

ADVANCED ENERGY INDUSTRIES INC

Form 10-Q

May 09, 2014

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

FORM 10-Q

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

For the quarterly period ended March 31, 2014

or

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

For the transition period from to .

Commission file number: 000-26966

ADVANCED ENERGY INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

1625 Sharp Point Drive, Fort Collins, CO

(Address of principal executive offices)

84-0846841

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

80525

(Zip Code)

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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As of April 30, 2014 there were 41,109,098 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)

| | March 31, 2014 | December 31, 2013 |
|---|-------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 110,227 | \$ 138,125 |
| Marketable securities | 12,494 | 11,568 |
| Accounts receivable, net of allowances of \$3,174 and \$2,920, respectively | 137,032 | 125,782 |
| Inventories, net of reserves of \$15,411 and \$15,349, respectively | 109,656 | 109,771 |
| Deferred income tax assets | 10,736 | 10,746 |
| Income taxes receivable | 10,109 | 10,027 |
| Other current assets | 11,760 | 10,950 |
| Total current assets | 402,014 | 416,969 |
| Property and equipment, net | 33,041 | 34,888 |
| OTHER ASSETS: | | |
| Deposits and other | 2,457 | 2,421 |
| Goodwill | 173,034 | 157,800 |
| Other intangible assets, net | 34,176 | 19,411 |
| Deferred income tax assets | 21,486 | 21,488 |
| Total assets | \$ 666,208 | \$ 652,977 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 64,163 | \$ 55,623 |
| Income taxes payable | 2,067 | 2,324 |
| Accrued payroll and employee benefits | 8,329 | 12,892 |
| Accrued warranty expense | 10,222 | 10,198 |
| Other accrued expenses | 18,065 | 20,704 |
| Customer deposits | 4,405 | 6,955 |
| Notes payable | 15,068 | 13,661 |
| Total current liabilities | 122,319 | 122,357 |
| LONG-TERM LIABILITIES: | | |
| Deferred income tax liabilities | 2,309 | 1,500 |
| Uncertain tax positions | 6,078 | 5,781 |
| Accrued warranty expense | 10,428 | 11,869 |
| Long term deferred revenue | 45,060 | 43,171 |
| Other long-term liabilities | 3,895 | 3,837 |
| Total liabilities | 190,089 | 188,515 |
| STOCKHOLDERS' EQUITY: | | |
| Preferred stock, \$0.001 par value, 1,000 shares authorized, none issued and outstanding | — | — |
| Common stock, \$0.001 par value, 70,000 shares authorized; 41,062 and 40,503 issued and outstanding, respectively | 41 | 41 |
| Additional paid-in capital | 250,154 | 251,550 |
| Retained earnings | 194,129 | 179,414 |

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| | | |
|--|-----------|-----------|
| Accumulated other comprehensive income | 31,795 | 33,457 |
| Total stockholders' equity | 476,119 | 464,462 |
| Total liabilities and stockholders' equity | \$666,208 | \$652,977 |

* Amounts as of March 31, 2014 are unaudited.

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

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

| | Three Months Ended March 31, | |
|--|------------------------------|-----------|
| | 2014 | 2013 |
| SALES | \$140,948 | \$111,814 |
| COST OF SALES | 88,287 | 69,975 |
| GROSS PROFIT | 52,661 | 41,839 |
| OPERATING EXPENSES: | | |
| Research and development | 14,142 | 14,253 |
| Selling, general and administrative | 19,731 | 17,654 |
| Amortization of intangible assets | 1,875 | 2,213 |
| Total operating expenses | 35,748 | 34,120 |
| OPERATING INCOME | 16,913 | 7,719 |
| OTHER EXPENSE, NET | (96 |) (203 |
| Income before income taxes | 16,817 | 7,516 |
| Provision for income taxes | 2,102 | 690 |
| NET INCOME | \$14,715 | \$6,826 |
| Basic weighted-average common shares outstanding | 40,814 | 38,775 |
| Diluted weighted-average common shares outstanding | 41,870 | 39,598 |
| EARNINGS PER SHARE: | | |
| BASIC EARNINGS PER SHARE | \$0.36 | \$0.18 |
| DILUTED EARNINGS PER SHARE | \$0.35 | \$0.17 |

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

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ADVANCED ENERGY INDUSTRIES, INC.

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(In thousands)

| | Three Months Ended March 31, | |
|--|------------------------------|----------|
| | 2014 | 2013 |
| Net income | \$14,715 | \$6,826 |
| Other comprehensive income (loss), net of tax: | | |
| Foreign currency translation adjustment | (1,664 |) (2,834 |
| Unrealized gains (losses) on marketable securities | 2 | (7 |
| Comprehensive income | \$13,053 | \$3,985 |

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

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

| | Three Months Ended March 31, | |
|---|------------------------------|-----------------|
| | 2014 | 2013 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$14,715 | \$6,826 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 4,871 | 5,286 |
| Stock-based compensation expense | 1,764 | 2,034 |
| Benefit for deferred income taxes | 1 | 4,117 |
| Net gain on sale or disposal of assets | 317 | 289 |
| Changes in operating assets and liabilities, net of assets acquired: | | |
| Accounts receivable | (11,526 |) (13,782 |
| Inventories | (149 |) 1,429 |
| Other current assets | (176 |) 167 |
| Accounts payable | 7,919 | 1,864 |
| Other current liabilities and accrued expenses | (11,479 |) (2,389 |
| Income taxes | 542 | (5,380 |
| Net cash provided by operating activities | 6,799 | 461 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of marketable securities | (3,600 |) (11,630 |
| Proceeds from sale of marketable securities | 2,640 | 24,722 |
| Purchases of property and equipment | (1,581 |) (1,417 |
| Acquisitions, net of cash acquired | (30,302 |) — |
| Net cash provided by (used in) investing activities | (32,843 |) 11,675 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Borrowings from lines of credit | 1,377 | — |
| Settlement of performance stock units | (11,198 |) — |
| Proceeds from exercise of stock options | 7,369 | 12,101 |
| Excess tax from stock-based compensation deduction | 670 | (947 |
| Other financing activities | — | (26 |
| Net cash provided by (used in) financing activities | (1,782 |) 11,128 |
| EFFECT OF CURRENCY TRANSLATION ON CASH | (72 |) (100 |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (27,898 |) 23,164 |
| CASH AND CASH EQUIVALENTS, beginning of period | 138,125 | 146,564 |
| CASH AND CASH EQUIVALENTS, end of period | \$110,227 | \$169,728 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid for interest | \$19 | \$3 |
| Cash paid for income taxes | 838 | 5,010 |
| Cash received for refunds of income taxes | 34 | 1,303 |
| Cash held in banks outside the United States of America | 39,052 | 14,100 |

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

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ADVANCED ENERGY INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

Advanced Energy Industries, Inc., a Delaware corporation, and its wholly-owned subsidiaries ("we," "us," "our," "Advanced Energy," or the "Company") design, manufacture, sell, and support power conversion and control products that transform power into various usable forms. Our products enable manufacturing processes that use thin film deposition for various products, such as semiconductor devices, flat panel displays, thin film renewables, and architectural glass. We also supply thermal instrumentation products for advanced temperature control in the thin film process for these same markets. Our solar inverter products support renewable power generation solutions primarily for commercial, and utility-scale solar projects and installations. Our network of global service support centers provides a recurring revenue opportunity as we offer repair services, conversions, upgrades, and refurbishments to companies using our products. We also offer a wide variety of operations and maintenance service plans that can be tailored for photovoltaic ("PV") sites of all sizes.

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

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

Inverters strategic business unit ("Inverters SBU") offers both a transformer-based or transformerless advanced grid-tied PV inverter solution for commercial and utility-scale system installations. Our PV inverters are designed to convert renewable solar power, drawn from large and small scale solar arrays, into high quality, reliable electrical power.

In the opinion of management, the accompanying unaudited Condensed Consolidated Financial Statements contain all adjustments, consisting of normal, recurring adjustments, necessary to present fairly the financial position of the Company at March 31, 2014, and the results of our operations and cash flows for the three months ended March 31, 2014 and 2013.

The Condensed Consolidated Financial Statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been condensed or omitted pursuant to such rules and regulations. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and Notes thereto contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 and other financial information filed with the SEC.

ESTIMATES AND ASSUMPTIONS

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

CRITICAL ACCOUNTING POLICIES

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

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,

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ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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.

NOTE 2. BUSINESS ACQUISITIONS

Acquisitions

Refusol Holding

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

All of the outstanding shares of Refusol Holding were acquired for total consideration of approximately \$87.2 million, consisting of a cash payment of \$75.4 million, net of cash acquired and a working capital reduction and assumption of debt totaling \$11.9 million. The agreement calls for additional cash consideration if certain stretch financial targets are met by our Inverters business unit and Refusol, on a combined basis, at the end of the twelve (12) calendar months following April 1, 2013. The contingent consideration has no estimated fair value as of April 8, 2013 based on management's estimates of operating income for the Inverters SBU for the specified period. The preliminary base price is subject to a post-closing adjustment based on confirmation of the financial statements of Refusol effective as of the closing date. AEI Holdings and Jolaos are in disagreement on various accounting adjustments to the closing date financial statements of Refusol. After repeated unsuccessful attempts to have Jolaos submit the dispute to an independent German accounting firm as required under the Agreement, AEI Holdings petitioned the designated court in Stuttgart, Germany to review the dispute.

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

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

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ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

| | | |
|---|----------|---|
| Accounts receivable | \$9,929 | |
| Inventories | 15,245 | |
| Other current assets | 6,769 | |
| Property and equipment | 4,746 | |
| Other long-term assets | 130 | |
| Deferred tax assets | 222 | |
| Current liabilities | (21,094) |) |
| Long-term liabilities | (30,673) |) |
| | (14,726) |) |
| Amortizable intangible assets: | | |
| Trademarks | 1,300 | |
| Technology | 5,700 | |
| Customer relationships | 3,500 | |
| Total amortizable intangible assets | 10,500 | |
| Total identifiable net assets | (4,226) |) |
| Goodwill | 91,473 | |
| Total fair value of consideration transferred | \$87,247 | |

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

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

Goodwill and intangible assets are recorded in the functional currency of the entity and are subject to changes due to translation at each balance sheet date. The goodwill associated with the acquisition is the result of expected synergies and expansion of the technology into additional markets that we already serve.

The cost of the acquisition may increase or decrease based on the final amount payable to the former owner of Refusol related to the financial targets to be met during the twelve month period subsequent to April 1, 2013 and a post-closing working capital adjustment based on confirmation of the financial statements of Refusol effective as of the closing date. Advanced Energy is in the process of finalizing valuations of accounts receivable, inventory, other intangibles, property, plant and equipment, estimates of the fair value of liabilities associated with the acquisition and deferred taxes.

Pro Forma Results for Refusol Acquisition

The following unaudited pro forma financial information presents the combined results of operations of Advanced Energy and Refusol as if the acquisition had occurred as of January 1, 2013. The pro forma financial information is presented for informational purposes and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at January 1, 2013. The unaudited pro forma financial information for the three months ended March 31, 2013 includes the historical results of Advanced Energy for the three months ended March 31, 2013 and the historical results of Refusol for the same period.

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ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

| | Three Months Ended March 31, | |
|---------------------|------------------------------|-----------|
| | 2014 | 2013 |
| Sales | \$140,948 | \$131,454 |
| Net income | 14,715 | 2,752 |
| Earnings per share: | | |
| Basic | \$0.36 | \$0.07 |
| Diluted | \$0.35 | \$0.07 |

Power Control Module

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

NOTE 3. INCOME TAXES

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

| | Three Months Ended March 31, | | |
|----------------------------|------------------------------|---------|---|
| | 2014 | 2013 | |
| Income before income taxes | \$16,817 | \$7,516 | |
| Provision for income taxes | 2,102 | 690 | |
| Effective tax rate | 12.5 | % 9.2 | % |

The effective tax rate for the three months ended March 31, 2014 differ from the federal statutory rate of 35% primarily due to the effect of changes in foreign earnings. The effective tax rate is also impacted by discrete items recorded in the period. For the three months ended March 31, 2013, the effective tax rate was impacted by a \$1.4 million discrete tax benefit attributable to the January 2, 2013 reinstatement of the 2012 US research and development tax credit.

Our policy is to classify accrued interest and penalties related to unrecognized tax benefits in our income tax provision. For the three months ended March 31, 2014 and 2013, the amount of interest and penalties accrued related to our unrecognized tax benefits was not significant.

NOTE 4. EARNINGS PER SHARE

Basic earnings per share ("EPS") is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding during the period. The computation of diluted EPS is similar to the computation of basic EPS except that the numerator is increased to exclude charges that would not have been incurred, and the denominator is increased to include the number of additional common shares that would have been outstanding (using the if-converted and 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 March 31, | |
|---|------------------------------|---------|
| | 2014 | 2013 |
| Net Income | \$14,715 | \$6,826 |
| Basic weighted-average common shares outstanding | 40,814 | 38,775 |
| Assumed exercise of dilutive stock options and restricted stock units | 1,056 | 823 |
| Diluted weighted-average common shares outstanding | 41,870 | 39,598 |
| Net Income: | | |
| Basic earnings per share | \$0.36 | \$0.18 |
| Diluted earnings per share | \$0.35 | \$0.17 |

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

| | Three Months Ended March 31, | |
|---------------|------------------------------|------|
| | 2014 | 2013 |
| Stock options | 24 | 853 |

NOTE 5. MARKETABLE SECURITIES

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

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

| | March 31, 2014 | | December 31, 2013 | |
|-----------------------------|-------------------|------------|----------------------|------------|
| | Cost | Fair Value | Cost | Fair Value |
| Total marketable securities | \$12,494 | \$12,494 | \$11,568 | \$11,568 |

The maturities of our marketable securities available for sale as of March 31, 2014 are as follows:

| | Earliest | Latest |
|-------------------------|----------|--------------|
| Certificates of deposit | 4/8/2014 | to 2/26/2016 |

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

As of March 31, 2014, we do not believe any of the underlying issuers of our marketable securities are presently at risk of default.

NOTE 6. DERIVATIVE FINANCIAL INSTRUMENTS

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

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ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The notional amount of foreign currency exchange contracts at December 31, 2013 was \$25.0 million, and the difference between the fair value and the notional value of these contracts was not significant. During the three months ended March 31, 2014 and 2013, we recognized a loss of \$1.3 million and a gain of \$0.6 million, respectively, on our foreign currency exchange contracts. These losses were offset by corresponding gains on the related intercompany debt and both are included as a component of Other income (expense), net, in our Condensed Consolidated Statements of Operations.

NOTE 7. ASSETS MEASURED AT FAIR VALUE

The following tables present information about our financial assets measured at fair value, on a recurring basis, as of March 31, 2014, and December 31, 2013. The tables indicate the fair value hierarchy of the valuation techniques utilized to determine such fair value. We did not have any financial liabilities measured at fair value, on a recurring basis, as of March 31, 2014, and December 31, 2013.

| March 31, 2014 | Level 1 (In thousands) | Level 2 | Level 3 | Total |
|-----------------------------|---------------------------|----------|---------|----------|
| Total marketable securities | \$— | \$12,494 | \$— | \$12,494 |

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

There were no transfers in or out of Level 1, 2, or 3 fair value measurements during the three months ended March 31, 2014.

NOTE 8. INVENTORIES

Our inventories are valued at the lower of cost or market and computed on a first-in, first-out (FIFO) basis.

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

| | March 31, 2014 | December 31, 2013 |
|------------------------------|-------------------|----------------------|
| Parts and raw materials | \$73,241 | \$75,815 |
| Work in process | 6,984 | 3,507 |
| Finished goods | 29,431 | 30,449 |
| Inventories, net of reserves | \$109,656 | \$109,771 |

NOTE 9. PROPERTY AND EQUIPMENT

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

| | March 31, 2014 | December 31, 2013 |
|--------------------------------------|-------------------|----------------------|
| Buildings and land | \$1,792 | \$1,807 |
| Machinery and equipment | 44,196 | 41,451 |
| Computer and communication equipment | 23,187 | 23,117 |
| Furniture and fixtures | 3,842 | 4,028 |
| Vehicles | 367 | 367 |
| Leasehold improvements | 25,894 | 24,369 |
| Construction in process | 2,048 | 5,426 |
| | 101,326 | 100,565 |
| Less: Accumulated depreciation | (68,285) | (65,677) |
| Property and equipment, net | \$33,041 | \$34,888 |

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ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

| | Three Months Ended March 31, | |
|----------------------|------------------------------|---------|
| | 2014 | 2013 |
| Depreciation expense | \$2,996 | \$3,073 |

NOTE 10. GOODWILL

The following summarizes the changes in goodwill during the three months ended March 31, 2014 (in thousands):

| | |
|--|-----------|
| Gross carrying amount, beginning of period | \$157,800 |
| Additions (see Note 2) | 14,632 |
| Translation adjustments | 602 |
| Gross carrying amount, end of period | \$173,034 |

NOTE 11. INTANGIBLE ASSETS

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

| | Gross Carrying Amount | Effect of Changes in Exchange Rates | Accumulated Amortization | Net Carrying Amount | Weighted-Average Useful Life in Years |
|-------------------------------|-----------------------|-------------------------------------|--------------------------|---------------------|---------------------------------------|
| Amortizable intangibles: | | | | | |
| Technology-based | \$31,722 | \$516 | \$(15,502) | \$16,736 | 7 |
| Trademarks and other | 21,726 | 643 | (4,929) | 17,440 | 7 |
| Total amortizable intangibles | \$53,448 | \$1,159 | \$(20,431) | \$34,176 | |

Other intangible assets consisted of the following as of December 31, 2013 (in thousands, except weighted-average useful life):

| | Gross Carrying Amount | Effect of Changes in Exchange Rates | Impairment | Accumulated Amortization | Net Carrying Amount | Weighted-Average Useful Life in Years |
|-------------------------------|-----------------------|-------------------------------------|------------|--------------------------|---------------------|---------------------------------------|
| Amortizable intangibles: | | | | | | |
| Technology-based | \$50,368 | \$441 | \$(26,168) | \$(14,712) | \$9,929 | 4 |
| Trademarks and other | 18,515 | 514 | (5,705) | (3,842) | 9,482 | 7 |
| Total amortizable intangibles | \$68,883 | \$955 | \$(31,873) | \$(18,554) | \$19,411 | |

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

| | Three Months Ended March 31, | |
|----------------------|------------------------------|---------|
| | 2014 | 2013 |
| Amortization expense | \$1,875 | \$2,213 |

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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 2014 (remaining) through 2018 and thereafter is as follows (in thousands):

| | |
|--------------------------|----------|
| Year Ending December 31, | |
| 2014 (remaining) | \$5,172 |
| 2015 | 5,699 |
| 2016 | 4,464 |
| 2017 | 4,388 |
| 2018 | 2,906 |
| Thereafter | 11,547 |
| | \$34,176 |

NOTE 12. OTHER ACCRUED EXPENSES

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

| | | |
|---|-----------|--------------|
| | March 31, | December 31, |
| | 2014 | 2013 |
| Other accrued expenses: | | |
| Current deferred tax liability | \$4,532 | \$4,519 |
| Accrued restructuring costs (See Note 13) | 1,091 | 3,280 |
| Current contingent consideration | 1,444 | 933 |
| Accrued sales and use tax | 2,530 | 2,415 |
| Other* | 8,468 | 9,557 |
| Total Other accrued expenses | \$18,065 | \$20,704 |

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

NOTE 13. RESTRUCTURING COSTS

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 | Costs incurred | Cost paid or | Effect of | Balances at |
| | December 31, | and charged to | otherwise | change in | March 31, |
| | 2013 | expense | settled | exchange | 2014 |
| | | | | rates | |
| Severance and related costs | \$2,078 | \$— | \$(1,774) |) \$4 | \$308 |
| Facility closure costs | 571 | — | (380) |) 1 | 192 |
| Total restructuring liabilities | \$2,649 | \$— | \$(2,154) |) \$5 | \$500 |

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 this plan (in thousands):

| | Balances at December 31, 2013 | Costs incurred and charged to expense | Cost paid or otherwise settled | Effect of change in exchange rates | Balances at March 31, 2014 |
|---------------------------------|-------------------------------------|---|--------------------------------------|---|----------------------------------|
| Severance and related costs | \$217 | \$— | \$(11 |) \$— | \$206 |
| Facility closure costs | 414 | — | (29 |) — | 385 |
| Total restructuring liabilities | \$631 | \$— | \$(40 |) \$— | \$591 |

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 5 years to 10 years following installation for Inverter products. Our provision for the estimated cost of warranties is recorded when revenue is recognized. The warranty provision is based on historical experience by product, configuration and geographic region. We establish accruals for warranty issues that are probable to result in future costs. Changes in product warranty accruals are as follows (in thousands):

| | Three Months Ended March 31, | |
|--|------------------------------|----------|
| | 2014 | 2013 |
| Balances at beginning of period | \$22,067 | \$14,797 |
| Increases to accruals related to sales during the period | 1,568 | 2,001 |
| Warranty expenditures | (2,985 |) (3,059 |
| Balances at end of period | \$20,650 | \$13,739 |

NOTE 15. STOCK-BASED
COMPENSATION

We recognize stock-based compensation expense in Selling, general & administrative expenses based on the fair value of the awards issued. Stock-based compensation for the three months ended March 31, 2014 and 2013 is as follows (in thousands):

| | Three Months Ended March 31, | |
|----------------------------------|------------------------------|---------|
| | 2014 | 2013 |
| Stock-based compensation expense | \$1,764 | \$2,034 |

Stock Options

Stock option awards, other than awards under our 2012-2014 Long Term Incentive Plan ("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 the LTI Plan, we made grants of performance based options and awards during the first quarter of 2014, which will vest in one year based on the Company's achievement of return on net assets targets established by our Board of Directors at the beginning of each year. These awards are granted with an exercise price equal to the market price of our common stock at the date of grant and have a term of 10 years. 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.

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ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

A summary of our time based stock option activity for the three months ended March 31, 2014 is as follows (in thousands):

| | Shares | |
|--|--------|---|
| Options outstanding at beginning of period | 1,573 | |
| Options granted | — | |
| Options exercised | (433 |) |
| Options forfeited | (47 |) |
| Options expired | (2 |) |
| Options outstanding at end of period | 1,091 | |

Changes in outstanding performance based stock options during the three months ended March 31, 2014 were as follows (in thousands):

| | Shares | |
|--|--------|---|
| Options outstanding at beginning of period | 1,239 | |
| Options granted | 42 | |
| Options exercised | (108 |) |
| Options forfeited | (179 |) |
| Options expired | — | |
| Options outstanding at end of period | 994 | |

Restricted Stock Units

Restricted Stock Units ("RSU") are generally granted with a four-year vesting schedule.

A summary of our time-based unvested RSU activity for the three months ended March 31, 2014 is as follows (in thousands):

| | Shares | |
|--------------------------------|--------|---|
| Balance at beginning of period | 230 | |
| RSUs granted | 26 | |
| RSUs vested | (18 |) |
| RSUs forfeited | (15 |) |
| Balance at end of period | 223 | |

Changes in the unvested performance based RSUs during the three months ended March 31, 2014 were as follows (in thousands):

| | Shares | |
|--------------------------------|--------|---|
| Balance at beginning of period | 1,344 | |
| RSUs granted | 49 | |
| RSUs vested | — | |
| RSUs settled in cash | (418 |) |
| RSUs forfeited | (476 |) |
| Balance at end of period | 499 | |

During the first quarter of 2014, Performance Stock Options ("PSOs") and Performance Stock Units ("PSUs") vested in accordance with performance targets for fiscal 2013. At that time, the Board of Directors authorized the settlement of the PSUs in cash at a value equal to the fair market value of the equity instrument on the vest date. Due to the settlement, \$11.2 million was deducted from Additional paid-in capital and paid in cash in lieu of the issuance of shares. Our statement of cash flows represents this transaction as "Settlement of performance stock units." All compensation expense related to these awards was recognized during the performance period ending December 31, 2013.

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ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 16. 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, 2013 | \$33,463 | \$(6 |) \$33,457 |
| Current period other comprehensive income (loss) | (1,664 |) 2 | (1,662 |
| Balances at March 31, 2014 | \$31,799 | \$(4 |) \$31,795 |

NOTE 17. COMMITMENTS AND CONTINGENCIES

We have firm purchase commitments and agreements with various suppliers to ensure the availability of components. The obligation as of March 31, 2014 is approximately \$78.1 million. Our policy with respect to all purchase commitments, is to record losses, if any, when they are probable and reasonably estimable. We continuously monitor these commitments for exposure to potential losses and will record a provision for losses when it is deemed necessary. We are involved in disputes and legal actions arising in the normal course of our business. There have been no material developments in legal proceedings in which we are involved during the three months ended March 31, 2014.

NOTE 18. RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2014 and 2013, we engaged in the following transactions with companies related to members of our Board of Directors, as described below (in thousands):

| | Three Months Ended March 31, | |
|--------------------------------|------------------------------|------|
| | 2014 | 2013 |
| Sales - related parties | \$127 | \$31 |
| Rent expense - related parties | 435 | 475 |
| Sales - Related Parties | | |

Members of our Board of Directors hold various executive positions and serve as directors at other companies, including companies that are our customers. During the three months ended March 31, 2014, we had sales to one customer as noted above and accounts receivable from one such customer that totaled \$126,656 at March 31, 2014. During the three months ended March 31, 2013, we had sales to one customers as noted above and no aggregate accounts receivable from this customer at December 31, 2013.

Rent Expense - Related Parties

We lease our executive offices, research and development, and manufacturing facilities in Fort Collins, Colorado from a limited liability partnership in which Douglas Schatz, our Chairman of the Board and former Chief Executive Officer, holds an interest. The leases relating to these spaces expire during 2021 and obligate us to total annual payments of approximately \$1.7 million, which includes facilities rent and common area maintenance costs.

NOTE 19. SEGMENT INFORMATION

Precision Power Products offers power conversion products for direct current, pulsed DC mid-frequency, and radio frequency power supplies, matching networks, and RF instrumentation, 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

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ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 Products principally serves original equipment manufacturers ("OEMs") and end customers in the semiconductor, flat panel display, solar panel, and other capital equipment markets.

Our Inverters SBU 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 SBU focuses on commercial and utility-scale solar projects and installations, selling primarily to distributors, engineering, procurement, and construction contractors, developers, and utility companies. Our Inverters revenue has seasonal variations. Installations of inverters are normally lowest during the first quarter as a result of typically poor weather and as a result, reduced installation scheduling by our customers.

Our chief operating decision maker, who is our Chief Executive Officer, and other management personnel regularly review our performance and make resource allocation decisions by reviewing the results of our two business segments separately. Revenue and operating profit is reviewed by our chief operating decision maker. We have also divided inventory and property and equipment based on business segment.

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

| | Three Months Ended March 31, | |
|--------------------------|------------------------------|-----------|
| | 2014 | 2013 |
| Precision Power Products | \$82,872 | \$61,777 |
| Inverters | 58,076 | 50,037 |
| Total | \$140,948 | \$111,814 |

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

| | Three Months Ended March 31, | |
|---|------------------------------|---------|
| | 2014 | 2013 |
| Precision Power Products | \$23,211 | \$7,511 |
| Inverters | (6,298 |) 208 |
| Total segment operating income | 16,913 | 7,719 |
| Other expense, net | (96 |) (203 |
| Income from continuing operations before income taxes | \$16,817 | \$7,516 |

Beginning in 2014, certain support functions such as human resources, information technology, accounting and finance, and legal, are now allocated to the business units based on corporate activities in each product area. This change was implemented in an effort to provide investors with a clearer understanding of the business unit's operating performance.

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

| | March 31, 2014 | December 31, 2013 |
|--|----------------|-------------------|
| Precision Power Products | \$42,341 | \$39,450 |
| Inverters | 98,156 | 104,227 |
| Total segment assets | 140,497 | 143,677 |
| Unallocated corporate property and equipment | 2,292 | 982 |
| Unallocated corporate assets | 523,419 | 508,318 |
| Consolidated total assets | \$666,208 | \$652,977 |

"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.

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ADVANCED ENERGY INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

During the three months ended March 31, 2014, we had three customers which individually accounted for 10% or more of our sales. Sales to Applied Materials, Inc., AMEC, and LAM Research were \$27.0 million, \$18.6 million, and \$17.8 million or 19.2%, 13.2%, and 12.6%, respectively, of total sales for the three month period. During the three months ended March 31, 2013, we had two customers individually accounting for 10% or more of our sales. Sales to Applied Materials, Inc. were \$18.7 million or 16.7% of total sales during the three month period and sales to Fluor Enterprises, Inc. were \$13.5 million or 12.1% of total sales for the same period. Our sales to Applied Materials, Inc. and LAM Research include precision power products used in semiconductor processing and solar, flat panel display, and architectural glass applications. Our sales to AMEC include solar inverters. No other customer accounted for 10% or more of our sales during these periods.

NOTE 20. 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.

At our election, the loans comprising each borrowing will bear interest at a rate per annum equal to either: (a) a "base rate" plus between one-half (0.5%) and one (1.0%) full percentage point depending on the amount available for additional draws under the Credit Facility ("Base Rate Loan"); or (b) the LIBOR rate then in effect plus between one and one-half (1.5%) and two (2%) percentage points depending on the amount available for additional draws under the Credit Facility. The "base rate" for any Base Rate Loan will be the greatest of the federal funds rate plus one-half (0.5%) percentage point; the one-month LIBOR rate plus one (1.0%) percentage point; and Wells Fargo's "prime rate" then in effect. As of March 31, 2014, 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 three months ended March 31, 2014, we expensed \$0.2 million in interest and fees related to unused line of credit fees and amortization of debt issuance costs. We did not borrow against the Credit Facility during the three months ended March 31, 2014.

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

As part of the acquisition of Refusol described in Note 2. Business Acquisitions and Disposition, 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 has an outstanding loan agreement with Commerzbank Aktiengesellschaft ("Commerzbank") for up to 8.0 million Euros ("Commerzbank Loan Agreement"). The agreement allows 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 is no maturity date. Borrowings under the revolving credit facility bear interest at 5.32%. Surety and guarantee loans bear interest at 1.5%. Money market loans are granted by separate agreement when requested and must meet certain Euro thresholds related to the value depending on the maturity date chosen. The Commerzbank Loan Agreement requires the payment of a credit

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commission of 0.5% of the total loan amount. The agreement contains a various covenants including a financial covenant requiring a specified level of equity. At March 31, 2014, \$9.6 million was outstanding on this line of credit. Refusol, GmbH also had an outstanding loan agreement with Bayerische Landesbank ("Bayern") which allowed it to borrow up to 4.0 million Euros either as overdraft facilities, term loans, or guarantees with repayment occurring one lump sum at the maturity date of the individual transaction with respect to term loans, or maturity of the loan agreement which was July 31, 2013 (the "Bayern Loan Agreement"). The overdraft facility bore interest at 4.5%. Term loans bore interest at the money market rate established by Bayern at the time of the loan plus a margin of 1.9%. Guarantees bore interest at 1.25% and had an issuing fee per guarantee. Loan commitment fees were 0.25% on the unused portion of the total loan amount. The Bayern Loan Agreement contained certain reporting requirements and a financial covenant requiring a specified level of equity.

Upon expiration of this agreement, Refusol, GmbH entered into a new loan agreement with Bayerische Landesbank ("Bayern") under which it has the ability to borrow up to 4.0 million Euros as either bank overdrafts, term loans, guarantees, or letters of credit. The overdraft facility bears interest at 3.9%, guarantees bears a rate of 1.64% and interest on term loans is a fixed rate set for each term loan period based on money market rates. Loan commitment fees are 0.25%. The loan matures on July 31, 2014. At March 31, 2014 \$5.5 million was outstanding on this line of credit.

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

NOTE 21. SUBSEQUENT EVENT

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 its deep knowledge of its customer-specific applications have made it a leading provider of critical, high-end, high voltage power solutions. We acquired HiTek to expand our product offerings in our Precision Power Products portfolio.

Under the terms of the Agreement, we paid £2.1 million in cash and assumed net liabilities of £4.5 million. In conjunction with the purchase of HiTek Power, HiTek entered into a funding arrangement for the underfunded portion of the pension liability. We provided a guarantee as it relates to HiTek's funding obligation into the HiTek Power Limited Pension Scheme. The preliminary base price is subject to a post-closing adjustment based on confirmation of the financial statements of HiTek effective as of the closing date.

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

Special Note on Forward-Looking Statements

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

For additional information regarding factors that may affect our actual financial condition, results of operations and accuracy of our forward-looking statements, see the information under the caption "Risk Factors" in Part II Item 1A of this Quarterly Report on Form 10-Q and, in our Annual Report on Form 10-K for the year ended December 31, 2013. 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 as well as grid-tied power conversion. We also supply thermal instrumentation products for advanced temperature control in the thin film process for these markets. Our network of global service support centers provides local repair and field service capability in key regions.

Our power conversion products refine, modify and control the raw electrical power from a utility and convert it into power that is predictable, repeatable and customizable. Our power conversion products are primarily used 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 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, material and chemical processing.

Our thermal instrumentation products, used primarily in the semiconductor industry, provide temperature measurement and control solutions for applications in which time-temperature cycles affect productivity and yield. These products are used in rapid thermal processing, chemical vapor deposition, and other semiconductor and solar applications requiring non-contact temperature measurement.

Our grid-tied power conversion products offer advanced transformer-based or transformerless grid-tied PV solutions for commercial and utility-scale system installations. Our PV inverters are designed to convert renewable solar power, drawn from large and small scale solar arrays, into high quality, reliable electrical power. These products are used for commercial and utility-scale solar projects and installations, and are sold primarily to distributors; engineering, procurement, and construction contractors; developers; and utility companies. These product revenues have seasonal variations. Installations of inverters are normally lowest during the first quarter of the year due to less favorable weather conditions and resultant reduced installation scheduling by our customers.

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

On April 8, 2013, we acquired Refusol Holdings GmbH ("Refusol"), a privately held company based in Metzingen, Germany. The financial results discussed below include the financial results of Refusol for the three months ended March 31, 2014. Note 2. Business Acquisition & Disposition in Part I Item 1 of this Form 10-Q describes the acquisition of Refusol.

As also noted in Note 2. Business Acquisitions and Disposition 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 through March 31, 2014.

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Our analysis presented below is organized to provide the information we believe will be helpful for understanding our historical performance and relevant trends going forward. This discussion should be read in conjunction with our Condensed Consolidated Financial Statements in Part I, Item 1 of this report, including the notes thereto. Also included in the following analysis are measures that are not in accordance with U.S. GAAP. A reconciliation of the non-GAAP measures to U.S. GAAP is provided below.

Results of Operations

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

| | Three Months Ended March 31, | |
|----------------------------|------------------------------|-----------|
| | 2014 | 2013 |
| Sales | \$140,948 | \$111,814 |
| Gross profit | 52,661 | 41,839 |
| Operating expenses | 35,748 | 34,120 |
| Operating income | 16,913 | 7,719 |
| Other expenses, net | (96 |) (203 |
| Income before income taxes | 16,817 | 7,516 |
| Provision for income taxes | 2,102 | 690 |
| Income net of income taxes | \$14,715 | \$6,826 |

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

| | Three Months Ended March 31, | | |
|----------------------------|------------------------------|---------|----|
| | 2014 | 2013 | |
| Sales | 100.0 | % 100.0 | % |
| Gross profit | 37.4 | % 37.4 | % |
| Operating expenses | 25.4 | % 30.5 | % |
| Operating income | 12.0 | % 6.9 | % |
| Other expenses, net | (0.1 |)% (0.2 |)% |
| Income before income taxes | 11.9 | % 6.7 | % |
| Provision for income taxes | 1.5 | % 0.6 | % |
| Income net of income taxes | 10.4 | % 6.1 | % |

SALES

The following tables summarize sales, and percentages of sales, by segment for the three months ended March 31, 2014 and 2013 (in thousands):

| | Three Months Ended March 31, | | | | Increase/ (Decrease) | Percent Change |
|-------------------------------------|------------------------------|---------------------|-------------|---------------------|-------------------------|-------------------|
| | 2014 | % of Total Sales | 2013 | % of Total Sales | | |
| Precision Power Products: | | | | | | |
| Semiconductor capital equipment | \$56,315 | 40.0 | % \$32,700 | 29.2 | % \$23,615 | 72.2 |
| Non-semiconductor capital equipment | 14,780 | 10.5 | % 16,610 | 14.9 | % (1,830 |) (11.0 |
| Global support | 11,777 | 8.3 | % 12,467 | 11.1 | % (690 |) (5.5 |
| Total Precision Power Products | 82,872 | 58.8 | % 61,777 | 55.2 | % 21,095 | 34.1 |
| Inverters | 58,076 | 41.2 | % 50,037 | 44.8 | % 8,039 | 16.1 |
| Total sales | \$140,948 | 100.0 | % \$111,814 | 100.0 | % \$29,134 | 26.1 |

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Total Sales

Overall, our sales increased \$29.1 million, or 26.1%, to \$140.9 million for the three months ended March 31, 2014 from \$111.8 million for the three months ended March 31, 2013. The majority of the increase was attributable to the continuation of the capital investment in the semiconductor market driven by advanced memory (V-NAND) and 20nm capacity build-outs in Asia, as well as the additions of the three-phase string inverter and PCM lines. These increases were partially offset by a decline in sales in the flat panel display markets.

Precision Power Products

Results for Precision Power Products for the three months ended March 31, 2014 and 2013 were as follows (in thousands):

| | Three Months Ended March 31, | |
|------------------|------------------------------|----------|
| | 2014 | 2013 |
| Sales | \$82,872 | \$61,777 |
| Operating Income | 23,211 | 7,511 |

Precision Power Products sales increased 34.1% to \$82.9 million, or 58.8% of sales, for the three months ended March 31, 2014 versus \$61.8 million, or 55.2% of sales, for the three months ended March 31, 2013.

In the three months ended March 31, 2014, sales in the Precision Power Products semiconductor market increased 72.2% to \$56.3 million, or 40.0% of sales, from \$32.7 million, or 29.2% of sales for the three months ended March 31, 2013. Market conditions remained strong across the semiconductor market as we continued to benefit from the completion of the investment cycle in Memory and leading 20nm capacity ramping by fab customers in Asia. We expect a slight pause in semiconductor investments as fab customers digest the last two quarters of heavy investment. The memory sector investment for the second half of the year remains unclear as some fab customers appear to be delaying the next phase of expansion. The potential delay is being driven by initial yield concerns and the current oversupply in the NAND memory market.

Sales in the non-semiconductor capital equipment markets decreased 11.0% to \$14.8 million, or 10.5% of sales, for the three months ended March 31, 2014 compared to \$16.6 million, or 14.9% of sales, for the three months ended March 31, 2013. The markets that comprise the Precision Power Products non-semiconductor capital equipment markets include solar panel, flat panel display, power control modules, data storage, architectural glass and other industrial manufacturing equipment markets. Our customers in these markets are primarily global OEMs. The data storage and industrial markets were the principle drivers of the increases in the non-semiconductor market. Repeat business into the industrial coating segment continued as OEM customers shipped systems into new markets, including Latin America. The flat panel market remained soft as demand in the touch panel area continued but at reduced levels. The glass and renewables markets declined slightly in the quarter as demand for glass coating systems and investment in solar panel production continues but at lower levels. Customer investments in these areas are expected to recover in the latter half of 2014.

Our global support revenue decreased to \$11.8 million, or 8.3% of total sales, for the three months ended March 31, 2014, compared to \$12.5 million, or 11.1% of sales, for the three months ended March 31, 2013. The fab equipment utilization rate continued at lower than expected levels and subsequently drove increased focus on fab expenditures within the quarter. It is expected that the utilization rate will start to recover and continue to increase throughout the balance of the year.

Operating income for Precision Power Products was \$23.2 million for the three months ended March 31, 2014, an increase of \$15.7 million from the same period of 2013. High sales volumes continued to drive improved manufacturing efficiencies and resulted in the increase in operating income.

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Inverters

Results for our Inverters SBU for the three months ended March 31, 2014 and 2013 are as follows (in thousands):

| | Three Months Ended March 31, | |
|-------------------------|------------------------------|----------|
| | 2014 | 2013 |
| Sales | \$58,076 | \$50,037 |
| Operating income (loss) | (6,298 |) 208 |

Inverters sales were \$58.1 million, or 41.2% of sales, for the three months ended March 31, 2014 as compared to \$50.0 million, or 44.8% of sales, for the three months ended March 31, 2013. The increase is primarily due to the addition of the three phase string inverter product line, which was not included in Q1 2013 sales. Market conditions remained challenging, a shift in product sales and Q1 seasonality due to severe weather delayed shipments in some markets led to lower than expected revenues. Public policy considerations also served to create market uncertainty. In Germany, a proposal to tax self-consumption of green energy could make investments in PV Solar unattractive for small to mid-size commercial customers. In the U.S., new petitions aimed at expanding the tariffs on the import of solar cells and panels manufactured in China to cells manufactured in Taiwan and elsewhere is disrupting the PV Solar market. The commercial market in the US is seeing a shift away from central inverters towards three phase string products. We expect continued ramp up of the three phase string product line and the 1 MW inverter, the AE 1000NX, over the next few quarters. Shipments of the other NX and TX central inverter products will decline over time.

Operating loss for Inverters was \$6.3 million for the three months ended March 31, 2014 as compared to operating income of \$0.2 million for the three months ended March 31, 2013. The decrease is due to a shift in product sales, seasonality and higher costs associated with the ramp up of the AE 1000NX.

Backlog

Our overall backlog was \$127.5 million at March 31, 2014 as compared to \$128.3 million at December 31, 2013. The decrease is primarily the result an increase in Precision Power Products backlog offset by a decrease in Inverters backlog.

GROSS PROFIT

Our gross profit was \$52.7 million, or 37.4% of sales, for the three months ended March 31, 2014, as compared to \$41.8 million, or 37.4% of sales for the three months ended March 31, 2013. The year-over-year increase in terms of absolute dollars was a result of higher sales in the Precision Power Products business unit as demand increased in all of the markets we serve. The slight increase in gross margin as a percentage of sales for the quarter-to-date period is due to the overall revenue mix shift between our Precision Power Products business, which yields a higher gross margin, and lower-margin Inverters sales.

OPERATING EXPENSE

The following table summarizes our operating expenses as a percentage of sales for the three and twelve months ended March 31, 2014 and 2013 (in thousands):

| | Three Months Ended March 31, | | | | | |
|--------------------------------------|------------------------------|------|------|----------|------|---|
| | 2014 | | 2013 | | | |
| Research and development | \$14,142 | 10.0 | % | \$14,253 | 12.7 | % |
| Selling, general, and administrative | 19,731 | 14.0 | % | 17,654 | 15.8 | % |
| Amortization of intangible assets | 1,875 | 1.3 | % | 2,213 | 2.0 | % |
| Total operating expenses | \$35,748 | 25.3 | % | \$34,120 | 30.5 | % |

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.

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Research and development expenses for the three months ended March 31, 2014 were \$14.1 million, or 10.0% of sales, as compared to \$14.3 million, or 12.7% of sales, for the three months ended March 31, 2013. Research and development costs remained relatively flat in the three months ended March 31, 2014 as compared to the same periods in 2013 as a result of our focus on maintaining costs.

Selling, General and Administrative

Our selling expenses support domestic and international sales and marketing activities that include personnel, trade shows, advertising, third-party sales representative commissions, and other selling and marketing activities. Our general and administrative expenses support our worldwide corporate, legal, tax, financial, governance, administrative, information systems, and human resource functions in addition to our general management, including acquisition-related activities.

Selling, general and administrative ("SG&A") expenses increased \$2.1 million in the three months ended March 31, 2014 as compared to the same period in 2013. The increase is primarily due to the acquisitions of our three-phase string inverter and power control module product lines.

Amortization Expense

Amortization of intangible assets expense was \$1.9 million for the three months ended March 31, 2014, compared to \$2.2 million for the same period ending March 31, 2013. During the second and third quarters of 2013, we recorded an impairment of intangible assets which we had acquired from PV Powered in May 2010. Our initial estimate of the impairment was recorded in the second quarter with the final value determined during the third quarter. As a result of the acquisition of the three-phase string inverter product line, we assessed the overall Inverter product line for product optimization, resulting in an impairment to the technology purchased from PV Powered. This reduced amortization expense related to these products which was offset by increases in amortization expense related to the intangible assets acquired with Refusol and PCM.

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 \$0.1 million loss for the three months ended March 31, 2014 as compared to a \$0.2 million loss in the same period of 2013.

Provision for Income Taxes

We recorded an income tax provision from continuing operations for the three months ended March 31, 2014 of \$2.1 million compared to expense of \$0.7 million for the three months ended March 31, 2013, resulting in effective tax rates of 12.5% and 9.2%, respectively. Our tax rate is lower than the federal statutory rate primarily due to the benefit of earnings in foreign jurisdictions which are subject to lower tax rates. In addition, during the three months ended March 31, 2013, we recognized net discrete tax benefits of \$1.4 million primarily related to the reinstatement of the 2012 U.S. research and development tax credit.

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

Non-GAAP Results

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

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The non-GAAP results presented below exclude the impact of stock-based compensation, amortization of intangible assets, and acquisition-related costs (in thousands):

| | Three Months Ended March 31, | |
|--|------------------------------|----------|
| | 2014 | 2013 |
| Income, net of tax, as reported | \$14,715 | \$6,826 |
| Adjustments, net of tax: | | |
| Acquisition-related costs | 228 | 993 |
| Stock-based compensation | 1,544 | 1,847 |
| Amortization of intangible assets | 1,642 | 2,010 |
| Non-GAAP income, net of tax | \$18,129 | \$11,676 |
| Diluted weighted-average common shares outstanding | 41,870 | 39,598 |
| Non-GAAP Earnings Per Share | \$0.43 | \$0.29 |

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 20. Credit Facilities in Part I Item 1 of this Form 10-Q. At March 31, 2014, we had \$122.7 million in cash, cash equivalents, and marketable securities. 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 October 12, 2012, we entered into an agreement with Wells Fargo Bank, National Association which provides for a secured revolving credit facility ("Credit Facility") of up to \$50.0 million. As of March 31, 2014, we had \$50.0 million of availability on our Wells Fargo Credit Facility. Borrowings under the Credit Facility are subject to a borrowing base based upon our accounts receivable and inventory and are available for various corporate purposes. The Credit Facility provides us further flexibility for execution of our strategic plans including acquisitions. With the acquisition of Refusol, we assumed the outstanding balances under their existing lines of credit. Refusol has two outstanding notes with various banks that provide up to 12.0 million Euros of borrowing. As of March 31, 2014 there was \$15.1 million outstanding on these notes. For more information on these Credit Facilities see Note 20. Credit Facilities of our Consolidated Financial Statements.

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):

| | Three Months Ended March 31, | |
|---|------------------------------|-----------|
| | 2014 | 2013 |
| Net cash provided by operating activities | \$6,799 | \$461 |
| Net cash provided by (used in) investing activities | (32,843 |) 11,675 |
| Net cash provided by (used in) financing activities | (1,782 |) 11,128 |
| EFFECT OF CURRENCY TRANSLATION ON CASH | (72 |) (100 |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (27,898 |) 23,164 |
| CASH AND CASH EQUIVALENTS, beginning of period | 138,125 | 146,564 |
| CASH AND CASH EQUIVALENTS, end of period | \$110,227 | \$169,728 |

2014 CASH FLOWS COMPARED TO 2013

Net cash provided by (used in) operating activities

Net cash provided by operating activities for the three months ended March 31, 2014 was \$6.8 million, compared to \$0.5 million for the same period ended March 31, 2013. The increase of \$6.3 million in net cash flows from operating activities is primarily the result of higher net income and lower income taxes paid during the quarter.

Net cash used in investing activities

Net cash used in investing activities for the three months ended March 31, 2014 was \$32.8 million, an increase of \$44.5 million from the same period ended March 31, 2013. The increase in cash used is due to the cash payment of \$30.3 million for the acquisition of the Power Control Module product line. Capital expenditures for the three months ended March 31, 2014 were up \$0.2 million compared to the same period in 2013.

Net cash provided by (used in) financing activities

Net cash used by financing activities in the three months ended March 31, 2014 was \$1.8 million, a \$12.9 million change from the cash provided by financing activities of \$11.1 million in the same period of 2013. This was primarily due to the settlement of performance stock units in cash of \$11.2 million in the first quarter of 2014. Additionally, the exercise of stock options provided \$7.4 million of cash in 2014 as compared to \$12.1 million in 2013.

Effect of currency translation on cash

During the three months ended March 31, 2014, currency translation had a negligible impact on cash compared to a negative impact of \$0.1 million in the same period of 2013. The functional currencies of our worldwide operations primarily include U.S. dollar ("USD"), Japanese Yen ("JPY"), Chinese Yuan ("CNY"), New Taiwan Dollar ("TWD"), South Korean Won ("KRW"), British Pound ("GBP"), Swiss Franc ("CHF"), Canadian Dollar ("CAD"), Euro ("EUR"), and Indian Rupee ("INR"). Our purchasing and sales activities are primarily denominated in USD, JPY, CNY, and EUR. The change in these key currency rates during the three months ended March 31, 2014 and 2013 are as follows:

| From | To | Three Months Ended March 31, | | |
|------|-----|------------------------------|---------|----|
| | | 2014 | 2013 | |
| CNY | USD | (2.6 |)% 0.3 | % |
| EUR | USD | 0.2 | % (2.8 |)% |
| JPY | USD | 2.0 | % (7.9 |)% |
| KRW | USD | (0.8 |)% (4.4 |)% |
| TWD | USD | (1.9 |)% (2.8 |)% |
| GBP | USD | 0.6 | % (6.4 |)% |
| CAD | USD | (3.9 |)% (2.5 |)% |
| CHF | USD | 1.0 | % (3.6 |)% |
| INR | USD | 2.8 | % 1.0 | % |

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Off Balance Sheet Arrangements

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

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with U.S. GAAP requires us to make judgments, assumptions and estimates that affect the amounts reported in the Condensed Consolidated Financial Statements and accompanying notes. Note 1 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2013 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, 2013, include estimates for allowances for doubtful accounts, determining useful lives for depreciation and amortization, the valuation of assets and liabilities acquired in business combinations, assessing the need for impairment charges for identifiable intangible assets and goodwill, establishing warranty reserves, accounting for income taxes, and assessing excess and obsolete inventories. Such accounting policies and estimates require significant judgments and assumptions to be used in the preparation of the Condensed Consolidated Financial Statements and actual results could differ materially from the amounts reported based on variability in factors affecting these estimates.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our market risk exposure relates to changes in interest rates in our investment portfolio and credit facility. We generally place our investments with high-credit quality issuers and by policy are averse to principal loss and seek to protect and preserve our invested funds by limiting default risk, market risk, and reinvestment risk.

As of March 31, 2014, our investments consisted primarily of certificates of deposit and institutional money markets, all with maturity of less than 2 years. As a measurement of the sensitivity of our portfolio and assuming that our investment portfolio balances remain constant, a hypothetical decrease of 100 basis points (1%) in interest rates would decrease annual pre-tax earnings by approximately \$0.1 million.

We had \$15.1 million of debt outstanding as of March 31, 2014 under various debt instruments, some with variable interest rates and principal payments. Assuming a full drawdown on all 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, JPY, CNY and EUR. 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

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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 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, 2013.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

As of the end of the period covered by this report, we conducted an evaluation, with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the disclosure controls and procedures pursuant to the Exchange Act Rule 13a-15(b). Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2014. 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, except as discussed below, that occurred during the fiscal quarter covered by this Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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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 March 31, 2014. 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, 2013.

ITEM 1A. RISK FACTORS

Item 1A, "Risk Factors," of our Annual Report on Form 10-K for the year ended December 31, 2013 describes some of the risks and uncertainties associated with our business. The risk factors set forth below update such disclosures. Other factors may also exist that we cannot anticipate or that we currently do not consider to be significant based on information that is currently available. These risks and uncertainties have the potential to materially affect our business, financial condition, results of operations, cash flows and future results. Such risks and uncertainties also may impact the accuracy of forward-looking statements included in this Form 10-Q and other reports we file with the Securities and Exchange Commission.

Recent unfair trade complaints filed against imports of solar cells from China and Taiwan could have significant negative effects on our business, financial condition or results of operations.

In October 2011, a coalition of several U.S. solar companies filed complaints with the U.S. Department of Commerce ("DOC") and International Trade Commission ("ITC") charging that Chinese solar cell manufacturers have engaged in, and benefited from, various unfair trade practices. A similar trade case may also be filed in Europe. In early 2012, duties were imposed on solar panels imported from China which have resulted in other trade-related conflicts. Since some of our inverters are well-suited for use with crystalline silicon panel modules, the impact of these duties on the cost of solar panels could have a material adverse impact on our business, financial position or results of operations. In February 2014, the ITC published preliminary findings related to Taiwanese solar cell manufacturing for Chinese solar module manufacturers. If additional tariffs are imposed or expanded geographically to include Taiwan, or other negotiated outcomes occur, the pricing of solar panels may increase for our customers so as to adversely affect solar project financial viability. If solar projects are canceled or delayed, this could have a material adverse impact on our business, financial position or results of operations.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

- 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.
- 32.1 Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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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: May 9, 2014

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

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INDEX TO EXHIBITS

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