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

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**FORM 8-K/A  
(Amendment No. 1)**

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**CURRENT REPORT**

**Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934**

**Date of Report (Date of earliest event reported): September 10, 2019**

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**Advanced Energy Industries, Inc.**

(Exact name of registrant as specified in its charter)

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<b>Delaware</b> (State or other jurisdiction of incorporation)	<b>000-26966</b> (Commission File Number)	<b>84-0846841</b> (IRS Employer Identification No.)
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**1625 Sharp Point Drive, Fort Collins, Colorado**  
(Address of principal executive offices)

**80525**  
(Zip Code)

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

**Not applicable**  
(Former name or former address, if changed since last report)

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

<b>Title of each class</b>	<b>Trading Symbol(s)</b>	<b>Name of each exchange on which registered</b>
<b>Common Stock, \$0.001 par value</b>	<b>AEIS</b>	<b>NASDAQ Global Select Market</b>

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter). Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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## Amendment No. 1

### Explanatory Note

On September 10, 2019, Advanced Energy Industries, Inc. (the “Company”) filed with the Securities and Exchange Commission a Current Report on Form 8-K (the “Form 8-K”) to report the completion of its acquisition of Artesyn Embedded Technologies, Inc.’s (“Artesyn”) Embedded Power (“Embedded Power”) business pursuant to that certain Stock Purchase Agreement, dated May 14, 2019, as amended by the First Amendment to Stock Purchase Agreement, dated September 9, 2019, by and among the Company, Artesyn, Pontus Holdings, LLC and Pontus Intermediate Holdings II, LLC. Prior to the acquisition of Artesyn, Artesyn engaged in a pre-acquisition reorganization which divested its embedded computing business and its consumer business (such divested businesses, the “Artesyn Legacy Businesses”).

This Current Report is being filed by the Company to amend the Form 8-K to provide (i) audited consolidated financial statements of Artesyn Embedded Technologies, Inc. and subsidiaries as of December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016, (ii) unaudited condensed consolidated financial statements of Artesyn Embedded Technologies, Inc. and subsidiaries as of and for the three and six months ended June 30, 2019 and 2018, and (iii) unaudited pro forma condensed combined financial information giving effect to the acquisition for the six months ended June 30, 2019 and for the year ended December 31, 2018.

### Item 9.01 Financial Statements and Exhibits.

#### (a) Financial Statements of Businesses Acquired.

The audited consolidated financial statements of Artesyn Embedded Technologies, Inc. and subsidiaries as of December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016, filed as Exhibit 99.1 hereto and incorporated by reference.

The unaudited condensed consolidated financial statements of Artesyn Embedded Technologies, Inc. and subsidiaries as of June 30, 2019 and for the three and six months ended June 30, 2019 and 2018, filed as Exhibit 99.2 and incorporated herein by reference.

#### (b) Pro Forma Financial Information.

The unaudited pro forma condensed combined financial information of the Company and Artesyn Embedded Technologies, Inc., as adjusted to remove the Artesyn Legacy Businesses, for the six months ended June 30, 2019 and the year ended December 31, 2018, and accompanying notes, filed as Exhibit 99.3 hereto and incorporated herein by reference.

<b>(d)</b>	<b>Exhibits</b>
23.1	<a href="#"><u>Consent of Ernst &amp; Young LLP, Independent Auditors</u></a>
99.1	<a href="#"><u>Audited consolidated financial statements of Artesyn Embedded Technologies, Inc. and subsidiaries as of December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016.</u></a>
99.2	<a href="#"><u>Unaudited condensed consolidated financial statements of Artesyn Embedded Technologies, Inc. and subsidiaries as of June 30, 2019 and for the three and six months ended June 30, 2019 and 2018.</u></a>
99.3	<a href="#"><u>Unaudited pro forma condensed combined statements of operations of Advanced Energy Industries, Inc. and Artesyn Embedded Technologies, Inc.’s Embedded Power Base business for the six months ended June 30, 2019 and the year ended December 31, 2018.</u></a>

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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 hereunto duly authorized.

Date: November 22, 2019

/s/ Paul Oldham

Paul Oldham

Chief Financial Officer & Executive Vice President

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## Consent of Independent Auditors

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement on Forms S-3 (No. 333-167027, 333-110534, 333-87459, and 333-34039) of Advanced Energy Industries, Inc., and
- (2) Registration Statement on Forms S-8 (No. 333-221376, 333-168519, 333-167741, 333-152865, 333-129858, 333-105367, 333-87718, 333-69150, 333-69148, 333-62760, 333-79429, 333-79425, 333-65413, 333-57233, 333-46705, 333-04073, and 333-01616) of Advanced Energy Industries, Inc.;

of our report dated March 27, 2019 (except with respect to the effects of accounting standard updates adopted discussed in Note 1 and the effects of the discontinued operations discussed in Note 2, as to which the date is November 21, 2019) with respect to the consolidated financial statements of Artesyn Embedded Technologies, Inc., included in this Current Report (Form 8-K/A) of Advanced Energy Industries, Inc. dated November 22, 2019.

/s/ Ernst & Young LLP

Phoenix, Arizona

November 22, 2019

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**ARTESYN EMBEDDED TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**As of December 31, 2018 and 2017**  
**and for the years ended December 31, 2018, 2017 and 2016**

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# ARTESYN EMBEDDED TECHNOLOGIES, INC. AND SUBSIDIARIES

## CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2018 and 2017

and for the years ended December 31, 2018, 2017 and 2016

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## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Management of  
Artesyn Embedded Technologies, Inc. and subsidiaries

We have audited the accompanying consolidated financial statements of Artesyn Embedded Technologies, Inc. and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive loss, shareholder's (deficit) equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Artesyn Embedded Technologies, Inc. and subsidiaries at December 31, 2018 and 2017, and the consolidated results of their operations and their cash flows for the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

/s/Ernst & Young

Phoenix, Arizona

March 27, 2019

except with respect to the effects of accounting standard updates adopted as discussed in Note 1 and the effects of the discontinued operations discussed in Note 2, as to which the date is

November 21, 2019

# ARTESYN EMBEDDED TECHNOLOGIES, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)

	December 31,	
	2018	2017
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 10,862	\$ 19,610
Trade receivables, less allowances of \$1,436 and \$1,223 in 2018 and 2017, respectively	237,894	197,566
Inventories	182,908	159,798
Prepaid expenses and other current assets	25,736	26,337
Current assets held for sale	78,026	35,691
Total current assets	535,426	439,002
Property, plant and equipment, net	95,165	76,171
Goodwill	8,552	8,552
Intangible assets, net	27,774	34,234
Other assets	11,368	10,272
Other long-term assets held for sale	-	45,246
Total assets	\$ 678,285	\$ 613,477
<b>LIABILITIES AND SHAREHOLDER'S (DEFICIT) EQUITY</b>		
Current liabilities		
Senior secured notes, net	\$ 228,252	\$ -
Revolving credit facilities	77,674	34,791
Trade accounts payable	231,498	193,500
Accrued expenses	34,955	38,691
Accrued employee related benefits	38,161	31,720
Income taxes payable	1,036	4,676
Current liabilities held for sale	18,189	21,275
Total current liabilities	629,765	324,653
Senior secured notes, net	-	225,601
Pension liabilities	37,380	38,943
Deferred income taxes	12,961	12,038
Other liabilities	16,703	6,956
Other long-term liabilities held for sale	-	1,049
Total liabilities	696,809	609,240
Shareholder's (deficit) equity		
Common stock: \$0.01 par value, 1,000 shares authorized, 100 shares issued and outstanding at December 31, 2018 and 2017	-	-
Additional paid-in capital	106,592	106,592
Accumulated deficit	(124,186)	(100,295)
Accumulated other comprehensive loss	(930)	(2,060)
Total shareholder's (deficit) equity	(18,524)	4,237
Total liabilities and shareholder's (deficit) equity	\$ 678,285	\$ 613,477

*See accompanying Notes to the Consolidated Financial Statements.*



# ARTESYN EMBEDDED TECHNOLOGIES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS (Dollars in thousands)

	Years ended December 31,		
	2018	2017	2016
Net sales	\$ 1,032,976	\$ 915,209	\$ 920,888
Cost of sales	880,096	757,757	749,226
Gross profit	152,880	157,452	171,662
Operating expenses	143,842	155,872	158,264
Restructuring expense	7,528	20,625	10,538
Operating income (loss)	1,510	(19,045)	2,860
Other expense (income)			
Interest expense, net	29,258	27,017	27,147
Other income, net	(7,516)	(19,771)	(19,928)
Loss from continuing operations before income taxes	(20,232)	(26,291)	(4,359)
Income tax provision	7,828	14,072	11,356
Loss from continuing operations	\$ (28,060)	\$ (40,363)	\$ (15,715)
Discontinued operations (Note 2)			
Income (loss) from discontinued operations before income taxes	4,306	(8,145)	(6,992)
Income tax provision	137	526	967
Income (loss) from discontinued operations	\$ 4,169	\$ (8,671)	\$ (7,959)
Net Loss	\$ (23,891)	\$ (49,034)	\$ (23,674)

*See accompanying Notes to the Consolidated Financial Statements.*

**ARTESYN EMBEDDED TECHNOLOGIES, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE LOSS**  
**(Dollars in thousands)**

	Years ended December 31,		
	2018	2017	2016
Loss from continuing operations	\$ (28,060)	\$ (40,363)	\$ (15,715)
Other comprehensive income (loss), net of tax			
Foreign currency translation adjustments	(83)	55	(61)
Defined benefit pension and post-employment plans:			
Actuarial gain (loss) arising during the period, net of tax of \$0 for all years	1,708	(898)	763
Amortization of unrecognized amounts included in net periodic benefit costs, net of tax of \$0 for all years	(495)	47	(208)
Other comprehensive income (loss)	1,130	(796)	494
Total comprehensive loss	\$ (26,930)	\$ (41,159)	\$ (15,221)

*See accompanying Notes to the Consolidated Financial Statements.*

**ARTESYN EMBEDDED TECHNOLOGIES, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF SHAREHOLDER'S (DEFICIT) EQUITY**  
**(Dollars in thousands, except per share amounts)**

	<u>Shares issued</u>	<u>Common stock</u>	<u>Additional paid-in capital</u>	<u>Accumulated deficit</u>	<u>Accumulated other comprehensive loss</u>	<u>Total shareholder's equity (deficit)</u>
Balance at January 1, 2016	100	\$ -	\$ 106,592	\$ (27,587)	\$ (1,758)	\$ 77,247
Net loss	-	-	-	(23,674)	-	(23,674)
Other comprehensive income	-	-	-	-	494	494
Balance at December 31, 2016	100	\$ -	\$ 106,592	\$ (51,261)	\$ (1,264)	\$ 54,067
Net loss	-	-	-	(49,034)	-	(49,034)
Other comprehensive loss	-	-	-	-	(796)	(796)
Balance at December 31, 2017	100	\$ -	\$ 106,592	\$ (100,295)	\$ (2,060)	\$ 4,237
Net loss	-	-	-	(23,891)	-	(23,891)
Other comprehensive income	-	-	-	-	1,130	1,130
Balance at December 31, 2018	100	\$ -	\$ 106,592	\$ (124,186)	\$ (930)	\$ (18,524)

*See accompanying Notes to the Consolidated Financial Statements.*

**ARTESYN EMBEDDED TECHNOLOGIES, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Dollars in thousands)**

	Years ended December 31,		
	2018	2017	2016
<b>Operating activities</b>			
Net loss from continuing operations	\$ (28,060)	\$ (40,363)	\$ (15,715)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Depreciation	30,449	30,397	32,407
Intangible amortization	6,460	6,604	6,604
Amortization of financing fees	2,937	2,395	2,916
Gain on sale of Senior Secured Notes, net of deferred financing fee write off	-	-	(760)
(Gain) loss on sale of assets	(167)	360	206
Provision for deferred income taxes	(412)	4,771	1,721
Changes in operating assets and liabilities			
Trade receivables	(40,327)	(34,972)	12,749
Inventories	(23,109)	(8,906)	(3,645)
Other current assets	2,493	2,583	(6,683)
Trade accounts payable	32,375	48,047	(41,375)
Accrued expenses	2,704	1,833	1,604
Other assets and liabilities	10,709	4,624	(8,876)
Income taxes	(4,030)	(1,095)	(1,246)
Net cash (used in) provided by operating activities	(7,978)	16,278	(20,093)
<b>Investing activities</b>			
Capital expenditures	(43,975)	(27,000)	(27,982)
Proceeds from disposition of property, plant and equipment	322	443	224
Net cash used in investing activities	(43,653)	(26,557)	(27,758)
<b>Financing activities</b>			
Borrowings from credit facility	1,120,003	624,723	777,327
Payments on credit facility	(1,077,120)	(613,088)	(754,171)
Repurchase of Senior Secured Notes	-	-	(5,872)
Net cash provided by financing activities	42,883	11,635	17,284
(Decrease) increase in cash and cash equivalents	(8,748)	1,356	(30,567)
Beginning cash and equivalents	19,610	18,254	48,821
Ending cash and equivalents	\$ 10,862	\$ 19,610	\$ 18,254
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>			
Cash paid for interest	\$ 26,377	\$ 24,505	\$ 24,203
Cash paid for income tax	7,141	8,501	16,628

*See accompanying Notes to the Consolidated Financial Statements.*

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *Description of Business*

Artesyn Embedded Technologies, Inc. ('Artesyn') together with its subsidiaries (collectively, the 'Company') provides power conversion and embedded computing technologies and solutions for applications in a broad range of markets including communications, data center, industrial automation, medical, consumer and military/aerospace. The Company is headquartered in Tempe, Arizona and has engineering centers primarily in North America and Asia, and manufacturing locations in Asia (China and the Philippines).

The Company is comprised of three reporting units: Embedded Power Base, Consumer and Embedded Computing. Embedded Power Base designs and manufactures application-specific and customized power conversion products for use by computing, storage, telecommunications, industrial and medical customers. Consumer creates customized power conversion products for use in specific Consumer-based end markets. Embedded Computing designs and manufactures customized microprocessor-based boards and systems. The Embedded Computing reporting unit was sold on July 8, 2019 and is being reported as discontinued operations. See Note 2 for more details.

On May 14, 2019, Advanced Energy Industries, Inc., a Delaware corporation, entered into a Stock Purchase Agreement with Artesyn Embedded Technologies, Inc., to acquire Artesyn's Embedded Power Base business. The transaction closed on September 10, 2019.

Pontus Holdings, LLC ('Pontus') is a holding company formed as a joint venture of affiliates of Platinum Equity, LLC ('Platinum') and Emerson Electric Co. ('Emerson') to own the operating company Artesyn. In 2013, Emerson entered into a purchase agreement with Pontus JV Holdings, LLC ('Pontus JV'), an affiliate of certain private equity investment vehicles sponsored by Platinum, for the sale of a 51 percent controlling interest in Artesyn (the 'Transaction'). As part of the Transaction, Emerson received cash and a 49 percent noncontrolling interest in Pontus. As a result, Artesyn is a wholly owned subsidiary of Pontus, and Pontus is owned 51 percent by Pontus JV and 49 percent by Emerson.

### *Basis of Presentation*

The consolidated financial statements are presented in U.S. dollars, with all intercompany transactions eliminated in consolidation. The functional currency for the majority of the non-U.S. subsidiaries is the U.S. dollar. Adjustments resulting from translating non-U.S. local functional currency financial statements into U.S. dollars are reflected in Accumulated other comprehensive loss.

### *Discontinued Operations*

The results of operations for the Company's Embedded Computing business have been classified as discontinued operations for all periods presented in the Consolidated Statement of Operations. Assets and liabilities subject to the sale of Embedded Computing have been classified as assets and liabilities held for sale for all periods presented in the Consolidated Balance Sheets. Refer to Note 2 for additional information.

### *Use of Estimates*

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles ('U.S. GAAP') requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### *Cash and Cash Equivalents*

Cash and cash equivalents consist of amounts on deposit and highly liquid investments with original maturities of three months or less.

***Trade Receivables, net***

Trade receivables consist of balances due from customers, net of estimated allowances. The allowances include estimates based on historical experience and specific reserves in the case of known collection issues. Trade receivables as of December 31, 2018 and 2017 include a related party amount of \$2,271 and \$2,648, respectively, due from affiliates of Emerson and Pontus JV (see Note 12).

***Inventories***

Inventories are valued at the lower of cost or net realizable value using the first-in, first-out method. The Company writes down its inventory for estimated obsolescence or unmarketable inventory in an amount equal to the difference between the cost of inventory and the estimated net realizable value based upon assumptions about future demand and market conditions.

***Revenue Recognition***

The Company recognizes revenue for the sale of manufactured products when title and risk of loss passes to the customer (generally when products are shipped), persuasive evidence of an arrangement exists, the sales price is fixed or determinable, and collection is reasonably assured. Reserves, based on historical experience, are made for anticipated returns of products and sales discounts at the time products are sold.

The Company also records revenue for services including primarily repair services, engineering services, technical support, and extended warranties. Revenues for repair and engineering services are recognized when the goods and services are provided, while technical support and extended warranties are generally amortized over the life of the applicable contract. The total amount of service revenue was \$31,457, \$22,801 and \$14,001 for the years ended December 31, 2018, 2017 and 2016, respectively. In some of these instances, the service arrangement is part of a multiple element sales arrangement. In these instances, the revenue assigned to each element is based on vendor-specific objective evidence, third-party evidence or a management estimate of the relative selling price. Revenue is recognized individually for delivered elements only if they have value to the customer on a stand-alone basis and the performance of the undelivered item is probable and substantially in the Company's control, or the undelivered elements are inconsequential or perfunctory and there are no unsatisfied contingencies related to payment. Generally, these multiple deliverables include services to support the related product revenue, contract duration is short-term, and cancellation, termination or refund provisions apply only in the event of contract breach and historically have not been invoked.

The Company records amounts billed to customers for shipping and handling fees in a sales transaction as revenue. Shipping and handling costs are included in Cost of sales.

The Company had one customer that represented 36.5%, 35.9% and 31.9% of consolidated Net sales for the years ended December 31, 2018, 2017 and 2016, respectively. There were no other customers with sales exceeding 10.0% of consolidated Net sales in the respective periods.

***Fair Value Measurements***

Accounting Standards Codification ('ASC') 820, 'Fair Value Measurements', established a formal hierarchy and framework for measuring certain financial statement items at fair value, and expanded disclosures about fair value measurements and the reliability of valuation inputs. Under ASC 820, measurement assumes the transaction to sell an asset or transfer a liability occurs in the principal or at least the most advantageous market for that asset or liability. Within the hierarchy, Level 1 instruments use observable unadjusted market prices for the identical item in active markets and have the most reliable valuations. Level 2 instruments are valued based on quoted prices in markets that are not active, quoted prices for similar items in active markets, or market-observable inputs, including forward and spot prices, interest rates and volatilities. Level 3 instruments are valued using valuation techniques that require inputs that are both significant to the fair value measurement and not observable, such as company-developed future cash flow estimates, and are considered the least reliable.

The carrying value as of December 31, 2018 and 2017 approximates fair value for Cash and cash equivalents, Trade receivables, Revolving credit facility, and Trade accounts payable because of their short-term nature and generally negligible credit losses.

ARTESYN EMBEDDED TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Dollars in thousands)

See Note 1, Foreign Currency Derivative Contracts, for the fair value of derivatives and Note 6 for the fair value of long-term debt.

***Property, Plant and Equipment, net***

The Company records investments in land, buildings and improvements, and machinery and equipment at cost. Depreciation on assets is calculated primarily using the straight-line method over the estimated useful lives of the assets. The estimated useful life of buildings is 25 to 35 years, leasehold improvements are amortized over the lesser of the economic life or the related lease term, while the estimated useful lives of machinery and equipment range from 5 to 15 years (see Note 4).

The Company assesses the recoverability of the carrying amount of property, plant and equipment when changes in circumstances indicate that the carrying amount may not be recoverable. If the carrying amount of the asset or asset group does not exceed its expected undiscounted cash flows, an impairment loss equal to the excess of carrying value over the estimated fair value of the asset or asset group would be recorded.

***Goodwill***

Assets and liabilities acquired in business combinations are accounted for using the acquisition method and recorded at their respective fair values. The excess of purchase price over identified tangible and intangible assets is recorded as goodwill (see Note 5). The goodwill represents intangible assets that do not qualify for separate recognition and other factors and substantially all goodwill is deductible for tax purposes. The Company conducts an annual impairment test of goodwill in the fourth quarter of the calendar year and between annual tests if events or circumstances indicate the fair value of a reporting unit may be less than its carrying value.

***Intangible Assets***

The Company's identifiable intangible assets are subject to amortization (see Note 5). Identifiable intangible assets consist of intellectual property such as patented and unpatented technology, trademarks, and customer relationships, and are amortized on a straight-line basis over their estimated useful lives. Amortization of technology related intangible assets is included in Cost of sales, while trademark and customer relationship intangible amortization is included in Operating expenses. These intangible assets are also subject to an evaluation for potential impairment whenever events or circumstances indicate the carrying value may not be recoverable.

***Product Warranties***

Warranties vary by product line and generally extend for one to three years from the date of sale. Provisions for warranty are determined primarily based on historical warranty cost as a percentage of sales, adjusted for specific matters that may arise.

***Interest Expense***

Interest expense includes cash interest payments and debt related costs such as amortization of deferred financing costs. The Company amortizes deferred financing costs on a straight-line basis, which approximates the effective interest method.

***Income Taxes***

The Company files a consolidated U.S. federal income tax return and its income tax provision consists principally of federal, state and foreign income taxes. Current income tax liabilities and assets are recognized for the estimated taxes payable or refundable for the current income tax period. Deferred income tax assets and liabilities are recognized for the anticipated future tax consequences attributable to the temporary differences that exist between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The portion of any deferred income tax asset for which it is more likely than not that a tax benefit will not be realized is offset by recording a valuation allowance. The future realization of the tax benefit of an existing temporary difference ultimately depends on the generation of future taxable income during the periods in which the temporary difference becomes deductible.

ARTESYN EMBEDDED TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Dollars in thousands)

In making its assessment regarding the realizability of its deferred tax assets and the need for a valuation allowance, management makes judgments and estimates of future taxable income that may be available under the tax law to realize the related tax benefits, including scheduled reversals of existing taxable temporary differences, projected taxable income exclusive of temporary differences and tax planning strategies.

The Company recognizes the impact of an income tax position if that position is more likely than not of being sustained on audit, based on the technical merits of the position. Measurement of the tax position's effect on the income tax provision is based on the largest amount of benefit that is greater than 50 percent likely of being realized upon the ultimate settlement. Differences between the amount of benefits taken, or expected to be taken, in the Company's income tax returns and the amount of benefits recognized based on this evaluation and measurement of the related tax positions represent the unrecognized income tax benefit, which is reflected as a liability.

The Company includes interest and penalties related to unrecognized tax benefits as part of the income tax provision in the consolidated statement of operations.

The Company is indemnified by Emerson for income taxes prior to the Transaction. The Company recorded a receivable from Emerson for any unrecognized tax benefits which relate to periods prior to the Transaction. See Note 11 for further details on Income Taxes.

***Research and Development***

The Company conducts ongoing research and development in support of existing and new product introductions. Research and development costs were \$49,475, \$55,130 and \$59,469 for the years ended December 31, 2018, 2017 and 2016, respectively. Research and development costs are included in Operating expenses.

***Foreign Currency Derivative Contracts***

The Company enters into foreign currency forward derivative contracts as part of a program designed to mitigate the currency exchange rate risk exposure on selected transactions of certain foreign subsidiaries. Although contracts pursuant to this program will serve as an economic hedge of the cash flow of currency exchange risk exposure, they are not formally designated as hedge contracts or qualify for hedge accounting treatment. Accordingly, any change in the fair value of these derivative instruments during a period will be included in the determination of earnings for that period.

As of December 31, 2018 and 2017 there were no outstanding foreign currency forward derivative contracts.

The Company recognized \$533, \$29 and \$590 of net loss on settled foreign currency forward derivatives for the year ended December 31, 2018, 2017 and 2016, respectively, reflected in Cost of sales and Operating expenses.

***Comprehensive Income (Loss)***

Comprehensive income (loss) is composed of net (loss) income plus changes in foreign currency translation relating to subsidiaries that do not use the U.S. dollar as their functional currency and changes in the funded status of defined benefit pension plans and post-employment plans. As of December 31, 2018 and 2017, the Accumulated other comprehensive loss related to the net actuarial gain (loss) for defined benefit pension and post-employment plans was \$1,708 and \$(898), respectively. Accumulated other comprehensive income related to foreign currency translation December 31, 2018, 2017 and 2016 was \$0 for all periods.

***New Accounting Standards Adopted***

As mentioned above, the Company was acquired by Advanced Energy Industries, Inc., a publicly traded business on September 10, 2019. Because of this transaction, the Company is now considered a public business entity ('PBE') for financial reporting purposes. In order for these consolidated financial statements to be presented in accordance with U.S. GAAP, the Company must apply the Accounting Standard Updates ('ASU') applicable to PBE's. The two ASU's discussed below were adopted based on the adoption dates applicable to PBE's.



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In March 2017, the Financial Accounting Standards Board ('FASB') issued ASU No. 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, that requires an employer to disaggregate the service cost component from the other components of net periodic cost (benefit) and report that component in the same line item as other compensation costs arising from services rendered by employees during the period. The other components of net periodic cost (benefit) are required to be presented in the statement of operations separately from the service cost component and outside of operating earnings. The amendment also allows for the service cost component of net periodic cost (benefit) to be eligible for capitalization when applicable. The amendments in this update are effective for public business entities for annual periods beginning after December 31, 2017, including interim periods within those annual periods. The guidance on the income statement presentation of the components of net periodic cost (benefit) must be applied retrospectively, while the guidance limiting the capitalization of net periodic cost (benefit) in assets to the service cost component must be applied prospectively. The Company adopted the standard as of January 1, 2018.

The Company elected to use, as a practical expedient, the amounts disclosed in its defined benefit plan footnote disclosure for the prior comparative period as the estimation basis for applying the retrospective presentation requirements. As a result of adopting ASU 2017-07, net periodic benefit income for the non-service cost components of \$642, \$553 and \$899 was reclassified from Operating expense, to Other expense (income) for the years ended December 31, 2018, 2017 and 2016, respectively.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles – Goodwill and Other, that simplifies the accounting for goodwill impairment for all entities by requiring impairment charges to be based on the first step in the current two-step impairment test under ASC 350. Under current guidance, if the fair value of a reporting unit is lower than its carrying amount (Step 1), an entity calculates any impairment charge by comparing the implied fair value of goodwill with its carrying amount (Step 2). The implied fair value of goodwill is calculated by deducting the current fair value of all assets and liabilities of the reporting unit from the reporting unit's fair value as determined in Step 1. Under ASU No. 2017-04, if a reporting unit's carrying amount exceeds its fair value, an entity will record an impairment charge based on that difference. The impairment charge will be limited to the amount of goodwill allocated to that reporting unit. The guidance is effective for fiscal years beginning after December 15, 2019, and early adoption is permitted for annual and interim goodwill impairment testing dates after January 1, 2017. The guidance must be applied prospectively. The Company adopted the standard as of January 1, 2019. The effects of this standard did not have a material impact on the Company's financial statements for the periods presented.

#### ***New Accounting Standards Not Adopted***

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, that intends to improve financial reporting for leasing transactions. The ASU requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. The guidance is effective for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020, and early adoption is permitted. The Company plans to adopt this ASU on January 1, 2020. The Company's evaluation of this standard is currently ongoing and therefore, the effects of this standard on the Company's financial position, results of operations and cash flows are not yet known.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most current revenue recognition guidance. The standard is effective for annual periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Company adopted the standard as of January 1, 2019 for annual reporting period and plans to adopt January 1, 2020 for interim reporting periods. The Company's evaluation of this standard is currently ongoing and therefore, the effects of this standard on the Company's financial position, results of operations and cash flows are not yet known.

## **2 DISCONTINUED OPERATIONS**

On July 8, 2019, the Company entered into and completed a sale of the equity interests of the Embedded Computing reporting unit for approximately \$80,000 to SMART Global Holdings, Inc. The agreement also contains a contingent earn-out payment

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of up to \$10,000. The business is considered to be discontinued operations as of June 30, 2019 and is reported as such for all periods presented.

A summary of the results for discontinued operations included in the Condensed Consolidated Statements of Operations follows:

	Years ended December 31,		
	2018	2017	2016
Net sales	\$ 96,668	\$ 105,199	\$ 135,831
Cost of sales	58,838	67,564	83,951
Gross profit	37,830	37,635	51,880
Operating expenses	24,871	24,618	37,130
Restructuring expense (income)	1,828	(170)	2,108
Operating income	11,131	13,187	12,642
Other expense			
Other expense, net	20	221	277
Intercompany service expense	6,805	21,111	19,357
Income (loss) from discontinued operations before income taxes	4,306	(8,145)	(6,992)
Income tax provision	137	526	967
Income (loss) from discontinued operations	\$ 4,169	\$ (8,671)	\$ (7,959)

A summary of the carrying amounts of the discontinued operations' major assets and liabilities, which were classified as current and long-term assets and liabilities held for sale in the Consolidated Balance Sheets follows:

	December 31,	
	2018	2017
<b>ASSETS</b>		
Cash and cash equivalents	\$ 52	\$ 9
Trade receivables, less allowances of \$50 for both 2018 and 2017, respectively	14,803	16,568
Inventories	14,737	16,388
Prepaid expenses and other current assets	970	2,726
Total current assets	30,562	35,691
Property, plant and equipment, net	2,412	4,382
Goodwill	26,909	26,909
Intangible assets, net	10,943	13,923
Other long-term assets	7,200	32
Total assets held for sale	\$ 78,026	\$ 80,937
<b>LIABILITIES</b>		
Trade accounts payable	\$ 12,763	\$ 13,692
Accrued expenses	3,080	5,800
Accrued employee related benefits	2,146	1,783
Deferred income taxes	200	-
Other long-term liabilities	-	1,049
Total liabilities held for sale	\$ 18,189	\$ 22,324

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A summary of the cash flows from discontinued operations are as follows:

	Years ended December 31,		
	2018	2017	2016
Net cash provided by (used in) operating activities	\$ 174	\$ (1,368)	\$ 1,670
Net cash (used in) investing activities	(131)	(498)	(973)
Net cash provided by (used in) financing activities	-	-	-
Change in cash and cash equivalents from discontinued operations	\$ 43	\$ (1,866)	\$ 697

### 3 INVENTORIES

Inventory consists of the following:

	December 31,	
	2018	2017
Raw materials	\$ 88,609	\$ 68,494
Work-in-process	4,859	4,760
Finished products	89,440	86,544
Inventories	\$ 182,908	\$ 159,798

### 4 PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net consists of the following:

	December 31,	
	2018	2017
Buildings and improvements	\$ 41,675	\$ 37,477
Machinery and equipment	176,095	137,115
Construction in progress	1,550	1,731
Subtotal	219,320	176,323
Less: Accumulated depreciation	(124,155)	(100,152)
Property, plant and equipment, net	\$ 95,165	\$ 76,171

Depreciation expense was \$30,449, \$30,397 and \$32,407 for the years ended December 31, 2018, 2017 and 2016, respectively.

### 5 GOODWILL AND OTHER INTANGIBLE ASSETS, NET

In 2018, the Company segregated its Embedded Power reporting unit into two reporting units; Embedded Power Base and Consumer. The change was driven by an update to the reporting structure of the business. As part of the implementation, Goodwill and Intangible Assets were split into these reporting units using the original purchase allocation methodology. For 2018 the Company evaluated the Embedded Power Base and Consumer reporting units goodwill based on a qualitative assessment as permitted under ASC 350, 'Intangibles – Goodwill and Other', and concluded it was not more likely than not that the fair values were less than the carrying amounts. The qualitative assessments included assumptions about cash flows and fair values that by their nature were subject to uncertainty. These judgments were based on management's best estimates.

For both 2017 and 2016, the Company evaluated the Embedded Power reporting unit goodwill based on a qualitative assessment and concluded it was not more likely than not that the fair value was less than the carrying amount.

As of December 31, 2018, and 2017 the Company's goodwill was \$8,552.

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The gross carrying amount and accumulated amortization of other intangible assets by major class are as follows:

	Wtd. Average Life (Yrs.)	December 31, 2018		December 31, 2017	
		Gross Intangibles	Accumulated Amortization	Gross Intangibles	Accumulated Amortization
Trademarks	5	\$ 4,300	\$ (4,300)	\$ 4,300	\$ (3,512)
Technology	7.9	20,200	(13,690)	20,200	(11,054)
Customer relationships	11.9	36,700	(15,436)	36,700	(12,400)
		<u>\$ 61,200</u>	<u>\$ (33,426)</u>	<u>\$ 61,200</u>	<u>\$ (26,966)</u>
Intangible assets, net			<u>\$ 27,774</u>		<u>\$ 34,234</u>

Total intangible asset amortization expense was \$6,460, \$6,604 and \$6,604 for the years ended December 31, 2018, 2017 and 2016, respectively.

Estimated amortization of intangible assets for the next five years is as follows:

2019	\$ 4,884
2020	4,812
2021	4,027
2022	4,027
2023	3,797

## 6 BORROWING ARRANGEMENTS

The Company had the following outstanding borrowings:

	December 31,	
	2018	2017
Revolving credit facility	\$ 77,674	\$ 34,791
Senior secured notes, gross	\$ 233,000	233,000
Less: Deferred financing fees	(4,748)	(7,399)
Senior secured notes, net	<u>\$ 228,252</u>	<u>\$ 225,601</u>

### Revolving Credit Facility

The Company has a senior secured asset-based revolving credit facility (the ‘Credit Facility’) commitment of \$115,000. The Credit Facility maturity date is the earlier of November 22, 2022 and the date that is 181 days prior to the maturity of the Senior Secured Notes. As of December 31, 2018, the commitment was comprised of a United States commitment of \$50,000 (the ‘U.S. Subfacility’) and a Hong Kong commitment of \$65,000 (the ‘Hong Kong Subfacility’). These subfacility allocations can be changed with the approval of the lender under the Credit Facility up to four times in any fiscal year. Interest is payable monthly on any outstanding borrowings. Borrowings under the Credit Facility bear interest at the Company’s option of either (i) base rate plus a margin of 0.75% to 2.25% or (ii) LIBOR plus a margin of 1.75% to 2.25%. The applicable margins in these ranges are based on the aggregate average unused availability under the revolving credit facility. The Company also pays a variable fee (0.375%-0.50%) depending on the unused availability of the Credit Facility. The maximum available borrowing under the Credit Facility is determined in accordance with an asset-based formula. The Credit Facility is secured by certain accounts receivable and certain inventory and contains customary affirmative and negative covenants for credit facilities of this type, including, but not limited to limitations on the incurrence of indebtedness, capital expenditures, asset dispositions, acquisitions, investments, dividends and other restricted payments, liens and transactions with affiliates.

Outstanding borrowings under the Credit Facility as of December 31, 2018, and 2017 were \$77,674, and \$34,791, respectively, which is classified as Current liabilities based on the Company’s intent to repay the amount outstanding within the next twelve

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months. The weighted average interest rate was 5.2% and 4.5% as of December 31, 2018 and 2017, respectively. Outstanding letters of credit totaled \$770 and \$414 at December 31, 2018, and 2017, respectively. Available borrowings based on the asset-based formula were \$37,382, and \$80,209 at December 31, 2018 and 2017, respectively.

Financing fees related to the Credit Facility are included in Prepaid expenses and other current assets and Other assets and are being amortized on a straight-line basis over the life of the borrowing arrangement.

The Credit Facility was paid-off as of the close of Embeded Power transaction in September 2019.

### Senior Secured Notes

In 2013, a predecessor-in-interest to Artesyn issued \$250,000 of 9.75% Senior Secured Notes due October 15, 2020 (the "Notes"). Prior to 2017, a total of \$17,000 of outstanding Notes were repurchased.

Artesyn pays interest on the Notes semi-annually in arrears on April 15 and October 15. The Notes contain covenants that limit the Company's ability to take certain actions, including, but not limited to limitations on the incurrence of indebtedness, asset dispositions, acquisitions, investments, dividends, and other restricted payments, liens and transactions with affiliates.

Artesyn has the option to redeem some or all of the Notes at any time at the redemption prices and conditions as set forth in the offering memorandum. The Notes had an estimated fair value of \$217,273, and \$230,600 as of December 31, 2018 and 2017, respectively, based on the last trade date of the period, which is a Level 2 measurement.

Financing fees are being amortized on a straight-line basis over the life of the respective Notes, which approximates the effective interest method.

As of December 31, 2018, total borrowings of \$310,674 have contractual maturities in 2020.

The Notes were paid-off as of the close of Embeded Power Base transaction in September 2019.

## 7 WARRANTY RESERVES

Warranty reserves, included within Accrued expenses, were:

	December 31,	
	2018	2017
Beginning balance	\$ 2,732	\$ 3,945
Warranty provision expense	2,723	2,059
Costs incurred	(2,683)	(3,309)
Ending balance	\$ 2,772	\$ 2,695

Warranty expense was \$2,723, \$2,059, and \$4,575 for the years ended December 31, 2018, 2017 and 2016, respectively.

## 8 RESTRUCTURING EXPENSE

Restructuring expenses result from individual actions implemented across the Company and include costs for closing facilities and other costs resulting from asset redeployment decisions and headcount reductions. Severance and benefits expense consists of employee separation benefits, outplacement services and legal fees. Vacant facility and other shutdown costs are comprised of expenses for lease costs, stay bonuses, costs of moving fixed assets, security, maintenance, and utilities.

Restructuring expenses of \$7,528, \$20,625 and \$10,538 were incurred for the years ended December 31, 2018, 2017 and 2016, respectively.

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The changes in the liability for restructuring, included in Accrued expenses, are as follows:

	January 1, 2018	Restructuring Charges	Cash Paid	December 31, 2018
Severance and benefits	\$ 1,239	\$ 7,304	\$ 8,211	\$ 332
Vacant facility and other shutdown costs	3,310	224	1,391	2,143
Start-up and moving costs	-	-	-	-
Total	<u>\$ 4,549</u>	<u>\$ 7,528</u>	<u>\$ 9,602</u>	<u>\$ 2,475</u>
	January 1, 2017	Restructuring Charges	Cash Paid	December 31, 2017
Severance and benefits	\$ 660	\$ 14,435	\$ 13,856	\$ 1,239
Vacant facility and other shutdown costs	914	6,167	3,771	3,310
Start-up and moving costs	-	23	-	-
Total	<u>\$ 1,574</u>	<u>\$ 20,625</u>	<u>\$ 17,627</u>	<u>\$ 4,549</u>

## 9 OTHER (INCOME) EXPENSE, NET

Other (income) expense, net consists primarily of:

	2018	December 31, 2017	2016
Emerson tax indemnity	\$ 75	\$ (21)	\$ 404
Foreign exchange (gain) loss	(707)	2,440	78
Gain on repurchase of Notes	-	-	(760)
Recovery of bad debt writeoff	(212)	(24)	(409)
Gain on fixed asset disposal	(180)	(245)	(228)
Intercompany services income	(7,023)	(22,219)	(19,447)
Miscellaneous deductions and (income)	620	(1,722)	(490)
Non-service pension costs, net	642	553	899
Other	(731)	1,467	25
Total	<u>\$ (7,516)</u>	<u>\$ (19,771)</u>	<u>\$ (19,928)</u>

## 10 EMPLOYEE BENEFIT PLANS AND OTHER POST-EMPLOYMENT PLANS

### Defined Contribution Plans

Most of the Company's U.S. employees are participants in defined contribution plans, including 401(k), profit-sharing and other savings plans. Many foreign employees are covered by government sponsored plans in the countries where they are employed. Other foreign employees and domestic employees are participants in defined contribution plans where the Company provides an agreed upon matching contribution. Contributions to all defined contribution plans were \$7,613, \$8,062 and \$8,359 in the years ended December 31, 2018, 2017 and 2016, respectively.

### Participation Plan

Artesyn has adopted the Amended and Restated 2014 Participation Plan (the 'Plan'), under which participants may be entitled to receive compensation upon the occurrence of certain qualifying events. The Plan may be modified at any point before a qualifying event. As of December 31, 2018, no qualifying events have occurred or are probable of occurring.

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**Defined Benefit Plans**

The Company has statutorily-mandated defined benefit pension plans in Germany and the Philippines, which are generally unfunded. The German defined benefit pension plan has certain assets invested with an insurance provider. These assets had a fair value of \$104 and \$105 at December 31, 2018 and 2017, respectively, which are Level 3 measurements.

The Company's projected benefit obligation ('PBO') and plan assets for defined benefit pension plans at December 31, 2018 and 2017 and the related assumptions used to determine the related liabilities are as follows:

	December 31,	
	2018	2017
Change in projected benefit obligation:		
Obligation at beginning of period	\$ (39,048)	\$ (33,787)
Service cost	(776)	(1,200)
Interest cost	(1,103)	(1,081)
Curtailment gain	413	562
Actuarial gain (loss)	1,110	(898)
Benefits paid	115	125
Foreign currency translation	1,805	(2,769)
Obligation at end of period	<u>(37,484)</u>	<u>(39,048)</u>
Change in fair value of plan assets:		
Fair value at beginning of period	\$ 105	\$ 90
Actual return on plan assets	3	4
Contributions to plans	-	-
Foreign currency translation	(4)	11
Fair value at end of period	<u>104</u>	<u>105</u>
Funded status	<u>\$ (37,380)</u>	<u>\$ (38,943)</u>
	2018	2017
Assumptions used to determine the ending PBO:		
Weighted average discount rate	3.70 %	3.00 %
Expected long-term rate of return on assets	4.50 %	4.50 %

The discount rates are determined based on the timing and amount of benefits expected to be paid as matched to the rates of a theoretical bond portfolio yield curve.

The accumulated benefit obligation for all defined benefit pension plans was \$31,492 and \$33,585 at December 31, 2018 and 2017, respectively. The accumulated benefit obligation exceeded plan assets for all pension plans as of December 31, 2018 and 2017.

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Net periodic pension benefit cost and net actuarial loss recognized in Other comprehensive income (loss) ('OCI') are as follows:

	Years ended December 31,		
	2018	2017	2016
Service cost	\$ 776	\$ 1,200	\$ 1,601
Interest cost	1,103	1,081	1,121
Expected return on plan assets	(5)	(4)	(4)
Amortization of net actuarial (gain) loss	(43)	38	117
Curtailment gain	(413)	(562)	(335)
Net periodic benefit cost	<u>\$ 1,418</u>	<u>\$ 1,753</u>	<u>\$ 2,500</u>
Change in periodic benefit cost recognized in OCI, net			
Net actuarial (gain) loss gain	(43)	38	117
Net periodic benefit cost recognized in OCI, net	<u>\$ (43)</u>	<u>\$ 38</u>	<u>\$ 117</u>

The following weighted average assumptions were used to determine net periodic pension cost:

	Years ended December 31,		
	2018	2017	2016
Discount rate	3.0 %	3.0 %	3.3 %
Expected long-term rate of return on assets	4.5 %	4.5 %	4.5 %

The net actuarial income for the defined benefit plans that will be amortized from Accumulated other comprehensive loss into net periodic benefit cost for 2019 is \$73. Amortization is calculated over the average remaining service period of participating employees.

The Company contributed \$115 and \$125 to its defined benefit pension plans in 2018 and 2017, respectively, and estimates that in 2019 contributions to the defined benefit pension plans will be immaterial.

The following future pension benefits are expected to be paid:

2019	\$ 290
2020	1,249
2021	855
2022	709
2023	724
Thereafter	\$ 8,798

#### Post-Employment Plan

The Company also has a post-employment plan covering healthcare related costs for a limited number of employees in Canada. The post-employment plan is unfunded. For the years ended December 31, 2018 and 2017, contributions and benefits paid were \$8 and \$4, respectively. At December 31, 2018 and 2017, the plan liability of \$307 and \$517, respectively, is included in Other liabilities.

For the 2018 and 2017 valuation, the plan used eight percent for the initial health care cost trend rate, and four percent for the initial dental care cost trend rate. The long-term cost trend rates were five percent for health care and four percent for dental care for the 2018 and 2017 valuation. A one percent increase in the trend rates would increase the liability by \$48 and \$81, while a one percent decrease in the trend rates would lower the liability by \$43 and \$73 as of December 31, 2018 and 2017, respectively.



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## 11 INCOME TAXES

The Company is subject to taxation in the United States and various state and foreign jurisdictions.

The loss before income taxes is:

	Years ended December 31,		
	2018	2017	2016
U.S.	\$ (13,171)	\$ (28,622)	\$ (14,128)
Foreign	(7,061)	2,331	9,769
	<u>\$ (20,232)</u>	<u>\$ (26,291)</u>	<u>\$ (4,359)</u>

The components of the income tax provision are as follows:

	Years ended December 31,		
	2018	2017	2016
Current:			
Federal	\$ -	\$ (38)	\$ -
State	44	14	21
Foreign	5,752	7,763	9,881
Total current	<u>5,796</u>	<u>7,739</u>	<u>9,902</u>
Deferred:			
Federal	-	-	-
State	-	-	-
Foreign	2,032	6,333	1,454
Total deferred	<u>2,032</u>	<u>6,333</u>	<u>1,454</u>
Total	<u>\$ 7,828</u>	<u>\$ 14,072</u>	<u>\$ 11,356</u>

A reconciliation of the Income tax provision at the U.S. federal statutory rate of 21%, 34% and 34% for the years ended December 31, 2018, 2017, and 2016, respectively, to the effective income tax rate is shown in the table below:

	Year ended December 31,		
	2018	2017	2016
Loss before income taxes	\$ (20,232)	\$ (26,291)	\$ (4,359)
Federal tax at statutory rate	(4,249)	(8,654)	(1,482)
State taxes	2	(268)	(174)
Tax Cuts and Jobs Act transition	-	(27,792)	-
Tax credit generation	(524)	(585)	(588)
Other permanent items	(633)	131	844
Excess basis adjustment	3,295	-	-
Foreign bonus	312	-	489
Loss on sale	-	(1,003)	(1,003)
GAAP to STAT	552	(1,546)	194
Engineering subsidy	-	-	(216)
Goodwill impairment	-	1,175	-
Non-deductible expenses	740	721	820
Foreign tax adjustment	-	-	(123)
Foreign tax rate differential	3,164	8,824	8,789
Return to provision adjustment	871	(2,568)	316
Tax rate change	(182)	(198)	880
Uncertain tax positions	1,915	540	(200)
Exempt income/expense	4,129	4,241	3,611
Foreign reorganization	(829)	-	430
Valuation allowance	(835)	40,490	(1,433)
Other	100	564	202
Income tax provision	<u>\$ 7,828</u>	<u>\$ 14,072</u>	<u>\$ 11,356</u>

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Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and (liabilities) are as follows:

	Year ended December 31,	
	2018	2017
Deferred tax assets:		
Net operating loss and tax credits	\$ 28,854	\$ 31,852
Pension	4,988	5,167
Inventory	494	395
Accrued payroll	990	505
Accrued warranty	155	164
Interest expense limitation	2,773	1,133
Total deferred tax assets	38,254	39,216
Deferred tax liabilities:		
Unremitted foreign earnings	(9,652)	(8,564)
Goodwill	-	(1,186)
Intangible assets	(1,944)	(2,185)
Other	(427)	-
Total deferred tax liabilities	(12,023)	(11,935)
Net deferred tax assets	26,231	27,281
Less: Valuation allowance	(37,425)	(38,173)
Deferred income taxes	\$ (11,194)	\$ (10,892)

Due to uncertainties surrounding the Company's ability to generate future taxable income to realize the total deferred tax assets, a valuation allowance has been recorded against these assets (with the exception of deferred tax assets at certain foreign subsidiaries), as management cannot conclude that it is more likely than not that these assets will be realized.

The Company analyzes filing positions in all of the federal, state and foreign jurisdictions where it is required to file income tax returns, and all open tax years in these jurisdictions to determine if there are any uncertain tax positions on its tax returns. As of December 31, 2018, unrecognized tax benefits primarily relate to transfer pricing, research and development credits and taxation of certain types of income. The Company is currently subject to examination by taxing authorities in certain countries. The Company anticipates its unrecognized tax benefits may increase or decrease within twelve months of the reporting date as tax audits or reviews are initiated or settled. However, it is not currently reasonably possible to estimate the range of change.

The following table summarizes the unrecognized tax benefits excluding interest and penalties:

	Year ended December 31,		
	2018	2017	2016
Uncertain tax positions:			
Balance at beginning or period	\$ 4,476	\$ 4,021	\$ 1,508
Increases due to positions taken in the current year	2,251	678	2,761
Reductions due to positions taken in a prior year	(487)	(90)	-
Reversals due to lapse of statute of limitations	-	(133)	(248)
	\$ 6,240	\$ 4,476	\$ 4,021

The Company changed the reserve for unrecognized tax benefits by \$283, \$99 and \$58 related to interest for the years ended December 31, 2018, 2017 and 2016, respectively. As of December 31, 2018, 2017 and 2016, the Company had outstanding interest and penalties related to uncertain tax positions of \$1,738, \$1,455 and \$1,374, respectively.

Of the Company's total unrecognized tax benefits for 2018 of \$6,240, \$3,907 would impact the annual effective tax rate if recognized. For the remaining unrecognized tax benefits, the Company recorded an indemnity receivable of \$2,271, included

ARTESYN EMBEDDED TECHNOLOGIES, INC. AND SUBSIDIARIES  
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in Other assets, against a substantial portion of the liability and the remaining \$605 is offset against the related deferred tax assets.

The Company is no longer subject to examination for years prior to fiscal 2015 for federal purposes, years prior to fiscal 2014 for major state jurisdictions, and years prior to fiscal 2006 for major foreign jurisdictions. Tax years prior to the Transaction are the responsibility of Emerson as the Company is fully indemnified for taxes prior to the acquisition.

At December 31, 2018 the Company had approximately \$6,179 federal, \$56,417 state and \$96,737 foreign net operating loss carryforwards ('NOL'). The federal NOL carryforwards will expire beginning in 2032 and certain state NOL carryforwards will expire beginning in 2023. The foreign losses are primarily attributable to Austria and Hong Kong, which both have an indefinite carryforward period. Pursuant to Sections 382 and 383 of the Internal Revenue Code, and similar statutes in foreign jurisdictions, the utilization of NOLs and other tax attributes may be subject to substantial limitations if certain ownership changes occur. These ownership changes may also limit the amount of NOL and research and development credit carryforwards that can be utilized annually to offset future taxable income and income tax, respectively.

At December 31, 2018, the Company had federal tax credit carryforwards of \$1,521 and state tax credit carryforwards of \$1,953. The Company's federal tax credit carryforwards will begin to expire in 2033, and the state credit carryforwards will begin to expire in 2028.

The Tax Cuts and Jobs Act (the 'Act') was enacted on December, 22 2017. The Act includes a number of changes in existing tax law impacting businesses. One of the most significant changes is a permanent reduction in the corporate income tax rate from 34% to 21%, effective January 1, 2018. Under U.S. GAAP, deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. As a result of the reduction in the corporate income tax rate to 21% and other changes under the Act that impact timing differences, the Company revalued its net deferred tax assets as of December 31, 2017. The Act also repealed the corporate alternative minimum tax ('AMT') for tax years beginning after December 31, 2017, and provides that existing AMT credit carryovers are refundable in tax years beginning after December 31, 2017. The Company has approximately \$38 of AMT credit carryovers that are expected to be fully refunded between 2019 and 2022.

The Act also required companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and created new taxes on certain foreign sourced earnings. Due to a net operating loss position for U.S. tax purposes, we did not incur a tax liability for the deemed U.S. tax repatriation of our foreign earnings. Additionally, a tax on certain foreign earnings in excess of 10 percent of the foreign subsidiaries tangible assets (i.e., global intangible low-taxed income or 'GILTI') became effective during the current tax year. The calculation of GILTI did not result in an inclusion for the current year. We are electing to treat the GILTI tax as a period expense.

The tax effects of the Act were accounted for during the year ended December 31, 2017 using provisional amounts as permitted under SAB 118. During the quarter ended December 31, 2018, the Company finalized the accounting for the tax effects with respect to the Act with the largest adjustment relating to the mandatory transition tax ('MTT').

The change in the provisional estimate primarily relates to revisions to post 1986 earnings and profits finalized during 2018 and changes to methodology based on additional guidance received from the taxing authorities. The total MTT of \$13,155 was offset by the existing net operating loss carryforward and since there was a valuation allowance set up for the net operating loss carryforward, the valuation allowance decreased by the same amount.

## 12 RELATED PARTY TRANSACTIONS

Artesyn has a Corporate Advisory Services Agreement with Platinum Equity Advisors, LLC ('Advisor', an affiliate of Platinum Equity), Emerson and Pontus JV pursuant to which Advisor and Emerson will provide general business advice and other services as requested by the Company. In exchange for the services, the Company pays an advisory fee of up to \$5,000 per calendar year, with 80% of any such fees going to Advisor and 20% of any such fees going to Emerson, plus up to \$75 of reimbursement of expense per calendar year going to each Advisor and Emerson.

ARTESYN EMBEDDED TECHNOLOGIES, INC. AND SUBSIDIARIES  
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Emerson indemnity tax income arose from the Platinum's acquisition of Artesyn whereby the seller, Emerson, indemnifies Artesyn for tax positions taken prior to the Transaction.

The Company has sales to Emerson and certain affiliates of Pontus JV and also a Transition Services Agreement with Emerson for certain freight services.

Related party transactions reported in the financial statements include the following:

	2018	Years ended December 31,		Amounts included in:
		2017	2016	
Related party sales to affiliates	\$ 15,230	\$ 14,291	\$ 12,705	Net sales
Corporate advisory fees and expenses to Advisor and Emerson	5,043	5,026	5,057	Operating expenses
Transition services paid to Emerson	751	922	1,212	Cost of sales and Operating expenses

As of December 31, 2018 and 2017, related party items reported in the balance sheet as a component of Trade receivables, Trade accounts payable, and Other assets, respectively, include the following:

	December 31,	
	2018	2017
Related party Trade receivables	\$ 2,271	\$ 2,648
Related party Accounts payable	511	151
Related party Tax indemnification receivable	2,264	2,372

### 13 OPERATING LEASES

Rent expense was \$13,127, \$12,758 and \$12,808 for the years ended December 31, 2018, 2017 and 2016, respectively. Future minimum rentals under non-cancelable operating leases as of December 31, 2018 are:

2019	\$ 15,946
2020	11,395
2021	9,558
2022	6,878
2023	5,669
Thereafter	42,339
	<u>\$ 91,785</u>

### 14 COMMITMENTS AND CONTINGENCIES

At December 31, 2018, there were no known contingent liabilities that management believes will be material in relation to the consolidated financial statements, nor were there any material commitments outside the normal course of business.

Outstanding purchase commitments, primarily related to inventory, as of December 31, 2018 are:

2019	\$ 101,729
2020	287
2021	157
	<u>\$ 102,173</u>

## **15 SUBSEQUENT EVENTS**

On March 22, 2019, the Company amended its Credit Facility to increase the Revolving Commitments to \$145,000. The Amendment increases the U.S. Subfacility from \$50,000 to \$80,000, while the Hong Kong Subfacility commitment remained at \$65,000.

The Company initially evaluated subsequent events through March 26, 2019, which was the date the consolidated financial statements were originally available to be issued, and determined any event or transactions occurring during the period that would require recognition or disclosure are appropriately addressed in these consolidated financial statements.

The Company evaluated subsequent events through November 21, 2019, which is the date these reissued consolidated financial statements were available to be issued.

**ARTESYN EMBEDDED TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**As of June 30, 2019**

**and for the three and six months ended June 30, 2019 and 2018**

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**ARTESYN EMBEDDED TECHNOLOGIES, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**As of June 30, 2019**

**and for the three and six months ended June 30, 2019 and 2018**

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**ARTESYN EMBEDDED TECHNOLOGIES, INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)**
**(Dollars in thousands)**

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Net sales	\$ 213,273	\$ 231,913	\$ 475,360	\$ 469,682
Cost of sales	183,770	194,625	408,179	402,010
Gross profit	29,503	37,288	67,181	67,672
Operating expenses	34,918	36,912	68,141	74,205
Restructuring (income) expense	(600)	1,584	(251)	7,622
Operating loss	(4,815)	(1,208)	(709)	(14,155)
Other (income) expense				
Interest expense, net	7,652	7,262	15,114	14,260
Other (income) expense, net	2,002	(3,299)	130	(6,716)
Loss from continuing operations before income taxes	(14,469)	(5,171)	(15,953)	(21,699)
Income tax provision	1,191	4,379	1,780	5,453
Loss from continuing operations	\$ (15,660)	\$ (9,550)	\$ (17,733)	\$ (27,152)
Discontinued operations (Note 2)				
Income (loss) from discontinued operations before income taxes	572	(700)	(747)	(2,421)
Income tax (benefit) provision	(4)	(665)	93	(565)
Income (loss) from discontinued operations	\$ 576	\$ (35)	\$ (840)	\$ (1,856)
Net loss	\$ (15,084)	\$ (9,585)	\$ (18,573)	\$ (29,008)

*See accompanying Notes to the Condensed Consolidated Financial Statements.*



**ARTESYN EMBEDDED TECHNOLOGIES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE LOSS (Unaudited)****(Dollars in thousands)**

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Net loss from continuing operations	\$ (15,660)	\$ (9,550)	\$ (17,733)	\$ (27,152)
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments	-	225	(352)	(83)
Other comprehensive income (loss)	-	225	(352)	(83)
Total comprehensive loss	\$ (15,660)	\$ (9,325)	\$ (18,085)	\$ (27,235)

*See accompanying Notes to the Condensed Consolidated Financial Statements.*

**ARTESYN EMBEDDED TECHNOLOGIES, INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED BALANCE SHEETS**
**(Dollars in thousands, except per share amounts)**

	June 30, 2019 (Unaudited)	December 31, 2018
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 21,914	\$ 10,862
Trade receivables, less allowances of \$1,660 and \$1,437 in 2019 and 2018, respectively	156,297	237,894
Inventories	181,647	182,907
Prepaid expenses and other current assets	33,306	25,737
Current assets held for sale	67,335	78,026
Total current assets	460,499	535,426
Property, plant and equipment, net	120,930	95,165
Goodwill	8,552	8,552
Intangible assets, net	25,332	27,774
Other assets	11,386	11,368
Total assets	<u>\$ 626,699</u>	<u>\$ 678,285</u>
<b>LIABILITIES AND SHAREHOLDER'S DEFICIT</b>		
Current liabilities		
Revolving credit facilities	\$ 71,738	\$ 77,674
Senior secured notes, net	229,577	228,252
Current portion of long term debt	6,554	-
Trade accounts payable	198,500	231,498
Accrued expenses	30,343	34,955
Accrued employee related benefits	29,693	38,161
Income taxes payable	1,360	1,036
Current liabilities held for sale	24,546	18,189
Total current liabilities	592,311	629,765
Long term debt, net	13,200	-
Pension liabilities	38,511	37,380
Deferred income taxes	12,219	12,961
Other liabilities	7,907	16,703
Total liabilities	664,148	696,809
Shareholder's deficit		
Common stock: \$0.01 par value, 1,000 shares authorized, 100 shares issued and outstanding at June 30, 2019 and December 31, 2018	-	-
Additional paid-in capital	106,592	106,592
Accumulated deficit	(142,759)	(124,186)
Accumulated other comprehensive loss	(1,282)	(930)
Total shareholder's deficit	(37,449)	(18,524)
Total liabilities and shareholder's deficit	<u>\$ 626,699</u>	<u>\$ 678,285</u>

*See accompanying Notes to the Condensed Consolidated Financial Statements.*

**ARTESYN EMBEDDED TECHNOLOGIES, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY (DEFICIT)**  
**(Dollars in thousands, except per share amounts)**

	<u>Shares issued</u>	<u>Common stock</u>	<u>Additional paid-in capital</u>	<u>Accumulated deficit</u>	<u>Accumulated other comprehensive loss</u>	<u>Total shareholder's equity (deficit)</u>
Balance at January 1, 2018	100	\$ -	\$ 106,592	\$ (100,295)	\$ (2,060)	\$ 4,237
Net loss	-	-	-	(29,008)	-	(29,008)
Other comprehensive loss	-	-	-	-	(83)	(83)
Balance at June 30, 2018	<u>100</u>	<u>\$ -</u>	<u>\$ 106,592</u>	<u>\$ (129,303)</u>	<u>\$ (2,143)</u>	<u>\$ (24,854)</u>
Balance at January 1, 2019	100	\$ -	\$ 106,592	\$ (124,186)	\$ (930)	\$ (18,524)
Net loss	-	-	-	(18,573)	-	(18,573)
Other comprehensive loss	-	-	-	-	(352)	(352)
Balance at June 30, 2019	<u>100</u>	<u>\$ -</u>	<u>\$ 106,592</u>	<u>\$ (142,759)</u>	<u>\$ (1,282)</u>	<u>\$ (37,449)</u>

*See accompanying Notes to the Condensed Consolidated Financial Statements.*

**ARTESYN EMBEDDED TECHNOLOGIES, INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**
**(Dollars in thousands)**

	Six months ended June 30,	
	2019	2018
Operating activities		
Net loss from continuing operations	\$ (17,733)	\$ (27,152)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	21,401	15,432
Intangible amortization	2,442	3,302
Amortization of financing fees	1,272	1,455
Gain on sale of assets	(242)	(74)
Changes in operating assets and liabilities		
Trade receivables	81,597	29,963
Inventories	1,260	(25,959)
Prepaid expenses and other current assets	(7,558)	6,134
Trade accounts payable	(40,057)	(19,905)
Accrued expenses	(6,526)	(9,219)
Other assets and liabilities	21,975	(2,115)
Income taxes	(978)	896
Net cash provided by (used in) operating activities	56,853	(27,242)
Investing activities		
Capital expenditures	(20,233)	(20,209)
Proceeds from disposition of property, plant and equipment	120	152
Net cash used in investing activities	(20,113)	(20,057)
Financing activities		
Borrowings from credit facility	480,168	507,398
Payments on credit facility	(519,090)	(465,575)
Other borrowing	13,234	-
Net cash (used in) provided by financing activities	(25,688)	41,823
Increase (decrease) in cash and cash equivalents	11,052	(5,476)
Beginning cash and equivalents	10,862	19,610
Ending cash and equivalents	\$ 21,914	\$ 14,134
Non cash purchase of property, plant and equipment	\$ 19,752	\$ -

*See accompanying Notes to the Condensed Consolidated Financial Statements.*

ARTESYN EMBEDDED TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)  
As of June 30, 2019  
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**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Description of Business***

Artesyn Embedded Technologies, Inc. ('Artesyn') together with its subsidiaries (collectively, the 'Company') provides power conversion and embedded computing technologies and solutions for applications in a broad range of markets including communications, data center, industrial automation, medical, consumer and military/aerospace. The Company is headquartered in Tempe, Arizona and has engineering centers primarily in North America and Asia, and manufacturing locations in Asia (China and the Philippines).

The Company is comprised of three reporting units: Embedded Power Base, Consumer and Embedded Computing. Embedded Power Base designs and manufactures application-specific and customized power conversion products for use by computing, storage, telecommunications, industrial and medical customers. Consumer creates customized power conversion products for use in specific Consumer-based end markets. Embedded Computing designs and manufactures customized microprocessor-based boards and systems. The Embedded Computing reporting unit was sold on July 8, 2019 and is being reported as discontinued operations. See Note 2 for more details.

On May 14, 2019, Advanced Energy Industries, Inc., a Delaware corporation, entered into a Stock Purchase Agreement with Artesyn Embedded Technologies, Inc., to acquire Artesyn's Embedded Power Base business. The transaction closed on September 10, 2019.

Pontus Holdings, LLC ('Pontus') is a holding company formed as a joint venture of affiliates of Platinum Equity, LLC ('Platinum') and Emerson Electric Co. ('Emerson') to own the operating company Artesyn. In 2013, Emerson entered into a purchase agreement with Pontus JV Holdings, LLC ('Pontus JV'), an affiliate of certain private equity investment vehicles sponsored by Platinum, for the sale of a 51 percent controlling interest in Artesyn (the 'Transaction'). As part of the Transaction, Emerson received cash and a 49 percent noncontrolling interest in Pontus. As a result, Artesyn is a wholly owned subsidiary of Pontus, and Pontus is owned 51 percent by Pontus JV and 49 percent by Emerson.

***Basis of Presentation***

The condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles ('U.S. GAAP') for interim financial information and therefore do not include all of the information and footnotes required for annual financial statements. These condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements and the notes thereto. The financial statements include all normal and recurring adjustments necessary, in the opinion of management, to present fairly the financial position at the balance sheet date and the results of operations for the interim periods presented. The condensed consolidated financial statements are presented in U.S. dollars, with all intercompany transactions eliminated in consolidation. The functional currency for the majority of the non-U.S. subsidiaries is the U.S. dollar. Adjustments resulting from translating non-U.S. local functional currency financial statements into U.S. dollars are reflected in Accumulated other comprehensive loss.

***Discontinued Operations***

The results of operations for the Company's Embedded Computing business have been classified as discontinued operations for all periods presented in the Condensed Consolidated Statement of Operations. Assets and liabilities subject to the sale of Embedded Computing have been classified as current assets and liabilities held for sale for all periods presented in the Condensed Consolidated Balance Sheets. Refer to Note 2 for additional information.

ARTESYN EMBEDDED TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED (Unaudited)  
(Dollars in thousands)

***Use of Estimates***

The preparation of the condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles ('U.S. GAAP') requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Cash and Cash Equivalents***

Cash and cash equivalents consist of amounts on deposit and highly liquid investments with original maturities of three months or less.

***Trade Receivables, net***

Trade receivables consist of balances due from customers, net of estimated allowances. The allowances include estimates based on historical experience and specific reserves in the case of known collection issues.

***Inventories***

Inventories are valued at the lower of cost or net realizable value using the first-in, first-out method. The Company writes down its inventory for estimated obsolescence or unmarketable inventory in an amount equal to the difference between the cost of inventory and the estimated net realizable value based upon assumptions about future demand and market conditions.

Inventory consists of the following:

	June 30, 2019	December 31, 2018
Raw materials	\$ 84,477	\$ 88,609
Work-in-process	4,665	4,859
Finished products	92,505	89,439
Inventories	<u>\$ 181,647</u>	<u>\$ 182,907</u>

***Revenue Recognition***

The Company recognizes revenue for the sale of manufactured products when title and risk of loss passes to the customer (generally when products are shipped), persuasive evidence of an arrangement exists, the sales price is fixed or determinable, and collection is reasonably assured. Reserves, based on historical experience, are made for anticipated returns of products and sales discounts at the time products are sold.

The Company also records revenue for services including primarily repair services, engineering services, technical support, and extended warranties. Revenues for repair and engineering services are recognized when the goods and services are provided, while technical support and extended warranties are generally amortized over the life of the applicable contract. In some of these instances, the service arrangement is part of a multiple element sales arrangement. In these instances, the revenue assigned to each element is based on vendor-specific objective evidence, third-party evidence or a management estimate of the relative selling price. Revenue is recognized individually for delivered elements only if they have value to the customer on a stand-alone basis and the performance of the undelivered item is probable and substantially in the Company's control, or the undelivered elements are inconsequential or perfunctory and there are no unsatisfied contingencies related to payment. Generally, these multiple deliverables include services to support the related product revenue, contract duration is short-term, and cancellation, termination or refund provisions apply only in the event of contract breach and historically have not been invoked.

ARTESYN EMBEDDED TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED (Unaudited)  
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The Company records amounts billed to customers for shipping and handling fees in a sales transaction as revenue. Shipping and handling costs are included in Cost of sales.

The Company had three customers with sales exceeding 10% of consolidated Net sales.

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Customer 1	21.2 %	29.0 %	26.2 %	35.0 %
Customer 2	13.9 %	7.1 %	12.2 %	6.1 %
Customer 3	11.2 %	9.3 %	10.7 %	8.3 %

**Fair Value Measurements**

Accounting Standards Codification ('ASC') 820, 'Fair Value Measurements', established a formal hierarchy and framework for measuring certain financial statement items at fair value, and expanded disclosures about fair value measurements and the reliability of valuation inputs. Under ASC 820, measurement assumes the transaction to sell an asset or transfer a liability occurs in the principal or at least the most advantageous market for that asset or liability. Within the hierarchy, Level 1 instruments use observable unadjusted market prices for the identical item in active markets and have the most reliable valuations. Level 2 instruments are valued based on quoted prices in markets that are not active, quoted prices for similar items in active markets, or market-observable inputs, including forward and spot prices, interest rates and volatilities. Level 3 instruments are valued using valuation techniques that require inputs that are both significant to the fair value measurement and not observable, such as company-developed future cash flow estimates, and are considered the least reliable.

The carrying value as of June 30, 2019 and December 31, 2018 approximates fair value for Cash and cash equivalents, Trade receivables, Revolving credit facility, and Trade accounts payable because of their short-term nature and generally negligible credit losses. See Note 1, Foreign Currency Derivative Contracts, for the fair value of derivatives and Note 4 for the fair value of long-term debt.

**Property, Plant and Equipment, net**

The Company records investments in land, buildings and improvements, and machinery and equipment at cost. Depreciation on assets is calculated primarily using the straight-line method over the estimated useful lives of the assets. The estimated useful life of buildings is 25 to 35 years, leasehold improvements are amortized over the lesser of the economic life or the related lease term, while the estimated useful lives of machinery and equipment range from 5 to 15 years. The Company also has certain unique production equipment that is depreciated on a units of production method as the best estimate of useful life.

The Company assesses the recoverability of the carrying amount of property, plant and equipment when changes in circumstances indicate that the carrying amount may not be recoverable. If the carrying amount of the asset or asset group does not exceed its expected undiscounted cash flows, an impairment loss equal to the excess of carrying value over the estimated fair value of the asset or asset group would be recorded.

ARTESYN EMBEDDED TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED (Unaudited)  
(Dollars in thousands)

Property, plant and equipment, net consists of the following:

	June 30, 2019	December 31, 2018
Buildings and improvements	\$ 42,111	\$ 41,675
Machinery and equipment	224,749	176,095
Construction in progress	526	1,550
Subtotal	267,386	219,320
Less: Accumulated depreciation	(146,456)	(124,155)
Property, plant and equipment, net	\$ 120,930	\$ 95,165

Depreciation expense was \$13,514 and \$7,675 for the three months ended June 30, 2019 and 2018, respectively. Depreciation expense was \$21,401 and \$15,432 for the six months ended June 30, 2019 and 2018, respectively.

**Goodwill**

Assets and liabilities acquired in business combinations are accounted for using the acquisition method and recorded at their respective fair values. The excess of purchase price over identified tangible and intangible assets is recorded as goodwill (see Note 3). The goodwill represents intangible assets that do not qualify for separate recognition and other factors and substantially all goodwill is deductible for tax purposes. The Company conducts an annual impairment test of goodwill in the fourth quarter of the calendar year and between annual tests if events or circumstances indicate the fair value of a reporting unit may be less than its carrying value.

**Intangible Assets**

The Company's identifiable intangible assets are subject to amortization (see Note 3). Identifiable intangible assets consist of intellectual property such as patented and unpatented technology, trademarks, and customer relationships, and are amortized on a straight-line basis over their estimated useful lives. Amortization of technology related intangible assets is included in Cost of sales, while trademark and customer relationship intangible amortization is included in Operating expenses. These intangible assets are also subject to an evaluation for potential impairment whenever events or circumstances indicate the carrying value may not be recoverable.

**Product Warranties**

Warranties vary by product line and generally extend for one to three years from the date of sale. Provisions for warranty are determined primarily based on historical warranty cost as a percentage of sales, adjusted for specific matters that may arise.

Warranty reserves, included within Accrued expenses, were:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Beginning balance	\$ 3,218	\$ 2,601	\$ 2,735	\$ 2,695
Warranty provision expense	1,084	658	2,222	1,148
Costs incurred	(1,122)	(756)	(1,777)	(1,340)
Ending balance	\$ 3,180	\$ 2,503	\$ 3,180	\$ 2,503



***Interest Expense***

Interest expense includes cash interest payments and debt related costs such as amortization of deferred financing costs. The Company amortizes deferred financing costs on a straight-line basis, which approximates the effective interest method.

***Income Taxes***

The Company files a consolidated U.S. federal income tax return and its income tax provision consists principally of federal, state and foreign income taxes. Current income tax liabilities and assets are recognized for the estimated taxes payable or refundable for the current income tax period. Deferred income tax assets and liabilities are recognized for the anticipated future tax consequences attributable to the temporary differences that exist between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

***Research and Development***

The Company conducts ongoing research and development in support of existing and new product introductions. Research and development costs were \$12,631 and \$13,090 for the three months ended June 30, 2019 and 2018, respectively, and \$24,406 and \$26,461 for the six months ended June 30, 2019 and 2018, respectively. Research and development costs are included in Operating expenses.

***Foreign Currency Derivative Contracts***

The Company enters into foreign currency forward derivative contracts as part of a program designed to mitigate the currency exchange rate risk exposure on selected transactions of certain foreign subsidiaries. Although contracts pursuant to this program will serve as an economic hedge of the cash flow of currency exchange risk exposure, they are not formally designated as hedge contracts or qualify for hedge accounting treatment. Accordingly, any change in the fair value of these derivative instruments during a period will be included in the determination of earnings for that period.

As of June 30, 2019 and December 31, 2018, there were no outstanding foreign currency forward derivative contracts.

The Company recognized \$5 and \$16 of net loss on settled foreign currency forward derivatives for the three months ended June 30, 2019 and 2018, respectively, and (\$17) and (\$28) of net income for the six months ended June 30, 2019 and 2018, reflected in Cost of sales and Operating expenses.

***Comprehensive Income (Loss)***

Comprehensive income (loss) is composed of net loss plus changes in foreign currency translation relating to subsidiaries that do not use the U.S. dollar as their functional currency and changes in the funded status of defined benefit pension plans and post-employment plans. As of June 30, 2019 and December 31, 2018, the Accumulated other comprehensive loss related to the net actuarial loss for defined benefit pension and post-employment plans was (\$1,877). Accumulated other comprehensive income related to foreign currency translation at June 30, 2019 and December 31, 2018 was \$0 and \$948, respectively.

***New Accounting Standards Adopted***

As mentioned above, the Company was acquired by Advanced Energy Industries, Inc., a publicly traded business on September 10, 2019. Because of this transaction, the Company is now considered a public

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business entity ('PBE') for financial reporting purposes. In order for these condensed consolidated financial statements to be presented in accordance with U.S. GAAP, the Company must apply the Accounting Standard Updates ('ASU') applicable to PBE's. The two ASU's discussed below were adopted based on the adoption dates applicable to PBE's.

In March 2017, the Financial Accounting Standards Board ('FASB') issued ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, that requires an employer to disaggregate the service cost component from the other components of net periodic cost (benefit) and report that component in the same line item as other compensation costs arising from services rendered by employees during the period. The other components of net periodic cost (benefit) are required to be presented in the statement of operations separately from the service cost component and outside of operating earnings. The amendment also allows for the service cost component of net periodic cost (benefit) to be eligible for capitalization when applicable. The amendments in this update are effective for public business entities for annual periods beginning after December 31, 2017, including interim periods within those annual periods. The guidance on the income statement presentation of the components of net periodic cost (benefit) must be applied retrospectively, while the guidance limiting the capitalization of net periodic cost (benefit) in assets to the service cost component must be applied prospectively. The Company adopted the standard as of January 1, 2018. The effects of this standard did not have a material impact on the Company's interim financial statements for the periods presented.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other*, that simplifies the accounting for goodwill impairment for all entities by requiring impairment charges to be based on the first step in the current two-step impairment test under ASC 350. Under current guidance, if the fair value of a reporting unit is lower than its carrying amount (Step 1), an entity calculates any impairment charge by comparing the implied fair value of goodwill with its carrying amount (Step 2). The implied fair value of goodwill is calculated by deducting the current fair value of all assets and liabilities of the reporting unit from the reporting unit's fair value as determined in Step 1. Under ASU No. 2017-04, if a reporting unit's carrying amount exceeds its fair value, an entity will record an impairment charge based on that difference. The impairment charge will be limited to the amount of goodwill allocated to that reporting unit. The guidance is effective for fiscal years beginning after December 15, 2019, and early adoption is permitted for annual and interim goodwill impairment testing dates after January 1, 2017. The guidance must be applied prospectively. The Company adopted the standard as of January 1, 2019. The effects of this standard did not have a material impact on the Company's interim financial statements for the periods presented.

***New Accounting Standards Not Adopted***

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, that intends to improve financial reporting for leasing transactions. The ASU requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. The guidance is effective for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020, and early adoption is permitted. The Company plans to adopt this ASU on January 1, 2020. The Company's evaluation of this standard is currently ongoing and therefore, the effects of this standard on the Company's financial position, results of operations and cash flows are not yet known.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most current revenue recognition guidance. The standard is effective for annual periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Company adopted the standard as of January 1, 2019 for annual reporting period and plans to adopt January 1, 2020 for interim reporting periods. The Company's evaluation of this standard is currently ongoing and therefore, the effects of this standard on the Company's financial position, results of operations and cash flows are not yet known.

## 2 DISCONTINUED OPERATIONS

On July 8, 2019, the Company entered into and completed a sale of the equity interests of the Embedded Computing reporting unit for approximately \$80,000 to SMART Global Holdings, Inc. The agreement also contains a contingent earn-out payment of up to \$10,000. The business is considered to be discontinued operations as of June 30, 2019 and is reported as such for all periods presented. Since the transaction closed within one year of the December 31, 2018 balance sheet date, the assets and liabilities held for sale are presented as current.

A summary of the results for discontinued operations included in the Condensed Consolidated Statements of Operations follows:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Net sales	\$ 17,001	\$ 22,519	\$ 29,606	\$ 45,131
Cost of sales	10,133	13,702	18,455	27,005
Gross profit	6,868	8,817	11,151	18,126
Operating expenses	5,442	6,415	10,914	13,428
Restructuring expense	48	1,091	405	1,769
Operating income (loss)	1,378	1,311	(168)	2,929
Other expense	806	2,011	579	5,350
Income (loss) before income taxes	572	(700)	(747)	(2,421)
Income tax (benefit) provision	(4)	(665)	93	(565)
Net income (loss) from discontinued operations	\$ 576	\$ (35)	\$ (840)	\$ (1,856)

A summary of the carrying amounts of Embedded Computing major assets and liabilities, which were classified as current assets and liabilities held for sale in the Condensed Consolidated Balance Sheets follows:

	June 30, 2019	December 31, 2018
<b>ASSETS</b>		
Cash and cash equivalents	\$ 43	\$ 52
Trade receivables, less allowances of \$50 for both 2019 and 2018, respectively	12,374	14,803
Inventories	15,769	14,737
Prepaid expenses and other current assets	1,311	970
Property, plant and equipment, net	1,372	2,412
Goodwill	26,909	26,909
Intangible assets, net	9,522	10,943
Other assets	35	7,200
Total assets held for sale	\$ 67,335	\$ 78,026
<b>LIABILITIES</b>		
Revolving credit facility	\$ 10,375	\$ -
Trade accounts payable	8,206	12,763
Accrued expenses	4,263	3,080
Accrued employee related benefits	1,502	2,146
Deferred income taxes	86	200
Other long-term liabilities	114	-
Total liabilities held for sale	\$ 24,546	\$ 18,189

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A summary of the cash flows from discontinued operations are as follows:

	Six months ended June 30,	
	2019	2018
Net cash (used in) provided by operations	\$ (10,189)	\$ 1,332
Net cash (used in) investing activities	(195)	(74)
Net cash provided (used in) by financing activities	10,375	(1,200)
Change in cash and cash equivalents from discontinued operations	<u>\$ (9)</u>	<u>\$ 58</u>

### 3 GOODWILL AND OTHER INTANGIBLE ASSETS, NET

As of June 30, 2019 and December 31, 2018 the Company's goodwill was \$8,552.

The gross carrying amount and accumulated amortization of other intangible assets by major class are as follows:

	Wtd. Average Life (Yrs.)	June 30, 2019		December 31, 2018	
		Gross Intangibles	Accumulated Amortization	Gross Intangibles	Accumulated Amortization
Trademarks	5.0	\$ 4,300	\$ (4,300)	\$ 4,300	\$ (4,300)
Technology	7.9	20,200	(14,613)	20,200	(13,690)
Customer relationships	11.9	36,700	(16,955)	36,700	(15,436)
		<u>\$ 61,200</u>	<u>\$ (35,868)</u>	<u>\$ 61,200</u>	<u>\$ (33,426)</u>
Intangible assets, net			<u>\$ 25,332</u>		<u>\$ 27,774</u>

Total intangible asset amortization expense was \$1,221 and \$1,651 for the three months ended June 30, 2019 and 2018, respectively, and \$2,442 and \$3,302 for the six months ended June 30, 2019 and 2018, respectively.

### 4 BORROWING ARRANGEMENTS

The Company had the following outstanding borrowings:

	June 30, 2019	December 31, 2018
Asset based line facility	\$ 58,504	\$ 77,674
Foreign facility	13,234	-
Revolving credit facilities	<u>\$ 71,738</u>	<u>\$ 77,674</u>
Equipment loan	\$ 19,754	\$ -
Less: Current maturity of long term debt	6,554	-
Long term debt	<u>\$ 13,200</u>	<u>\$ -</u>
Senior secured notes, gross	233,000	233,000
Less: Deferred financing fees	(3,423)	(4,748)
Senior secured notes, net	<u>\$ 229,577</u>	<u>\$ 228,252</u>

#### Revolving Credit Facility

The Company has a senior secured asset-based revolving credit facility (the 'Credit Facility') commitment of \$145,000. The Credit Facility maturity date is the earlier of November 22, 2022 and the date that is 181 days

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prior to the maturity of the Senior Secured Notes. As of June 30, 2019, the commitment is comprised of a United States commitment of \$80,000 (the 'U.S. Subfacility') and a Hong Kong commitment of \$65,000 (the 'Hong Kong Subfacility'). These subfacility allocations can be changed with the approval of the lender under the Credit Facility up to four times in any fiscal year. Interest is payable monthly on any outstanding borrowings. Borrowings under the Credit Facility bear interest at the Company's option of either (i) base rate plus a margin of 0.75% to 2.25% or (ii) LIBOR plus a margin of 1.75% to 2.25%. The applicable margins in these ranges are based on the aggregate average unused availability under the revolving credit facility. The Company also pays a variable fee (0.375%-0.50%) depending on the unused availability of the Credit Facility. The maximum available borrowing under the Credit Facility is determined in accordance with an asset-based formula. The Credit Facility is secured by certain accounts receivable and certain inventory and contains customary affirmative and negative covenants for credit facilities of this type, including, but not limited to limitations on the incurrence of indebtedness, capital expenditures, asset dispositions, acquisitions, investments, dividends and other restricted payments, liens and transactions with affiliates.

Outstanding borrowings under the Credit Facility as of June 30, 2019 and December 31, 2018 were \$78,292 and \$77,674, respectively, which is classified as Current liabilities based on the Company's intent to repay the amount outstanding within the next twelve months. The weighted average interest rate was 5.30% as of June 30, 2019. Outstanding letters of credit totaled \$770 at June 30, 2019 and December 31, 2018, respectively. Available borrowings based on the asset-based formula were \$16,273 and \$37,382 at June 30, 2019 and December 31, 2018, respectively.

Financing fees related to the Credit Facility are included in Prepaid expenses and other current assets and Other assets and are being amortized on a straight-line basis over the life of the borrowing arrangement.

The Credit Facility was paid-off as of the close of the Embedded Power Base transaction in September 2019.

#### **Senior Secured Notes**

In 2013, a predecessor-in-interest to Artesyn issued \$250,000 of 9.75% Senior Secured Notes due October 15, 2020 (the 'Notes'). Prior to 2017, a total of \$17,000 of outstanding Notes were repurchased.

Artesyn pays interest on the Notes semi-annually in arrears on April 15 and October 15. The Notes contain covenants that limit the Company's ability to take certain actions, including, but not limited to limitations on the incurrence of indebtedness, asset dispositions, acquisitions, investments, dividends, and other restricted payments, liens and transactions with affiliates.

Artesyn has the option to redeem some or all of the Notes at any time at the redemption prices and conditions as set forth in the offering memorandum. The Notes had an estimated fair value of \$237,660 and \$217,273 as of June 30, 2019 and December 31, 2018, respectively, based on the last trade date of the period, which is a Level 2 measurement.

Financing fees are being amortized on a straight-line basis over the life of the respective Notes, which approximates the effective interest method.

The Notes were paid-off as of the close of the Embedded Power Base transaction in September 2019.

#### **Other Debt**

A company subsidiary entered into two new borrowing arrangements in the quarter ended June 30, 2019. The subsidiary is based in China and the arrangements are denominated in local currency. Both loans bear floating interest rate.

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On April 9, 2019 the subsidiary entered into a Fixed Asset Loan Agreement with the Bank of China to borrow up to RMB 135,000. The term of the loan is three years with semi-annual payments. The loan bears floating interest rate equal to the average interest rate of Loan Prime Rate plus 44 basis points.

On April 26, 2019 the subsidiary entered into a Working Capital Loan Contract with the Commercial Bank of China to borrow up to RMB 108,000 on a revolving basis. The loan bears floating interest rate equal to the average interest rate of Loan Prime Rate plus 49 basis points.

## 5 RESTRUCTURING EXPENSE

Restructuring expenses result from individual actions implemented across the Company and include costs for closing facilities and other costs resulting from asset redeployment decisions and headcount reductions. Severance and benefits expense consists of employee separation benefits, outplacement services and legal fees. Vacant facility and other shutdown costs are comprised of expenses for lease costs, stay bonuses, costs of moving fixed assets, security, maintenance, and utilities.

Restructuring (income) and expenses of (\$600) and \$1,584 were incurred for the three months ended June 30, 2019 and 2018, respectively and (\$251) and \$7,622 for the six months ended June 30, 2019 and 2018 respectively.

The changes in the liability for restructuring, included in Accrued expenses, are as follows:

	April 1, 2019	Restructuring Changes	Cash Paid	June 30, 2019
Severance and benefits	\$ 29	\$ 363	\$ 405	\$ (13)
Vacant facility and other shutdown costs	1,945	(963)	(22)	1,004
<b>Total</b>	<b>\$ 1,974</b>	<b>\$ (600)</b>	<b>\$ 383</b>	<b>\$ 991</b>

	January 1, 2019	Restructuring Changes	Cash Paid	June 30, 2019
Severance and benefits	\$ 355	\$ 712	\$ 1,080	\$ (13)
Vacant facility and other shutdown costs	2,143	(963)	176	1,004
<b>Total</b>	<b>\$ 2,498</b>	<b>\$ (251)</b>	<b>\$ 1,256</b>	<b>\$ 991</b>

	April 1, 2018	Restructuring Changes	Cash Paid	June 30, 2018
Severance and benefits	\$ 3,940	\$ 1,445	\$ 2,749	\$ 2,636
Vacant facility and other shutdown costs	3,197	139	649	2,687
<b>Total</b>	<b>\$ 7,137</b>	<b>\$ 1,584</b>	<b>\$ 3,398</b>	<b>\$ 5,323</b>

	January 1, 2018	Restructuring Changes	Cash Paid	June 30, 2018
Severance and benefits	\$ 1,239	\$ 7,452	\$ 6,055	\$ 2,636
Vacant facility and other shutdown costs	3,310	170	793	2,687
<b>Total</b>	<b>\$ 4,549</b>	<b>\$ 7,622</b>	<b>\$ 6,848</b>	<b>\$ 5,323</b>

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**6 OTHER (INCOME) EXPENSE, NET**

Other (income) expense, net consists primarily of:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Emerson tax indemnity income	\$ 998	\$ -	\$ 868	\$ 45
Foreign exchange (gain) loss	1,524	(1,365)	598	(1,231)
Loss (gain) on fixed asset disposal	161	(3)	161	(75)
Intercompany service revenue	(634)	(1,932)	(1,358)	(5,337)
Other	(47)	1	(139)	(118)
Total	\$ 2,002	\$ (3,299)	\$ 130	\$ (6,716)

**7 INCOME TAXES**

For the three months ended June 30, 2019, the Company recorded an income tax expense of \$1,187, of which \$1,191 was allocated to continuing operations, with tax benefit of (\$4) allocated to discontinued operations. For the three months ended June 30, 2018, the Company recorded an income tax expense of \$3,714, of which \$4,379 was allocated to continuing operations, with tax benefit of (\$665) allocated to discontinued operations.

For the six months ended June 30, 2019, the Company recorded income tax expense of \$1,873, of which \$1,780 was allocated to continuing operations, with tax expense of \$93 allocated to discontinued operations. For the six months ended June 30, 2018, the Company recorded an income tax expense of \$4,888, of which \$5,453 was allocated to continuing operations, with a tax benefit of (\$565) allocated to discontinued operations.

The effective rate for the three months ended June 30, 2019 and 2018 was negative due to foreign entities with tax expense, foreign losses that the Company does not derive tax benefit from, and U.S. losses that are subject to full valuation allowances. The difference between the effective tax rates as compared to the statutory Federal income tax rate is primarily driven by the income tax rates the Company is subject to in its foreign jurisdictions and losses in jurisdictions for which the Company has not recorded a benefit.

At June 30, 2019 and December 31, 2018, the Company had \$6,783 and \$7,179 of unrecognized tax benefits, respectively. \$3,907 of unrecognized tax benefits would impact the effective tax rate if recognized. For the remaining unrecognized tax benefits, the Company recorded indemnity receivables and prepaid assets of \$1,114 included in Other assets. The remaining \$1,762 is offset against the related deferred tax assets.

**8 RELATED PARTY TRANSACTIONS**

Artesyn has a Corporate Advisory Services Agreement with Platinum Equity Advisors, LLC ('Advisor', an affiliate of Platinum Equity), Emerson and Pontus JV pursuant to which Advisor and Emerson will provide general business advice and other services as requested by the Company. In exchange for the services, the Company pays an advisory fee of up to \$5,000 per calendar year, with 80% of any such fees going to Advisor and 20% of any such fees going to Emerson, plus up to \$75 of reimbursement of expense per calendar year going to each Advisor and Emerson.

Emerson indemnity tax income stemmed from the Platinum's acquisition of Artesyn whereby the seller, Emerson, indemnifies Artesyn for taxes resulted from tax positions taken prior to the date of sale.

The Company has sales to Emerson and certain affiliates of Pontus JV and also a Transition Services Agreement with Emerson for certain freight services.

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Related party transactions reported in the financial statements include the following:

	Three months ended June 30,		
	2019	2018	Amounts included in:
Related party sales to affiliates	\$ 3,702	\$ 3,895	Net sales
Corporate advisory fees and expenses to Advisor and Emerson	1,250	1,257	Operating expenses
Transition services paid to Emerson	368	179	Cost of sales and Operating expenses

	Six months ended June 30,		
	2019	2018	Amounts included in:
Related party sales to affiliates	\$ 7,669	\$ 8,052	Net sales
Corporate advisory fees and expenses to Advisor and Emerson	2,524	2,515	Operating expenses
Transition services paid to Emerson	1,232	619	Cost of sales and Operating expenses

As of June 30, 2019 and December 31, 2018, related party items reported in the balance sheet as a component of Trade receivables, Trade accounts payable, and Other assets, respectively, include the following:

	June 30, 2019	December 31 2018
Related party Trade receivables	\$ 2,396	\$ 2,241
Related party Accounts payable	599	482
Related party Tax indemnification receivable	2,394	2,264

## 9 COMMITMENTS AND CONTINGENCIES

At June 30, 2019, there were no known contingent liabilities that management believes will be material in relation to the condensed consolidated financial statements, nor were there any material commitments outside the normal course of business.

Outstanding purchase commitments, primarily related to inventory, as of June 30, 2019 are:

2019	\$ 89,322
2020	2,511
2021	89
	<u>\$ 91,922</u>

## 10 SUBSEQUENT EVENTS

The Company evaluated subsequent events through November 21, 2019 which is the date the condensed consolidated financial statements were made available.



**ADVANCED ENERGY INDUSTRIES, INC.**  
**UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION**

On May 14, 2019, Advanced Energy Industries, Inc. (the “Company”, “Advanced Energy”, “we” or “our”) entered into a Stock Purchase Agreement (the “Acquisition Agreement”), as amended by the First Amendment to the Purchase Agreement, dated September 9, 2019, with Artesyn Embedded Technologies, Inc. (“Artesyn”), Pontus Holdings, LLC and Pontus Intermediate Holdings II, LLC (collectively the “Sellers”), to acquire Artesyn’s Embedded Power business (“Embedded Power”). Pursuant to the Acquisition Agreement, the Sellers and Artesyn completed a corporate reorganization to divest from Artesyn its Embedded Computing and Consumer businesses (“Artesyn Legacy Businesses”). Following the corporate reorganization, the Company acquired Artesyn’s remaining Embedded Power business by acquiring all of Artesyn’s issued and outstanding shares for a purchase price of \$367.8 million including the assumption of certain liabilities and subject to an adjustment for net working capital.

The Company funded the payment of the aggregate consideration with the net proceeds from a \$350 million senior unsecured term loan facility (the “Credit Agreement”), and with available cash on hand. In connection with, and following the closing of the Acquisition Agreement, the Company, Artesyn and certain Artesyn Legacy Businesses agreed to provide one another with contract manufacturing services, transition services, and subleased space for certain periods of time.

The following unaudited pro forma condensed combined statements of operations for the six months ended June 30, 2019 and the year ended December 31, 2018 give effect to the Acquisition Agreement and the Credit Agreement as if both had occurred on January 1, 2018. The unaudited pro forma condensed combined financial information is based on and derived from the separate historical consolidated financial statements of the Company and of the Embedded Power business. The historical financial statements have been adjusted in the unaudited pro forma condensed combined financial information to give pro forma effect to events and transactions that are (i) directly attributable to the Acquisition Agreement; (ii) factually supportable; and (iii) expected to have a continuing impact on the combined results. Additionally, the unaudited pro forma condensed combined statements of operations do not reflect the cost of any integration activities or benefits from the acquisitions of Artesyn or synergies that may be derived from integration activities, each of which may have a material effect on our consolidated results of operations.

The unaudited pro forma condensed combined financial information was prepared using the acquisition method of accounting. The aggregate consideration paid by the Company for the Embedded Power business is allocated to the acquired assets and liabilities based upon their fair values as of the acquisition date. Any consideration paid that exceeds the net fair value of the assets acquired and liabilities assumed will be recorded as goodwill. The purchase price allocations reflected in the unaudited condensed combined pro forma information require extensive use of accounting estimates and management judgment, are preliminary, and will be adjusted upon completion of our final valuation of the assets and liabilities acquired. Although we believe the fair values assigned to the assets acquired and liabilities assumed are based upon reasonable estimates and assumptions using currently available information, the results of the final purchase price allocation could be materially different from the preliminary allocations used in the pro forma condensed combined financial information included herein, including, but not limited to, the final amount of working capital, identifiable intangible assets, goodwill, property and equipment, inventory, deferred revenue and deferred income taxes, and any related impacts to depreciation, amortization, gross margins, income taxes and other items.

The unaudited pro forma condensed combined financial information is presented pursuant to Regulation S-X, Article 11, of the U.S. Securities Exchange Commission (the “SEC”), and is not necessarily indicative of the operating results that would have resulted had the Acquisition Agreement occurred as of the date or during the periods presented, nor is it necessarily indicative of future operating results. The unaudited pro forma condensed combined financial information should be read in conjunction with the following financial information:

- the accompanying notes to the unaudited pro forma condensed combined financial information;
- the Company’s unaudited condensed consolidated financial statements as of and for the three and six months ended June 30, 2019 included in the Company’s Quarterly Report on Form 10-Q filed with the SEC on August 5, 2019;

### Exhibit 99.3

- the Company's unaudited condensed consolidated financial statements as of and for the three and nine months ended September 30, 2019 included in the Company's Quarterly Report on Form 10-Q filed with the SEC on November 12, 2019;
- the Company's audited consolidated financial statements as of and for the year ended December 31, 2018, included in Company's Annual Report on Form 10-K filed with the SEC on February 21, 2019;
- the Company's Current Report on Form 8-K filed with the SEC on September 10, 2019;
- the audited consolidated financial statements of Artesyn Embedded Technologies, Inc. and subsidiaries as of December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016, included as Exhibit 99.1 to this Current Report on Form 8-K/A;
- the unaudited condensed consolidated financial statements of Artesyn Embedded Technologies, Inc. and subsidiaries as of June 30, 2019 and for the three and six months ended June 30, 2019 and 2018, included as Exhibit 99.2 to this Current Report on Form 8-K/A.

**UNAUDITED CONDENSED COMBINED STATEMENT OF OPERATIONS**

**FOR THE SIX MONTHS ENDED JUNE 30, 2019**

(in thousands except per share data)

	Advanced Energy Industries, Inc.	Artesyn Embedded Technologies, Inc.	Carve-Out Adjustments Note 5(A)	Artesyn's Embedded Power Business	Reclassifications Note 5(B)	Pro Forma Adjustments	Notes	Pro Forma Combined
Sales, net:								
Product	\$ 218,305	\$ 475,360	\$ (180,049)	\$ 295,311	\$ —	\$ —		\$ 513,616
Services	57,248	—	—	—	—	—		57,248
Total sales, net	275,553	475,360	(180,049)	295,311	—	—		570,864
Cost of sales:								
Product	116,914	408,179	(182,050)	226,129	(3,816)	(1,288)	5(C)	337,939
Services	28,773	—	—	—	—	—		28,773
Total cost of sales	145,687	408,179	(182,050)	226,129	(3,816)	(1,288)		366,712
Gross profit	129,866	67,181	2,001	69,182	3,816	1,288		204,152
Operating expenses:								
Research and development	43,129	—	24,279	24,279	—	—		67,408
Selling, general and administrative	56,626	68,141	(34,790)	33,351	2,892	(2,075)	5(D)	90,794
Amortization of intangible assets	3,847	—	1,518	1,518	924	4,058	5(E)	10,347
Restructuring expense (benefit)	3,468	(251)	13	(238)	—	—		3,230
Total operating expenses	107,070	67,890	(8,980)	58,910	3,816	1,983		171,779
Operating income (loss)	22,796	(709)	10,981	10,272	—	(695)		32,373
Interest income (expense)	—	(15,114)	15,114	—	—	—		—
Other income (expense), net	16,288	(130)	645	515	—	(4,012)	5(F)	12,791
Income (loss) from continuing operations, before income taxes	39,084	(15,953)	26,740	10,787	—	(4,707)		45,164
Provision for income taxes	324	1,780	1,371	3,151	—	(1,092)	5(G)	2,383
Income (loss) from continuing operations	38,760	(17,733)	25,369	7,636	—	(3,615)		42,781
Income (loss) from discontinued operations, net of income taxes	8,315	(840)	840	—	—	—		8,315
<b>Net income (loss)</b>	<b>\$ 47,075</b>	<b>\$ (18,573)</b>	<b>\$ 26,209</b>	<b>\$ 7,636</b>	<b>\$ —</b>	<b>\$ (3,615)</b>		<b>\$ 51,096</b>
Income from continuing operations attributable to noncontrolling interest	19	—	—	—	—	—		19
<b>Net income (loss) attributable to Advanced Energy Industries, Inc.</b>	<b>\$ 47,056</b>	<b>\$ (18,573)</b>	<b>\$ 26,209</b>	<b>\$ 7,636</b>	<b>\$ —</b>	<b>\$ (3,615)</b>		<b>\$ 51,077</b>
Basic weighted-average common shares outstanding	38,236							38,236
Diluted weighted-average common shares outstanding	38,443							38,443
<b>Earnings per share:</b>								
Continuing operations:								
Basic earnings per share	\$ 1.01							\$ 1.12
Diluted earnings per share	\$ 1.01							\$ 1.11
Discontinued operations:								
Basic earnings per share	\$ 0.22							\$ 0.22
Diluted earnings per share	\$ 0.22							\$ 0.22
<b>Net income:</b>								
Basic earnings per share	\$ 1.23							\$ 1.34
Diluted earnings per share	\$ 1.22							\$ 1.33

See notes to unaudited pro forma condensed combined financial information.

**UNAUDITED CONDENSED COMBINED STATEMENT OF OPERATIONS**

**FOR THE YEAR ENDED DECEMBER 31, 2018**

(in thousands except per share data)

	Advanced Energy Industries, Inc.	Artesyn Embedded Technologies, Inc.	Carve-Out Adjustments Note 5(A)	Artesyn's Embedded Power Business	Reclassifications Note 5(B)	Pro Forma Adjustments	Notes	Pro Forma Combined
Sales, net:								
Product	\$ 610,326	\$ 1,032,976	\$ (439,856)	\$ 593,120	\$ —	\$ —		\$ 1,203,446
Services	108,566	—	—	—	—	—		108,566
Total sales, net	718,892	1,032,976	(439,856)	593,120	—	—		1,312,012
Cost of sales:								
Product	298,597	880,096	(429,590)	450,506	(9,388)	(2,567)	5(C)	737,148
Services	54,688	—	—	—	—	—		54,688
Total cost of sales	353,285	880,096	(429,590)	450,506	(9,388)	(2,567)		791,836
Gross profit	365,607	152,880	(10,266)	142,614	9,388	2,567		520,176
Operating expenses:								
Research and development	76,008	—	48,219	48,219	—	—		124,227
Selling, general and administrative	108,033	143,842	(72,239)	71,603	7,024	(1,247)	5(D)	185,413
Amortization of intangible assets	5,774	—	3,432	3,432	2,364	7,204	5(E)	18,774
Restructuring expense	4,239	7,528	—	7,528	—	—		11,767
Total operating expenses	194,054	151,370	(20,588)	130,782	9,388	5,957		340,181
Operating income	171,553	1,510	10,322	11,832	—	(3,390)		179,995
Interest income (expense)	—	(29,258)	29,258	—	—	—		—
Other income (expense), net	823	7,516	(3,792)	3,724	—	(8,346)	5(F)	(3,799)
Income (loss) from continuing operations, before income taxes	172,376	(20,232)	35,788	15,556	—	(11,736)		176,196
Provision for income taxes	25,227	7,828	1,025	8,853	—	(286)	5(G)	33,794
Income (loss) from continuing operations	147,149	(28,060)	34,763	6,703	—	(11,450)		142,402
Loss from discontinued operations, net of income taxes	(38)	4,169	(4,169)	—	—	—		(38)
<b>Net income (loss)</b>	<b>\$ 147,111</b>	<b>\$ (23,891)</b>	<b>\$ 30,594</b>	<b>\$ 6,703</b>	<b>\$ —</b>	<b>\$ (11,450)</b>		<b>\$ 142,364</b>
Income from continuing operations attributable to noncontrolling interest	86	—	—	—	—	—		86
<b>Net income (loss) attributable to Advanced Energy Industries, Inc.</b>	<b>\$ 147,025</b>	<b>\$ (23,891)</b>	<b>\$ 30,594</b>	<b>\$ 6,703</b>	<b>\$ —</b>	<b>\$ (11,450)</b>		<b>\$ 142,278</b>
Basic weighted-average common shares outstanding	39,081							39,081
Diluted weighted-average common shares outstanding	39,352							39,352
<b>Earnings per share:</b>								
Continuing operations:								
Basic earnings per share	\$ 3.76							\$ 3.64
Diluted earnings per share	\$ 3.74							\$ 3.62
Discontinued operations:								
Basic earnings per share	\$ —							\$ —
Diluted earnings per share	\$ —							\$ —
<b>Net income:</b>								
Basic earnings per share	\$ 3.76							\$ 3.64
Diluted earnings per share	\$ 3.74							\$ 3.62

See notes to unaudited pro forma condensed combined financial information.

**ADVANCED ENERGY INDUSTRIES, INC.**

**NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION**

(in thousands except per share data)

**Note 1. Basis of Presentation**

The unaudited pro forma condensed combined financial information is based on the historical consolidated financial statements of Advanced Energy and of Artesyn, as adjusted to remove the Artesyn Legacy Businesses, hereinafter referred to as the acquired Embedded Power business. This information has been prepared on the basis of generally accepted accounting principles in the United States ("U.S. GAAP"), and reflects the completed Acquisition Agreement and Credit Agreement. The pro forma information is presented for illustrative purposes only and does not necessarily reflect the results of operations of Advanced Energy that actually would have resulted had the acquisition occurred at the dates indicated, or project the results of operations of Advanced Energy for any future dates or periods. The unaudited pro forma condensed combined statements of operations for the six months ended June 30, 2019 and the year ended December 31, 2018, gives effect to the Acquisition Agreement and Credit Agreement as if they had been completed on January 1, 2018.

The historical information of Advanced Energy has been derived from the audited consolidated financial statements of the Company for the year ended December 31, 2018, included in its Annual Report on Form 10-K filed with the SEC on February 21, 2019 (the "Form 10-K"), and the unaudited condensed consolidated financial statements of Advanced Energy for the six months ended June 30, 2019, included in the Quarterly Report on Form 10-Q filed with the SEC on August 5, 2019. The historical information for Embedded Power business has been derived from the audited consolidated financial statements of Artesyn Embedded Technologies, Inc. and subsidiaries for the year ended December 31, 2018, and the unaudited condensed consolidated financial statements of Artesyn Embedded Technologies, Inc. and subsidiaries for the six months ended June 30, 2019, as adjusted to remove the Artesyn Legacy Businesses.

Pro forma adjustments reflected in the unaudited pro forma condensed combined statements of operations are based upon items that are factually supportable, are directly attributable to the acquisition and are expected to have a continuing effect on the Company's results of operations. In contrast, any nonrecurring items that are already included in the Advanced Energy or Embedded Power historical consolidated financial statements that are not directly related to the Acquisition Agreement or the Credit Agreement have not been eliminated as further discussed in Note 3.

In addition, certain reclassifications have been made to the historical presentation of Embedded Power to conform to presentation used in the unaudited pro forma condensed combined statements of operations to reflect the accounting policies and practices of Advanced Energy. These reclassifications have no net impact on the historical operating income, income from continuing operations, or income from continuing operations attributable to Advanced Energy. Further review of the Embedded Power financial statements may result in additional revisions to Embedded Power classifications to conform to Advanced Energy's presentation. The pro forma adjustments and reclassifications are based upon information available as of November 22, 2019.

**Note 2. Aggregate Consideration and Purchase Allocation**

The components of the fair value of the total consideration transferred by the Company for the Embedded Power business were as follows:

	Artesyn
Cash paid for acquisition	\$ 389,023
Non-cash consideration	2,000
Total fair value of consideration transferred	391,023
Less cash acquired	(23,225)
Total purchase price	\$ 367,798

**ADVANCED ENERGY INDUSTRIES, INC.**

**NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION**

**(in thousands except per share data)**

The Acquisition Agreement is reported in the Company's unaudited pro forma condensed combined financial information using the acquisition method of accounting. Under the acquisition method of accounting, assets acquired and liabilities assumed are recorded at their estimated fair values. Fair values of assets acquired and liabilities assumed are based upon available historical and current market information, as well as estimated future cash flows and market risk adjusted discount rates, and as a result, estimating fair values is complex and subject to significant business judgment. We must also identify and include in the allocation all acquired tangible and intangible assets that meet certain criteria, including assets not previously recorded by the acquired entity under U.S. GAAP. These estimates most commonly involve property and equipment and intangible assets, including the estimated useful lives of those assets. The excess of the aggregate consideration paid over the net fair value of acquired assets over the assumed liabilities is recorded as goodwill. The goodwill represents expected operating synergies from combining operations with the acquired company and the estimated value associated with the enhancements to our comprehensive product lines and access to new markets. The Company expects that the acquired goodwill will not be deductible for income taxes.

The unaudited pro forma condensed combined financial information includes pro forma adjustments that are based upon a preliminary allocation of the aggregate consideration paid for the Embedded Power assets acquired and liabilities assumed, based upon their preliminary estimated fair values. The final allocation of the purchase price could differ materially from the preliminary allocations used to prepare the unaudited pro forma condensed combined financial information. The final purchase price allocation will be completed as soon as practical but no later than one year from the acquisition date. For purposes of preparing the unaudited pro forma condensed combined financial information, the Company's preliminary allocation of the aggregate consideration to the acquired assets and assumed liabilities of Embedded Power is as follows:

	<b>Preliminary: September 10, 2019</b>
Accounts and other receivable, net	\$ 128,221
Inventories	140,678
Property and equipment	65,016
Operating lease right-of-use assets	60,217
Goodwill	143,262
Intangible assets	125,000
Deferred income tax assets	14,767
Other assets	61,511
<b>Total assets acquired</b>	<b>738,672</b>
Accounts payable	144,652
Operating lease liability	59,634
Pension liability	48,494
Deferred income tax liabilities	37,218
Other liabilities	80,876
<b>Total liabilities assumed</b>	<b>370,874</b>
<b>Total fair value of net assets acquired</b>	<b>\$ 367,798</b>

**ADVANCED ENERGY INDUSTRIES, INC.**

**NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION**

(in thousands except per share data)

**Note 3. Significant Non-Recurring Items Included in the Historical Financial Statements**

**Activities directly related to the Acquisition Agreement and Credit Agreement**

Artesyn Embedded Technologies, Inc. and subsidiaries includes the Artesyn Legacy Businesses in the results of operations. In accordance with the Acquisition Agreement, the Artesyn Legacy Businesses were divested from the Artesyn Embedded Power business. Therefore, the Artesyn Legacy Businesses have been excluded from the pro forma condensed combined statements of operations as these activities are considered non-recurring.

The Company incurred charges directly attributable to the acquisition of \$1.5 million, included in "Selling, general and administrative" expense for the six months ended June 30, 2019, which have been excluded from the pro forma condensed combined statements of operations as these charges are considered non-recurring.

**Note 4. Credit Agreement**

In connection with the Acquisition Agreement, the Company entered into the Credit Agreement that provided aggregate financing of \$500.0 million, consisting of a \$350.0 million senior unsecured term loan facility (the "Term Loan Facility") and a \$150.0 million senior unsecured revolving facility (the "Revolving Facility"). Both the Term Loan Facility and Revolving Facility mature on September 10, 2024.

The Revolving Facility and Term Loan Facility bear interest, at the option of the Company, at a rate based on a reserve adjusted Eurodollar Rate or a Base Rate, as defined in the Credit Agreement, plus an applicable margin. Additionally, the Revolving Facility is subject to an unused line fee.

In connection with the entering into the Credit Agreement, the Company terminated its previous loan agreement, as amended (the "Loan Agreement"), which previously provided a revolving line of credit of up to \$150.0 million subject to certain funding conditions. The Company expensed all unused line of credit fees at the time of termination of the Loan Agreement. We did not borrow against the Loan Agreement at any time during the six months ended June 30, 2019 or the twelve months ended December 31, 2018.

**Note 5. Pro Forma Adjustments**

- (A) Reflects carve-out adjustments to remove the Artesyn Legacy Businesses from the historical consolidated Artesyn Embedded Technologies, Inc. and subsidiaries results.
- (B) Reflects adjustments to Embedded Power's historical classification of cost of sales, selling, general and administrative expenses, and amortization of intangible assets to conform with the accounting policies and classifications of Advanced Energy.

**ADVANCED ENERGY INDUSTRIES, INC.**

**NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION**

**(in thousands except per share data)**

(C) The pro forma adjustments to cost of sales expense are as follows:

	<b>Six Months Ended</b>	<b>Year Ended</b>
	<b>June 30, 2019</b>	<b>December 31, 2018</b>
Incremental change to depreciation expense (1)	\$ (2,981)	\$ (5,887)
Capital expenditures policy alignment (2)	1,693	3,320
	<u>\$ (1,288)</u>	<u>\$ (2,567)</u>

- (1) Reflects the adjusted Embedded Power depreciation expense to account for the estimated preliminary fair value of property, plant and equipment, to conform Embedded Power to Advanced Energy's capitalization policy and to reflect the adjusted estimated useful lives of the newly acquired fixed assets. Depreciation expense has been split between "cost of sales" and "selling, general and administration" based on historical allocation rates.
- (2) Reflects a pro forma adjustment to expense previously capitalized equipment as expenditures in the period of initial purchase to conform to the capitalization policy of Advanced Energy. This expense has been allocated between "cost of sales" and "selling, general and administration" based on Embedded Power's historical allocation.

(D) The pro forma adjustments to selling, general and administrative expense are as follows:

	<b>Six Months Ended</b>	<b>Year Ended</b>
	<b>June 30, 2019</b>	<b>December 31, 2018</b>
Incremental change to depreciation expense (1)	\$ (1,258)	\$ (2,861)
Acquisition-related costs (2)	(1,531)	-
Capital expenditures policy alignment (3)	714	1,614
	<u>\$ (2,075)</u>	<u>\$ (1,247)</u>

- (1) Reflects the adjusted Embedded Power depreciation expense to account for the estimated preliminary fair value of property, plant and equipment, to conform Embedded Power to Advanced Energy's capitalization policy and to reflect the adjusted estimated useful lives of the newly acquired fixed assets. Depreciation expense has been split between "cost of sales" and "selling, general and administration" based on historical allocation rates.
- (2) Reflects the reduction of acquisition and transaction-related costs that were incurred during the period which are considered non-recurring.
- (3) Reflects a pro forma adjustment to expense previously capitalized equipment as expenditures in the period of initial purchase to conform to the capitalization policy of Advanced Energy. This expense has been allocated between "cost of sales" and "selling, general and administration" based on Embedded Power's historical allocation.

(E) The following pro forma adjustments to amortization of intangible assets are based upon preliminary estimated fair values of Embedded Power's identifiable intangible assets, their estimated useful lives, and estimated pro forma amortization expense as follows:

	<b>Preliminary</b>	<b>Estimated</b>	<b>Six Months</b>	<b>Year December</b>
	<b>Estimated Fair Value</b>	<b>Useful Lives</b>	<b>June 30, 2019</b>	<b>31, 2018</b>
Technology	\$ 30,000	5	\$ 3,000	\$ 6,000
Customer Relationships	75,000	15	2,500	5,000
Tradename	20,000	10	1,000	2,000
			6,500	13,000
Less: Embedded Power historical amortization			(2,442)	(5,796)
Total intangible assets, net	<u>\$ 125,000</u>		<u>\$ 4,058</u>	<u>\$ 7,204</u>



**ADVANCED ENERGY INDUSTRIES, INC.**

**NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION**

**(in thousands except per share data)**

(F) The following reflects the pro forma adjustments for estimated interest expense, including the amortization of debt issuance costs and debt discount as if the acquisition had occurred on January 1, 2018 based upon an interest rate of 2.47%, which is the applicable historical Eurodollar rate as of January 1, 2018. This rate was utilized for both the six months ended June 30, 2019 and the twelve months ended December 30, 2018. Additionally, the historical interest expense incurred by Advanced Energy was removed as the previous Loan Agreement was terminated in connection with the entering into the Credit Agreement.

	<b>Six Months Ended June 30, 2019</b>	<b>Year Ended December 31, 2018</b>
<b>Term Loan Facility</b>		
Interest expense on incremental term loan borrowings at 2.47%	\$ 3,785	\$ 7,872
Amortization of debt issuance costs and original issue discount	266	552
<b>Revolver Facility</b>		
Unused commitment fee	75	150
Total pro forma interest expense	\$ 4,126	\$ 8,574
Less: Advanced Energy historical interest expense	(114)	(228)
Total net pro forma interest expense adjustment	\$ 4,012	\$ 8,346

(G) Reflects a change in the provision for income taxes to conform Embedded Power's indefinite reinvestment assertion of unremitted foreign earnings position upon acquisition by Advanced Energy and to reflect the tax impact of the other pro forma adjustments, as applicable.