Asetek Holdings, Inc.

Quarterly Report

Three months ended December 31, 2012

Published February 13, 2013

Company background

Asetek Holdings, Inc. (‘the Company’), and its subsidiaries (together, ‘Asetek Group’, ‘the Group’ or ‘Asetek’) is a privately held company that designs, develops and markets thermal management solutions used in computers and data center servers. The Group’s core products utilize liquid cooling technology to provide improved performance, acoustics and energy efficiency. The Company is incorporated in Delaware, USA and headquartered in San Jose, California, USA with offices in Denmark and China.

The fourth quarter 2012 in brief

- Asetek continued its mission as the leading supplier of liquid cooling solutions for high-end computing. The Company shipped 95,000 units of its patented sealed liquid cooling units in the fourth quarter of 2012. From inception of the Company, total shipments of this type of product have exceeded one million units.

- The Company made significant progress developing and marketing new product lines that will help to reduce the huge cost and negative environmental impact of cooling servers and data centers.

- Revenues in the fourth quarter of 2012 totaled $4.2 million, a 16% increase over fourth quarter of 2011 ($3.6 million).

- Operating losses of $2.5 million (Q4 2011: $1.5 million) increased due to continued investment in the development of the data center product line and administrative expenses associated with preparation for new financing.

- In October 2012, Asetek secured $3.0 million in long-term convertible debt financing to bridge the Company’s short-term cash needs and enable the Company to prepare for a potential initial public offering of shares.

Financial position and operating results for fourth quarter 2012

Profit and loss. In the fourth quarter of 2012, Asetek Group reported revenues of $4.2 million compared to $3.6 million in the same period of 2011, an increase of 16%. Sales unit volumes increased by 23% from the same period of 2011 due principally to the increase in sales to customers acquired in late 2011 and 2012. In 2011, Asetek expanded its customer base by signing significant top-tier resellers Intel, AMD and Antec, and added ThermalTake as a reseller in 2012. Average selling prices declined 6% from the fourth quarter of 2011 and gross margin declined slightly to 34% in the fourth quarter of 2012 from 35% in the same period of 2011. The decline is principally due to a one-time competitive price offering at year-end. Gross margin over the year has remained relatively stable.

In the fourth quarter of 2012, activities associated with reorganization and a planned initial public offering resulted in increased legal and administrative costs compared with 2011. In addition, Asetek incurred increased legal costs in efforts to defend the Company's intellectual property. As a result, general and administrative costs increased by 66% in the fourth quarter of 2012 compared with the same period of 2011.

As a result of continued focus on new product development, intellectual property defense and efforts directed at an initial public offering, Asetek incurred an operating loss of $2.5 million in the fourth quarter of 2012, compared with operating loss of $1.5 million in the same period of 2011.

Financial costs in the fourth quarter of 2012 increased from the same period in 2011 due to interest costs and a $1.4 million loss on the fair value of a $3.0 million convertible loan issued in October 2012. In addition, the change was also due to a financial loss associated with the change in fair value on the convertible preferred shares of $0.5 million. Income on fair value of convertible preferred shares in the fourth quarter of 2011 resulted from a decrease in the value of the conversion option at December 31, 2011 due to uncertainty in the Company's operating forecasts at that time prior to development of the data center/server cooling business plan. During 2012, the Company developed and expanded the data center cooling strategy and business plan, resulting in an increase in value of the conversion option liability and recognized loss.

Balance sheet. Asetek's total assets at the end of 2012 were $8.2 million, an increase from $7.9 million at September 30, 2012. The principal change in assets during the quarter was the result of an increase of $0.5 million in 'trade receivables and other' principally due to increased sales in the fourth quarter of 2012 compared with 2011. Included in this balance is an increase in other assets as a result of specific financing costs capitalized associated with the planned IPO.

Current liabilities, which include preferred shares and their embedded convertible option, decreased to a total of $41.4 million at the end of 2012, from $44.1 million at the end the third quarter, primarily due to the extension of a previously existing short-term $3.0 million note, resulting in classification of the note as long-term debt in December 2012. Long-term debt increased by $7.5 million due to the $3.0 million convertible loan secured in October 2012, including the previously mentioned fair value adjustment of $1.4 million, and the reclassification of the $3.0 million note payable from current to long-term.

Statement of cash flows. Net cash used by operating activities was $2.2 million in the fourth quarter of 2012, compared with $0.7 million provided by operating activities in the fourth quarter of 2011. The change was mainly attributed to the increased loss as well as an increase in trade receivables and other assets. Cash used by investing activities was $0.2 million, related to additions in capitalized development costs. Cash provided by financing activities was $2.4 million in the fourth quarter of 2012 compared with $1.8 million in the same period of 2011. The Company secured a $3.0 million convertible loan in the fourth quarter of 2012 and issued $3.0 million of Series C convertible preferred shares in in the same period in 2011. Payments against a line of credit offset financing cash flows in both periods. Net change in cash and cash equivalents was an inflow of $0.1 million in the fourth quarter of 2012, compared with an inflow of $2.2 million in the same period of 2011.

Liquidity and financing. As is typical for venture capital backed companies, Asetek has incurred losses from operations and negative cash flows since its inception. During this time, Asetek has financed operations principally through the issuance of convertible preferred shares totaling $37.1 million. As of December 31, 2012, the Company has accumulated losses of $44.2 million, and negative equity of $40.6 million. The Company has taken various steps to add or extend other credit facilities. In September 2012, Asetek secured a $0.3 million (Danish Krone 2 million) line of credit with Sydbank in Denmark. In October 2012, the Company secured $3.0 million in funds from the issuance of a convertible loan payable primarily to existing shareholders. In December 2012, Asetek extended the maturity of a $3.0 million note payable to shareholder to February 2014. Notwithstanding the foregoing, the Company continues to seek additional financing, including directing efforts toward a possible initial public offering of its shares in 2013. While there is no assurance that the Company will generate sufficient revenues or operating profits in the future, based on financial forecasts, management estimates that the Company's operating activities and plans to secure additional financing in 2013 will enable Asetek Group to achieve its short-term goals. Accordingly, the accompanying financial statements have been prepared on a going concern basis.

Asetek Holdings, Inc.
Consolidated Statement of Comprehensive Income

	3 months ended	
USD 000's	**31-Dec-12**	**31-Dec-11**
	Unaudited	*Unaudited*
Revenue	$ 4,214	$ 3,644
Cost of sales	2,795	2,363
Gross profit	1,419	1,281
Research and development	(1,104)	(1,119)
Selling, general and administrative	(2,687)	(1,616)
Foreign exchange loss	(95)	(18)
Total operating expenses	(3,886)	(2,753)
Operating loss	(2,467)	(1,472)
Finance income		590
Finance costs	(2,017)	(102)
Total finance income/(costs)	(2,017)	488
Loss before tax	(4,484)	(984)
Income tax	5	21
Loss for the period	(4,479)	(963)
Foreign currency translation adjustments	53	24
Total comprehensive income	$ (4,426)	$ (939)

The Notes on the following pages are an integral part of these consolidated financial statements.

Asetek Holdings, Inc.

Consolidated Balance Sheet

USD 000's	**31-Dec-12**	**30-Sep-12**	**31-Dec-11**
ASSETS		*Unaudited*	
Non-current assets			
Property and equipment	$ 440	$ 499	$ 640
Intangible assets	1,448	1,689	2,139
Other assets	-	-	38
Total non-current assets	1,888	2,188	2,817
Current assets			
Inventory	1,055	1,045	838
Trade receivables and other	3,971	3,501	2,180
Cash and cash equivalents	1,248	1,152	2,668
Total current assets	6,274	5,698	5,686
Total assets	$ 8,162	$ 7,886	$ 8,503
EQUITY AND LIABILITIES			
Equity			
Share capital	$ 2	$ 2	$ 2
Share premium	3,935	3,896	3,792
Accumulated deficit	(44,218)	(39,739)	(35,660)
Translation reserves	(361)	(414)	(428)
Total equity	(40,642)	(36,255)	(32,294)
Non-current liabilities			
Long-term debt	7,451	9	15
Total non-current liabilities	7,451	9	15
Current liabilities			
Redeemable preferred shares	29,510	29,510	29,242
Convertible option on preferred shares	7,612	7,144	5,669
Short-term debt	314	3,906	3,035
Accrued liabilities	1,393	440	601
Accrued compensation and employee benefits	534	544	550
Trade payables	1,990	2,589	1,685
Total current liabilities	41,353	44,132	40,782
Total liabilities	48,804	44,141	40,797
Total equity and liabilities	$ 8,162	$ 7,886	$ 8,503

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Asetek Holdings, Inc.

Consolidated Cash Flow Statement

		Three months ended	
USD 000's		**31-Dec-12**	**31-Dec-11**
		Unaudited	*Unaudited*
Cash flows from operating activities			
Loss for the period	$	(4,479)	$ (963)
Depreciation and amortization		439	559
Finance cost (income)		2,017	(488)
Income tax expense (income)		(7)	8
Cash payments for income tax		(2)	-
Impairment of intangible assets		74	268
Cash payments for income tax		(2)	(2)
Share based payments expense		35	21
Changes in trade receivables, inventories, other assets		(541)	1,018
Changes in trade payables and accrued liabilities		315	323
Net cash provided by (used in) operating activities		(2,151)	744
Cash flows from investing activities			
Additions to intangible assets		(227)	(203)
Purchase of property and equipment		(10)	(244)
Net cash used in investing activities		(237)	(447)
Cash flows from financing activities			
Proceeds from debt issuance		3,000	-
Cash payments on line of credit, net of draws		(588)	(1,250)
Cash payments for interest on debt		(12)	(30)
Proceeds from issuance of share capital		3	-
Proceeds from issuance of convertible preferred shares		-	3,116
Principal and interest payments on finance leases		(6)	(14)
Net cash provided by financing activities		2,397	1,822
Effect of exchange rate changes on cash and cash equivalents		88	79
Net changes in cash and cash equivalents		96	2,198
Cash and cash equivalents at beginning of period		1,152	470
Cash and cash equivalents at end of period	$	1,248	$ 2,668

The Notes on the following pages are an integral part of these consolidated financial statements.

Asetek Holdings, Inc.
Consolidated Statements of Changes in Equity

(USD in thousands) (Unaudited)	Share Capital	Share Premium	Translation Reserves	Accumulated Deficit	Total Shareholders Equity
Equity at October 1, 2012	$ 2	$ 3,896	$ (414)	$ (39,739)	$ (36,255)
Total comprehensive income for the quarter ended December 31, 2012					
Loss for the period	-	-	-	(4,479)	(4,479)
Foreign currency translation adjustments	-	-	53	-	53
Total comprehensive income for the quarter ended December 31, 2012	-	-	53	(4,479)	(4,426)
Transactions with owners in 2012					
Shares issued	-	3	-	-	3
Share based payment expense	-	36	-	-	36
Transactions with owners for the quarter ended December 31, 2012	-	39	-	-	39
Equity at December 31, 2012	$ 2	$ 3,935	$ (361)	$ (44,218)	$ (40,642)

(USD in thousands) (Unaudited)	Share Capital	Share Premium	Translation Reserves	Accumulated Deficit	Total Shareholders Equity
Equity at October 1, 2011	$ 2	$ 3,770	$ (452)	$ (34,697)	$ (31,377)
Total comprehensive income for the quarter ended December 31, 2011					
Loss for the period	-	-	-	(963)	(963)
Foreign currency translation adjustments	-	-	24	-	24
Total comprehensive income for the quarter ended December 31, 2011	-	-	24	(963)	(939)
Transactions with owners for the quarter ended December 31, 2011					
Shares issued	-	-	-	-	-
Share based payment expense	-	22	-	-	22
Transactions with owners for the quarter ended December 31, 2011	-	22	-	-	22
Equity at December 31, 2011	$ 2	$ 3,792	$ (428)	$ (35,660)	$ (32,294)

The Notes on the following pages are an integral part of these consolidated financial statements

Asetek Holdings, Inc.
Notes to the Quarterly Report

1. General information

Asetek Holdings, Inc. ('the Company'), and its subsidiaries (together, 'Asetek Group', 'the Group' or 'Asetek') is a privately held company that designs, develops and markets thermal management solutions used in computers and data center servers. The Group's core products utilize liquid cooling technology to provide improved performance, acoustics and energy efficiency. The Company is incorporated in Delaware, USA and headquartered in San Jose, California, USA with offices in Denmark and China.

These condensed consolidated financial statements for the quarter ended December 31, 2012 have been prepared on a historical cost convention and do not include all of the information and disclosure required in the annual consolidated financial statements. These statements should be read in conjunction with the Asetek Holdings, Inc. 2012 Annual Report.

The accounting policies adopted in preparation of these condensed consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2012.

2. Finance costs and income

	Three months ended December 31,	
(USD 000's)	2012	2011
Income (loss) on fair value of convertible preferred shares	$ (468)	$ 590
Loss on fair value of convertible loan	(1,389)	-
Non-cash items included in finance costs and income	(1,857)	590
Interest on note payable	(76)	(75)
Interest on convertible loan	(54)	-
Line of credit, lease interest, other bank fees	(30)	(27)
Total finance (costs) / income	$ (2,017)	$ 488

The income (loss) on fair value of convertible preferred shares and the loss on convertible loan are non-cash transactions resulting from recording the instruments at fair value at period end. Income on fair value of convertible preferred shares in 2011 resulted from a decrease in the value of the conversion option at December 31, 2011 due to uncertainty in the Company's operating forecasts at that time prior to development of the data center/server cooling business plan. During 2012, the Company developed and expanded the data center cooling strategy and business plan, resulting in an increase in value of the conversion option liability and recognized loss.

3. Redeemable convertible preferred shares and other debt

Redeemable convertible preferred shares. The following is a summary of outstanding redeemable preferred shares:

As of December 31, 2012:

Redeemable Convertible Shares	Authorized *(000's)*	Issued and Outstanding *(000's)*	Liquidation Preference *(USD 000's)*	Proceeds Net of Issuance Costs *(USD 000's)*	Issuance Price per Share
Series A-1	2,266	2,266	$ 13,573	$ 10,356	$ 5.99
Series A-2	210	210	1,698	1,575	$ 8.09
Series B	2,700	2,317	15,964	16,253	$ 6.89
Series C	2,868	2,867	11,500	11,483	$ 4.01
Total	8,044	7,660	$ 42,735	$ 39,667	

(USD 000's)	Fair Value of Conversion Option	Carrying Value of Preferred Shares	Total Carrying Value
Series A-1	1,726	10,070	11,796
Series A-2	95	1,238	1,333
Series B	1,387	8,982	10,369
Series C	4,404	9,220	13,624
	$ 7,612	$ 29,510	$ 37,122

In September 2008, the Company completed an exchange of all share capital of Asetek A/S for capital shares of the Company pursuant to an exchange agreement. In October 2011, the Company issued 781,389 shares of Series C Preferred with a par value of $0.001 and a purchase price of $4.010 for a total consideration of $3,133,370, less issuance costs of $17,367 for a net value $3,116,003. In May 2012, the Company issued 91,429 shares of Series C Preferred with a par value of $0.001 and a purchase price of $4.010 for a total consideration of $366,630.

Convertible loan. On October 26, 2012, the Company entered into an unsecured convertible loan agreement with seven investors to raise $3.0 million to be used for working capital in preparation for an initial public offering (IPO). Interest accrues from the loan date at a stated annual rate of 10% and is paid quarterly beginning in September 2014. In the event of an IPO, the investors may convert their portion of the loan to common shares at a discount of 20% below the IPO share price. If the Company does not complete an IPO on the Oslo Stock Exchange within twenty-four months from the date of the loan, the investors have the right to convert their portion of the loan plus accrued interest into Series C preferred shares of the Company at a conversion price of $4.01 per share. Any unpaid or unconverted loan amounts are to be paid in full by September 30, 2015. At its option, the Company may repay the loan, plus accrued interest, any time before maturity according to the following repayment schedule:

Repayment made during the period from:	Principal due is multiplied times:
Loan inception to 6 months	105.0%
Over 6 months from loan inception up to 12 months	110.0%
Over 12 months from loan inception up to 18 months	115.5%
Over 18 months from loan inception up to 24 months	121.0%
Over 24 months from loan inception up to 30 months	128.0%
Over 30 months up to maturity date	135.0%

Note payable. In July 2010, the Company executed a promissory note to a preferred shareholder in return for $3.0 million of operating funds. The promissory note has a stated interest rate of 10%, with interest payments due annually on December 31, and is collateralized by the total assets of the Company. The original maturity date of the note was December 31, 2011. In May 2011, the Company extended the maturity of the note to December 31, 2012. In December 2012, in return for extending the maturity date of the note to February 28, 2014, the Company incurred a one-time maturity extension fee of $150,000 that is due on the maturity date. This fee is accounted for as a modification to the note and will accrete on a straight-line basis over the remaining period up to maturity. At December 31, 2012, the promissory note has a book value of $3.0 million, which approximates fair value. Accrued interest of $300,000 related to the promissory note is included in accrued liabilities at December 31, 2012.

USA and Holdings line of credit. In November 2010, Asetek USA, Inc. and Asetek Holdings, Inc. entered into a revolving line of credit agreement with Comerica Bank. The agreement is collateralized by a lien over the Company's assets and has a maturity date of March 31, 2013. As of December 31, 2012, the available line of credit to the Company totaled $1.0 million and there was no outstanding balance. Interest on the line is payable monthly at the bank prime rate plus 3.75 percentage points. The line of credit is subject to certain covenants pertaining to equity financing achievements and operating results. As of December 31, 2012, the Company was not in compliance with certain of these covenants, and as a result the availability of this credit facility is subject to the Bank's waiver or amendment of these covenants.

Asetek A/S Denmark line of credit. In September 2012, the Company entered into a revolving line of credit agreement with Sydbank. The line is collateralized by the trade receivables of Asetek A/S and is payable on demand. At December 31, 2012, the total line was 2 million Danish kroner, which equates to $353,000 at December 31, 2012. Interest on the line is payable monthly at the Danish CIBOR 3 rate plus 4.5 percentage points, which in total was 4.8% at December 31, 2012. As of December 31, 2012, the Company had 1.7 million Danish kroner ($306,000) outstanding on the line.

Letter of credit. As of December 31, 2012, the Company had an outstanding letter of credit for $500,000 issued to its principal manufacturer. This letter of credit expires April 2013.

4. Post balance sheet events

In January 2013, the Company formed a new entity, Asetek A/S as a subsidiary of Asetek Holdings, Inc., and renamed the previously existing Denmark operating entity from "Asetek A/S" to "Asetek Denmark A/S". The formation of Asetek A/S has no effect on Asetek Group's operating results. In February 2013, Asetek A/S became 100% owner of the shares in Asetek Holdings through the purchase of all outstanding shares of Asetek Holdings from the shareholders, in exchange for new shares in Asetek A/S. Following this transaction, Asetek A/S became the new holding company for the Group.