BALLY TECHNOLOGIES, INC.
Form 10-K
August 26, 2010

QuickLinks -- Click here to rapidly navigate through this document

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended June 30, 2010

OR

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

For the transition period from to

Commission File Number 001-31558

BALLY TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

NEVADA	**88-0104066**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6601 S. Bermuda Rd. Las Vegas, Nevada 89119
(Address of principal executive offices)

(702) 584-7700
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
None

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

Title of each class	Name of each Exchange on which registered
Common Stock, $0.10 par value per share	New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ý Yes o No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. o Yes ý No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

ý Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller reporting company

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

The aggregate market value of the common stock, $0.10 par value, held by non-affiliates of the registrant, computed based on the closing sale price as of December 31, 2009 of $41.29 per share as reported by the New York Stock Exchange, was approximately $2,246,000,000.

According to the records of the registrant's registrar and transfer agent, the number of shares of the registrant's common stock outstanding as of August 19, 2010 was 53,941,000, which do not include 5,560,000 shares held in treasury.

Documents Incorporated by Reference: Portions of the registrant's Definitive Proxy Statement to be filed with the Securities and Exchange Commission no later than 120 days after the end of the registrant's fiscal year ended June 30, 2010, are incorporated by reference in Part III of this Annual Report on Form 10-K.

TABLE OF CONTENTS

BALLY TECHNOLOGIES, INC.
FORM 10-K
Year Ended June 30, 2010

Forward Looking Statements

Certain statements made or incorporated by reference in this Annual Report on Form 10-K, in our other filings with the Securities and Exchange Commission ("SEC"), in our press releases and in statements made by or with the approval of authorized personnel constitute "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and are subject to the safe harbor created thereby. Forward looking statements reflect our intent, belief or current expectations with respect to, among other things, future events and financial trends affecting us. Forward looking statements are typically identified by words such as "believes," "estimates," "expects," "anticipates," "plans," "should," "would" and similar expressions.

Although we believe the expectations reflected in any forward looking statements are reasonable, readers are cautioned that forward looking statements involve known and unknown risks and uncertainties, are not guarantees of future performance and that actual results, performance or achievements may differ materially from any future results, performance or achievements expressed or implied by such forward looking statements. These differences can arise as a result of a number of risks, including those described in Item 1A, Risk Factors.

Forward looking statements in this Annual Report on Form 10-K speak only as of the date hereof, and forward looking statements in documents incorporated by reference speak only as of the date of those documents. Unless otherwise required by law, we undertake no obligation to publicly update or revise these forward looking statements, whether as a result of new information, future events or otherwise. In light of these risks and uncertainties, we cannot ensure that the forward looking statements contained in this Annual Report on Form 10-K will, in fact, transpire.

Unless the context requires otherwise, the terms "Bally," the "Company," "we" and "our" as used in this Annual Report on Form 10-K refer to Bally Technologies, Inc. and its subsidiaries.

PART I

ITEM 1. BUSINESS

General

Bally Technologies, Inc. is a diversified, worldwide gaming company that innovates, designs, manufactures, operates, and distributes advanced technology-based gaming devices, systems and server-based solutions.

As a global, leading gaming-systems company, we offer technology solutions which provide gaming operators with a wide range of marketing, data management and analysis, accounting, player tracking, security, and other software applications and tools to more effectively manage their operations. We also provide technologies to utilize a networked, server-based gaming environment. Our primary hardware technologies include spinning-reel and video gaming devices, specialty gaming devices and wide-area progressive systems for traditional land-based, riverboat and Native American casinos, video lottery and central determination markets, and specialized system-based hardware products.

On June 8, 2010, we completed the sale of the Rainbow Casino, a dockside riverboat casino in Vicksburg, Mississippi for approximately $80.0 million in an all-cash transaction. As a result of the sale, our Casino Operations were classified as discontinued operations in the accompanying financial statements. See Note 3 to the consolidated financial statements, *Assets Held for Sale and Discontinued Operations*.

We were founded in Chicago, Illinois in 1932 as Bally Manufacturing Corp. The Company was incorporated in Nevada on September 30, 1968, under the name Advanced Patent Technologies. Following two other name changes, we became Alliance Gaming Corporation on December 19, 1994, and on March 6, 2006, we changed our name to Bally Technologies, Inc. Our principal executive offices are located at 6601 South Bermuda Road, Las Vegas, Nevada 89119; telephone (702) 584-7700. Our website is www.BallyTech.com. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements and all amendments to those filings are available on our website, free of charge, as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC.

Company and Product Overview

We generate revenue from the following:

Gaming Equipment,	which includes the sale of gaming devices and related equipment, parts and conversion kits which enable our customers to replace game content without purchasing a new game cabinet;
Gaming Operations,	which includes the operation of linked progressive systems, video lottery and centrally determined systems and the rental of gaming devices and content; and
Systems,	which includes the sale and support of specialized systems-based software and hardware products which provide our customers with a wide range of marketing, player bonusing, data management, accounting, player tracking, security, and other software applications and related recurring hardware and software maintenance revenue.

Prior to the sale of the Rainbow Casino, our business consisted of two business segments, the Bally Gaming Equipment and Systems segment and the Rainbow Casino ("Casino Operations") segment. As of June 30, 2009, our Casino Operations were reclassified as assets held for sale and liabilities related to assets held for sale in our Consolidated Balance Sheets, and for the years ended June 30, 2010, 2009 and 2008 were classified as discontinued operations in our Consolidated Statements of Operations, Consolidated Statements of Stockholders' Equity and Consolidated Statements of Cash Flows.

Although we market our gaming equipment, gaming operations and systems product lines separately the three are fast coming together with the proliferation of high-speed networks. Ethernet-based gaming floors, downloadable and server-based games and applications, and the use of open protocols and common industry standards in game and system development, such as Gaming Standard Association ("GSA") protocols, are helping to drive innovation in the gaming industry. This convergence adds excitement to the player experience, increases customer service solutions for gaming operators, enables new ways to communicate and market to the player, and provides operational efficiencies that can increase our customer's profits.

We are focused on the convergence of games and systems in four key ways:

- The majority of our systems and network and server-based solutions are backwards compatible, which means that our newest technologies work on most gaming operators' existing gaming devices;

- Our new Pro Series cabinets with ALPHA 2 technology will feature a library of downloadable game content and support network and server-based applications;

Our iVIEW Display Manager ("DM") in-game picture-in-picture style technology supports an array of network and server-based applications designed to add excitement and interactivity on the gaming floor; and

Our Bally Command Center is a powerful, server-based solution that enables download of game content, iVIEW DM content and events, and peripheral updates at the touch of a button, dramatically improving operating efficiencies and enabling gaming operators to respond rapidly to the current business environment.

The following table sets forth the percentage of revenues from continuing operations for the periods indicated:

	Year Ended June 30,					
	2010		2009		2008	
	(dollars in 000s)					
Gaming Equipment	$ 273.7	35%	$ 357.0	42%	$ 410.1	48%
Gaming Operations	287.0	37%	275.0	33%	236.0	28%
Systems	217.5	28%	211.8	25%	206.3	24%
	$ 778.2	100%	$ 843.8	100%	$ 852.4	100%

We innovate, design, manufacture, sell, distribute, place, maintain and operate a full range of advanced technology-based gaming devices and related equipment, parts and conversion kits for our customers (gaming operators). These devices include reel-spinning and video gaming devices, specialty gaming devices and wide-area progressive systems for traditional land-based, riverboat and Native American casinos, video lottery and central-determination markets. The gaming devices we sell or place are configured to specific requirements based on a customer's particular order. Gaming devices are differentiated by a number of factors including, but not limited to, game theme, cabinet style, pay table, game layout, betting denomination and minimum/maximum betting amount.

A gaming device consists of three elements:

The game cabinet hardware the outside presentation cabinetry that houses the operating system and game content software and is the way the player interfaces with the game;

The operating system, or game platform a set of software programs inside the gaming cabinet hardware that regulate the ways the game application software programs utilize the game hardware and act as an intermediary between application programs, the game content and the game cabinet hardware; and

The game content individual game titles and features that drive the gaming experience for players.

We believe providing advanced, technology-based gaming devices, content, and networks with high entertainment value and key operational advantages, coupled with a high level of customer service, is the key component to gaining market share. Much of our product development for new and emerging technologies, including many of our network and server-based solutions, is led by the Bally Innovation Lab. This lab, which consists of Bally team members from around the world, focuses on emerging and paradigm-shifting technologies through research and development of new gaming technologies, features, and products and was designed to accelerate the commercial deployment of the most cutting-edge, technology-based gaming devices, content, and systems.

Game Cabinet Hardware

Our gaming devices include a variety of innovative features and layouts in both spinning-reel and video formats in several different cabinet styles. Some devices feature high-profile top boxes with various game features and in various sizes, each geared towards specific market niches. The game cabinet hardware we create is the result of comprehensive product development efforts that include extensive internal, customer, and end player testing.

The major areas of hardware development include cabinet style, technical capability, controller circuit board design and programming, as well as user-interface devices such as card readers, keypads, button decks, and displays. We have developed a modular and extendible hardware and software architecture, which focuses development on achieving greater functionality, product reliability, ease of maintenance for our customer, and ease of use for the player. Hardware development efforts are focused on player appeal, product reliability, common components, and ease of maintenance. Development cycles for hardware can vary between a few months for minor revisions, to more than a year for major design changes.

We offer a number of cabinet designs including standard upright and slant tops, dramatic tower units, and bar-top cabinets which are marketed under our ALPHA Elite brand and our new Pro Series brand that we formally launched in June 2010.

ALPHA Elite Cabinets

Our ALPHA Elite cabinets features interchangeable video and spinning-reel configurations which are recognized for modularity, meaning that gaming operators can convert one game into another without having to invest in a whole new device. In addition to changing the cabinet from one game to another, the modularity of our cabinet series enables gaming operators to convert cabinets from video to spinning-reel games and replace top boxes, button decks, and other key parts, protecting gaming operators' previously invested capital. Also, the modularity of our cabinet series, combined with the use of common parts, makes maintenance easier for our customers, providing labor-saving benefits to gaming operators, while enabling a quicker manufacturing turnaround.

Key cabinets in the ALPHA Elite line include the V20/20, the S9E and the V32, with a 32-inch vertical touch-screen LCD display; the Digital Tower Series cabinets with vertical digital ladder displays; the DualVision multi-player video cabinet, designed for 'couples' cooperative play on our two-player games; and our Jumbo cabinets available in both video and spinning-reel configurations.

Pro Series Cabinets

We introduced the Pro Series cabinets, our latest generation cabinet design, in June 2010. The Pro Series cabinets, currently available in upright and slant versions, with other cabinet styles currently in development, feature a number of cutting-edge features such as the iDeck, which replaces a standard button deck or OLED deck with a configurable touch screen; a custom four-speaker high-definition ("HD") surround-sound stereo, designed to target sound to the player and cut through noisy casino environments; exterior cabinet lighting and a super candle light crowning the game which are both synchronized to game play; up to a four-monitor play experience; a single bill validator and ticket printer slot; and vertically opening doors that make it easier to service the game and eliminate interruption to adjacent games.

Game Platform

Each gaming device requires a game platform to manage the device hardware and deliver the game content. Game platforms and the related computer systems are constantly updated and revised to keep pace with the ever-increasing complexity of modern game play requirements. The change in game-play requirements is driven by, among other things, changes in consumer demand, capacity, security, and regulation.

We currently offer two gaming platforms; the ALPHA platform and the new ALPHA 2 platform, which was launched in June 2010 building on the success, and reliability of the ALPHA platform.

ALPHA Platform

The ALPHA platform, which has been our standard game platform for the past five years, features a layered architecture and modular design, which allows for adaptability and simplified requirement changes. ALPHA is designed to support industry protocols. ALPHA also supports various game bonusing, multi-denomination, multi-game and multi-pay table game configurations and can operate with stand-alone, local, and wide-area progressive products.

ALPHA 2 Platform

The ALPHA 2 platform incorporates all the attributes of ALPHA, but adds significantly more powerful, faster, and richer features, including an INTEL® Core 2 processor; four gigabytes of dual-channel memory; Realtek HD audio; and leading video technology. This powerful hardware platform enables dramatic new levels of interactivity, visual quality, and performance, resulting in faster, richer, and more compelling games for players, including 3-Dimensional ("3D") graphics and animations. ALPHA 2 supports both existing and new game content and supports network and server-based applications and is operable with the Bally Command Center, discussed in detail below, which will allow downloadable access to Bally's game content via a central server. Although we are transitioning to ALPHA 2 as our standard game platform for the majority of our game cabinets, we will continue to support the ALPHA platform.

Game Development and Game Content

We have decades of experience developing entertainment content. We develop games for gaming operators, video lottery and central-determination markets around the globe. Our game content features original themes, licensed themes using well-known brands, and adaptations of well-known Bally brands such as Cash Spin, Hot Shot®, Quick Hit , and Blazing 7s that can be found on most casino floors in North America and in several international markets. Our game content is deployed across wide-area progressive, local-area and near-area progressive slots, spinning-reel and video gaming devices, specialty gaming devices, and multi-suite games. We have worldwide game-development teams, with centers in Arizona, California, Nevada and India to develop innovative content for the gaming market.

The software development process for new game content, including graphics development, is continuous and requires a significant commitment of human resources. Creativity in software development is a key element in the market success and player appeal of our game content and gaming devices. Innovations in our development process and game design are generated internally and with the support of customers, and third parties, many of whom have entered into strategic relationships with us.

We continue to add more compelling, entertaining, and complex play mechanics to our games, including features such as multi-level progressives, free games, bonus bets, bonus spins, stacked wilds, mystery progressives, locked symbol bonuses, second-chance features, asset giveaways, multi-player, community play, and random bonus features.

With the release of our new ALPHA 2 platform and the new Pro Series cabinets, our game developers are able to develop even more exciting, entertaining, and interactive game content using HD surround-sound features, 3D animations that give the illusion of depth perception, player customization, gesture control, and the latest in touch-screen technology.

Game software development also includes gaming device operating systems and application development. This encompasses areas such as databases, interfaces, and protocols used in emerging technologies, including many network and server-based systems solutions, communication, security, and automated backup and failure procedures.

Game Parts and Conversion Kits

Customers that utilize our gaming devices also typically purchase replacement parts, upgrades, game conversion kits, and other products from us to keep the devices in good working order and to enhance the underlying performance of the devices. Certain equipment within gaming devices such as video monitors, bill validators, logic boards, and printers are typically replaced as a result of wear and tear or new technology offerings by our suppliers. These sales may also include game conversion kits that provide our customers the opportunity to offer a new game theme or variant on the existing product without the necessity of purchasing a new gaming device.

Maintenance, Trade and Resale Market

We generally offer a 90-day parts, labor, and performance warranty/guarantee for new gaming devices. We provide several after-sale services to our customers including customer education programs, a 24-hour customer service telephone hotline, a website for technical support, field service support programs, and spare parts programs. Our historical warranty expense as a percentage of revenues has been less than 1 percent.

From time to time, we also sell used gaming devices, including products made by us as well as those produced by our competitors. Generally, we acquire used devices as trade-ins toward the purchase of new gaming devices. While a small secondary market exists in the United States, used devices are typically resold in international markets where new device purchases often prove to be too costly. Where appropriate, we incur costs to recondition used devices for resale or we may elect to destroy the devices.

Gaming Operations

Through our Gaming Operations division we offer gaming operators a wide range of rental (also known as participation or recurring revenue) options for our gaming devices and content. Operating gaming devices under a rental arrangement often requires us to invest capital in manufacturing the gaming device and related equipment, purchasing signs and seating, and, in certain cases, acquiring certain intellectual property rights. These rental devices are available as linked progressive systems, rental and daily-fee games, video lottery systems, and centrally determined systems.

Linked Progressive Systems

We offer our customers gaming devices featuring a common jackpot or prize award that can be linked (within a casino, in a local-area network, or among multiple casinos within a market or jurisdiction) in a wide-area network. Progressive gaming devices are typically offered to customers under a daily-fee arrangement based on a percentage of the money wagered on the participating gaming devices. In many cases, we use a portion of these revenues to fund the ultimate payment of the jackpot awards. We market our linked progressive systems under such titles as Instant Fortune , Ultimate Tower of Power , Quarter Million$, Millionaire Sevens and 1,000,000 Degrees . As of June 30, 2010, we had a total of 1,030 linked progressive systems.

Rental and Daily-Fee Games

We offer a variety of non-linked games and content on a rental basis for either a fixed daily fee or a fee based on the percentage of the net win generated by the gaming device. This category includes both gaming devices in which we retain ownership and charge a daily fee for the use of the gaming device, and gaming devices our customers purchase which are classified as game sales revenue. Gaming devices in which we retain ownership and charge a daily fee include rental and maintenance of the gaming device and licensing of the game content. For gaming devices our customers purchase, we provide the game content under a usage-fee arrangement that results in a lower daily-fee than leasing the entire gaming device. We market our rental and daily-fee games under such titles as Cash Spin, Ultimate Tower of Power, Hot Shot Progressive Cash Wheel , Fireball , 77777 Jackpot , Reel Money , Hot Shot Progressive®, Quick Hit Platinum , Reel Winners , Hee Haw® and Monte Carlo . As of June 30, 2010, we had a total installed base of rental and daily fee games of 13,194 units.

Video Lottery Systems

We offer video and spinning-reel devices that can operate as stand-alone devices or can interact with, or be monitored by, a central system maintained by governmental agencies. The financial model for this market requires us to build, deploy, and maintain the devices as well as provide the related equipment in return for a share of the net win generated by the device for a contractually fixed period of time.

Through a competitive bidding process, we, and prior to our acquisition thereof in March 2004, Sierra Design Group ("SDG"), were each awarded approximately 25 percent of the initial New York State Lottery ("NYSL") terminals to be installed at horseracing facilities throughout the state. As of June 30, 2010, we earned recurring revenue from our installed base of 6,429 video lottery devices operated by NYSL. We also earn recurring revenues from 1,310 video lottery devices deployed at horseracing facilities under agreements with the Delaware State Lottery Commission.

Centrally Determined Systems

We offer video and spinning-reel devices that connect to a central server, which determines the outcome of the game. These systems primarily operate in Native American casinos in Washington, Oklahoma and Florida, as well as in Mexico. In certain of these jurisdictions, our customers purchase our gaming devices, in which case the purchases are classified as game sales revenues. In other jurisdictions, our customers rent the gaming device, in which case the rental payments are classified as gaming operations revenues. In each case, for the use of our central determination software, we receive either a fixed daily fee or a percentage of the net win generated by the devices connected to the system. As of June 30, 2010, the total installed base of gaming devices connected to our centrally determined systems totaled 50,029.

In December 2005, we began selling centrally determined gaming devices in Mexico. In the Mexico market, we sell gaming devices for an upfront fee, in which the purchases are classified as game sales revenues, and derive a daily fee equal to a percentage of the net win for providing a system network, gaming content, and monitoring, maintenance and consulting. As of June 30, 2010, 11,992 of the total installed base of gaming devices connected to our centrally determined systems were deployed in Mexico. Included in the total installed base of centrally determined games in Mexico are 8,442 iVIEW in-game player-communication units installed in non-Bally games, in which we charge a system connection fee. The total installed base of centrally determined games noted above includes the iVIEW units in Mexico.

Bally Systems

We offer core, world-class slot-management and casino-management systems, coupled with a comprehensive suite of cutting-edge technology solutions which provide gaming operations of every size with a wide range of marketing, data management and analysis, accounting, player tracking, security, and other software applications and tools to more effectively manage their operations. We also provide technologies to utilize a networked, server-based gaming environment including a command center solution encompassing several innovative features for centralized management and control. These technologies help our customers improve communication with players, add excitement to the gaming floor, and enhance operating efficiencies through greater automation, reporting, and business intelligence.

Our Systems business has evolved significantly over the past few years as we have taken significant steps to improve our core slot, casino and table management systems. In fiscal year 2009, we released Version 11 of our core systems, a powerful platform re-engineered to world-class technology levels. Version 11 provides gaming operators with easy-to-use graphical interfaces; vertical and horizontal scalability; state-of-the-art distributed architectures; and support for multiple languages and currencies. Our development path for all systems products has been designed to develop all products on common naming conventions, Version 11 being the first. Today, there are more than 200 casinos using Version 11. The improvements in our core systems platforms resulted in a reliable and scalable foundation of slot, casino and table management systems. This solid, world-class core infrastructure and a unified strategic product roadmap have enabled us to implement new and innovative solutions for marketing, bonusing, and server-based gaming. In calendar year 2010, we will release several innovative products on Version 12 including new bonusing applications within our Elite Bonusing Suite , predictive analytics within our Bally Business Intelligence , intelligent way finding within Bally CoolSign® and the Bally Enterprise Progressive System .

We believe we are the only provider in the industry that offers such a wide selection of technology platform options to our customers. More than 415,000 slot machines are connected to Bally Systems at more than 600 locations around the world.

Our Systems business is comprised of four key facets:

- Hardware, which includes our iVIEW player-interface device and specialized system-based hardware products. Over the last two fiscal years, hardware sales have accounted for approximately 40 percent of Systems revenue;

- Software, which includes licenses of our core systems and suite of player tracking, bonusing and marketing applications. Over the last two fiscal years, sales of software accounted for approximately 20 percent of Systems revenue;

- Maintenance, which provides access to future enhancements or upgrades to the system software for a fee based on a percent of the license fee. Over the last two fiscal years, ongoing maintenance fees accounted for approximately 25 percent of Systems revenue.

- Professional Services, which we offer to customers who want to customize system solutions or maximize their investment in systems technology. Over the last two fiscal years, professional services accounted for approximately 10 percent of Systems revenue; and

Slot, Casino and Table Management Systems

Our solutions, which support GSA protocols, operate on common platforms such as Windows ®, AS/400 (iSeries®), Linux and UNIX. By supporting these platforms, our customers can choose a technology solution that meets their existing or future infrastructure requirements.

Our slot-management systems are fully featured and designed to handle slot monitoring, slot accounting, slot operations, bonusing, sweepstakes, promotions, cashless transfer, ticketing, jackpots, promotional coupons, redemptions, and soft count.

Our casino-management systems are composed of various system-based hardware and software products that provide gaming operators player-loyalty solutions comparable to frequent guest programs offered in other leisure and retail industries; database marketing and table-game accounting solutions including the calculation of all revenue and expense-related items; and cage and credit accountability for all extensions of credit and cage cash balancing functions. These systems are designed and deployed in both domestic and international markets and adaptable to foreign languages and currencies.

Our TableView table-rating and player-tracking product brings automated management of table-game activities directly to the casino pit with a high-tech touch screen.

iVIEW Player-Communication Network

Our server-based iVIEW network serves as a way to communicate with players at the point-of-play. The iVIEW leverages an LCD screen and accompanying hardware and software that resides in the gaming device, while the iVIEW DM, also operating on the iVIEW network, allows casinos to present messages in a split or full screen format on the main video game display or video top box without interrupting traditional game play using picture-in-picture style technology.

Our iVIEW network is also designed to work with our Bally Command Center for server-based download of iVIEW content, our Elite Bonusing Suite of applications, our Bally CoolSign Media Management, and other new technologies under development. iVIEW and iVIEW DM work on any manufacturers' gaming devices and are backwards and forwards compatible, thus protecting gaming operators' previously invested capital. iVIEW content is customizable and can be tailored for each individual player when combined with Bally Business Intelligence and the operator's player database.

The iVIEW DM solution, with its customizable and player-configurable interface, is an especially compelling solution for marketing to players at the point-of-play. This picture-in-picture style technology enables enhanced communication and customer-service functions such as beverage service, floor mapping and real-time perishable promotions without interrupting game play. iVIEW DM can also be used to create excitement on the casino floor with floor-wide bonusing events; game-in-games; second-chance-to-win games; floor-wide tournaments; interactive touch-screen events, time-based promotions; and targeted player messaging all without interrupting game play.

iVIEW DM can be implemented across the entire gaming floor, in smaller sections of the floor, or bank-by-bank based on casino operator preference.

Elite Bonusing Suite

The Elite Bonusing Suite allows customers to reward players right at the point-of-play via the iVIEW network. Bonusing applications on the Elite Bonusing Suite server allow customers to tailor and automate promotions utilizing server-based applications such as DM Tournaments , U-Spin Bonusing , Power Winners , Dynamic Random Bonusing and Lucky Match Bonusing .

Bally CoolSign

Bally CoolSign is the gaming industry's leading gaming centric media management tool that allows gaming promotions and/or gaming information, triggered through any of our products, to be displayed onto any digital display. In addition to regular resort advertising, CoolSign can also be used to promote casino marketing messages directly onto hotel room TV's when used in conjunction with Bally TV.

Bally Business Intelligence

The Bally Business Intelligence applications, which span across all our products, bring state-of-the-art data analytics to a gaming operators', key executive and marketing-management teams. The executive dashboards, slot floor data, and transaction visualization, empower gaming operators to analyze customer activity and make quick decisions about products, floor layouts and marketing programs that can significantly enhance revenue and profits.

Bally Command Center

Our server-based command center enables gaming operators to download marketing content on iVIEW and iVIEW DM displays, configure gaming device paytables and game play options, and deliver new game content and game libraries from a central server. Bally Command Center also enables customers to perform updates of game firmware such as ticket printers and bill acceptors in a matter of minutes via a central server, rather than having to implement the update on each gaming device.

Bally Enterprise Progressive System

The Bally Enterprise Progressive System is a single-wire enterprise progressive solution that supports all progressive types. This centrally managed application allows casino operators to manage and audit all progressives from one location and integrates with ACSC and SDS progressive slot accounting, reporting systems, and the Bally CoolSign digital media management system.

High-Speed Network Solutions

Over the past several years, as we have seen gaming content and systems applications merge into a single gaming-floor network architecture, the functionality of these systems has evolved from basic automation of manual activities to highly integrated applications. Our systems typically provide gaming operators with useful features such as active, real-time monitoring tools for gaming devices, tools to collect and manage customer data, security to protect against theft and data loss, the ability to track and reward players, and marketing programs to enhance the gaming experience.

As the gaming industry continues to evolve, some gaming operators have embraced new server-based and high-speed network technology. Many new gaming operations are opening with high-speed Ethernet connections on their floors, and many others are upgrading to high-speed networks. We partner with our customers to help them add network and server-based solutions to their existing systems offerings, whether on a floor-wide basis or in smaller sections of the floor or on selected banks of games. Once installed, these network and server-based solutions provide gaming operators with improved operating efficiencies and labor savings, and even more importantly, they give operators new and more efficient ways to market and communicate with their players. By marketing at the point-of-play and delivering floor-wide tournaments, bonusing events, and second-way-to-win games, customers are able to add even more excitement to game play across the gaming floor.

In-game marketing and communications solutions, such as Bally's iVIEW and iVIEW DM, when combined with the Bally Elite Bonusing Suite and Bally Command Center for centralized control, are very powerful ways to use network and server-based solutions for the benefit of the player and the operator.

The rate at which customers are implementing network and server-based solutions has been impacted by the global economic crisis and reduced capital to spend on upgrading gaming floors to high-speed network environments a requirement for floor-wide, network and server-based solutions.

Research and Development

Our research and development ("R&D") activities are directed toward the development of world-class games and systems products, technologies, and the continued evolution and advancement of our current product line. We also focus R&D resources towards researching future technologies and products. The customer-centric nature of our Company also includes custom-development of applications and solutions for customers. These solutions often become part of our general product portfolio.

The scope of Bally's R&D is far-reaching, with major centers in Las Vegas and Reno, Nevada; Bangalore and Chennai, India; and smaller centers in Nice, France and throughout North America. Our R&D initiatives are performed by various business groups within the Company and across the globe, and this decentralized R&D presence enables us to more easily recruit and retain top talent and develop games and systems specific to each market. We centrally manage key cross-business group product initiatives to prioritize and align our R&D activities across these teams. In addition, we may augment our R&D initiatives through third-party development agreements with outside companies, or by entering into agreements with companies that have similar R&D areas of focus.

Our total expenditures for R&D were $80.3 million, $77.3 million, and $60.8 million during the years ended June 30, 2010, 2009 and 2008, respectively. The increase in R&D expenditures over this three-year period reflects our corporate focus on our technology assets, the expansion of technical resources, and the competitive landscape that requires continuous development of future generations of gaming products and systems.

Sales and Marketing

We have a direct sales force consisting of approximately 57 employees located in multiple offices, primarily in North America. We also, to a lesser extent, utilize an independent distributor network to distribute our products. The agreements we have with distributors generally specify minimum purchases and also provide that we may terminate the relationship if certain performance standards are not met.

The sale of gaming devices takes place throughout our fiscal year and can range from proposals for a small quantity of units to several thousand units. We conduct one-on-one meetings with our customers to demonstrate our products at their locations, host customers to private demonstrations in our offices or at offsite venues, and participate in a number of trade shows domestically and internationally each year. In certain cases, we participate in responding to competitive requests for proposals from private and public entities seeking to purchase gaming equipment.

For casino enterprise system sales, we offer our customers the option of signing separate hardware and software maintenance agreements at the time of sale. These agreements are typically for one-year terms and automatically renew unless otherwise canceled in writing by either party. After an initial warranty period, typically 90 days, the customer is invoiced monthly for hardware and software maintenance fees that provide for, among other things, repair or replacement of malfunctioning hardware and software, software version upgrades, and on-call support for software.

The sale of enterprise systems is often a long process, at times extending beyond one year. Typically, a potential systems customer will participate in a formal evaluation and selection of a system vendor. The level of sales available to us at any point in time can vary materially due to a number of factors, including the capital budgets of our customers, availability of new product modules, timing associated with regulatory approvals, and the success and features contained in the products sold by our competitors. The price paid for a full system can vary materially from customer to customer depending on a number of factors, including, but not limited to, the size of the gaming operation and the number of functions contained in the system specified.

Global Marketing

Our global marketing program is designed to support our sales team through branding, public relations, product management, product marketing, and extensive market-research activities.

We promote brand awareness and generate demand through our own direct marketing as well as co-marketing programs with our casino customers. Our direct marketing activities include print and web-based advertising, as well as media relations, participation in industry trade shows, conference, and events, and gaming industry and player/consumer communications. We market primarily to business audiences, and focus on building awareness and generating demand for our games and systems solutions.

We currently have approximately 40 team members dedicated to marketing, with a focus on product management, casino-operator research, player research, and pre and post-product launch support. Over the past several years we have significantly increased our use of focus groups to support product development. These focus groups are an important tool for acquiring feedback on not-yet-released products, or new products, before they are broadly released to the market, and enable us to make changes to the product before we invest in a widespread product release.

Discontinued Operations

The Rainbow Casino, located in Vicksburg, Mississippi, began operations in July 1994. It is one of five casinos operating in the Vicksburg, Mississippi market with the fifth casino opening in late October 2008. The facility includes a 33,000 square-foot casino, a large buffet-style restaurant, and a 20,000 square-foot conference center. The casino also includes the 89-room Rainbow Hotel, which is owned and operated by a third party. Rainbow is marketed as a "locals" casino and draws mid-level gaming customers principally from within a 75-mile radius of Vicksburg. Its promotions are focused primarily on direct mail and special promotional events.

On April 5, 2010, we entered into a definitive purchase agreement to sell the Rainbow Casino. The sale closed on June 8, 2010. Under the terms of the agreement, we received approximately $80.0 million in an all-cash transaction. The Company recognized a gain on the sale of Rainbow of $22.1 million (net of approximately $12.2 million in income taxes).

The assets and liabilities of the Rainbow Casino were classified as held for sale as of June 30, 2009 and the results of its operations for the years ended June 30, 2010, 2009 and 2008 were classified as discontinued operations because we do not expect to continue to receive significant cash flows from the Rainbow Casino after the sale.

We were the general partner of Rainbow Casino Vicksburg Partnership, L.P. ("RCVP"), the limited partnership that operated Rainbow. The limited partner of RCVP was entitled to receive 10% of the net available cash flows of RCVP after debt service and other items, as defined in the limited partnership agreement, which increased to 20% of the net available cash flows based on the incremental amount of revenues in excess of $35.0 million, payable quarterly through December 31, 2010. We previously consolidated RCVP and recorded an adjustment to reflect the portion of earnings of RCVP attributable to minority shareholders.

Product Markets

We believe that the total installed base of gaming devices in the United States is between 925,000 and 975,000 units. This total includes land-based, riverboat, Native American casinos and video lottery markets. New sales opportunities for gaming devices in the United States and Canada are primarily driven by replacement of existing units, new casino openings or expansions and the legalization of gaming in new markets. The gaming industry also continues to expand in international markets. Europe, Latin America, South America, Mexico and the Pacific Rim are currently our primary international markets. We regularly evaluate expanding our business into additional international markets.

We distribute our gaming devices through direct sales efforts and through a small number of distribution arrangements. Our international business is conducted primarily from offices in Amsterdam, Netherlands for customers in Europe; Puerto Rico for customers in the Caribbean/Latin America; Buenos Aires, Argentina for customers in South America; Mexico City for customers in Mexico; and Macau, China for customers in the Pacific Rim.

The primary markets for casino enterprise systems are the United States and, to a lesser extent, Canada, South America, Europe, the Pacific Rim and the Caribbean/Latin America, though additional international markets are beginning to emerge. The market for our casino enterprise systems includes new casino openings, expansions, upgrades of existing facilities and the competitive replacement of other systems. We also generate new system sales through the introduction of new hardware and software products. In many cases, domestic regulations require the implementation of a system as part of their operational requirements while international markets have only recently begun the full implementation of such systems. We believe, as international markets begin to mature and become more competitive, the use of systems will become more common.

Competition and Product Demand

The demand for gaming devices, content and systems varies depending on the level of new construction and renovation of casinos as well as market conditions that might generate the need for new and replacement equipment and product innovation. For the year ended June 30, 2010, our 10 largest customers, including corporate customers with multiple casino properties, accounted for approximately 31% of gaming device sales.

The demand for casino enterprise systems is driven by regulatory requirements in each applicable jurisdiction and by gaming operators' competitive need to properly track device and player activity and to establish and compile individual device and player profitability and other demographic information. These features enable casinos to develop or enhance marketing strategies. As more and more gaming operators move to high-speed networked floors, we expect the demand for new systems technologies will increase as customers replace older systems with new network and server-based systems solutions. Revenues for casino enterprise systems are derived from selling products to new or existing customers. For the year ended June 30, 2010, the 10 largest casino enterprise system customers, which include certain multi-site operators that have corporate agreements, accounted for approximately 41% of game monitoring unit sales revenues, with the largest single customer accounting for 6% of these revenues.

We compete with a number of domestic and international businesses in the various geographic markets where we sell our products. Our ability to compete effectively is based on a number of factors including, but not limited to, our product quality, product depth, pricing, financing terms, regulatory approvals, the successful development and protection of intellectual property, as well as the success of our distribution, sales and service levels.

International Game Technology ("IGT") is the market leader in the North American gaming device market. Some of our other competitors currently include Aristocrat Leisure Limited ("Aristocrat"), Atronic International, GTECH Holdings Corporation ("GTECH"), Konami Co. Ltd. ("Konami") and WMS Industries, Inc. ("WMS"). These competitors also compete in the international markets we serve, along with well established foreign companies such as Ainsworth Game Technology Ltd, Aruze Gaming America, Inc., Unidesa Gaming and Systems, Novomatic AG, and Recreativos Franco S.A.

The competition for casino enterprise systems is also significant. Product feature and functionality, accuracy, reliability, service level and pricing are all among the key factors in determining a provider's success in selling its system. Our principal competition in casino enterprise systems currently consists of, among others, IGT, Aristocrat, Konami and several smaller competitive providers in the international market. Competition is keen in this market due to the number of providers and the limited number of casinos and jurisdictions in which they operate.

Global Headquarters, Technology Campuses, Manufacturing and Assembly Operations

Global Headquarters

Our global headquarters is located in Las Vegas, Nevada at 6601 South Bermuda Road. Our 150,000 square foot facility is used for corporate administrative functions as well as to accommodate the design, assembly and distribution of gaming equipment and casino management systems' hardware and to meet product design demands and varying levels of volume requirements.

Las Vegas and Reno Technology Campus

In fiscal 2009, we leased an additional 36,000 of office space next door to our global headquarters facility in Las Vegas to create a Technology Campus for our game development, advanced development, and project management teams. In addition, we consolidated multiple facilities in Reno, Nevada, eliminated certain locations and leased additional space for a combined total of approximately 83,000 square feet to provide a more cohesive and larger campus-style environment to accommodate the growth of our game development, system development, product management, and administrative functions in northern Nevada.

Bally Innovation Lab

Our global Innovation Lab is located in Pleasanton, California, a major suburb of San Francisco. This allows us to draw from the significant high-tech talent that resides in the Silicon Valley. In our Innovation Lab, a team of employees focus on researching and developing new gaming technologies, products, and the rapidly growing area of server-based systems gaming. The Innovation Lab capitalizes on our R&D talent across the globe and is dedicated to developing, testing, and deploying the newest technology.

Manufacturing and Assembly

Our assembly operations have common hardware components that provide greater flexibility in our assembly operations where each product family can be produced by an expanded set of assembly lines with fewer internal product differences and more streamlined testing.

We generally buy raw material inventory to build our gaming devices when we receive firm orders from our customers. To the extent possible, we also forecast the demand for our products to develop more efficient supply chains with our vendors. We create specifications and design nearly all of the major assemblies that are incorporated into our gaming devices.

We believe our primary offices and related facilities in Las Vegas, as well as process improvement initiatives implemented during the last few fiscal years, will enable us to increase production without adding significant floor space.

Patent, Copyright and Trade Secret Protection

We have been a long-standing participant in the development of intellectual property in our industry. While we do not believe that any single patent or series of patents or other intellectual property is crucial to our business, we use a combination of patents, copyrights, trade secrets, trademarks and proprietary information to maintain and enhance our competitive position, protect our products, and defend against litigious competitors. We have been granted over 300 patents related to games and systems, most of which are unexpired, and have over 600 patent applications pending in the United States as well as in many foreign countries. The expiration dates of these patents vary and are based on their filing and issuances dates. We intend to continue to actively file for patent protection, where such filings are commercially reasonable, within and outside the United States. We also seek protection for a large number of our products by registering hundreds of trademarks and copyrights in the United

States and various foreign countries. Under permission or license agreements with third parties, we also sell products covered by independently filed copyrights and trademarks. Typically, these contracts require us to pay royalties to the licensing party. Royalty expenses are included in cost of gaming and systems in our consolidated financial statements included in this report.

Employees and Labor Relations

As of June 30, 2010, we and our subsidiaries employed approximately 2,620 individuals worldwide. None of our employees are covered by collective bargaining agreements. We believe we have satisfactory relationships with our employees.

Financial Information

The other financial information required to be included in this Item 1, Business is set forth in Item 6, Selected Financial Data with respect to our revenues, profits and losses, and assets, and in Note 16 to the consolidated financial statements, *Segment and Geographic Information* with respect to domestic and foreign revenues and assets.

Gaming Regulations and Licensing

The manufacture and distribution of gaming devices and systems are subject to extensive federal, state, local, and foreign regulation. Although the laws vary from jurisdiction to jurisdiction, the regulatory structure and the requirements of the State of Nevada, as described below, are typical of the types of statutory and regulatory schemes to which the Company is subject. Such laws, rules, and regulations generally concern the responsibility, financial stability and character of the Company and our officers, directors, major stockholders and key personnel. Many jurisdictions require gaming devices, systems and other products we manufacture to be tested and approved before being distributed. We have obtained all licenses necessary to manufacture, distribute and, where permitted, operate gaming devices in the jurisdictions in which we do business. We manufacture our products in the state of Nevada.

Nevada

Our business is subject to the Nevada Gaming Control Act and the regulations promulgated thereunder (the "Nevada Act") and various local ordinances and regulations. We are subject to the licensing and regulatory control of the Nevada State Gaming Control Board (the "Nevada Board"), the Nevada Gaming Commission (the "Nevada Commission"), and various county and city regulatory agencies, all of which are collectively referred to as the "Nevada Gaming Authorities."

Nevada gaming law is based on policies concerning (i) the prevention of unsavory and unsuitable persons from having any involvement with gaming; (ii) the establishment and maintenance of responsible accounting practices; (iii) the maintenance of effective control over the financial practices of licensees, including the establishment of minimum procedures for internal fiscal affairs and the safeguarding of assets and revenues, providing reliable record-keeping and requiring the filing of periodic reports with the Nevada Gaming Authorities; (iv) the prevention of cheating and fraudulent practices; and (v) providing a source of state and local revenues through taxation and licensing fees. A change in, or non-compliance with, such laws, regulations, and procedures could have an adverse effect on our business.

Each of our subsidiaries that manufactures, distributes, or operates gaming devices in Nevada, or the entities that own such subsidiaries (collectively, the "licensed subsidiaries"), are licensed or found suitable (which is comparable to licensing) by the Nevada Gaming Authorities. The licenses require periodic renewals and payments of fees and taxes and are not transferable. We are registered with the Nevada Commission as a publicly traded corporation and have been found suitable to own the licensed subsidiaries.

Only licensed manufacturers and distributors may manufacture or distribute gaming devices and cashless wagering systems in Nevada. All gaming devices manufactured for use or play in Nevada or for distribution out of Nevada must be approved by the Nevada Commission before they are distributed or exposed for play. Before associated equipment (as defined in the Nevada Act) can be distributed in Nevada, it must be administratively approved by Nevada Board chairman.

The Nevada Gaming Authorities may require any individual who has a material relationship or involvement with us or our licensed subsidiaries, including officers, directors, and key employees, to be found suitable or licensed. The Nevada Gaming Authorities may deny an application for licensing or finding of suitability for any cause they deem reasonable.

The Nevada Gaming Authorities may require us to sever all relationships with anyone who is found unsuitable or who refuses to file appropriate applications.

We and our licensed subsidiaries are required to submit detailed financial and operating reports to the Nevada Commission. Substantially all material loans, leases, sales of securities, and similar financing transactions must be reported to and in some cases approved by the Nevada Commission.

If the Nevada Commission determined that we had violated the Nevada Act, our licenses could be limited, conditioned, suspended, or revoked. In addition, we could be subject to substantial fines for each separate violation. Any such disciplinary action could, and revocation of any gaming license would, materially adversely affect our operations.

The Nevada Gaming Authorities may require the holder of any of our equity or debt securities to file applications, be investigated, and be found suitable by the Nevada Commission. The applicant must pay all costs of investigation.

The Nevada Act requires any person who acquires more than 5 percent of any class of our voting securities to report the acquisition to the Nevada Commission. The Nevada Act requires that beneficial owners of more than 10 percent of any class of our voting securities apply to the Nevada Commission for a finding of suitability within thirty days after the chairman of the Nevada Board mails written notice requiring such filing, in which case the applicant must pay all costs of investigation. Under certain circumstances, an "institutional investor," as defined in the Nevada Act, that acquires more than 10 percent but not more than 25 percent of a class of our voting securities may apply to the Nevada Commission for a waiver of finding of suitability if the institutional investor holds the securities for investment purposes only, as defined in the Nevada Act. Any person who fails to apply for a finding of suitability or a license within thirty days after being ordered to do so by the Nevada Commission or the chairman of the Nevada Board may be found unsuitable. The same result would occur to a record owner if the record owner, after request, fails to identify the beneficial owner. Any stockholder found unsuitable and who holds, directly or indirectly, any beneficial ownership of our voting securities beyond such period of time as may be prescribed by the Nevada Commission may be guilty of a criminal offense. We are subject to disciplinary action if, after we receive notice that a person is unsuitable to be a stockholder or to have any other relationship with us or our subsidiaries, we (i) pay that person any dividend or interest; (ii) allow the exercise of any voting right; (iii) pay remuneration to that person; or (iv) fail to pursue all lawful efforts to require such unsuitable person to relinquish the voting securities, including, if necessary, the immediate purchase of the securities for cash at fair market value.

In January 2009, the Nevada Commission granted us prior approval to make public offerings of our securities for a period of two years, subject to certain conditions ("Shelf Approval"). The Shelf Approval is not a finding, recommendation, or approval by the Nevada Commission as to the accuracy or inaccuracy of the prospectus or the investment merits of the securities offered. Any contrary representation is unlawful.

Changes in control of us through merger, consolidation, stock or asset acquisitions, management or consulting agreements, or any act or conduct whereby a person or entity acquires control, may not occur without prior Nevada Commission approval. The Nevada Commission has regulations to ameliorate the potentially adverse affects of corporate acquisitions opposed by management, repurchases of voting securities, and corporate defense tactics affecting Nevada gaming licensees. Approvals are required from the Nevada Commission before a registered corporation can make exceptional repurchases of voting securities and before a corporate acquisition opposed by management can be consummated. The Nevada Act also requires prior approval of a plan of recapitalization proposed by our board of directors in response to a tender offer made directly to our stockholders for the purpose of acquiring control of us.

License fees and taxes are payable to the State of Nevada and to the counties and municipalities in which the licensees operate.

We are required to deposit with the Nevada Board and thereafter maintain a revolving fund to pay the expenses of investigation by the Nevada Board of our participation in certain gaming activities outside Nevada. We are also required to comply with certain reporting requirements and are subject to disciplinary action if we violate any gaming laws of the foreign jurisdiction pertaining to the foreign gaming operation, fail to conduct the foreign gaming operations to the standards required of Nevada gaming operations, engage in activities that are harmful to Nevada or its ability to collect gaming taxes and fees, or employ a person in the foreign operations who has been denied a license or finding of suitability in Nevada.

Native America

Gaming operations on Native American lands are governed by tribal and federal law and tribal-state compacts. The Federal Indian Gaming Regulatory Act of 1988 (the "Act") created a framework for the various responsibilities of the tribal, state, and federal authorities over tribal gaming operations. The Act is subject to interpretation and enforcement by the National Indian Gaming Commission, which has the authority to issue regulations and to otherwise regulate tribal gaming activities. Most tribes, in the exercise of their sovereignty, have also established tribal gaming commissions or agencies that regulate gaming operations on their tribal lands. Compacts between tribes and states also may impose conditions and requirements on tribal gaming operations. We are required to comply with all such sources of law, which may impose different requirements with respect to licensing, product approvals, and operations.

ITEM 1A. RISK FACTORS

Our business and investing in our common stock involves risk. Prospective investors should carefully consider the following risks and uncertainties and other information contained in this Annual Report on Form 10-K, including our financial statements and the notes to those statements, before making an investment decision. We have identified the following important risks and uncertainties that could cause actual results to differ materially from those projected in any forward looking statements we may make from time to time.

Our success in the gaming industry depends in large part on our ability to develop innovative products. If we fail to keep pace with rapid innovations in new technologies or product design and deployment, our business could be adversely affected.

Our success is dependent on our ability to develop and sell new products that are attractive to casino operators and other gaming enterprises and their customers. Furthermore, if our gaming devices deployed in gaming operations do not meet or sustain revenue and profitability expectations they may be replaced by our competitors' products. Therefore, our success depends upon our ability to continue to design and market technologically sophisticated products that meet our customers' needs regarding ease of use and adaptability, and that are unique and entertaining such that they achieve high levels of player appeal and sustainability. If our competitors develop new game content and technologically innovative products and we fail to keep pace, our business could be adversely affected. There is no assurance that our investments in R&D will lead to successful new technologies or timely new products.

The demands of our customers and the preferences of the end players are continually changing. There is constant pressure to develop and market new game content and technologically innovative products. Our revenues are dependent on the earning power and life span of our games. We therefore face increased pressure to design and deploy new and successful game themes to maintain our revenue and remain competitive. While we feel we have been successful at developing new and innovative products, our ability to do so could be adversely affected by:

- a decline in the popularity of our gaming products with end players;
- a decision by our customers or the gaming industry in general to cut back on purchases of new gaming devices or to cancel or return previous orders, content, or systems in anticipation of newer technologies;
- an inability to roll out new games, services or systems on schedule due to delays in regulatory product approval in the applicable jurisdictions; and
- an increase in the popularity of competitors' games.

The success of newly introduced technology and products, such as our ALPHA 2 OS and Pro Series cabinets, is dependent on customer and end player acceptance as well as the reliability and quality performance. If a product does not gain market acceptance, we could incur losses and also be required to increase our inventory obsolescence charges. Further, our newer products are generally technologically more sophisticated than those we have produced in the past and we must continually refine our production capabilities to meet the needs of our product innovation. If we cannot adapt our manufacturing infrastructure to meet the needs of our product innovations, or if we are unable to make upgrades to our production capacity in a timely manner, our business could be adversely affected.

Consumer spending on leisure activities is affected by changes in the economy and consumer tastes, as well as other factors that are difficult to predict and beyond our control. Decreases in consumer spending adversely affecting the gaming industry could harm our business, and unfavorable economic conditions have impacted and could continue to negatively impact the play levels of our participation games and purchases of our sale games.

The demand for entertainment and leisure activities tends to be highly sensitive to consumers' disposable incomes, and thus can be affected by changes in the economy and consumer tastes, both of which are difficult to predict and beyond our control. Unfavorable changes in general economic conditions, including recession, economic slowdown, sustained high levels of unemployment, and higher fuel or other transportation costs, may reduce disposable income of casino patrons or result in fewer patrons visiting casinos. As a result, we cannot ensure that demand for our products or services will remain constant. Continued adverse developments affecting economies throughout the world, including a general tightening of the availability of credit, increasing interest rates, increasing energy costs, acts of war or terrorism, transportation disruptions, natural disasters, declining consumer confidence, sustained high levels of unemployment or significant declines in the stock market, as well as concerns regarding epidemics and the spread of contagious diseases, could lead to a further reduction in discretionary spending on leisure activities such as gambling. Any significant or prolonged decrease in consumer spending on leisure activities could greatly affect the gaming industry, causing some or all of our customers to decrease spending or ultimately declare bankruptcy, each of which would adversely affect our business. If we experience a significant unexpected decrease in demand for our products, we could incur losses and also be required to increase our inventory obsolescence charges.

The gaming industry is intensely competitive. We face competition from a number of companies, some of whom have greater resources, and if we are unable to compete effectively, our business could be negatively impacted.

Competition among gaming machine manufacturers is intense and is primarily based on the amount of profit our products generate for our customers in relation to our competitors' products. Additionally, we compete on the basis of price and financing terms made available to customers, the appeal of game content and features to the end player, and the features and functionality of our hardware and software products. There are a number of established, well-financed companies producing gaming devices, game content and systems that compete with our products. Some competitors may have access to greater capital resources than we do and as a result may be better positioned to compete in the marketplace.

Competition in the gaming industry is intense due to the limited number of providers, as well as the limited number of casino operators and jurisdictions in which they operate. Price, accuracy, reliability, and product features and functions are among the factors affecting a provider's success in selling its products. Obtaining space and favorable placement on casino gaming floors is also a competitive factor in our industry. Consolidation among the casino operators and cutbacks in spending by some casino operators due to the downturn in the economy has increased the level of competition among providers significantly as the amount of capital spend from visiting customers has decreased.

Our failure to collect outstanding accounts receivable or the deterioration of the financial condition of our customers could negatively impact our business. Development financing loans could adversely impact liquidity or cause us to incur loan losses.

We have offered extended payment terms to certain customers. As a result, the collection of accounts receivable has become a matter of greater significance. While we believe the increased level of credit offered to customers has allowed us to grow our business, it has also required direct, additional focus of and involvement by management. A decline in the relative health of the gaming industry and the difficulty or inability of our customers to obtain capital to finance their ongoing operations and purchase our products and services could adversely affect our revenues and collection of our outstanding receivables. Further, and especially due to the current downturn in the economy, some of our customers may not pay accounts receivable when due, whether as a result of financial difficulties, bankruptcy or otherwise, or because of assertion of sovereign immunity, or other defenses, resulting in increased write-offs for us.

We have provided financing for expansion or construction of gaming locations and other business purposes, including locations abroad. These financing activities subject us to increased credit risk in certain regions, which could be exacerbated by unfavorable economic conditions or other political or economic instability in those regions. We monitor our investments and financing activities to assess impairment on a quarterly basis. We have in the past and may in the future incur losses on these types of investments and loans. Our results of operations, liquidity, or financial position may be negatively impacted if we are unable to collect on loans or profit from our investments.

Changes in ownership of any of our customers or consolidation within the gaming industry could affect our business.

We are heavily dependent on the gaming industry. A decline in demand for our products in the gaming industry could adversely affect our business. Demand for our products is driven primarily by the replacement of existing products as well as the expansion of existing casinos and the opening of new properties in existing and new jurisdictions. Because a significant portion of our sales come from repeat customers, our business could be affected if one of our customers is sold to or merges with another entity that utilizes the products and services of one of our competitors or that reduces spending on our products or causes downward pricing pressures. Such consolidations could lead to order cancellations, slow the replacement cycle or negatively impact pricing and purchasing decisions. Also, any fragmentation within the industry creating a number of smaller, independent operators with fewer resources could also adversely affect our business as these operators might cause a further slowdown in the replacement cycle for our products or otherwise adjust the number and frequency of orders they place with us to save money.

Unfavorable political developments, weak foreign economies and other foreign risks may hurt our financial condition and results of operations.

Our business is dependent on international markets for a portion of our revenues. As of June 30, 2010, we had approximately $90.8 million of net accounts and notes receivable (current and long-term), or 38 percent of our total net accounts and notes receivable, from customers in foreign countries. We expect that receivables with respect to foreign sales will continue to account for a significant portion of our total revenues. Our business in these markets is subject to a variety of risks, including:

- recessions in foreign economies;
- expropriation, nationalization and limitation on repatriation of earnings;
- currency exchange fluctuations;
- reduced protection of intellectual property rights in some countries;
- longer receivables collection periods and greater difficulty in collecting accounts receivable;
- difficulties in managing foreign operations;
- social, political and economic instability;
- unexpected changes in regulatory requirements;
- ability to finance foreign operations;
- changes in consumer tastes and trends;
- tariffs and other trade barriers;
- additional costs of compliance with international laws;
- acts of war or terrorism; and
- U.S. government requirements for export.

We may not be able to attract or retain the management or employees necessary to remain competitive in our industry.

The competition for qualified personnel in the gaming industry is intense. Our ability to continue to develop new technologies and create innovative products depends on our ability to recruit and retain talented employees. Our future success depends on the retention and continued contributions of our key management, finance, marketing, development and staff personnel, many of whom would be difficult or impossible to replace. Our success is also tied to our ability to recruit additional key personnel in the future. We may not be able to retain our current personnel or recruit any additional key personnel required. The loss of services of any of our personnel or our inability to recruit additional necessary key personnel could have a material adverse effect on our business, financial condition, results of operations and prospects.

The gaming industry is heavily regulated, and regulatory changes may adversely impact our ability to operate or expand.

The manufacture and distribution of gaming devices, development of systems and the conduct of gaming operations are subject to extensive federal, state, local and foreign regulation by various gaming authorities. Our ability to continue to operate in certain jurisdictions or our ability to expand into new jurisdictions could be adversely affected by:

- delays in adopting legislation to permit or expand gaming in new and existing jurisdictions;
- unfavorable public referendums, such as referendums to increase taxes on gaming revenues;
- unfavorable legislation affecting or directed at manufacturers or gaming operators;
- adverse changes in or findings of non-compliance with applicable governmental gaming regulations;
- delays in approvals from regulatory agencies;
- a limitation, conditioning, suspension or revocation of any of our gaming licenses;
- unfavorable determinations or challenges of suitability by gaming regulatory authorities with respect to our officers, directors, major stockholders or key personnel; and
- the adoption of new laws and regulations, or the repeal or amendment of existing laws and regulations, including, but not limited to, internet gaming.

Public opinion can also exert a significant influence over the regulation of the gaming industry. A negative shift in the public's perception of gaming could affect future legislation in individual jurisdictions. Among other things, such a shift could cause jurisdictions to abandon proposals to legalize gaming, thereby limiting the number of new jurisdictions into which we could expand. Negative public perception could also lead to new restrictions on or the prohibition of gaming in jurisdictions in which we currently operate.

Although the jurisdictions in which we operate vary in their specific requirements, virtually all jurisdictions, including those into which we may expand in the future, require licenses, permits, qualification documentation, including evidence of integrity and financial stability, and other forms of approval to engage in gaming operations or the manufacture and distribution of gaming devices. Our officers, directors, major stockholders, and key personnel are also subject to significant regulatory scrutiny. If regulatory authorities determine that any person is unsuitable to work in the gaming industry, we could be required to terminate our relationship with that person. To our knowledge, we and our key personnel have obtained, or applied for, all government licenses and approvals necessary to conduct our activities in the jurisdictions that we operate. However, there can be no assurance those licenses or approvals will be renewed in the future, or that new forms of approval necessary to operate will be granted.

Compliance with environmental, health and safety laws and regulations, including new regulations requiring higher standards, may increase our costs, limit our ability to utilize our current supply chain, and force design changes to our products. These changes could reduce the net realizable value of our inventory, which would result in an immediate charge to our consolidated income statements. Non-compliance could negatively impact our operations and financial position as a result of fines, penalties, and the cost of mandated remediation or delays to our manufacturing.

Our intellectual property protections may be insufficient to properly safeguard our technology.

The gaming industry is constantly employing new technologies in both new and existing markets. We rely on a combination of patent and other technical security measures to protect our products, and continue to apply for patents protecting such technologies. Notwithstanding these safeguards, our

21

competitors may still be able to obtain our technology or imitate our products. Furthermore, others may independently develop products similar or superior to ours.

We may be subject to claims of intellectual property infringement or invalidity. Expenses incurred with respect to monitoring, protecting, and defending our intellectual property rights could adversely affect our business.

Competitors and others may infringe on our intellectual property rights, or may allege that we have infringed on theirs. Monitoring infringement and misappropriation of intellectual property can be difficult and expensive, and we may not be able to detect infringement or misappropriation of our proprietary rights. We may also incur significant litigation expenses protecting our intellectual property or defending our use of intellectual property, reducing our ability to fund product initiatives. These expenses could have an adverse effect on our future cash flows and results of operations. We are currently subject to litigation regarding patent infringement which, if resolved adversely to us, could have a material impact on our business. If we are found to infringe on the rights of others we could be required to discontinue offering certain products or systems, to pay damages, or purchase a license to use the intellectual property in question from its owner. Litigation can also distract management from the day-to-day operations of the business. There can be no assurances that certain of our products, including those with currently pending patent applications, will not be determined to have infringed upon an existing third party patent.

The intellectual property rights of others may prevent us from developing new products or entering new markets.

The gaming industry is characterized by the rapid development of new technologies, which requires us to continuously introduce new products and expand into new markets that may be created. Therefore, our success depends in part on our ability to continually adapt our products and systems to incorporate new technologies and to expand into markets that may be created by new technologies. If technologies are protected by the intellectual property rights of others, including our competitors, we may be prevented from introducing products based on these technologies or expanding into markets created by these technologies. If the intellectual property rights of others prevent us from taking advantage of innovative technologies, our financial condition, operating results or prospects may be harmed.

Our gaming operations, particularly our wide area progressive networks and centrally determined systems, may experience losses due to technical difficulties or fraudulent activities.

Our success depends on our ability to avoid, detect, replicate and correct software and hardware errors and fraudulent manipulation of our products. To the extent any of our products experience errors or fraudulent manipulation, our customers may replace our products with those of our competitors. In addition, the occurrence of errors in, or fraudulent manipulation of, our products may give rise to claims for lost revenues and related litigation by our customers and may subject us to investigation or other action by gaming regulatory authorities, including suspension or revocation of our gaming licenses or disciplinary action. Additionally, in the event of such issues with our products, substantial engineering and marketing resources may be diverted from other areas to rectify the problem.

Our bank loan agreement imposes significant restrictions. Failure to comply with these restrictions could result in the acceleration of a substantial portion of our debt, which we may not be able to repay or refinance.

Our bank loan agreement contains covenants that restrict our ability and certain of our subsidiaries to (among other things):

- dispose of assets;

- incur additional indebtedness and issue preferred stock;
- pay dividends or make other distributions;
- enter into certain acquisitions;
- repurchase equity interests or subordinated indebtedness;
- issue or sell equity interests of our subsidiaries; and
- engage in mergers or consolidations or certain other transactions with subsidiaries and affiliates.

In addition, our bank loan agreement requires us to maintain compliance with certain financial ratios. Our ability to comply with such financial ratios, meet our debt service obligations, or reduce our total debt is dependent upon our future performance, which may be affected by events beyond our control. There can be no assurance that we will be able to comply with such restrictions and limitations, or that they will not adversely affect our ability to finance our future operations or capital needs or engage in other business activities that would otherwise be in our interest.

A breach of any of our covenants or our inability to comply with the required financial ratios under the bank loan agreement or under any replacement loan agreement could result in a default under such loan agreement. In the event of a default, the lenders could elect to declare all borrowings outstanding under such loan agreement, together with any accrued interest and other fees, to be due and payable, as well as require us to apply all available cash to repay the amounts. If we were unable to repay the indebtedness upon its acceleration, the lenders could proceed against the underlying collateral. There can be no assurance that our assets would be sufficient to repay the amount in full, that we would be able to borrow sufficient funds to refinance the indebtedness or that we would be able to obtain a waiver to cure the default.

Current borrowings, as well as potential future financings, may substantially increase our current indebtedness.

No assurance can be given that we will be able to generate the cash flows necessary to permit us to meet our fixed charges and payment obligations with respect to our debt. We could be required to incur additional indebtedness to meet these fixed charges and payment obligations. Incurring additional debt could:

- adversely affect our ability to expand our business, market our products and make investments and capital expenditures;
- adversely affect the cost and availability of funds from commercial lenders, debt financing transactions and other sources; and
- create competitive disadvantages compared to other companies with lower debt levels.

Any inability to service our fixed charges and payment obligations, or the incurrence of additional debt, would have an adverse effect on our cash flows, results of operations and business generally.

An inability to maintain sufficient liquidity could negatively affect expected levels of operations and new product development.

Future revenue may not be sufficient to meet operating, product development and other cash flow requirements. Sufficient funds to service our debt and maintain new product development efforts, and expected levels of operations may not be available. Additional capital, if and when needed by us, may not be available on terms acceptable to us. If we cannot obtain sufficient capital on acceptable terms when needed, we may not be able to carry out our planned product development efforts and level of operations.

Our financial results vary from quarter to quarter, which could negatively impact our business.

Various factors affect our quarterly operating results, some of which are not within our control. These factors include, among others:

- the financial strength of the gaming industry;
- consumers' willingness to spend money on leisure activities;
- the timing and introduction of new products;
- the mix of products sold;
- the timing of significant orders from and shipments to or installations by customers;
- product pricing and discounts;
- the timing of acquisitions of other companies and businesses or dispositions; and
- general economic conditions.

In certain sales of new gaming machines and placement of participation gaming machines we have offered free gaming machines and free conversions, while at the same time we continue to charge our customers for gaming machines and conversions upgrade kits. We cannot be sure that competitive pressure will not cause us to increase the number of free gaming machines and conversions we are expected to offer to our customers, which would decrease the revenue we expect to receive and reduce our gross profit.

These and other factors are likely to cause our financial results to fluctuate from quarter to quarter. We believe that quarter-to-quarter comparisons of our results of operations may not be meaningful. In addition, such fluctuations could cause us to be unable to comply with the financial ratios in our bank loan agreement.

Business combinations and investments in intellectual properties or affiliates may not achieve the financial and strategic goals that were contemplated at the time of the transaction, which could materially affect our financial results.

We have invested in strategic business combinations and acquisitions of important technologies and intellectual property that we believe will expand our geographic reach, product lines, and/or customer base. Those combinations and acquisitions and any future such transactions may present difficulties in the assimilation of acquired operations, technologies and products, or may prove to be less valuable than the price we paid because of, among other things, a failure to realize anticipated benefits such as cost savings and revenue enhancements or because of the assumption of liabilities in an acquisition, including unforeseen or contingent liabilities in excess of the amounts estimated. In addition, acquisitions can divert management's attention from day-to-day operations and may include substantial transaction costs. We also may encounter difficulties applying our internal controls to an acquired business. Any of these events or circumstances may have an adverse effect on our business by requiring us to, among other things, record substantial impairment charges on goodwill and other intangible assets, resulting in a negative impact on our operating results.

Moreover, as we continue to evaluate our business and assess our long-term strategic goals, we will also evaluate past and potential investments to determine how they will fit into our organizational structure. If an event or change occurs in affiliate relationships or agreements associated with business combinations, we may be required to reassess cash flows, recoverability, useful lives, and fair value measurements, which may result in material impairment charges.

Provisions of our articles of incorporation and bylaws, Nevada law, and the regulatory burdens attendant to ownership, could discourage or prevent a potential takeover of our Company that might otherwise result in our stockholders receiving a premium over the market price for our common stock.

Our articles of incorporation permit our Board of Directors to issue special shares from time to time, with such rights and preferences as they consider appropriate. Our Board of Directors could authorize the issuance of special shares with terms and conditions and under circumstances that could have an effect of discouraging a takeover or other transaction.

As a Nevada corporation, we are also subject to certain provisions of the Nevada General Corporation Law that have anti-takeover effects and may inhibit a non-negotiated merger or other business combination. These provisions are intended to encourage any person interested in acquiring us to negotiate with, and to obtain the approval of, our Board of Directors. Some of these provisions may discourage a future acquisition of Bally, including an acquisition in which the stockholders might otherwise receive a premium for their shares. As a result, stockholders who might desire to participate in such a transaction may not have the opportunity to do so.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The following sets forth information regarding our leased and owned properties. Each of the properties is fully utilized unless otherwise noted with an asterisk (*). We believe our facilities are suitable for our needs and we have no future expansion plans that would make these properties inadequate. See Note 10 to the consolidated financial statements, *Leases*, for information as to our lease commitments with respect to the leased properties.

Bally Gaming Equipment and Systems

Global Headquarters and Manufacturing and Assembly Facility

We maintain our global headquarters and our primary manufacturing and assembly facilities in Las Vegas, Nevada in a facility with approximately 150,000 square feet that we own. The facility is used for corporate administrative functions as well as to accommodate the design, assembly and distribution of gaming equipment and casino management systems' hardware and to meet product design demands and varying levels of volume requirements. We also lease an additional 119,000 square feet of office and warehouse space in the general area of our main facility.

Las Vegas and Reno Technology Campus

In addition to the Las Vegas facilities described above, in fiscal 2009 we began leasing an additional 36,000 square feet of office space next to our global headquarters to create a Las Vegas Technology Campus for our Games Development, Advanced Development and Project Management teams. We have also consolidated multiple facilities, eliminated certain locations and leased additional space in Reno, Nevada for a combined total of approximately 83,000 square feet to provide a more cohesive and larger campus-style environment to accommodate the growth of our Games Development, Systems Development, Sales, Product Management, and Administrative functions in northern Nevada.

Innovation Lab

Bally's Global Innovation Lab is located in Pleasanton, California, a major suburb of San Francisco. We lease a facility with approximately 6,250 square feet that allows the Company to draw from the significant high-tech talent that resides in the Silicon Valley.

Other Leased Facilities

India We lease approximately 85,000 square feet of office and R&D space in Bangalore and Chennai.

Netherlands We lease approximately 16,000 square feet of sales, service and warehouse space in Amsterdam and Diemen.

China We lease approximately 24,000 square feet of sales, service, office, marketing and warehouse space in Macau.

South America We lease approximately 124,000 square feet of office and warehouse space in Buenos Aires, Argentina and Montevideo, Uruguay.

In addition to the facilities described above, we maintain leased space in major gaming jurisdictions worldwide including approximately 127,000 square feet of office, sales and service, R&D and warehouse space throughout the United States, and approximately 18,000 square feet of office, sales and service, R&D and warehouse space in Europe, South Africa and Mexico. These facilities are located in the cities listed below. Each property is fully utilized unless otherwise noted with an asterisk (*).

United States	Europe, South Africa and Mexico
Scottsdale, Arizona	Nice, France
Huntington Beach, California	Chestergates, United Kingdom
Murrietta, California	Kyalami, Midrand, South Africa
San Diego, California	Mexico City, Mexico
Denver, Colorado	
Dover, Delaware	
Miramar, Florida	
Kennesaw, Georgia	
Naperville, Illinois	
Tinley Park, Illinois	
Biloxi, Mississippi	
Egg Harbor, New Jersey	
Chester, New York	
Oklahoma City, Oklahoma	
Fife, Washington	
Kirkland, Washington*	
San Juan, Puerto Rico	

ITEM 3. LEGAL PROCEEDINGS

Bally has been named in and has brought lawsuits in the normal course of business. We do not expect the outcome of these suits to have a material adverse effect on our financial position or results of operations. A description of certain of these matters is contained in Note 15 to the consolidated financial statements, *Commitments and Contingencies*, and is incorporated herein by reference.

ITEM 4. (REMOVED AND RESERVED)

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on the New York Stock Exchange (the "NYSE") under the symbol "BYI". The following table sets forth the high and low closing bid price of our common stock as reported by the NYSE for the periods indicated.

	Price Range of Common Stock	
	High	**Low**
Fiscal Year Ended June 30, 2010		
1st Quarter	$ 42.06	$ 27.79
2nd Quarter	44.61	35.45
3rd Quarter	46.56	37.64
4th Quarter	46.85	32.39
Fiscal Year Ended June 30, 2009		
1st Quarter	$ 35.47	$ 25.77
2nd Quarter	30.91	13.33
3rd Quarter	27.30	13.47
4th Quarter	30.48	18.93

As of August 19, 2010, we had approximately 5,700 holders of record of our common stock and the closing price on the NYSE was $33.50.

Dividend Policy

We have never declared or paid cash dividends on our common stock. Our bank loan agreement materially limits our ability to pay dividends on our common stock, as discussed in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 9 to the consolidated financial statements, *Long-Term Debt*. We intend to follow a policy of retaining earnings to finance the growth of our business and do not anticipate paying any cash dividends in the foreseeable future. The declaration and payment of future dividends on our common stock will be at the sole discretion of our Board of Directors and will depend on our profitability, the terms of our bank credit agreement and our financial condition, capital requirements, statutory and contractual restrictions, future prospects and other factors the Board of Directors deem relevant.

Share Repurchases

On December 2, 2009, the Board of Directors approved a new share repurchase plan to purchase up to $100 million of common stock effective January 1, 2010 that replaced our previously existing $100 million share repurchase plan. Effective April 4, 2010, our Board of Directors approved a new share repurchase plan to purchase up to $150 million of common stock which replaced the previous plan. Our quarterly share repurchases under these plans, excluding treasury shares acquired in non-cash transactions related to forfeited stock awards and shares exchanged for options exercised, were as follows:

Period	Total Number of Shares (or Units) Purchased	Average Price Paid Per Share (Per Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Be Purchased Under the Plans or Programs
April 1 - April 30, 2010		$		$ 150,000,000
May 1 - May 31, 2010	310,500	$ 42.38	310,500	$ 136,840,607
June 1 - June 30, 2010	870,328	$ 38.89	870,328	$ 102,997,449
Total	1,180,828	$ 39.80	1,180,828	

Equity Compensation Plans

The following table sets forth information as of June 30, 2010 with respect to our equity compensation plans that provide for the issuance of options to purchase our common stock:

	Number of securities to be issued upon exercise of outstanding options, warrants and rights(1)	Weighted average exercise price of outstanding options, warrants and rights(1)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Plan Category			
Equity compensation plans approved by security holders	5,458,259	$ 21.35	611,181
Equity compensation plans not approved by security holders(2)	245,000	16.37	
Total	5,703,259	$ 21.14	611,181

(1) Rights include grants for Restricted Stock and Restricted Stock Units.

(2) Options granted to certain executive officers pursuant to employment agreements as an inducement to accept employment with the Company.

Stock Performance Graph

The following graph compares the cumulative 5 year total return provided to shareholders on Bally Technologies Inc.'s common stock relative to the cumulative total returns of (i) the S&P 500 index, (ii) the Russell 2000 index, (iii) a peer group of companies previously used by the Company that includes IGT, Progressive Gaming International Corp., Shuffle Master Inc and WMS ("Old Peer Group"), and (iv) a new peer group that includes Aristocrat Leisure Limited, IGT, Scientific Games Corp., Shuffle Master Inc. and WMS ("New Peer Group"). The Company is switching to the New Peer Group for purposes of its Stock Performance Graph disclosure because the Old Peer Group included Progressive Gaming International Corp. which declared bankruptcy. The Company believes the New Peer Group index includes a broader mix of companies the businesses of which, taken as a whole, are more representative of the businesses in which it is engaged. The graph assumes that the value of the investment in the Company's common stock, in each index, and in each of the peer groups (including a reinvestment of dividends) was $100 on June 30, 2005 and tracks it through June 30, 2010.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN

Among Bally Technologies Inc., the S&P 500 Index
and the Russell 2000 Index

***Comparison of 60 Month Cumulative Return:**

	6/05	6/06	6/07	6/08	6/09	6/10
Bally Technologies Inc.	100.00	117.48	188.45	241.08	213.41	231.03
S&P 500	100.00	108.63	131.00	113.81	83.98	96.09
Russell 2000	100.00	114.58	133.41	111.80	83.84	101.85
Old Peer Group	100.00	128.52	133.53	87.81	63.83	68.22
New Peer Group	100.00	126.33	137.33	90.42	59.40	58.65

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

ITEM 6. SELECTED FINANCIAL DATA

The following selected statement of operations data for fiscal 2010, 2009 and 2008, and selected balance sheet data for fiscal 2010 and 2009 has been derived from the consolidated financial statements, which appear elsewhere in this Annual Report on Form 10-K. The Selected Financial Data should be read in conjunction with:

Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations; and

Item 8, Financial Statements and Supplementary Data.

	Year Ended June 30,				
	2010	**2009**	**2008**	**2007**	**2006**
	(in 000s, except per share amounts)				
Statement of Operations Data:					
Revenues	$ 778,191	$ 843,760	$ 852,392	$ 634,643	$ 492,654
Operating income (loss)(1)	184,110	203,018	181,719	49,078	(60,906)
Income (loss) from continuing operations before income taxes	170,818	184,960	160,985	20,063	(84,763)
Income tax (expense) benefit	(60,721)	(64,781)	(61,282)	(5,352)	29,433
Income (loss) from continuing operations	110,097	120,179	99,703	14,711	(55,330)
Income (loss) from discontinued operations(2), net of tax	7,181	8,057	12,120	12,420	13,166
Gain on sale of discontinued operations(2), net of tax	22,079				
Net income (loss)	139,357	128,236	111,823	27,131	(42,164)
Less: net income attributable to noncontrolling interests	1,880	1,927	4,616	4,803	3,907
Net income (loss) attributable to Bally Technologies, Inc.	$ 137,477	$ 126,309	$ 107,207	$ 22,328	$ (46,071)
Basic earnings (loss) per share attributable to Bally Technologies, Inc.:					
Income (loss) from continuing operations	$ 2.00	$ 2.19	$ 1.78	$ 0.22	$ (1.10)
Income from discontinued operations	0.11	0.13	0.19	0.20	0.22
Gain on sale of discontinued	0.41				

operations										
Total	$	2.52	$	2.32	$	1.97	$	0.42	$	(0.88)
Diluted earnings (loss) per share attributable to Bally Technologies, Inc.:										
Income (loss) from continuing operations	$	1.89	$	2.10	$	1.67	$	0.21	$	(1.10)
Income from discontinued operations		0.11		0.12		0.18		0.19		0.22
Gain on sale of discontinued operations										

Related Parties. We maintain minority ownership in a number of equity investments, which are recorded on the balance sheet. These include investments in entities with which Power-One has a manufacturing relationship, including a joint-venture located in China, as well as an equity investment made in one of our contract manufacturers in Asia. The equity investment in the contract manufacturer was made during 2002 by contributing some of our excess SMT manufacturing equipment and a note receivable we held from the contract manufacturer, in exchange for common equity. We may pay up to $1.2 million in cash to this contract manufacturer if we do not reach certain purchasing milestones during the period from January 1, 2003 through December 31, 2005. The joint venture is accounted for under the equity-method, and the equity investment in the contract manufacturer is accounted for under the cost method since we do not have significant influence on the contract manufacturer and own approximately 10% of the common equity.

The joint venture and contract manufacturer may purchase raw components and other goods from Power-One, and may sell finished goods to Power-One as well as to other third parties. Power-One records revenue on sales to the joint venture and contract manufacturer only when the components and goods are for sales to third parties. When the joint venture or contract manufacturer purchases components that will be assembled and sold back to Power-One, no revenue is recorded. Power-One also has significant and similar relationships with other contract manufacturers where no investment has been made. These contract manufacturers may purchase raw components from and sell finished goods back to Power-One. No revenue is recognized for these transactions. Revenue is recognized only when the products are for sale to third parties.

O'Melveny & Myers LLP ("OMM") provides general legal services to us. An OMM partner (now retired and of counsel to the firm) has been a member of our Board of Directors since 2000. OMM's legal services are billed on an arms-length transaction basis, and are not material to our results of operations, cash flows or financial condition.

Stephens, Inc. is a significant stockholder and provides financial advisory services to us. An officer of Stephens is also a director of the Company. Stephens' financial advisory services are billed on an arms-length transaction basis, and are not material to our results of operations, cash flows or financial condition.

In early 2003, we acquired 100% of the equity of di/dt Inc., a closely-held company and technology innovator in the DC/DC space, for $7.2 million in Power-One common stock with up to an additional 1.0 million shares of common stock payable as earnout to the former di/dt shareholders. We held a note receivable from and a minority equity investment in di/dt prior to the acquisition. Additionally, we held an exclusive license from di/dt for certain current, as well as prospective products of di/dt, under which license we were making royalty payments to di/dt relating to sales of licensed products. Stephens, Inc. was a significant shareholder in di/dt. Additionally, our outside counsel, OMM, held a

modest equity position in di/dt, and our CEO, Mr. Goldman, held a very small personal position in di/dt via an LLC created by Stephens, Inc. in connection with the original investment of Stephens, Inc. in di/dt.

Interest Rate Impact on Liquidity. Most of our borrowings are at variable market-based interest rates, and a significant fluctuation in interest rates could cause an increase in our interest expense. However, the current level of borrowings are not material to our consolidated financial position, and we believe that interest rate volatility would not have a material impact on our liquidity.

Summary of Contractual Obligations and Commitments. A summary of our future contractual payments related to debt and lease obligations is as follows (in millions):

Year Ending December 31,	Total Debt	Operating Leases	Total
2003	$ 1.3	$ 6.8	$ 8.1
2004	0.6	5.9	6.5
2005	0.6	4.6	5.2
2006	0.6	3.3	3.9
2007	0.6	1.9	2.5
2008 and thereafter	6.5	4.2	10.7
Total	$ 10.2	$ 26.7	$ 36.9

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks relating to our operations result primarily from changes in interest rates and changes in foreign currency exchange rates. Our exposure to interest rate risk results from the financial debt instruments which arise from transactions entered into during the normal course of business. We may enter into derivative financial instrument transactions, such as swaps, in order to manage or reduce our exposure to interest rate changes related to our portfolio of borrowings. Under no circumstances do we enter into derivative or other financial instrument transactions for speculative purposes.

Debt. We are exposed to cash flow risk due to changes in market interest rates related to our outstanding debt. For example, in Europe long term debt bears interest on borrowings outstanding at various time intervals and is based on Norwegian LIBOR. Norwegian LIBOR is an offshore rate that is similar to the London Inter-bank Offered Rate LIBOR. Our principal risk with respect to our long-term debt would be due to changes in these market rates.

The table below presents principal cash flows and related weighted-average interest rates for our credit facilities and long-term debt obligations at December 31, 2002 by expected maturity dates. The information is presented in U.S. dollar equivalents, our reporting currency, and parenthetically in Swiss Francs (CHF) or Norwegian Kroner (NOK), where applicable. Additionally, the U.S. dollar equivalent carrying value of Swiss Franc and Norwegian Kroner denominated debt is sensitive to foreign currency

exchange rates. However, a 10% change in the U.S. dollar exchange rate against these currencies would not have a significant effect on our future earnings.

	Expected Maturity Date							
	2003	2004	2005	2006	2007	Thereafter	Total	Fair Value
	(Amounts in millions, except for percentages)							
Credit Facilities:								
Variable Rate (CHF 1.0)	$ 0.7						$ 0.7	$ 0.7
Average Interest Rate	2.75%						2.75%	
Long-term Debt:								
Variable Rate (NOK 66.4)	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 6.5	$ 9.5	$ 9.5
Average Interest Rate	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%	

Foreign Currency. A significant portion of our business operations are conducted in various countries in Europe. As a result, we have a certain degree of market risk with respect to our cash flows due to changes in foreign currency exchange rates when transactions are denominated in currencies other than our functional currency. Historically, we have not actively engaged in substantial exchange rate hedging activities, and at December 31, 2002, we had not entered into any significant foreign exchange contracts.

ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data listed in Item 15(a)(1) hereof are incorporated herein by reference and are filed as part of this Annual Report on Form 10-K beginning on page F-1.

ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

PART III

ITEM 10 DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

The information relating to directors required by this item will be contained under the captions "Board of Directors" and "Election of Directors" in our definitive proxy statement for the Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission not later than 120 days after the close of the fiscal year ended December 31, 2002 (the "Proxy Statement"), and is incorporated herein by reference.

The information relating to executive officers required by this item is included in Part I under the caption "Executive Officers."

The information required by Item 405 will be contained under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in our Proxy Statement and is incorporated herein by reference.

ITEM 11 EXECUTIVE COMPENSATION

The information called for by this item will be contained under the caption "Executive Compensation" in our Proxy Statement and is incorporated herein by reference.

ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information called for by this item will be contained under the captions "Security Ownership of Certain Beneficial Owners and Management" and "Equity Plan Compensation Information" in our Proxy Statement and is incorporated herein by reference.

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information called for by this item will be contained under the caption "Certain Relationships and Related Transactions" in our Proxy Statement and is incorporated herein by reference.

ITEM 14 DISCLOSURE CONTROLS AND PROCEDURES

Within the 90 days prior to the filing date of this report, we carried out an evaluation, under the supervision and with the participation of our CEO and CFO, of the effectiveness of our disclosure controls and procedures. Disclosure controls and procedures are designed to ensure that information required to be disclosed in our periodic reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Based upon that evaluation, our CEO and CFO have concluded that our disclosure controls and procedures are effective. There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date we carried out this evaluation.

PART IV

ITEM 15 EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a)(1) FINANCIAL STATEMENTS

The following financial statements are filed as a part of this Report are incorporated herein by reference:

(a)(2) SCHEDULES

The following financial statement schedule is filed as a part of this Report and is incorporated herein by reference.

(b) Reports on Form 8-K

A Current Report on Form 8-K dated September 12, 2002, was filed to report the Company's plans to record significant charges during the third quarter of 2002 related to a restructuring of the Company's operations, impairment of certain fixed and intangible assets, a write-down of inventory, and impairment of goodwill.

(c) EXHIBITS

The exhibit index on page S-2 is hereby incorporated by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Act of 1934, as amended, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

POWER-ONE, INC.

By: /s/ STEVEN J. GOLDMAN

Steven J. Goldman
Chairman of the Board and
Chief Executive Officer

Date: March 28, 2003

Pursuant to the requirements of the Securities Act of 1934, as amended, this Annual Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated below.

We the undersigned directors and officers of Power-One, Inc. hereby constitute and appoint Steven J. Goldman and Eddie K. Schnopp, or any of them, our true and lawful attorneys and agents, to do any and all acts and things in our name and behalf in our capacities as directors and officers and to execute any and all instruments for us and in our names in the capacities indicated below, that said attorneys and agents, or either of them, may deem necessary or advisable to enable said corporation to comply with the Securities and Exchange Act of 1934, as amended, any rules, regulations, and requirements of the SEC, in connection with this Report, including specifically, but not limited to, power and authority to sign for us or any of us in our names and in the capacities indicated below, any and all amendments and supplements to this Report, and we hereby ratify and confirm all that the said attorneys and agents, or any of them, shall do or cause to be done by virtue hereof.

Signature	Title	Date
/s/ STEVEN J. GOLDMAN (Steven J. Goldman)	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	March 28, 2003
/s/ EDDIE K. SCHNOPP (Eddie K. Schnopp)	Senior Vice President Finance, Treasurer and Chief Financial Officer (Principal Financial and Accounting Officer)	March 28, 2003
(Kendall R. Bishop)	Director	March , 2003
/s/ DR. HANSPETER BRÄNDLI (Dr. Hanspeter Brändli)	Director	March 28, 2003
/s/ JON E. M. JACOBY (Jon E. M. Jacoby)	Director	March 28, 2003
/s/ JAY WALTERS (Jay Walters)	Director	March 28, 2003
/s/ MARK MELLIAR-SMITH (Mark Melliar-Smith)	Director	March 28, 2003

CERTIFICATION

I, Eddie K. Schnopp, certify that:

1. I have reviewed this annual report on Form 10-K of Power-One, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 28, 2003

/s/ EDDIE K. SCHNOPP

Eddie K. Schnopp
Senior Vice President Finance, Treasurer and
Chief Financial Officer

CERTIFICATION

I, Steven J.Goldman, certify that:

1. I have reviewed this annual report on Form 10-K of Power-One, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 28, 2003

/s/ STEVEN J. GOLDMAN

Steven J. Goldman
Chairman and Chief Executive Officer

FINANCIAL STATEMENTS

The following financial statements are filed as a part of this Report:

POWER-ONE, INC.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Power-One, Inc.:

We have audited the accompanying consolidated balance sheets of Power-One, Inc. and its subsidiaries (the "Company") as of December 31, 2002 and 2001, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. Our audits also included the consolidated financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2002 and 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 16, the Company changed its method of accounting for goodwill and other intangible assets to conform to the Statement of Financial Accounting Standards 142 effective January 1, 2002.

Deloitte & Touche LLP
Los Angeles, California
February 13, 2003

POWER-ONE, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Year Ended December 31,		
	2002	2001	2000
NET SALES	$ 230,656	$ 363,727	$ 510,955
COST OF GOODS SOLD	234,662	357,930	311,945
GROSS PROFIT (LOSS)	(4,006)	5,797	199,010
EXPENSES:			
Selling, general and administrative	59,321	72,617	80,464
Engineering and quality assurance	34,663	39,077	36,603
Amortization of intangibles	5,139	19,079	11,363
Restructuring costs	10,690	25,074	
Impairment of goodwill	67,587	11,058	
Asset impairment	42,629	22,714	
Total expenses	220,029	189,619	128,430
INCOME (LOSS) FROM OPERATIONS	(224,035)	(183,822)	70,580
INTEREST AND OTHER INCOME (EXPENSE):			
Interest income	1,758	3,817	3,304
Interest expense	(1,133)	(2,497)	(6,446)
Other income (expense), net	166	(4,350)	(1,052)
Total interest and other income (expense)	791	(3,030)	(4,194)
INCOME (LOSS) BEFORE PROVISION (BENEFIT) FOR INCOME TAXES	(223,244)	(186,852)	66,386
PROVISION (BENEFIT) FOR INCOME TAXES	(12,240)	(949)	22,495
NET INCOME (LOSS)	$ (211,004)	$ (185,903)	$ 43,891
BASIC EARNINGS (LOSS) PER SHARE	$ (2.62)	$ (2.36)	$ 0.59
DILUTED EARNINGS (LOSS) PER SHARE	$ (2.62)	$ (2.36)	$ 0.56
BASIC WEIGHTED AVERAGE SHARES OUTSTANDING	80,396	78,759	73,957
DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING	80,396	78,759	77,871

See notes to consolidated financial statements.

POWER-ONE, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	December 31,	
	2002	2001
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 107,109	$ 79,671
Accounts receivable:		
Trade, less allowance for doubtful accounts of $6,559 in 2002 and $4,698 in 2001	49,395	45,064
Other	7,379	7,190
Notes receivable	3,000	3,000
Inventories	48,751	149,084
Refundable income taxes	122	5,227
Prepaid expenses and other current assets	6,526	5,536
Total current assets	222,282	294,772
PROPERTY AND EQUIPMENT, net	59,436	95,682
PROPERTY AND EQUIPMENT HELD FOR SALE	7,573	
GOODWILL, net	23,990	78,966
OTHER INTANGIBLE ASSETS, net	26,948	51,021
NOTES RECEIVABLE	4,485	14,136
OTHER ASSETS	16,149	7,326
TOTAL	$ 360,863	$ 541,903
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Bank credit facilities	$ 717	$ 1,395
Current portion of long-term debt	572	1,348
Current portion of long-term capital leases	15	245
Bank overdraft	11	736
Accounts payable	27,004	19,302
Restructuring reserve	8,252	5,629
Deferred income taxes	1,773	1,866
Other accrued expenses	33,615	45,996
Total current liabilities	71,959	76,517
LONG-TERM DEBT, less current portion	8,908	7,559
DEFERRED INCOME TAXES	61	7,121
OTHER LIABILITIES	797	503
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, par value $0.001; 300,000,000 shares authorized; 79,998,619 and 78,912,924 shares issued and outstanding at December 31, 2002 and 2001, respectively, net of 100,002 treasury shares	80	79
Additional paid-in capital	586,038	570,427
Accumulated other comprehensive income (loss)	18,414	(5,913)
Accumulated deficit	(325,394)	(114,390)
Total stockholders' equity	279,138	450,203
TOTAL	$ 360,863	$ 541,903

	December 31,	

See notes to consolidated financial statements.

POWER-ONE, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

	Year Ended December 31,		
	2002	**2001**	**2000**
NET INCOME (LOSS)	$ (211,004)	$ (185,903)	$ 43,891
OTHER COMPREHENSIVE INCOME (LOSS)			
Foreign currency translation adjustments	24,327	(3,725)	1,288
COMPREHENSIVE INCOME (LOSS)	$ (186,677)	$ (189,628)	$ 45,179

See notes to consolidated financial statements.

POWER-ONE, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands, except share and per share data)

	Common Stock $.001 Par Value					
	Shares	**Amount**	**Additional Paid-in Capital**	**Accumulated Other Comprehensive Income (Loss)**	**Accumulated Deficit**	**Total**
BALANCE, DECEMBER 31, 1999	71,962,224	$ 72	$ 212,148	$ (3,476)	$ 28,487	$ 237,231
Issuance of common stock under stock option and purchase plans	794,355		2,001			2,001
Income tax benefit for employee stock option transactions			9,575			9,575
Stock compensation	812,925	1	13,338			13,339
Issuance of common stock in connection with acquisition	428,070		12,735			12,735
Stock issuance to public	4,500,000	5	317,245			317,250
Stock issuance costs			(2,717)			(2,717)
Cumulative translation adjustment				1,288		1,288
Distributions to stockholders					(865)	(865)

	Common Stock $.001 Par Value					
Net income					43,891	43,891
BALANCE, DECEMBER 31, 2000	78,497,574	78	564,325	(2,188)	71,513	633,728
Issuance of common stock under stock option and purchase plans	486,026	1	3,260			3,261
Stock compensation	1,172		2,185			2,185
Issuance of common stock in connection with acquisition	28,154		657			657
Treasury Stock	(100,002)					
Cumulative translation adjustment				(3,725)		(3,725)
Net loss					(185,903)	(185,903)
BALANCE, DECEMBER 31, 2001	78,912,924	79	570,427	(5,913)	(114,390)	450,203
Issuance of common stock under stock option and purchase plans	1,005,798	1	5,240			5,241
Stock compensation	79,897		10,371			10,371
Cumulative translation adjustment				24,327		24,327
Net loss					(211,004)	(211,004)
BALANCE, DECEMBER 31, 2002	79,998,619	$ 80	$ 586,038	$ 18,414	$ (325,394)	$ 279,138

See notes to consolidated financial statements.

POWER-ONE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands, except share data)

	Year Ended December 31,		
	2002	**2001**	**2000**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ (211,004)	$ (185,903)	$ 43,891
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization (a)	20,900	36,500	24,190
Goodwill impairment	67,587	11,058	
Asset impairment (b)	45,260	28,901	
Inventory write-off	73,029	110,313	
Technology investment write-off (a)		2,750	
Capitalized financing costs write-off		1,121	
Stock compensation	10,371	2,185	13,339
Exchange (gain) or loss	(1,348)	215	
Net loss on disposal of property and equipment	156	317	443
Tax benefit on exercise of stock incentive plans			9,575
Deferred income taxes	(8,543)	970	(969)
Changes in operating assets and liabilities:			
Accounts receivable, net	423	62,283	(70,747)
Notes receivable	4,451		

	Year Ended December 31,		
Inventories	31,550	(11,726)	(153,323)
Refundable income taxes	5,105	(5,227)	(7)
Prepaid expenses and other current assets	(671)	(1,279)	(2,634)
Accounts payable	5,121	(51,761)	48,352
Accrued expenses	(14,040)	(6,383)	8,615
Restructuring reserve	2,832	5,308	
Other liabilities	248	(124)	990
Net cash provided by (used in) operating activities	31,427	(482)	(78,285)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property and equipment	(7,011)	(30,539)	(52,165)
Technology investment	(2,000)	(3,605)	(9,393)
Proceeds from sale of property and equipment	504	133	36
Other assets	(72)	3,338	(3,059)
Investment in Powec, net of cash acquired	(70)	(6,335)	(72,545)
Telecommunications product line acquired from Eldec			(14,000)
Investment in IPD, net of cash acquired			(13,000)
Net cash used in investing activities	(8,649)	(37,008)	(164,126)

(a)
The total technology investment write-off for the year ended December 31, 2001 was $7,538 of which $4,788 was recorded as amortization of intangibles and $2,750 was recorded as other expense.

(b)
The asset impairment charge of $45,260 for the year ended December 31, 2002 included $23,444 for the impairment of identifiable intangibles in accordance with SFAS No. 144, $19,185 for the impairment of property and equipment calculated in accordance with SFAS No. 144 and $2,631 for the fixed asset portion of the period's restructuring charge.

The asset impairment charge of $28,901 for the year ended December 31, 2001 included $8,365 for the impairment of identifiable intangibles in accordance with SFAS No. 121, $14,349 for the impairment of property and equipment calculated in accordance with SFAS No. 121 and $6,187 for the fixed asset portion of the period's restructuring charge.

See notes to consolidated financial statements.

POWER-ONE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(In thousands, except share data)

	Year Ended December 31,		
	2002	2001	2000

	Year Ended December 31,		
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings on bank credit facilities	$ 1,911	$ 19,143	$ 165,180
Repayments of borrowings on bank credit facilities	(2,833)	(26,690)	(166,979)
Bank overdraft	(773)	(12,080)	7,000
Proceeds from borrowings on long-term debt		1,482	
Repayments of borrowings on long-term debt	(1,635)	(4,008)	(4,634)
Principal payments under long-term capital leases	(272)	(548)	(888)
Sale and issuance of common stock	5,241	3,261	316,534
Proceeds from notes receivable from stockholders			109
Distributions to stockholders			(865)
Net cash provided by (used in) financing activities	1,639	(19,440)	315,457
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	3,021	(512)	298
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	27,438	(57,442)	73,344
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	79,671	137,113	63,769
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 107,109	$ 79,671	$ 137,113
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid (received) for:			
Interest	$ 1,348	$ 1,766	$ 4,766
Income taxes	$ (12,746)	$ (1,718)	$ 17,919

See notes to consolidated financial statements.

POWER-ONE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES

During the fourth quarter of 2002, the Company contributed certain non-cash assets to a contract manufacturer in Asia in exchange for approximately 10% of the common stock of that contract manufacturer. The Company contributed some its excess SMT manufacturing equipment that had previously been written down to fair value of approximately $2.0 million and approximately $5.2 million of a note receivable from the contract manufacturer held by the Company.

During the second quarter of 2001, the Company issued 28,154 shares of the Company's common stock valued at $657 thousand in addition to $6.3 million in cash, to the sellers of Powec as additional consideration pursuant to the terms of the acquisition agreement for 2000 operational performance.

In the fourth quarter of 2001, the Company exchanged a customer's outstanding trade accounts receivable balance of $16.5 million into a note receivable with scheduled repayment terms.

On February 29, 2000, the Company acquired HC Power; the former shareholders of HC Power received a total of 6,363,621 shares of the Company's common stock for all shares of common stock of HC Power outstanding on the effective date of the merger. Of the total shares issued, 636,351 shares were placed in an escrow to fund possible claims for indemnification under the merger agreement. The Company authorized distribution of 536,349 shares from the escrow fund in 2001. The remaining 100,002 shares were released to and retained by

Power-One pursuant to full settlement and resolution, without admission of liability by either party, of all disputed claims associated with a claim for indemnification asserted by the Company in March 2001.

On May 16, 2000, the Company acquired all of the capital stock of Powec AS and the minority interests of certain Powec subsidiaries (collectively referred to as "Powec") for approximately $72.0 million in cash, plus $2.5 million in acquisition costs, and 428,070 shares of the Company's common stock.

In conjunction with the acquisition, liabilities were assumed as follows (in thousands):

Fair value of tangible assets acquired	$	38,766
Fair value of goodwill and other identifiable intangible assets		83,645
Cash paid for Powec's capital stock		(74,452)
Fair value of stock issued for Powec's capital stock		(12,735)
Liabilities assumed	$	35,224

On May 16, 2000, the Company acquired a telecommunications product line from Eldec Corporation ("Eldec"), a subsidiary of Crane Co., for $14.0 million in cash.

In conjunction with the acquisition, liabilities were assumed as follows (in thousands):

Fair value of tangible assets acquired	$	2,237
Fair value of goodwill and other identifiable intangible assets		12,208
Cash paid for product line		(14,000)
Liabilities assumed	$	445

POWER-ONE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

NOTE 1. GENERAL INFORMATION

The accompanying financial statements of Power-One, Inc. (the "Company" or "Power-One") reflect the consolidated results of its operations for the years ended December 31, 2002, 2001 and 2000 and include the accounts of the Company and its subsidiaries, all of which are wholly owned. The Company's reporting period coincides with the 52- or 53-week period ending on the Sunday closest to December 31 and its fiscal quarters are the 13- or 14-week periods ending on the Sunday nearest to March 31, June 30, September 30 and December 31.

The Company manufactures and assembles its products primarily at facilities in the United States, Dominican Republic, Norway, Switzerland, China, Slovakia and at several contract manufacturers located throughout the world, predominantly in Asia.

Operations The Company operates in one industry segment which consists of the design, development and manufacture of power conversion products primarily for the communications infrastructure market. The Company sells its products and grants credit to customers in this industry, primarily in the United States and Europe. Net sales to the Company's largest customer amounted to 16% in 2002, 15% in 2001 and 25% in 2000. At December 2002, one customer, Cisco Systems, represented at least 10% of the Company's trade accounts receivable balance. At December 31, 2001, one customer, the Company's joint venture, represented 16% of the Company's trade accounts receivable balance.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

Principles of Consolidation The accompanying consolidated financial statements include the consolidated accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated. The Company includes in its statement of operations its share of the financial results of investments accounted for under the equity method.

Use of Estimates in the Preparation of the Financial Statements Preparation of the financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. Estimates are used for, but not limited to, the accounting for the allowance for doubtful accounts, inventory allowances, restructuring costs, impairment costs and other special charges, depreciation and amortization, sales returns, warranty costs, taxes, and contingencies. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may differ from those estimates.

Revenue Recognition The Company generally recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or readily determinable, and collectibility is probable. Sales are recorded net of sales returns and discounts. The Company recognizes revenue in accordance with Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements."

Cash and Cash Equivalents The Company considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable and Allowance for Doubtful Accounts The Allowance for Doubtful Accounts is generally established by analyzing each account that has a balance over 90 days past due. Each account is individually assigned a probability of collection. The total amount determined to be uncollectible in

the 90-days-past-due category is then reserved fully. The percentage of this reserve to the total accounts receivable balance is then established as a guideline and applied to the rest of the non-current accounts receivable balance. When other circumstances suggest that a receivable may not be collectible, it is immediately reserved for, even if the receivable is not yet in the 90-days-past-due category. This methodology, however, may be modified or tailored to customary local practice, especially in the Company's overseas locations.

Inventories The Company's inventories are stated at the lower of cost (first-in, first-out method) or market. Slow moving and obsolete inventory are written off quarterly. To calculate the write-off amount, the Company generally compares the current on-hand quantities with the projected usages looking forward between 12 and 24 months. The methodology for forecasting usage may be modified depending on product lifecycles and circumstances in local markets. On-hand quantities greater than projected usage are put on the initial list of slow-moving and obsolete items. The engineering and purchasing departments review the initial list of slow-moving and obsolete items to identify items that have alternative uses in new or existing products. These items are then excluded from the analysis. The remaining amount of slow-moving and obsolete inventory is then written off. Additionally, reserves for non-cancelable open purchase orders for parts we are obligated to purchase where demand has been reduced, or for open purchase orders where the market price is lower than the purchase order price, are recorded as other accrued expenses on the balance sheet.

Investments The Company has minority equity investments in non-publicly traded companies. These investments are included in other assets on the Company's balance sheet and are accounted for under the cost or equity method depending on the nature and circumstances surrounding the investment. The Company monitors these investments for impairment and makes appropriate reductions in carrying value when necessary.

Property and Equipment Property and equipment are recorded at cost. Provision for depreciation has been made based upon the estimated useful lives of the assets, which range from three to 30 years, using principally the double declining balance and straight-line methods. Provision for amortization of leasehold improvements is made based upon the estimated lives of the assets or terms of the leases, whichever is shorter.

Intangible Assets Intangible assets include cost in excess of net assets acquired in connection with the acquisition of the Company in 1995, of Melcher in 1998, and of IPD in 1999, which have been allocated among certain intangible items determined by management to have value, such as the Company's name, distribution network and product technology. Provision for amortization has been made based upon the estimated useful lives of the intangible asset categories, which range from three to 20 years, using the straight-line method.

Impairment of Long-Lived Assets and Goodwill The Company reviews the recoverability of the carrying value of long-lived assets using the methodology prescribed in Statement of Financial Accounting Standards (SFAS) 144, "Accounting for the Impairment and Disposal of Long-Lived Assets." SFAS 144 superceded SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Upon such an occurrence, recoverability of these assets is determined by comparing the forecasted undiscounted net cash flows to which the assets relate, to the carrying amount. If the asset is determined to be unable to recover its carrying value, it is written down to fair value. Fair value is

determined based on discounted cash flows, appraised values or management's estimates, depending on the nature of the assets.

The Company reviews the carrying value of goodwill using the methodology prescribed in SFAS 142, "Goodwill and Other Intangible Assets." SFAS 142 requires that the Company not amortize goodwill, but instead subject it to impairment tests on at least an annual basis and whenever circumstances suggest that goodwill may be impaired. The Company completed the required transitory impairment test of goodwill upon adoption as of January 1, 2002, which resulted in no impairment.

Restructuring Costs Through December 31, 2002, the Company recorded restructuring charges in accordance with Emerging Issues Task Force (EITF) Issue 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." Restructuring costs relate to the downsizing of the Company's operations and primarily consist of specific charges that have been incurred and will be incurred with no future economic benefit. These charges include costs related to personnel severance, continuing lease obligations for vacant facilities and write-off of leasehold improvements and equipment therein, certain contract termination penalties and other shutdown costs. Effective, January 1, 2003, the Company will record restructuring charges, if any, in accordance with SFAS 146, "Accounting for Costs Associated with Disposal Activities."

Income Taxes Income taxes are provided for taxes currently payable or refundable, and for deferred income taxes arising from future tax consequences of events that have been recognized in the Company's financial statements or tax returns. The effects of income taxes are measured based on enacted tax laws or rates.

Additionally, the Company's subsidiary Power-Electronics ("P-E") operates in the Dominican Republic in a tax-free enterprise zone and, accordingly, pays no income taxes in connection with its operations in that country. The Company has not provided for the U.S. federal and state income tax that would be paid on unremitted earnings from P-E or any of its other overseas subsidiaries, as there is no intent to remit any future earnings.

The Company's operations in Mexico, which were closed at the end of 2002, have been subject to various income and corporate taxes on earnings generated in Mexico under the maquiladora program.

Deferred Income Tax Asset Valuation Allowance The Company records a deferred income tax asset in jurisdictions where it generates a loss for income tax purposes. Due to volatility within the industry in which the Company operates, the Company records a valuation allowance against these deferred income tax assets in accordance with SFAS 109, "Accounting for Income Taxes," when, in management's judgment, the deferred income tax assets may not be realized in the foreseeable future.

Stock Compensation The Company uses the intrinsic-value method of accounting prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees," in accounting for stock options granted to employees. Accordingly, the Company does not recognize compensation expense for stock option grants to employees in the Consolidated Statement of Operations which have been made at fair market value.

SFAS 123, "Accounting for Stock-Based Compensation," encourages, but does not require, the recognition of compensation expense for employee stock-based compensation arrangements using the fair value method of accounting. The Company has elected the "disclosure only" alternative and has disclosed the pro forma net income/loss per share amounts using the fair value method. In accordance

with SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure, an Amendment of FASB Statement No. 123," the pro forma disclosure required is shown below.

	Year Ended December 31,

	Year Ended December 31,		
	2002	2001	2000
	(In millions, except per share data)		
Net income (loss), as reported	$ (211.0)	$ (185.9)	$ 43.9
Add: Stock-based employee compensation expense included in reported net income (loss), net of related tax effect	0.9		
Deduct: Total stock-based employee compensation expense determined under fair value based method, net of related tax effect	(23.6)	(22.8)	(8.9)
Pro forma net income (loss)	$ (233.7)	$ (208.7)	$ 35.0
Earnings (loss) per share:			
Basic-as reported	$ (2.62)	$ (2.36)	$ 0.59
Basic-pro forma	$ (2.91)	$ (2.65)	$ 0.47
Diluted-as reported	$ (2.62)	$ (2.36)	$ 0.56
Diluted-pro forma	$ (2.91)	$ (2.65)	$ 0.45

The pro forma amounts for the fiscal years ended December 31, 2002 and 2001 do not include a tax benefit on the stock compensation due to the deferred income tax valuation allowance recorded by the Company in each respective year. The fair value of each option grant is estimated on the date of grant using the Black-Scholes model, with the following assumptions used in 2002, 2001 and 2000: risk-free interest rate of 4.2%, 4.9% and 6.2%, respectively; expected volatility of 94.7%, 111.9% and 87.6%, respectively; an expected option life of 5.8, 6.5 and 7.5 years, respectively; and no expected dividends for each of the three years. The aggregate fair value of stock options granted were $3.3 million, $28.1 million and $79.1 million 2002, 2001 and 2000 respectively.

Earnings Per Share The Company presents both basic and diluted earnings (loss) per share ("EPS") amounts. Basic EPS is calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the year. Diluted EPS amounts are based upon the weighted average number of common and common equivalent shares outstanding during the year. Common equivalent shares are excluded from the computation in periods in which they have an anti-dilutive effect. The difference between basic and diluted EPS, for the Company, is solely attributable to stock options. The Company uses the treasury stock method to calculate the impact of outstanding stock options. Stock options for which the exercise price exceeds the average market price over the period have an anti-dilutive effect on EPS and, accordingly, are excluded from the calculation.

Engineering Engineering costs include sustaining product engineering, custom product development and research and development costs which are expensed in the period incurred.

Warranties The Company generally offers its customers a two-year warranty on all products sold, but warranties vary based on product type and application. Based on warranty repair costs and the estimated rate of return, the Company periodically reviews and adjusts its warranty accrual. Actual repair costs are offset against the reserve balance as incurred. The Company has adopted the disclosure

requirements of Financial Accounting Standards Board ("FASB") Interpretation No. 45 regarding warranties.

Derivative Instruments The Company accounts for derivative instruments in accordance with SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," as subsequently amended by SFAS 137 and SFAS 138, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. In addition, this statement requires hedge accounting when certain conditions are met. The Company did not hold any derivative financial instruments during 2002, 2001 or 2000. As a result, adoption of SFAS 133 did not have a significant effect on the Company's financial position, results of operations or cash flows.

Fair Value of Financial Instruments The recorded values of accounts receivable, notes receivable, accounts payable and accrued expenses approximate their fair values based on their short-term nature. The recorded values of notes receivable, notes payable to banks, long-term debt and other liabilities approximate fair value, as interest is tied to or approximates market rates.

Concentration of Credit Risk Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, placed with high credit quality institutions, and trade receivables. The Company sells products and extends credit to customers, primarily in the United States, Europe and Asia, periodically monitors its exposure to credit losses, and maintains allowances for anticipated losses.

Conversion of Foreign Currencies The reporting currency for the consolidated financial statements of the Company is the U.S. dollar. The assets and liabilities of companies whose functional currency is other than the U.S. dollar are included in the consolidation by translating the assets and liabilities at the exchange rates applicable at the end of the reporting year. The statements of income and cash flows of such companies are translated at the average exchange rates during the applicable period. Translation gains or losses are accumulated as a separate component of stockholders' equity. The Company has not tax-affected the cumulative translation adjustment as there is no intention to remit the earnings.

Reclassifications Certain prior year amounts have been reclassified to conform to the current year presentation.

Segment Reporting The Company operates as one segment in accordance with SFAS 131, "Disclosures About Segments of an Enterprise and Related Information". The Company's chief operating decision maker and management personnel view the Company's performance and make resource allocation decisions by looking at the Company as a whole. Although there are different divisions within the Company, they are economically similar and are also similar in terms of the five criteria set forth in SFAS 131 that must be met in order to aggregate segments. Our products are all power conversion products primarily geared toward the communication industry, and our sales force sells products from all divisions. The nature of the production process is similar across divisions, and manufacturing for the different divisions occurs in common facilities. The same engineers with the same qualifications design and manufacture products across divisions. The types and class of customers are similar across the divisions and product lines, and our products are distributed through common channels and distributor networks.

Recent Pronouncements and Accounting Changes In July 2001, the FASB issued SFAS 141, "Business Combinations," and SFAS 142. They also issued SFAS 144, in October 2001.

SFAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for under the purchase method. SFAS 141 supersedes APB Opinion No. 16, "Business Combinations," and SFAS 38, "Accounting for Preacquisition Contingencies of Purchased Enterprises," and is effective for all business combinations initiated after June 30, 2001. Business combinations initiated after June 30, 2001 are accounted for under the purchase method in accordance with SFAS 141.

SFAS 142 addresses the financial accounting and reporting for acquired goodwill and other intangible assets. Under the new rules, the Company is no longer required to amortize goodwill and other intangible assets with indefinite lives; rather, these intangible assets are subject to periodic testing for impairment. SFAS 142 supersedes APB Opinion No. 17, "Intangible Assets". The Company adopted SFAS 142 effective January 1, 2002 and has ceased amortization of goodwill and other intangible assets deemed to have an indefinite life.

SFAS 144 establishes a single accounting model for the impairment or disposal of long-lived assets, including discontinued operations. SFAS 144 superseded SFAS 121, "Accounting for the Impairment of Long-Lives Assets and for Long-Lived Assets to Be Disposed Of," and APB Opinion No. 30, "Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." The provisions of SFAS 144 are effective in fiscal years beginning after December 15, 2001 and in general are to be applied prospectively. The Company adopted SFAS 144 effective January 1, 2002.

In June 2002, the FASB issued SFAS 146, which nullifies EITF Issue No. 94-3. SFAS 146 is effective for exit and disposal activities that are initiated after December 31, 2002 and requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, in contrast to the date of an entity's commitment to an exit plan, as required by EITF Issue 94-3. The Company adopted SFAS 146 effective January 1, 2003.

The Company believes that the adoption of SFAS 146 may be material to the financial statements should any restructuring initiatives be implemented subsequent to adoption. Currently, the Company does not anticipate any new restructuring initiatives that would be subject to SFAS 146. Had SFAS 146 been adopted and applied to 2002, the Company's restructuring charge would have been smaller, as SFAS 146 delays recognition of certain restructuring liabilities until they are incurred rather than committed to, such as severance obligations, and requires fair value recognition of continuing lease obligations. The Company has not fully analyzed the impact that SFAS 146 would have had on its financial statements for 2002 had it been adopted early.

During 2002, the Company implemented the disclosure requirements of FASB Interpretation No. 45 regarding product warranties.

NOTE 3. RESTRUCTURING COSTS AND ASSET IMPAIRMENT CHARGES

During 2001, the Company announced a restructuring program in response to macroeconomic and capital spending issues affecting the communications industry. During 2001, the Company recorded pre-tax restructuring charges totaling $25.1 million in accordance with EITF 94-3 and a pre-tax goodwill and asset impairment charge of $11.0 million and $22.7 million in accordance with SFAS 121, respectively.

During 2002, the Company announced an addition to the restructuring program and recorded pre-tax charges of $10.7 million in accordance with EITF 94-3 related to the restructuring of the Company's operations and pre-tax goodwill and asset impairment charges of $67.6 million and $42.6 million in accordance with SFAS 142 and SFAS 144, respectively. The restructuring costs and asset impairment charges are classified as operating expenses. See the Intangibles footnote for additional disclosure on the impairment of intangible assets.

Restructuring Costs

The restructuring plans include a worldwide workforce reduction, consolidation of excess facilities and write-off of fixed assets therein, contract termination charges, and other shutdown costs. The Company expects to pay most of the remaining restructuring liabilities during the first quarter of 2003, with the exception of those related to facilities closures. The liabilities related to facilities closures contain continuing lease obligations, the longest of which extends to 2005. A summary of the restructuring activity during the year ended December 31, 2002 is as follows (in millions):

	Restructuring Liabilities at January 1, 2002	Restructuring Charges	Applications of Reserve	Restructuring Liabilities at December 31, 2002
Worldwide workforce reduction	$ 1.4	$ 3.8	$ 2.8	$ 2.4
Facilities closure	4.1	5.2	3.4	5.9
Fixed assets write-off		1.7	1.7	
Contract termination costs	0.1		0.1	
	$ 5.6	$ 10.7	$ 8.0	$ 8.3

A summary of the restructuring costs and activity during the year ended December 31, 2001 is as follows (in millions):

	Total Restructuring Charges	Applications of Reserve	Restructuring Liabilities at December 31, 2001
Worldwide workforce reduction	$ 11.0	$ 9.6	$ 1.4
Facilities closure	7.6	3.5	4.1
Fixed assets write-off	3.1	3.1	
Contract termination costs	3.4	3.3	0.1
Total Restructuring Costs	$ 25.1	$ 19.5	$ 5.6

The 2002 and 2001 restructuring charges are comprised of the following (in millions):

	Restructuring Costs Year Ended December 31,	
	2002	2001
Worldwide workforce reduction	$ 3.8	$ 11.0
Facilities closure	5.2	7.6
Fixed asset write-off	1.7	3.1
Contract termination costs		3.4
Total	$ 10.7	$ 25.1

2002 Restructuring Costs

The $3.8 million restructuring charge for workforce reduction during 2002 is related to approximately 625 positions identified for elimination, of which approximately 400 positions were located in Puerto Rico and Mexico, including 300 manufacturing positions. Of the remaining positions identified for elimination, approximately 175 were located in the United States, including 100 manufacturing positions, and the balance of approximately 50 were located at the Company's other overseas locations, primarily in Europe. As of December 31, 2002, approximately 450 of the 625 employees have been released. Most of the remaining positions are expected to be eliminated during the first quarter of 2003, and the remaining severance and related benefits are expected to be paid during the first quarter of 2003 as well. Since this only represents specific employee terminations identified as of December 31, 2002, further charges may be necessary in future periods if additional terminations are identified.

The $5.2 million charge for facilities closures during 2002 is related to office space and facilities that are being vacated with no future economic benefit. This charge includes the write-off of existing leasehold improvements as well as payments for continuing lease obligations. Cash payments will be made through the remaining terms of the leases, the longest of which extends to 2005. The Company facilities being vacated are located in Costa Mesa, California; Mexico; and Puerto Rico. In connection with these closures, the Company recorded a charge of approximately $1.7 million for the write down of fixed assets at these locations.

2001 Restructuring Costs

The $11.0 million restructuring charge for workforce reduction is related to approximately 4,650 positions identified for elimination, of which approximately 3,900 were manufacturing positions located in the Dominican Republic and Mexico. Of the remaining positions identified for elimination, approximately 575 were located in the United States and the balance of approximately 175 were located at the Company's other overseas locations, primarily in Europe. As of December 31, 2001, approximately 4,620 employees had been released, with the remaining positions eliminated during the first quarter of 2002.

The $7.6 million charge for facilities closures is related to office space and facilities that were vacated with no future economic benefit. The charges include the write-off of existing leasehold improvements as well as payments for continuing lease obligations. The Company facilities that were

vacated are located in Irvine, California; Boston, Massachusetts; Andover, Massachusetts; Round Rock, Texas; Mexico; Ireland; Switzerland; and other smaller offices in Europe. In connection with these closures, the Company recorded a charge of approximately $3.1 million for obsolete equipment at these locations.

The provision for contract termination costs of $3.4 million was primarily related to cancellation charges incurred to release the Company of certain purchase obligations to a significant supplier. Under the terms of the cancellation agreements, no future delivery of products or services will be made to the Company. Cash payments made in relation to this provision were $3.3 million as of December 31, 2001.

Impairment of Fixed Assets and Purchased Intangible Assets

During 2002, the Company performed an impairment review in accordance with SFAS 144 to determine whether any of its long-lived assets were impaired due to further deterioration in market conditions as well as the closure of several facilities. The Company identified $21.3 million of certain long-lived assets that are held for sale, which have been written down to a fair value, less estimated cost of disposition, of $7.6 million. The impairment charge associated with these assets was $13.7 million. These assets include manufacturing equipment as well as a facility. The Company determined fair value primarily through obtaining market quotes from third party sources. Further, the Company identified $28.9 million of certain intangible assets and other fixed assets at one of its subsidiaries with continuing operations whose carrying values are not expected to be recovered from future cash flows. These assets include certain intangibles associated with the acquisition of Powec in 2000, primarily customer relationships and product technology, as well as an owned facility in Norway. These were also written down to fair value, which was determined by using discounted cash flows for the intangible assets and a third-party appraisal for the facility. Asset impairment charges associated with SFAS 144 totaled $42.6 million for the year ended December 31, 2002.

In addition, the Company performed an impairment test of goodwill in accordance with SFAS 142 during 2002 and determined that it would record a $67.6 million impairment charge. During 2002 the Company modified its long-term forecast to account for continuing weakness in its industry, which negatively impacted the SFAS 142 analysis of discounted cash flows. All of the impaired goodwill is related to the acquisition of Powec in 2000, whose business has been negatively impacted by a collapse in service provider spending. As of December 31, 2002, there was no remaining goodwill related to the Powec acquisition.

Due to deteriorating market conditions during 2001, the Company performed an impairment review to determine whether any of its long-lived assets were impaired. This review was conducted in accordance with SFAS 121. The Company identified certain manufacturing equipment for impairment testing, primarily located at manufacturing sites in the Dominican Republic and Mexico. This equipment was removed from production and written down to fair value. The fair value of these assets was calculated based on current fair market value quotes obtained from third party sources. This analysis resulted in a pre-tax impairment charge of $14.4 million during 2001.

During 2001, the Company also recognized a pre-tax impairment charge of $19.4 million related to certain intangible assets that were acquired in past business combinations, primarily goodwill associated with the purchase of a product line from Eldec in 2000, and the Melcher trade name acquired in 1998. The Company decided to discontinue the older product line that was acquired from Eldec as part of the Powec acquisition and to transition those customers into other, newer product lines. Accordingly, the net book value of the goodwill associated with the acquisition of the Eldec product line, or $11.0 million, was written off completely. The Company also decided to replace the Melcher trade name with the Power-One trade name worldwide, and completed the transition to the Power-One trade name in 2001. Accordingly, since the Melcher trade name was no longer being used, its net book value of $7.5 million was written off completely. The balance of other intangible items written off were related to assembled workforces acquired in previous business combinations that were laid off as part of the Company's 2001 restructuring program.

NOTE 4. ACQUISITIONS

On May 16, 2000, the Company acquired Norwegian-based Powec for approximately $74.5 million in cash including $2.5 million in acquisition costs, 428,070 shares of the Company's common stock, and assumption of $12.0 million of Powec's debt. The market value of the Company's common stock on the date of acquisition was $29.75 per share. During the second quarters of 2002 and 2001, $0.1 million in cash and $6.3 million in cash and 28,154 shares of Company stock valued at $0.7 million were paid to the sellers of Powec as additional consideration pursuant to the terms of the acquisition agreement for 2002 and 2001 operational performance, respectively. Certain additional payments may be made to certain Powec stockholders based on the attainment of defined operational performance objectives through 2003. The maximum that may be earned through 2003 is $2.3 million.

During 2001, Powec became part of the Company's Energy Solutions division. Powec was a leading supplier of power systems for major service providers and equipment manufacturers in the telecommunications industry such as Nokia, Vodafone, and Ericsson.

On May 16, 2000, the Company also acquired a telecommunications product line from Eldec for $14.0 million in cash. This product line includes the exclusive distribution rights for Powec's products in North, South and Central America and extensive relationships with telecommunication equipment manufacturers such as Motorola, Ericsson, and Nokia US. In 2001 the Company discontinued this product line and wrote off $11.0 million of goodwill associated with its acquisition.

In addition to the shares issued for the Powec purchase, the purchase of Powec and the telecommunications product line were financed with $20.0 million of the Company's cash and approximately $68.5 million of advances under the Company's credit facility, which includes $2.5 million to finance the related acquisition costs.

The acquisitions were accounted for using the purchase method of accounting. The net purchase price, plus transaction costs, was allocated to tangible assets and intangible assets. The excess of the aggregate purchase price over the estimated fair values of the net tangible assets acquired was recognized as goodwill and other identifiable intangible assets, and were amortized over periods ranging from three to 15 years. The fair value of Powec's assets and liabilities, as well as the fair value of the assets and liabilities acquired from Eldec, have been included in the Company's balance sheet as of December 31, 2000. The consolidated statements of income, comprehensive income and cash flows for the year ended December 31, 2000, include eight months of Powec's operations.

On February 29, 2000, the Company acquired HC Power; the former shareholders of HC Power received a total of 6,363,621 shares of the Company's common stock for all shares of common stock of HC Power outstanding on the effective date of the merger. Of the total shares issued, 636,351 shares were placed in an escrow to fund possible claims for indemnification under the merger agreement. The Company authorized distribution of 536,349 shares from the escrow fund in 2001. The remaining 100,002 shares were released to and retained by Power-One pursuant to full settlement and resolution, without admission of liability by either party, of all disputed claims associated with a claim for indemnification asserted by the Company in March 2001. The merger has been accounted for as a pooling of interests. HC Power was a supplier of DC power systems for telecommunications and Internet service providers. During 2001, HC Power became part of the Company's Energy Solutions division.

HC Power provided for stock bonus incentives to certain key employees. The stock bonus agreements provided for the granting of HC Power common stock to the employees over specified vesting periods, ranging from three to twelve years. All stock bonus agreements contained accelerated vesting provisions upon a change in control of HC Power. The unvested shares were granted and became vested at the time of the merger with the Company. 812,925 shares of the Company's common stock were issued to certain employees of HC Power in exchange for the accelerated shares. The Company recorded compensation expense of $13.3 million in the first quarter of 2000 which was based on $16.38 per share, the fair value of the Company's common stock on February 29, 2000. Additionally, the Company recorded a $2.2 million tax benefit to additional paid-in capital in the second quarter of 2000 on the disposition of 812,925 shares of the Company's common stock made by certain employees of HC Power.

NOTE 5. INVENTORIES

Inventories, inclusive of the inventory charges recorded, consist of the following (in millions):

	December 31,	
	2002	2001
Raw materials	$ 33.4	$ 123.9
Subassemblies-in-process	5.9	9.0
Finished goods	9.5	16.2
	$ 48.8	$ 149.1

During 2002, the Company determined that a change in estimates for calculating excess and obsolete inventory was warranted due to shorter product lives. The Company looks at 12 or 24-month forward demand for components in determining excess and obsolete inventory. The methodology for forecasting demand may be modified depending on specific product lifecycles and local circumstances. Any inventory in excess of this demand is written off. The Company believes the trend toward shorter product life cycles is permanent, and that this change in methodology will reduce the risk of inventory obsolescence in the future. In addition, the Company discontinued a number of product lines as part of its restructuring, and wrote off the inventory associated with these lines. The Company recorded an inventory charge of $73.0 million to cost of goods sold during 2002 in connection with the change in methodology and discontinuation of product lines.

During 2001, prices of certain inventory components began decreasing as the market became saturated with these types of components and the Company secured lower contract prices on these components. Accordingly, the Company revalued its inventory on-hand, as well as inventory that it was required to take delivery of, to the lower of cost or market. This analysis resulted in an inventory charge of $51.2 million.

At the same time, the Company continued to receive shipments of inventory components that would not be sold. Therefore, the Company analyzed its entire inventory to determine what was excess and obsolete with significant input from the engineering staff. This analysis was conducted by part number and resulted in a $56.1 million charge for excess and obsolete inventory. Lastly, during 2001 the Company recorded a charge of $3.0 million for costs associated with discontinued products.

NOTE 6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following (in millions):

	December 31, 2002	December 31, 2001
Land	$ 0.5	$ 2.0
Buildings (useful lives of 20 30 years)	11.8	23.0
Factory and office equipment (useful lives of 3 to 10 years)	73.5	86.8
Vehicles (useful lives of 3 to 7 years)	0.8	1.2
Leasehold improvements (useful lives of 5 to 10 years)	10.9	7.8
Construction in progress	4.9	23.5
	102.4	144.3
Less accumulated depreciation and amortization	43.0	48.6
	$ 59.4	$ 95.7

Property and equipment held for sale of $7.6 million consists of land and building at various locations that have been closed. The Company sold one of these facilities in February of 2003 for $4.8 million and recorded a gain on sale of approximately $0.2 million.

Factory and office equipment under capital leases included in property and equipment consist of the following (in millions):

	December 31, 2002	December 31, 2001
Cost	$ 0.3	$ 2.3
Less accumulated depreciation and amortization	0.3	2.0
	$	$ 0.3

NOTE 7. CREDIT FACILITIES AND BORROWINGS

The Company has a long-term property loan with a bank in Norway totaling approximately $9.5 million. The loan was for the purchase of a Company subsidiary's office and manufacturing facility in Norway and is collateralized by the building. The loan bears interest based on the Norwegian Inter-bank Offering Rate, 9.1% at December 31, 2002, a rate similar to the London Inter-bank

Offering Rate and is payable in monthly installments until its maturity date in July 2019. As of December 31, 2002, the current and long-term amounts outstanding under this loan were $0.6 million and $8.9 million, respectively.

In addition, the Company maintains credit facilities with various banks in Europe, Asia and Australia. These credit facilities were acquired as a result of acquisitions in 1998 and 2000. The aggregate limit on all credit facilities is approximately $7.6 million. The credit facilities bear interest on amounts outstanding at various intervals based on published market rates. Some credit agreements require the Company's subsidiaries to maintain certain financial covenants and to provide certain financial reports to the lenders. At December 31, 2002, the total outstanding balance on all credit facilities was $0.7 million at a weighted-average interest rate of 2.75%. This amount was outstanding on the Company's Swiss credit facility.

Long-term debt consists primarily of borrowings made by the Company's European subsidiaries which are denominated in Norwegian kroner. Long-term debt outstanding at December 31, 2002 and 2001 was as follows (in millions):

	December 31,	
	2002	**2001**
Term loans matured June 2, 2002, payable to a bank. Interest was paid quarterly in arrears at 4.5%. The loan was collateralized by real property owned by the Company (net book value of $2.9 at December 31, 2001)	$	$ 0.6
Term loans matured October 7, 2002, payable to a bank. Interest was paid quarterly in arrears at 4.0%		0.3
Mortgage loan for building due July 15, 2019, payable to a bank in monthly payments, including interest based on Norwegian Inter-bank Offering Rate, or 9.1% and 8.8% at December 31, 2002 and 2001, respectively. The loan is collateralized by the building (net book value of $6.0 and $9.0 at December 31, 2002 and 2001, respectively)	9.5	8.0
	9.5	8.9
Less current portion	0.6	1.3
Long-term debt, less current portion	$ 8.9	$ 7.6

The long-term debt matures as follows (in millions):

Years Ending December 31,	
2003	$ 0.6
2004	0.6
2005	0.6
2006	0.6
2007	0.6
2008 and thereafter	6.5
	$ 9.5

NOTE 8. OTHER ACCRUED EXPENSES

Other accrued expenses consist of the following (in millions):

	December 31,	
	2002	**2001**
Accrued bonuses	$ 1.0	$ 1.9

	December 31,	
Accrued payroll and related expenses	4.7	4.1
Accrued warranties	3.8	3.1
Accrued supplier liabilities	12.4	23.4
Other accrued expenses	11.7	13.5
	$ 33.6	$ 46.0

NOTE 9. COMMITMENTS AND CONTINGENCIES

Leases The Company leases facilities in Camarillo and Orange County, California; Andover, Massachusetts; France; Italy; Germany; Netherlands; Ireland; United Kingdom; Australia; China; Hong Kong; Singapore; Sweden; Finland; and Norway under lease agreements expiring at various date through 2011 in North America and 2009 in Europe.

Additionally, the Company also leases several vehicles with leases expiring in September 2003.

Future minimum lease payments for operating leases as of December 31, 2002 are as follows (in millions):

Years Ending December 31,	Operating Leases
2003	$ 6.8
2004	5.9
2005	4.6
2006	3.3
2007	1.9
2008 and thereafter	4.2
Total minimum lease payments	$ 26.7

Total rent expense was approximately $5.1 million, $5.5 million and $4.5 million for the years ended December 31, 2002, 2001 and 2000, respectively. Approximately $3.8 million of the operating lease commitments above have been reserved for in the restructuring charge accrual.

Legal Proceedings The Company is involved in certain claims and legal proceedings, including one patent dispute, that arose in the normal course of business. Management does not believe that the outcome of any of the claims or legal proceedings in which the Company is currently involved will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

VLT Corporation and Vicor Corporation v. Power-One, Inc., United States District Court, District of Massachusetts, Civil Action No. 01-10207-PBS. The Complaint was filed on February 5, 2001, and service of the Summons and Complaint was made upon Power-One March 1, 2001. The Complaint alleges infringement of Vicor's U.S. patent number Re. 36,098 by certain products of Power-One which relate back to the acquisitions of Melcher AG and International Power Devices ("IPD"). The Complaint seeks certain injunctive relief and compensatory damages. Power-One has filed its Answer and Counterclaim in response to the Complaint. Power-One has denied all infringement and all claims by Vicor for entitlement to damages or other relief. The Company continues to vigorously defend the matter, to deny all infringement, and to aggressively refute Vicor's projections of potential recoverable damages. In late 2001, the Company was successful in having the products associated with IPD removed from further exposure in the litigation. A ruling on issues of patent claims construction, and on respective summary judgment motions of Vicor and Power-One, was issued January 2, 2003. The court denied both party's motions for summary judgment. Power-One considers the court's ruling on patent claims construction to be consistent with central positions advanced by Power-One regarding the products at issue. The nature and timing of further proceedings is now under review by the court.

As part of its defense of the current patent dispute, the Company has asked for indemnification and reimbursement from escrow accounts that were created as part of the acquisitions of Melcher AG and IPD. Based on the Company's success in having products of IPD eliminated from the Vicor litigation, the Company secured reimbursement in late 2002 from the IPD escrow account for certain legal fees incurred in the defense of IPD products. Management believes that a substantial portion of the costs of defense, and/or ultimate award (if any) the Company may pay in this patent case will be reimbursed from amounts held in escrow.

NOTE 10. COMMON STOCK

On July 26, 2000, the Company's Board of Directors approved a Stockholder Rights Plan under which preferred stock purchase rights have been distributed for each outstanding share of the Company's common stock held at the close of business on August 7, 2000. Each right entitles a holder of the Company's common stock to buy one one-thousandth of a share of a new series of preferred stock at an exercise price of $626.00 subject to adjustment. If a person acquires more than 15% of the Company's common stock, holders of the rights are entitled to purchase the Company's common stock or, in the event of a merger, stock in the merged entity, at half of the market value. The Company is entitled to redeem the rights for a nominal amount at any time until the day that a 15% position has been acquired. The Rights are designed to protect the Company from unfair takeovers.

On November 2, 2000, the Company entered into an underwriting agreement for the sale by the Company of 4.0 million shares of its common stock at an offering price of $70.50. In connection with the offering, the Company granted the underwriters an over-allotment option to purchase up to an

additional 0.5 million shares of the common stock at the public offering price of $70.50 per share. Morgan Stanley Dean Witter acted as the sole underwriter in the transaction, and the issue was underwritten on a "bought-deal basis". On November 7, 2000, the underwriter exercised in full the over-allotment option of 0.5 million additional shares of common stock. The gross proceeds of the 4.5 million shares were $317.2 million. The Company incurred approximately $2.7 million in connection with the offering consisting of underwriter commissions and expenses, printing costs, legal, accounting and other fees. After offering costs, the Company's net proceeds were $314.5 million.

Deferred Compensation Plan On October 4, 2001, the Company's Board of Directors approved a Deferred Compensation Plan (the "Deferred Plan"). The purpose of the Deferred Plan was to motivate and retain eligible employees and non-employee directors by permitting them to defer compensation into stock units that would be paid out in the form of shares of the Company's common stock in January 2003. For the period beginning on October 22, 2001 and ending on October 20, 2002 (the "Deferral Period"), eligible employees elected irrevocably to defer up to 50% of their base salary and eligible directors elected irrevocably to defer up to 100% of their compensation relating to regularly scheduled meetings. The Company matched the deferral at 100% in January 2003. The Deferred Plan provided for these amounts to be settled in the Company's common stock on the first day following the first public release of actual earnings of the Company for the fiscal year ending December 31, 2002 (the "Payment Date"). For participants under the Plan as of October 31, 2001, the number of shares of the Company's common stock to be distributed to the employee or director on the Payment Date are equal to the sum of (i) amount deferred plus (ii) the 100% Company match, divided by $6.00. Participants (i.e. new employees) entering the Plan after October 31, 2001 received a number of shares of the Company's common stock on the Payment Date equal to the sum of (i) amount deferred plus (ii) the 100% Company match, divided by the average of the Company's stock price over the ten trading days preceding the first day of the Company's applicable pay period which follows the participant's irrevocable election to participate.

The Company recognized the amount deferred by the employees and directors as compensation expense ratably during the Deferral Period. The Company recognized the amount matched by the Company as compensation expense ratably during the period beginning on October 22, 2001 and ending on the Payment Date. Compensation expense recognized by the Company is equal to the total number of shares to be distributed to each employee and director multiplied by the fair market value on the measurement date, October 18, 2001. For the years ended December 31, 2002 and 2001, the Company recorded approximately $9.5 million and $2.2 million in compensation expense related to the Deferred Plan, respectively.

The stock unit equivalent of the amount deferred by the employee vested at the end of each pay period, whereas the stock unit equivalent of the Company's match vested on the Payment Date. The Plan provided for certain prorating of vesting and for distribution of shares in the event employment or director service ends (either voluntarily or involuntarily) before the Payment Date. At December 31, 2002 and 2001, there were approximately 723,000 and 144,000 stock units vested, respectively, under the Deferred Plan. Additionally, as of December 31, 2002 and 2001, 79,897 and 1,172 shares of the Company's common stock had been issued in connection with the provisions of the Plan relating to terminations of employment prior to the Payment Date, respectively. The total number of shares expected to be issued on the Payment Date in connection with this plan is approximately 920,000 shares which is net of approximately 525,000 shares that will be withheld to satisfy the employees' tax obligation.

HC Power Stock Issuances HC Power provided stock bonus incentives to certain key employees. The stock bonus agreements provided for the granting of HC Power common stock to the employees over specified vesting periods, ranging from three to 12 years. All stock bonus agreements contained accelerated vesting provisions upon a change of control of HC Power. The stock bonuses have been recognized as compensation expense in the period of grant. The compensation expense was determined based on the fair market value at the date of grant. In 1999, 161,481 shares were granted to employees and compensation expense of $0.5 million was recognized. At December 31, 1999, 146,940 shares were unvested. The unvested shares vested and were granted at the time of merger with Power-One. 812,925 shares of the Company's common stock were issued to certain employees of HC Power in exchange for the accelerated shares. The Company recorded compensation expense of $13.3 million in the first quarter of 2000 which was based on $16.38 per share, the fair value of the Company's common stock on February 29, 2000. Additionally, the Company recorded a $2.2 million tax benefit to additional paid-in capital in the second quarter of 2000 on the disposition of 812,925 shares of the Company's common stock made by certain employees of HC Power.

Stock Options In February 1996, the Board of Directors approved a stock option plan for the issuance of 3.0 million shares of common stock (the "1996 Plan"). In January 1999, the 1996 Plan was amended to increase the shares issuable under the plan. The Company can issue either qualified or non-qualified stock options under the 1996 Plan. At December 31, 2002, 16.0 million shares were reserved under the 1996 plan, of which 4.9 million were available for future grants. The option price is determined by the Board of Directors based on the fair market value of the Company's common stock on the date of grant. The existing options generally vest over four- and seven-year terms. Those options with seven-year vesting terms include accelerated vesting provisions that allow for vesting over five years if certain performance measures are met. In connection with the issuance of stock options in 1997 and 2002, the Company has computed compensation cost for the difference between the estimated fair market values and the option exercise prices at the date of grant totaling approximately $0.2 million and $0.9 million, respectively, which is being amortized over the vesting periods of the options. For the year ended December 31, 2002, the Company recognized compensation expense of $0.9 million. There was no material compensation expense recorded in 2001 and 2000.

In September 2001, the Board of Directors approved a stock option plan for the issuance of 2.5 million shares of common stock (the "2001 Plan"). The Company can only issue non-qualified stock options under the 2001 Plan, and may not issue options under the 2001 Plan to a member of the Board of Directors or an executive officer (i.e. an officer as defined under and subject to Section 16 of the Securities Exchange Act of 1934). At December 31, 2002, 174,970 shares of common stock were available for future grants under the 2001 Plan. The option price is determined by the Board of Directors based on the fair market value of the Company's common stock on the date of grant. Options granted under the 2001 Plan generally vest over four years. All options under the 2001 Plan have been granted at fair market value.

Total options exercisable under both the 1996 and 2001 Plans as of December 31, 2002, 2001 and 2000 were 4.7 million, 3.2 million and 1.0 million, respectively.

Stock option activity of the Company is as follows:

	Millions of Options	Exercise Price per Option	Weighted Average Exercise Price
Options outstanding December 31, 1999	5.3	$ 0.33-$ 9.94	$ 2.65
Options granted	4.3	$11.17-$83.75	$ 22.60
Options exercised	(0.8)	$ 0.33-$ 9.55	$ 2.07
Options cancelled	(0.2)	$ 2.05-$58.55	$ 9.28
Options outstanding December 31, 2000	8.6	$ 0.33-$83.75	$ 12.43
Options granted	5.0	$ 5.77-$35.88	$ 7.03
Options exercised	(0.4)	$ 0.33-$20.88	$ 4.26
Options cancelled	(1.0)	$ 0.50-$83.75	$ 12.94
Options outstanding December 31, 2001	12.2	$ 0.33-$83.75	$ 10.43
Options granted	0.6	$ 0.10-$10.78	$ 5.63
Options exercised	(1.0)	$ 0.10-$ 5.77	$ 5.13
Options cancelled	(0.7)	$ 2.05-$83.75	$ 12.53
Options outstanding December 31, 2002	11.1	$ 0.10-$83.75	$ 10.51

The following table summarizes information regarding options outstanding at December 31, 2002:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Millions Outstanding	Remaining Contractual Life	Weighted Average Exercise Price	Millions Exercisable	Weighted Average Exercise Price
$ 0.10-$ 0.33	0.9	3.00 yrs	$ 0.32	0.8	$ 0.33
$ 0.50-$ 2.05	1.2	5.76 yrs	$ 1.99	0.7	$ 1.96
$ 2.32-$ 4.67	1.0	5.80 yrs	$ 3.75	0.7	$ 3.88
$ 4.71-$ 5.77	3.6	8.72 yrs	$ 5.76	0.4	$ 5.69
$ 6.00-$16.38	1.8	7.65 yrs	$ 11.44	0.8	$ 12.41
$16.64-$20.88	1.6	7.41 yrs	$ 20.38	0.8	$ 20.53
$20.88-$42.31	0.6	7.52 yrs	$ 27.28	0.3	$ 26.32
$47.50-$83.75	0.4	7.54 yrs	$ 56.53	0.2	$ 56.52
$ 0.10-$83.75	11.1	7.19 yrs	$ 10.51	4.7	$ 10.84

Employee Stock Purchase Plan The Company adopted, effective January 1, 1998, an Employee Stock Purchase Plan, under which 9.0 million shares are reserved for purchase by employees. Substantially all of the Company's domestic employees may contribute from two to eight percent of their qualified earnings toward the purchase of the Company's common stock. The plan provides the participants the opportunity to purchase shares at 85% of the fair market value on either the first day or the last day of each six-month offering period, whichever is lower. The offering periods generally run from January 1 through June 30 and July 1 through December 31. At December 31, 2002, 2001 and 2000 there were 0.2 million, 0.2 million and 0.1 million shares issued cumulatively under this plan, respectively.

NOTE 11. BUSINESS GEOGRAPHICAL LOCATIONS

The Company operates as one segment in accordance with SFAS 131. The Company's chief operating decision maker and management personnel view the Company's performance and make resource allocation decisions by looking at the Company as a whole. Although there are different divisions within the Company, they are economically similar and are also similar in terms of the five criteria set forth in SFAS 131 in order to combine segments. Our products are all power conversion products primarily geared toward the communications industry, and our sales force sells products from all divisions. The nature of the production process is similar across divisions, and manufacturing for the different divisions occurs in common facilities. The same engineers with the same qualifications design and manufacture products across divisions. The types and class of customers are similar across the divisions and product lines, and our products are distributed through common channels and distributor networks.

The Company has manufacturing and research and development operations in the United States, Mexico, Dominican Republic, Switzerland, Slovakia, Norway, Ireland and China. The following table summarizes the Company's revenues and long lived assets in different geographic locations (in millions):

	Year Ended December 31,		
	2002	2001	2000
Revenues:(a)			
United States	$ 91.0	$ 189.1	$ 353.1
Canada	10.1	29.7	19.4
United Kingdom	17.8	33.7	31.7
Other European countries	66.0	68.3	57.4
Malaysia	21.9	5.9	
Other Asia countries	15.2	27.2	36.3
Other foreign countries	8.7	9.8	13.1

	Year Ended December 31,		
Total	$ 230.7	$ 363.7	$ 511.0

Long-Lived Assets:		
United States	$ 67.9	$ 75.3
Norway	8.4	89.2
Dominican Republic	18.5	23.3
Mexico	5.0	21.7
Switzerland	19.4	16.8
Other foreign countries	14.9	6.7
Total	$ 134.1	$ 233.0

(a)
Revenues are attributable to countries based on location of customer

NOTE 12. INCOME TAXES

Income (loss) before provision (benefit) for income taxes consisted of the following (in millions):

	Year Ended December 31,		
	2002	2001	2000
United States	$ (78.9)	$ (140.8)	$ 39.5
Non-United States	(144.3)	(46.1)	26.9
Total	$ (223.2)	$ (186.9)	$ 66.4

The components of provision (benefit) for income taxes are as follows (in millions):

	Year Ended December 31,		
	2002	2001	2000
Current:			
Federal	$ (4.7)	$ (6.5)	$ 13.6
State		0.5	4.1
Foreign	(0.3)	4.7	5.7
Total current	(5.0)	(1.3)	23.4
Deferred:			
Federal	$	$ 1.1	$ 0.4
State		0.2	0.2

	Year Ended December 31,		
Foreign	(7.2)	(1.0)	(1.5)
Total deferred	(7.1)	0.3	(0.9)
Provision (benefit) for income taxes	$ (12.2)	$ (1.0)	$ 22.5

The components of deferred income tax assets (liabilities) are as follows (in millions):

	Year Ended December 31,					
	2002			2001		
	Federal	State	Foreign	Federal	State	Foreign
Current:						
Uniform capitalization	$ 1.3	$ 0.2	$	$ 0.5	$ 0.1	$
Sales discount reserve	0.3	0.1		0.6	0.1	
Bad debt reserve	1.1	0.2	0.3	1.5	0.3	(0.4)
Inventory reserve	24.5	4.2	(0.9)	22.2	4.2	
Warranty reserve	1.1	0.2	0.1	1.1	0.2	0.1
Deferred Compensation	3.4	0.6		0.8	0.1	
State taxes				0.1		
Inventory overheads						(0.4)
Other	0.9	0.1	(0.1)	0.4	0.1	(0.4)
Subtotal	32.6	5.6	(0.6)	27.2	5.1	(1.1)
Valuation Allowance	(32.6)	(5.6)	(0.8)	(27.2)	(5.1)	(0.8)
Total current			(1.4)			(1.9)
Non-current:						
NOL	30.2	2.3	7.2	15.2	2.5	1.9
Intangible assets	5.8	2.3		3.7	0.7	(6.1)
Restructuring Allowance	2.6	0.4	0.1	2.1	0.4	
Fixed assets	3.8	0.7	1.6	(1.7)	(0.3)	(0.1)
Other	(0.2)	0.6	0.1	0.7		(0.4)
Subtotal	42.2	6.3	9.0	20.0	3.3	(4.7)
Valuation Allowance	(42.2)	(6.3)	(9.4)	(20.0)	(3.3)	(2.4)
Total non-current			(0.4)			(7.1)
Net deferred income tax assets (liabilities)	$	$	$ (1.8)	$	$	$ (9.0)

Net deferred income tax liabilities amounting to $8.0 million were acquired by the Company through the acquisition of Powec in 2000.

The Company records a deferred income tax asset in jurisdictions where it generates a loss for income tax purposes. Due to volatility in the industry within which the Company operates, the Company may record a valuation allowance against these deferred income tax assets in accordance with SFAS 109 when, in management's judgment, the deferred income tax assets may not be realized in the foreseeable future. During 2002 and 2001, the Company recorded a $39.9 million and $58.8 million valuation allowance against deferred income tax assets, respectively.

A reconciliation of the Company's provision for income taxes to the U.S. federal statutory rate is as follows (in millions):

	Year Ended December 31,					
	2002		2001		2000	
	Amount	%	Amount	%	Amount	%
Provision for income taxes at statutory rate	$ (78.1)	(35)	$ (65.4)	(35)	$ 22.4	34
Foreign income taxed at lower rates	23.2	10	14.2	8	(4.1)	(6)
Non-deductible goodwill	19.4	9	0.9		0.9	1
State taxes			0.8		2.8	4
IPD non-deductible in-process research and development						
Job Creation and Worker Assistance Act income tax refund	(4.7)	(2)				
Other	(0.8)		(1.9)	(1)	0.5	1
Valuation Allowance net of state taxes	28.8	13	50.4	27		
	$ (12.2)	(5)%	$ (1.0)	(1)%	$ 22.5	34%

As of December 31, 2002, the Company had net operating loss (NOL) carry forwards for U.S. federal and state income tax purposes of approximately $86.3 million and $35.5 million, respectively. These operating loss carry forwards expire in various years beginning in 2021 and 2013, respectively. The Company also has foreign NOLs in various countries.

On March 9, 2002, the Job Creation and Worker Assistance Act was signed into law. Among other provisions, the act temporarily extends the general NOL carryback period to five years (from two years). The provision is effective for NOLs generated in taxable years ending December 31, 2002 and 2001. This act allowed the Company to obtain an additional tax refund of approximately $4.7 million during 2002. SFAS 109 requires that the effect of an enacted change in tax laws or rates be included in income from continuing operations in the period that includes the enactment date.

NOTE 13. RELATED PARTY TRANSACTIONS

Stephens, Inc., a significant stockholder, provided financial advisory services of approximately $0.1 million, $0.1 million, and $2.8 million for the years ended December 31, 2002, 2001 and 2000, respectively. These services are primarily related to acquisition work. The Company had no payables to Stephens, Inc., at December 31, 2002 and 2001. An officer of Stephens, Inc. is on the Company's Board of Directors.

O'Melveny & Myers LLP provided general legal services of approximately $0.3 million, $0.6 million and $1.9 million for the years ended December 31, 2002, 2001 and 2000, respectively. An O'Melveny & Myers LLP partner (now retired and of counsel to the firm) was elected to the Company's Board of Directors during the year ended December 31, 2000. The Company had no payables to O'Melveny & Myers LLP at December 31, 2002 and 2001.

During the fourth quarter of 2002, the Company contributed certain non-cash assets to a contract manufacturer in Asia in exchange for approximately 10% of the common stock of that contract manufacturer. This investment is being accounted for under the cost method. The Company contributed some its excess SMT manufacturing equipment that had previously been written down to fair value of approximately $2.0 million and approximately $5.2 million of a note receivable from the contract manufacturer held by the Company in exchange for the equity investment. This contract manufacturer is a significant supplier to the Company.

See Subsequent Events footnote for additional disclosures regarding related parties.

NOTE 14. RESEARCH AND DEVELOPMENT

Research and development expenses were $21.2 million, $23.5 million and $19.2 million for the years ended December 31, 2002, 2001 and 2000, respectively.

NOTE 15. INTANGIBLE ASSETS

Intangible assets consist of the following (in millions):

	December 31, 2002			
	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets	Weighted Average Life (In years)
Non-amortizable intangibles				
Goodwill	$ 29.1	$ 5.1	$ 24.0	
Trade name	16.6	5.2	11.4	
Subtotal	45.7	10.3	35.4	
Amortizable intangibles				
Product technology	20.2	11.0	9.2	10
Other	10.0	3.7	6.3	15
Subtotal	30.2	14.7	15.5	
Total	$ 75.9	$ 25.0	$ 50.9	

	December 31, 2001			
	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets	Weighted Average Life (In years)
Non-amortizable intangibles				
Goodwill	$ 90.1	11.1	79.0	
Trade name	16.6	5.2	11.4	
Subtotal	106.7	16.3	$ 90.4	
Amortizable intangibles				
Product technology	27.3	10.9	16.4	9
Other	29.6	6.4	23.2	12
Subtotal	56.9	17.3	39.6	

	December 31, 2001		
Total	$ 163.6	$ 33.6	$ 130.0

The Company adopted SFAS 142 effective January 1, 2002 and accordingly ceased amortization of goodwill and the Company's trade name, which is deemed to have an indefinite life. SFAS 142 supersedes APB Opinion No. 17, "Intangible Assets". Under SFAS 142, the Company is no longer

required to amortize goodwill and other intangible assets with indefinite lives. However, these balances are subject to periodic testing for impairment.

The Company performed an impairment test of goodwill in accordance with SFAS 142 during the third quarter of 2002 and determined that it would record a $67.6 million impairment charge. During the third quarter of 2002 the Company modified its long-term forecast to account for continuing weakness in its industry, which negatively impacted the SFAS 142 analysis of goodwill. All of the impaired goodwill is related to the acquisition of Powec in 2000, whose business has been negatively impacted by a downturn in service provider spending.

In addition, the Company also performed an analysis of its other intangible assets in accordance with SFAS 144 during the third quarter of 2002. The Company determined that certain identifiable intangible assets were impaired and recorded a charge of $23.4 million as the carrying value of the asset group exceeded expected future cash flows. The intangible assets being written down consist primarily of customer relationships and product technology. This write-down for other intangible assets is also related to the Company's acquisition of Powec in 2000.

During 2001, the Company recognized a pre-tax impairment charge of $19.4 million related to certain intangible assets that were acquired in past business combinations, primarily goodwill associated with the purchase of a product line from Eldec in 2000, and the Melcher trade name acquired in 1998. The Company decided to discontinue the older product line that was acquired from Eldec as part of the Powec acquisition and to transition those customers into other, newer product lines. Accordingly, the net book value of the goodwill associated with the acquisition of the Eldec product line, or $11.0 million, was written off completely. The Company also decided to replace the Melcher trade name with the Power-One trade name worldwide, and completed the transition to the Power-One trade name in 2001. Accordingly, since the Melcher trade name was no longer being used, its net book value of $7.5 million was written off completely. The net book value of other intangible items written off consisted of $0.9 million for assembled workforce and sales force acquired in previous business combinations that were laid off as part of the Company's 2001 restructuring program. Additionally, the Company reviewed its technology investments during 2001 in light of market conditions. As a result of the Company's analysis and assessment of the investments, a net book value of approximately $7.5 million was written-off, of which $4.8 million affected intangibles.

Below is a reconciliation of net income (loss) and earnings (loss) per share as reported for the years ended December 31, 2002, 2001 and 2000 to net income (loss) and earnings (loss) per share adjusted for the amortization expense related to goodwill and the Company's trade name which ceased due to the adoption of SFAS 142 effective January 1, 2002.

	Year Ended December 31,		
	2002	2001	2000
Reported net income (loss)	$ (211.0)	$ (185.9)	$ 43.9
Add: Goodwill and Company trade name amortization, net of tax		6.5	4.6
Adjusted net income (loss)	$ (211.0)	$ (179.4)	$ 48.5
Reported basic earnings (loss) per share	$ (2.62)	$ (2.36)	$ 0.59
Add: Goodwill and Company trade name amortization, net of tax		0.08	0.07

	Year Ended December 31,		
Adjusted basic earnings (loss) per share	$ (2.62)	$ (2.28)	$ 0.66
Reported diluted earnings (loss) per share	$ (2.62)	$ (2.36)	$ 0.56
Add: Goodwill and Company trade name amortization, net of tax		0.08	0.06
Adjusted diluted earnings (loss) per share	$ (2.62)	$ (2.28)	$ 0.62

Estimated future amortization expense is as follows, in millions:

Year Ending December 31,	Amortization Expense
2003	$ 2.8
2004	2.8
2005	2.6
2006	2.1
2007	1.8
Total	$ 12.1

During 2002 and 2001, the Company paid $0.1 million in cash and $7.0 million in cash and stock to the former shareholders of Powec as earnout consideration for 2001 and 2000 operational performance, respectively. These payments were recorded as additions to goodwill at the time, but were subsequently written off as part of the Company's SFAS 142 analysis during the third quarter of 2002.

The changes in the carrying amount of goodwill for the years ended December 31, 2002 and 2001 are as follows (in millions):

	December 31,	
	2002	2001
Beginning balance	$ 79.0	$ 90.9
Impairment losses	(67.6)	(11.0)
Increase in goodwill due to earnout consideration paid related to acquisition	0.1	7.0
Amortization expense		(6.5)
Changes in foreign currency on beginning balance	12.5	(1.4)
Ending balance	$ 24.0	$ 79.0

NOTE 16. EARNINGS (LOSS) PER SHARE (EPS)

The following is a reconciliation of the EPS data (in millions, except per share data):

Year Ended December 31,		
2002	2001	2000
(Loss)	Income	Income

	Year Ended December 31,								
		Average Shares	Per Share		Average Shares	Per Share		Average Shares	Per Share
Net income (loss)	$ (211.0)			$ (185.9)			$ 43.9		
Basic shares outstanding		80.4			78.8			74.0	
Basic earnings (loss) per share	(211.0)	80.4	($ 2.62)	(185.9)	78.8	$ (2.36)	43.9	74.0	$ 0.59
Dilutive securities								3.9	
Diluted earnings (loss) per share	$ (211.0)	80.4	($ 2.62)	$ (185.9)	78.8	$ (2.36)	$ 43.9	77.9	$ 0.56

The dilutive effect of stock options outstanding at December 31, 2002 and 2001 was not included in the calculations of diluted loss per share for the years ended December 31, 2002 and 2001 because to do so would have had an anti-dilutive effect as the Company had a net loss for these periods. The weighted average number of such options excluded from the diluted loss per share computation was approximately 1.8 million and 2.5 million for the years ended December 31, 2002 and 2001, respectively.

Additionally, the Company had 6.1 million, 2.8 million and 1.7 million potential anti-dilutive shares at December 31, 2002, 2001 and 2000, respectively, primarily related to employee stock options.

NOTE 17. NOTES RECEIVABLE

At December 31, 2002, notes receivable include a note from a third party contractor in Asia consisting of current- and long-term amounts of $3.0 million and $3.8 million, respectively. During the fourth quarter of 2002, the Company contributed certain non-cash assets to this contract manufacturer in exchange for approximately 10% of the common stock of that contract manufacturer. The Company contributed some its excess SMT manufacturing equipment that had previously been written down to fair value of approximately $2.0 million and approximately $5.2 million of the note receivable in exchange for the equity investment.

At December 31, 2002 and 2001, the long-term notes receivable also included a note from an officer of the Company in the amount of $0.7 million pursuant to his employment contract.

Both of these notes mature in the first quarter of 2004 and bear interest of 7.25% and 5.5%, respectively.

NOTE 18. WARRANTIES

The Company offers its customers warranties on products sold based on product type and application. Based on warranty repair costs and the rate of return, the Company periodically reviews and adjusts its warranty accrual. Actual repair costs are offset against the reserve. A tabular presentation of the activity within the warranty accrual account for the years ended December 2002, 2001 and 2000 is presented below, in millions:

	December 31,		
	2002	2001	2000
Beginning balance	$ 3.1	$ 2.8	$ 2.0
Charges and costs accrued	1.6	1.3	0.4
Acquired balance			0.7
Less repair costs incurred	(1.1)	(1.1)	(0.2)
Change due to foreign currency	0.2	0.1	(0.1)

	December 31,		
Ending balance	$ 3.8	$ 3.1	$ 2.8

NOTE 19. RETIREMENT PLANS

The Company sponsors various retirement and pension plans, including defined benefit and defined contribution plans, which cover most employees worldwide. Most international employees are covered by government-sponsored programs where the cost to the Company is not significant.

The Company sponsors one defined benefit plan, which covers 133 employees in Norway, which was in place at the time of the acquisition of Powec AS. This plan provides covered individuals with defined future benefits based on years of service, level of salary at retirement age and the level of governmental social security benefits at retirement. The plan is funded periodically by the Company and is administered by an independent insurance company. The Company records the actuarially-determined net pension liability on its balance sheet.

Below is a summary of the pension plan periodic costs, changes in the benefit obligation and plan assets, amounts recognized on the Company's balance sheet, and actuarial assumptions used (in millions):

	2002	2001
Net Periodic Benefit Costs		
Service cost	$ 0.4	$ 0.2
Interest cost	0.1	0.1
Expected return on plan assets	(0.2)	
Statutory taxes	0.1	
Net periodic benefit cost	$ 0.4	$ 0.3
Change in Benefit Obligation		
Benefit obligation beginning of year	$ 2.0	$ 1.8
Service cost	0.4	0.2
Interest cost	0.1	0.1
Actuarial gain	(0.2)	(0.1)
Total benefits paid	$	$
Benefit obligation end of year	$ 2.3	$ 2.0
Change in Plan Assets		
Plan assets at fair value beginning of year	$ 1.5	$ 1.2
Actual return on plan assets		
Company contributions	0.5	0.3
Benefits paid from plan assets		
Plan assets at fair value end of year	$ 2.0	$ 1.5
Amounts Recognized in the Company's Balance Sheet		
Plan assets less than projected benefit obligation	$ 0.3	$ 0.5
Unrecognized actuarial gains		(0.1)

	2002	2001
Total recognized in other liabilities	$ 0.3	$ 0.4
Assumptions		
Discount rate	7.0%	7.0%
Expected long-term rate of return on plan assets	8.0%	8.0%
Rate of increase in compensation levels	3.0%	2.5%

The Company has 401(k) profit sharing plans covering all domestic employees, subject to certain participation, age and vesting requirements. The plans provide that the Company will partially match employee contributions at either a discretionary amount or up to specified percentages. Total Company contributions were $0.3 million, $0.7 million and $0.5 million for the years ended December 31, 2002, 2001 and 2000, respectively.

NOTE 20. SUBSEQUENT EVENTS

On February 13, 2003, the Company acquired di/dt Inc., a technology innovator in the DC/DC space, for 1.4 million common shares of the Company's common stock valued at $7.2 million, with up to an additional 1.0 million shares of the Company's common stock payable as an earnout to the former di/dt shareholders. The earnout is payable in March 2005 and is contingent upon certain milestones related to di/dt's sales and new product introduction during 2003 and 2004. In addition, the Company has granted a bonus of approximately $1.0 million to the six original founders of di/dt, half of which was paid upon close of the acquisition in February of 2003, and half of which will be paid in August of 2003 contingent upon their continued employment with the Company.

As of December 31, 2002, the Company held a $2.0 million note receivable from, as well as a $3.0 million cost basis investment in di/dt prior to the acquisition. Additionally, the Company held an exclusive license from di/dt for certain current, as well as prospective new products of di/dt, under which license the Company was making royalty payments to di/dt relating to sales of licensed products. Stephens, Inc., a significant shareholder of the Company, was also a significant shareholder in di/dt. Additionally, the Company's outside counsel and the Company's chief executive officer each held a small equity position in di/dt prior to the acquisition.

POWER-ONE, INC.

QUARTERLY FINANCIAL DATA FOR THE 2002 AND 2001 QUARTERS (unaudited)

(In millions, except per share data)

	2002 Quarters Ended			
	Mar. 31	Jun. 30	Sept. 30	Dec. 31(1)
Net sales	$ 48.4	$ 56.2	$ 60.0	$ 66.0
Gross profit (loss)	12.6	15.7	(56.9)	24.6
Income (loss) from operations	(11.3)	(10.6)	(205.1)	2.9
Net income (loss)	(7.2)	(10.3)	(198.5)	5.1
Diluted earnings (loss) per share	(0.09)	(0.13)	(2.45)	0.06

2001 Quarters Ended

	Mar. 31	Jun. 30	Sept. 30	Dec. 31(2)
Net sales	$ 169.9	$ 92.9	$ 53.1	$ 47.9
Gross profit (loss)	62.6	(58.9)	(13.7)	15.8
Income (loss) from operations	27.4	(119.0)	(62.2)	(30.0)
Net income (loss)	16.4	(80.4)	(43.3)	(78.7)
Diluted earnings (loss) per share	$ 0.20	$ (1.02)	$ (0.55)	$ (1.00)

(1)
During the fourth quarter of 2002, the Company recorded an increase in operating income of approximately $2.8 million due to year-end adjustments. This included a $1.8 million favorable adjustment related to physical inventory counts performed during the fourth quarter, and a $1.0 million change in the accrual for sales discounts and returns.

(2)
During the fourth quarter of 2001, the Company recorded an asset impairment charge of $19.4 million related to certain intangible assets, and a deferred income valuation allowance of $58.8 million against deferred income tax assets.

F-39

POWER-ONE, INC.

SUPPLEMENTAL SCHEDULE II: VALUATION AND QUALIFYING ACCOUNTS FOR EACH OF THE YEARS ENDED DECEMBER 31, 2002, 2001, AND 2000

(In millions)

Descriptions	Balance at Beginning of Period	Charged to Costs and Expenses(1)	Acquired Balances(2)	Deductions(3)	Change in Foreign Currency on Beginning Balance	Balance at End of Period
Allowance of doubtful accounts:						
Year ended December 31						
2002	$ 4.7	2.9		(1.3)	0.3	$ 6.6
2001	2.6	3.4		(1.1)	(0.2)	4.7
2000	1.9	0.9	0.2	(0.4)		2.6
Accrued sales discounts and returns:						
Year ended December 31						
2002	1.7	7.8		(8.6)		0.9
2001	1.1	13.5		(12.9)		1.7
2000	0.8	11.0		(10.7)		1.1

(1)
For the allowance for doubtful accounts, represents charges to bad debt expense for the year. For the accrued sales discounts and returns, represents the provisions for estimated discounts and returns.

(2)
Beginning balance upon acquisition of Powec effective May 16, 2000.

(3)
For the allowance for doubtful accounts, represents write off of bad debt. For the accrued sales discounts and returns, represents products returned from customer.

S-1

INDEX TO EXHIBITS

The exhibits listed below are filed as part of, or incorporated by reference, into this Report.

	Description
2.1(a)	Stock and Loan Purchase Agreement effective August 31, 1998 between SBC Equity Partners Ltd., Defi Holding SA, Elektrowatt AG, Dr. Hans Grueter, Dr. Martin Schnider, Johann Milavec and Power-One, Inc. regarding the sale and purchase of shares in and certain convertible loans to Melcher Holding AG
2.2(b)	Agreement and Plan of Merger dated as of January 7, 1999, by and among Power-One, Inc., Power-One Acquisition Corp. and International Power Devices, Inc.
2.3(c)	Agreement and Plan of Merger dated as of February 11, 2000, by and among Power-One, Inc., Power-One Acquisition Corp. and HC Power Inc.
2.4(d)	Amended and Restated Stock Purchase Agreement entered into as of May 15, 2000 among Power-One, Inc. and the shareholders of Powec AS (Norway)
3.1(e)	Restated Certificate of Incorporation of the Company
3.2(f)	Amendment to the Restated Certificate of Incorporation, filed with the Secretary of State of the State of Delaware on August 31, 2000
3.3(n)	Amended and Restated Bylaws of the Company
4.1(e)	Specimen Common Stock Certificate
4.2(h)	Rights Agreement, dated as of July 27, 2000, between Power-One, Inc. and American Stock Transfer & Trust Company, as Rights Agent, including as exhibits thereto the terms of the Junior Participating Preferred Stock and Form of Right Certificate
4.3(i)	Certificate of Designations of Junior Participating Preferred Stock of the Company
10.1(e)	Form of Indemnification Agreement between the Company and its directors, executive officers and certain other officers
10.2(n)	Amended and Restated 1996 Stock Incentive Plan, dated January 25, 2002
10.4(e)	P-E Tax Exemption Grant dated January 4, 1995
10.5(j)	Employee Stock Purchase Plan
10.6(g)	Revolving Loan Agreement among Power-One, Inc., International Power Devices, Inc., Melcher Holding AG, HC Power, Inc., certain lenders and Union Bank of California, N.A., as Administrative Agent and Lead Arranger, dated May 10, 2000
10.7(k)	Letter of Agreement between the Company and the President and Chief Operating Officer
10.8(l)	Power-One 2001 Stock Option Plan, dated September 28, 2001
10.9(m)	Power-One 2001 Deferred Compensation Plan, dated October 5, 2001
21(n)	List of Subsidiaries
23	Independent Auditors' Consent
24(n)	Power of Attorney (Contained on Signature Page)
99.1	Section 906 certification by CEO
99.2	Section 906 certification by CFO

(a)
Previously filed as an exhibit to Form 8-K dated August 31, 1998 and filed on September 15, 1998

(b)
Previously filed as an exhibit to Form 8-K dated January 29, 1999 and filed on February 9, 1999

(c)
Previously filed as an exhibit to Form 8-K dated February 29, 2000 and filed on March 13, 2000

(d)
Previously filed as an exhibit to the Quarterly Report on Form 10-Q for the Quarterly Period Ended April 2, 2000 and filed on May 17, 2000

(e)
Previously filed as an exhibit to the Registration Statement on Form S-1 of Power-One, Inc.

(f)
Previously filed as an exhibit to the Quarterly Report on Form 10-Q for the Quarterly Period Ended October 1, 2000 and filed on November 15, 2000

(g)
Previously filed as an exhibit to the Quarterly Report on Form 10-Q for the Quarterly Period Ended July 2, 2000 and filed on August 16, 2000

(h)
Previously filed as an exhibit to the Registration Statement on Form 8-A of Power-One, Inc.

(i)
Previously filed as an exhibit to Form 8-K dated July 26, 2000 and filed on August 9, 2000

(j)
Previously filed as an exhibit to the Registration Statement on Form S-8 of Power-One, Inc.

(k)
Previously filed as an exhibit to the Annual Report on Form 10-K for the Fiscal Year Ended January 2, 2000 and filed on April 3, 2000

(l)
Previously filed on Form S-8 on September 28, 2000.

(m)
Previously filed on Form S-8 on October 5, 2000.

(n)
Previously filed as an exhibit to the Annual Report on Form 10-K for the fiscal year ended December 31, 2001.

QuickLinks