations;
- timely collecting accounts receivable from foreign customers including \$18.1 million in accounts receivable from foreign customers as of September 30, 2015; and
- changes in tariffs, taxes, and foreign currency exchange rates.

Our profitability and ability to implement our business strategies, maintain market share and compete successfully in international markets will be compromised if we are unable to manage these and other international risks successfully. Please see "The wind down plan for our inverter operations may adversely impact our business," risk factor listed above.

Our operations in the People's Republic of China are subject to significant political and economic uncertainties over which we have little or no control and we may be unable to alter our business practice in time to avoid reductions in revenues.

A significant portion of our operations outside the United States are located in the PRC, which exposes us to risks, such as exchange controls and currency restrictions, changes in local economic conditions, changes in customs regulations, changes in tax policies, changes in PRC laws and regulations, possible expropriation or other PRC government actions, and unsettled political conditions. These factors may have a material adverse effect on our operations, business, results of operations, and financial condition. Please see "We are exposed to risks associated with worldwide financial markets and the global economy" risk factor above.

The PRC's economy differs from the economies of most developed countries in many respects, including with respect to the amount of government involvement, level of development, rate of growth, control of foreign exchange and allocation of resources. While the economy of the PRC has experienced significant growth in the past 20 years, growth has been uneven across different regions and amongst various economic sectors of the PRC. The PRC government has implemented various measures to encourage economic development and guide the allocation of resources. Recent strikes by workers and picketing in front of the factory gates of certain companies in Shenzhen have caused unrest among some workers seeking higher wages, which could impact our manufacturing facility in Shenzhen. While some of the government's measures may benefit the overall economy of the PRC, they may have a negative effect on us. For example, our financial condition and results of operations may be materially and adversely affected by government control over capital investments or changes in tax regulations that are applicable to us as well as work stoppages.

We transitioned a significant amount of our supply base to Asian suppliers.

We transitioned the purchasing of a substantial portion of components for our thin film products to Asian suppliers to lower our materials costs and shipping expenses. These components might require us to incur higher than anticipated testing or repair costs, which would have an adverse effect on our operating results. Customers who have strict and extensive qualification requirements might not accept our products if these lower-cost components do not meet their requirements. A delay or refusal by our customers to accept such products, as well as an inability of our suppliers to meet our purchasing requirements, might require us to purchase higher-priced components from our existing suppliers or might cause us to lose sales to these customers, either of which could lead to decreased revenue and gross margins and have an adverse effect on our results of operations. Please see "The wind down plan for our inverter operations may adversely impact our business," risk factor listed above.

Changes in tax laws, tax rates, or mix of earnings in tax jurisdictions in which we do business, could impact our future tax liabilities and related corporate profitability

We are subject to income taxes in the U.S. (federal and state) and numerous foreign jurisdictions. Tax laws, regulations, and administrative practices in various jurisdictions may be subject to significant change due to economic, political, and other conditions, and significant judgment is required in evaluating and estimating our provision and accruals for these taxes. There are many transactions that occur during the ordinary course of business for which the ultimate tax determination is uncertain. Our effective tax rates could be adversely affected by earnings being lower

than anticipated in jurisdictions where we have lower statutory rates and higher than anticipated in jurisdictions where we have higher statutory rates, losses incurred in jurisdictions for which we are not able to realize the related tax benefit, changes in foreign currency exchange rates, entry into new businesses and geographies and changes to our existing businesses, acquisitions (including integrations) and investments, changes in our deferred

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tax assets and liabilities and their valuation, and changes in the relevant tax, accounting, and other laws, regulations, administrative practices, principles, and interpretations, including fundamental changes to the tax laws applicable to corporate multinationals. The U.S., many countries in the European Union, and a number of other countries are actively considering changes in this regard.

For example, On Oct. 5, 2015, the Organisation for Economic Co-operation and Development (OECD) issued the final report on all 15 Base Erosion and Profit Shifting “BEPS” Action Plans. According to the OECD, the current rules have created opportunities for Base Erosion and Profit Shifting, and suggest new rules whereby profits are taxed where economic activities take place and value is created. OECD comments include new or reinforced international standards as well as concrete measures to help countries tackle BEPS. Among the highlights of the OECD Final Reports are the new transfer pricing approach and reinforced international standards on tax treaties, the setting of minimum standards on harmful tax practices, treaty abuse, country-by-country reporting and dispute resolution, action items requiring national legislation particularly in hybrid mismatches and interest restriction, and analytical reports with recommendations concerning digital economy and multilateral instruments. If countries in which we operate adopt the OECD recommendations as outlined in the BEPS Action Plans, it is uncertain to what extent the changes could impact the company

Unfavorable currency exchange rate fluctuations may lead to lower operating margins, or may cause us to raise prices, which could result in reduced sales.

Currency exchange rate fluctuations could have an adverse effect on our sales and results of operations and we could experience losses with respect to forward exchange contracts into which we may enter. Unfavorable currency 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 affected. In addition, most sales made by our foreign subsidiaries are denominated in the currency of the country in which these products are sold and the currency they receive in payment for such sales could be less valuable at the time of receipt as a result of exchange rate fluctuations. For example, in the nine months ended September 30, 2015, the currency rate for the Euro declined 7.6%. Given recent acquisitions in Europe, our exposure to fluctuations in the value of the Euro is becoming more significant. From time to time, we enter into forward exchange contracts and local currency purchased options to reduce currency exposure arising from intercompany sales of inventory. However, we cannot be certain that our efforts will be adequate to protect us against significant currency fluctuations or that such efforts will not expose us to additional exchange rate risks, which could materially and adversely affect our results of operations.

Changes in the value of the Chinese yuan could impact the cost of our operation in Shenzhen, PRC.

The PRC government is continually pressured by its trading partners to allow its currency to float in a manner similar to other major currencies. Any change in the value of the Chinese yuan may impact our ability to control the cost of our products in the world market. Specifically, the decision by the PRC government to allow the yuan to begin to float against the United States dollar could significantly increase the labor and other costs incurred in the operation of our Shenzhen facility and the cost of raw materials, parts, components, and subassemblies that we source in the PRC, thereby having a material and adverse effect on our financial condition and results of operations.

We have been, and in the future may again be, involved in litigation. Litigation is costly and could result in further restrictions on our ability to conduct business or make use of market relationships we have developed, or an inability to prevent others from using technology.

Litigation may be necessary to enforce our commercial or property rights, to defend ourselves against claimed violations of such rights, or to protect our interests in regulatory, tax, customs, commercial, and other disputes or similar matters. Litigation often requires a substantial amount of our management's time and attention, as well as financial and other resources, including:

- substantial costs in the form of legal fees, fines, and royalty payments;
- restrictions on our ability to sell certain products or in certain markets;
- an inability to prevent others from using technology we have developed; and
- a need to redesign products or seek alternative marketing strategies.

Any of these events could have a significant adverse effect on our business, financial condition, and results of operations.

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Funds associated with our marketable securities that we have traditionally held as short-term investments may not be liquid or readily available.

In the past, certain of our investments have been affected by external market conditions that impacted the liquidity of the investment. We do not currently have investments with reduced liquidity, but external market conditions that we cannot anticipate or mitigate may impact the liquidity of our marketable securities. Any changes in the liquidity associated with these investments may require us to borrow funds at terms that are not favorable or repatriate cash from international locations at a significant cost. We cannot be certain that we will be able to borrow funds or continue to repatriate cash on favorable terms, or at all. If we are unable to do so, our available cash may be reduced until those investments can be liquidated. The lack of available cash may prevent us from taking advantage of business opportunities that arise and may prevent us from executing some of our business plans, either of which could cause our business, financial condition or results of operations to be materially and adversely affected.

Our intangible assets may become impaired.

As of September 30, 2015, we have \$43.5 million of goodwill (all related to our Precision Power segment) and \$36.6 million in intangible assets (\$35.9 million and \$0.7 million in Precision Power and Inverters, respectively). We periodically review the estimated useful lives of our goodwill and identifiable intangible assets, taking into consideration any events or circumstances that might result in either a diminished fair value, or for intangible assets, a revised useful life. The events and circumstances include significant changes in the business climate, legal factors, operating performance indicators, and competition. Any impairment or revised useful life could have a material and adverse effect on our financial position and results of operations, and could harm the trading price of our common stock. On June 29, 2015, we announced our decision to wind down our Solar Inverter business to focus solely on our Precision Power business, which could have a negative impact on the remaining intangible asset values on the Inverter segment in the future. Please see "The wind down plan for our inverter operations may adversely impact our business," risk factor listed above.

We are subject to numerous governmental regulations.

We are subject to federal, state, local and foreign regulations, including environmental regulations and regulations relating to the design and operation of our products and control systems and regulations governing the import, export and customs duties related to our products. We might incur significant costs as we seek to ensure that our products meet safety and emissions standards, many of which vary across the states and countries in which our products are used. In the past, we have invested significant resources to redesign our products to comply with these directives. Compliance with future regulations, directives, and standards could require us to modify or redesign some products, make capital expenditures, or incur substantial costs. Also, we may incur significant costs in complying with the myriad of different import, export and customs regulations as we seek to sell our products internationally. If we do not comply with current or future regulations, directives, and standards:

- we could be subject to fines and penalties;
- our production or shipments could be suspended; and
- we could be prohibited from offering particular products in specified markets.

If we were unable to comply with current or future regulations, directives and standards, our business, financial condition and results of operations could be materially and adversely affected.

Recently enacted financial reform legislation will result in new laws and regulations that may increase our costs of operations.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. On August 22, 2012, under the Dodd-Frank Act, the SEC adopted new requirements for companies that use certain minerals and metals, known as conflict minerals, in their products, whether or not these products are manufactured by third parties. These requirements will require companies to perform due diligence, disclose and report whether or not such minerals originate from the Democratic Republic of Congo and adjoining countries. We will have to perform sufficient due diligence to determine whether such minerals are used in the manufacture of our products. However, the implementation of these new requirements could adversely affect the sourcing, availability and pricing of such minerals if they are found to be used in the manufacture of our products. In

addition, we will incur additional costs to comply with the disclosure requirements, including costs related to determining the source of any of the relevant minerals and metals used in our products. Since our supply chain is complex, we may not be able to sufficiently verify the origins for these minerals and metals used in our products through the due diligence procedures that we implement, which may harm our reputation. In such event, we may also face difficulties in satisfying customers who require that all of the components of our products are certified as conflict mineral free.



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The market price of our common stock has fluctuated and may continue to fluctuate for reasons over which we have no control.

The stock market has from time to time experienced, and is likely to continue to experience, extreme price and volume fluctuations. Prices of securities of technology companies have been especially volatile and have often fluctuated for reasons that are unrelated to their operating performance. In the past, companies that have experienced volatility in the market price of their stock have been the subject of securities class action litigation. If we were the subject of securities class action litigation, it could result in substantial costs and a diversion of management's attention and resources.

Our operating results are subject to fluctuations, and if we fail to meet the expectations of securities analysts or investors, our share price may decrease significantly.

Our annual and quarterly results may vary significantly depending on various factors, many of which are beyond our control. Because our operating expenses are based on anticipated revenue levels, our sales cycle for development work is relatively long, and a high percentage of our expenses are fixed for the short term, a small variation in the timing of recognition of revenue can cause significant variations in operating results from period to period. If our earnings do not meet the expectations of securities analysts or investors, the price of our stock could decline.

The loss of any of our key personnel could significantly harm our results of operations and competitive position.

Our success depends to a significant degree upon the continuing contributions of our key management, technical, marketing, and sales employees. There can be no assurance that we will be successful in retaining our key employees or that we can attract or retain additional skilled personnel as required. Failure to retain or attract key personnel could significantly harm our results of operations and competitive position.

We maintain significant amounts of cash in international locations.

Given the global nature of our business, we have both domestic and international concentrations of cash and investments. The value of our cash, cash equivalents, and marketable securities can be negatively affected by liquidity, credit deterioration, financial results, economic risk, political risk, sovereign risk or other factors. As a result, we could incur a significant impairment of our cash, cash equivalents, and marketable securities, which could materially adversely affect our financial condition and results of operations. For example, our recently announced capital deployment strategy as described in the Liquidity section of Item 2 Management's Discussion and Analysis of Financial Conditions and Results of Operation of this Form 10-Q, may require us to access debt markets and there can be no assurance that access to debt at favorable terms will exist.

Historically, acquisitions have been an important element of our strategy. However, we may not find suitable acquisition candidates in the future and we may not be able to successfully integrate and manage acquired businesses.

Any acquisitions we make could disrupt our business and harm our financial condition.

We have in the past made strategic acquisitions of other corporations and entities, as well as asset purchases, and we continue to evaluate potential strategic acquisitions of complementary companies, products, and technologies. In the event of any future acquisitions, we could:

• issue stock that would dilute our current stockholders' percentage ownership;

• pay cash that would decrease our working capital;

• incur debt;

• assume liabilities; or

• incur expenses related to impairment of goodwill and amortization.

Acquisitions also involve numerous risks, including:

• problems combining the acquired operations, systems, technologies, or products;

• an inability to realize expected sales forecasts, operating efficiencies or product integration benefits;

• difficulties in coordinating and integrating geographically separated personnel, organizations, systems, and facilities;

• difficulties integrating business cultures;

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unanticipated costs or liabilities, including the costs associated with improving the internal controls of the acquired company;

- diversion of management's attention from our core business;
- adverse effects on existing business relationships with suppliers and customers;
- potential loss of key employees, particularly those of purchased organizations;
- incurring unforeseen obligations or liabilities in connection with acquisitions; and

the failure to complete acquisitions even after signing definitive agreements which, among other things, would result in the expensing of potentially significant professional fees and other charges in the period in which the acquisition or negotiations are terminated.

We cannot assure you that we will be able to successfully identify appropriate acquisition candidates, to integrate any businesses, products, technologies, or personnel that we might acquire in the future or achieve the anticipated benefits of such transactions, which may harm our business.

Difficulties with our enterprise resource planning ("ERP") system and other parts of our global information technology system could harm our business and results of operation.

Like many modern multinational corporations, we maintain a global information technology system, including software products licensed from third parties. Any system, network or Internet failures, misuse by system users, the hacking into or disruption caused by unauthorized access or loss of license rights could disrupt our ability to timely and accurately manufacture and ship products or to report our financial information in compliance with the timelines mandated by the SEC. Any such failure, misuse, hacking, disruptions or loss would likely cause a diversion of management's attention from the underlying business and could harm our operations. In addition, a significant failure of our global information technology system could adversely affect our ability to complete an evaluation of our internal controls and attestation activities pursuant to Section 404 of the Sarbanes-Oxley Act of 2002.

If our network security measures are breached and unauthorized access is obtained to a customer's data or our data or our information technology systems, we may incur significant legal and financial exposure and liabilities.

As part of our day-to-day business, we store our data and certain data about our customers in our global information technology system. While our system is designed with access security, unauthorized access to our data, including any regarding our customers, could expose us to a risk of loss of this information, loss of business, litigation and possible liability. These security measures may be breached by intentional misconduct by computer hackers, as a result of third-party action, employee error, malfeasance or otherwise. Additionally, third parties may attempt to fraudulently induce employees or customers into disclosing sensitive information such as user names, passwords or other information in order to gain access to our customers' data or our data, including our intellectual property and other confidential business information, or our information technology systems. Because the techniques used to obtain unauthorized access, or to sabotage systems, change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Any security breach could result in a loss of confidence by our customers, damage our reputation, disrupt our business, lead to legal liability and negatively impact our future sales.

Our credit facility contains restrictions that may limit our flexibility in operating our business.

In October 2012, we entered into a credit facility with Wells Fargo Bank, N.A. The credit facility contains various financial and negative operating covenants that limit our ability to engage in specified types of transactions. The financial covenant requires that we maintain a minimum fixed charge coverage ratio. The operating covenants limit our ability to, among other things:

- sell, transfer, lease or dispose of our assets;
- create, incur or assume additional indebtedness;
- encumber or permit liens on certain of our assets
- make restricted payments, including paying dividends on, repurchasing or making distributions with respect to our common stock;

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make specified investments (including loans and advances);  
consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; and  
enter into certain transactions with our affiliates.

A breach of any of these covenants or a material adverse change to our business could result in a default under the credit agreement. Upon the occurrence of an event of default under our credit agreement, our lenders could elect to declare all amounts outstanding to be immediately due and payable and terminate all commitments to extend further credit. If we were unable to repay those amounts, the lenders could proceed against the collateral granted to them to secure such indebtedness.

The performance of our solar inverters is highly dependent on the customer meeting product specification, installation and maintenance requirements.

Our commercial and utility-grade solar inverters have product specification, installation and maintenance requirements that if not followed could result in product failure or downtime. For example, if a customer fails to properly design and build the solar site consistent with our product specification and installation requirements (e.g., exceeding input DC voltage, improper grounding, cabling errors, etc.), the inverter's performance could be adversely affected and, in some cases, the inverter may be damaged. Customers are responsible for their solar site design and build. Although we conduct testing on our products, our solar inverters cannot be tested in an environment simulating the various solar site conditions that may exist. We may expend considerable time and resources in diagnosing alleged product issues in the field during the warranty period that are actually attributable to a customer's failure to follow such product specification, installation and maintenance requirements. To the extent we experience such increased costs associated with investigating such claims, we may not be able to recover such costs from the customer, resulting in losses. Please see "The wind down plan for our inverter operations may adversely impact our business," risk factor listed above.

We have entered into contract manufacturing relationships with international suppliers for certain of our inverter products.

We have entered into contract manufacturing relationships with well-established suppliers in Canada and Hungary for the manufacture of certain goods in our inverter product line and Germany (Prettl) for our Power Control Module product line. These relationships will facilitate our compliance with localization requirements in some world regions where incentives and benefits are granted for local manufacturing. These relationships will also afford us a more flexible manufacturing capacity, thereby enabling us to maintain a competitive advantage in the marketplace for our inverter products. These partners, working closely with us, will in turn be developing a common supply chain for the components that are incorporated into our inverters. While we believe that our contract manufacturers are qualified to manufacture these inverters for us, we may need to address short-term quality and delivery scheduling issues as we develop this new supply chain for these inverters. If we were to encounter significant quality or delivery schedule concerns it might materially and adversely affect our relationships with customers for these inverters and our results of operations. As with many contract manufacturing relationships, costs may be incurred if manufacturing capacity is not fully utilized. In particular, our German legal proceeding against an affiliate of Prettl, the contract manufacturer of a significant portion of our three phase string inverters, may adversely affect and impact such contract manufacturing relationship, our ability to source parts for our ongoing warranty service obligations, the delivery of product, the commercial terms related thereto and our financial and operational performance. Please see "Item 3 - Legal Proceedings." Please see "The wind down plan for our inverter operations may adversely impact our business," risk factor listed above.

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.

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ITEM 6. EXHIBITS

- 10.1 Wells Fargo Credit Facility Amendment dated September 24, 2015
- 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 Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
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- 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 September 30, 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.

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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: November 5, 2015

/s/ Thomas Liguori  
Thomas Liguori  
Executive Vice President & Chief Financial  
Officer

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