

POWER ONE INC  
Form 10-Q  
August 12, 2011

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark One)

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

**For the Quarterly Period Ended July 3, 2011**

**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 0-29454**

**POWER-ONE, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or Organization)

**77-0420182**

(I.R.S. Employer Identification Number)

**740 Calle Plano, Camarillo, California**

(Address of principal executive offices)

**93012**

(Zip Code)

Registrant's telephone number, including area code: **(805) 987-8741**

**Not Applicable**

(Former name or former address, if changed since last report)

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 a shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

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

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

As of August 5, 2011, 103,793,790 shares of the Registrant's \$0.001 par value common stock were outstanding.

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1 Consolidated Condensed Financial Statements****POWER-ONE, INC.****CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS****(In thousands, except per share data, unaudited)**

|   | <b>Three Months Ended</b> |                         | <b>Six Months Ended</b> |                         |
|---|---------------------------|-------------------------|-------------------------|-------------------------|
|   | <b>July 3,<br/>2011</b>   | <b>July 4,<br/>2010</b> | <b>July 3,<br/>2011</b> | <b>July 4,<br/>2010</b> |
| NET SALES   | \$ 260,304                | \$ 214,549              | \$ 504,847              | \$ 366,926              |
| COST OF GOODS SOLD                                | 172,926                   | 135,142                 | 333,211                 | 241,791                 |
| GROSS PROFIT                                      | 87,378                    | 79,407                  | 171,636                 | 125,135                 |
| EXPENSES:   |                           |                         |                         |                         |
| Selling, general and administrative               | 20,895                    | 18,225                  | 41,980                  | 33,199                  |
| Research and development                          | 12,086                    | 8,568                   | 23,382                  | 16,946                  |
| Amortization of intangible assets                 | 468                       | 356                     | 910                     | 733                     |
| Restructuring costs                               |                           | 2,514                   |                         | 3,443                   |
| Asset impairment                                  |                           | 409                     |                         | 409                     |
| Litigation  | 638                       |                         | 873                     |                         |
| Total expenses                                    | 34,087                    | 30,072                  | 67,145                  | 54,730                  |
| INCOME FROM OPERATIONS                            | 53,291                    | 49,335                  | 104,491                 | 70,405                  |
| INTEREST AND OTHER INCOME (EXPENSE):              |                           |                         |                         |                         |
| Interest income                                   | 709                       | 26                      | 1,192                   | 26                      |
| Interest expense                                  | (1,631)                   | (2,016)                 | (3,018)                 | (4,035)                 |
| Loss on extinguishment of debt                    |                           |                         |                         | (5,658)                 |
| Other income (expense), net                       | (4,496)                   | 722                     | (6,709)                 | 1,522                   |
| Total interest and other income (expense), net    | (5,418)                   | (1,268)                 | (8,535)                 | (8,145)                 |
| INCOME BEFORE INCOME TAXES                        | 47,873                    | 48,067                  | 95,956                  | 62,260                  |
| PROVISION FOR INCOME TAXES                        | 16,601                    | 23,258                  | 34,052                  | 32,958                  |
| INCOME BEFORE EQUITY IN EARNINGS OF JOINT VENTURE | 31,272                    | 24,809                  | 61,904                  | 29,302                  |
| EQUITY IN EARNINGS OF JOINT VENTURE               | 413                       | 353                     | 595                     | 461                     |
| NET INCOME  | \$ 31,685                 | \$ 25,162               | \$ 62,499               | \$ 29,763               |
| PREFERRED STOCK DIVIDEND AND ACCRETION            | 870                       | 855                     | 1,736                   | 1,706                   |
| NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS    | \$ 30,815                 | \$ 24,307               | \$ 60,763               | \$ 28,057               |
| BASIC EARNINGS PER SHARE                          | \$ 0.26                   | \$ 0.23                 | \$ 0.51                 | \$ 0.28                 |
| DILUTED EARNINGS PER SHARE                        | \$ 0.21                   | \$ 0.17                 | \$ 0.41                 | \$ 0.21                 |
| BASIC WEIGHTED AVERAGE SHARES OUTSTANDING         | 103,636                   | 88,453                  | 103,713                 | 88,377                  |

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|   |         |         |         |         |
|---|---------|---------|---------|---------|
| DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING | 140,283 | 142,278 | 140,602 | 140,955 |
|---|---------|---------|---------|---------|

See notes to unaudited consolidated condensed financial statements.

Table of Contents**POWER-ONE, INC.****CONSOLIDATED CONDENSED BALANCE SHEETS****(In thousands, except per share data, unaudited)**

|   | <b>July 3,<br/>2011</b> | <b>January 2,<br/>2011</b> |
|---|-------------------------|----------------------------|
| <b>ASSETS</b>   |                         |                            |
| <b>CURRENT ASSETS:</b>  |                         |                            |
| Cash and cash equivalents   | \$ 142,715              | \$ 227,907                 |
| Accounts receivable:  |                         |                            |
| Trade, less allowance for doubtful accounts: \$9,156 at July 3, 2011; \$5,876 at January 2, 2011  | 238,420                 | 262,546                    |
| Other   | 6,061                   | 7,980                      |
| Inventories   | 177,345                 | 152,286                    |
| Prepaid expenses and other current assets   | 21,829                  | 21,671                     |
| <b>Total current assets</b>   | <b>586,370</b>          | <b>672,390</b>             |
| PROPERTY AND EQUIPMENT, net of depreciation and amortization: \$83,014 at July 3, 2011;<br>\$72,879 at January 2, 2011  | 79,729                  | 63,325                     |
| OTHER INTANGIBLE ASSETS, net  | 18,816                  | 18,802                     |
| OTHER ASSETS  | 8,494                   | 7,295                      |
| <b>TOTAL</b>  | <b>\$ 693,409</b>       | <b>\$ 761,812</b>          |
| <b>LIABILITIES, PREFERRED STOCK AND STOCKHOLDERS' EQUITY</b>  |                         |                            |
| <b>CURRENT LIABILITIES:</b>   |                         |                            |
| Accounts payable  | \$ 143,856              | \$ 213,096                 |
| Restructuring reserve   | 109                     | 549                        |
| Long-term debt, current portion   |                         | 103                        |
| Income tax payable  | 6,340                   | 103,739                    |
| Other accrued expenses  | 63,428                  | 67,339                     |
| <b>Total current liabilities</b>  | <b>213,733</b>          | <b>384,826</b>             |
| LONG-TERM DEBT, net of current portion  | 35,986                  | 35,911                     |
| OTHER LIABILITIES   | 53,327                  | 39,445                     |
| Total liabilities   | 303,046                 | 460,182                    |
| <b>COMMITMENTS AND CONTINGENCIES</b>  |                         |                            |
| REDEEMABLE CONVERTIBLE PREFERRED STOCK par value \$0.001; 23.625 series A<br>redeemable convertible preferred stock issued and outstanding at July 3, 2011 and January 2, 2011;<br>liquidation preference \$1,000 per share plus accumulated dividends. | 20,153                  | 19,597                     |
| <b>STOCKHOLDERS' EQUITY</b>   |                         |                            |
| Common stock, par value \$0.001; 300,000 shares authorized; 103,705 and 103,975 shares issued and<br>outstanding at July 3, 2011 and January 2, 2011, respectively  | 104                     | 104                        |
| Additional paid-in capital  | 627,951                 | 629,687                    |
| Accumulated other comprehensive income  | 68,834                  | 41,420                     |
| Accumulated deficit   | (326,679)               | (389,178)                  |
| <b>Total stockholders' equity</b>   | <b>370,210</b>          | <b>282,033</b>             |
| <b>TOTAL</b>  | <b>\$ 693,409</b>       | <b>\$ 761,812</b>          |

See notes to unaudited consolidated condensed financial statements.



Table of Contents**POWER-ONE, INC.****CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS****(In thousands, unaudited)**

|   | <b>Six Months Ended</b> |                         |
|---|-------------------------|-------------------------|
|   | <b>July 3,<br/>2011</b> | <b>July 4,<br/>2010</b> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                         |                         |
| Net income  | \$ 62,499               | \$ 29,763               |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                         |                         |
| Depreciation and amortization   | 8,785                   | 8,799                   |
| Undistributed earnings of joint venture   | (595)                   | (461)                   |
| Asset impairment  |                         | 409                     |
| Change in fair value of derivative liability  |                         | (478)                   |
| Stock compensation  | 5,660                   | 1,893                   |
| Exchange (gain) loss  | 5,479                   | (1,075)                 |
| Deferred income taxes   | 945                     | 1,570                   |
| Net loss on debt extinguishment   |                         | 5,658                   |
| Net (gain) loss on disposal of property and equipment                                       | 657                     | (5)                     |
| Changes in operating assets and liabilities:  |                         |                         |
| Accounts receivable, net  | 41,514                  | (25,140)                |
| Inventories   | (16,267)                | (26,898)                |
| Prepaid expenses and other current assets   | 1,797                   | (2,901)                 |
| Accounts payable  | (81,208)                | 63,318                  |
| Income tax payable  | (102,614)               | 18,413                  |
| Other accrued expenses  | (1,400)                 | 9,038                   |
| Restructuring reserve   | (439)                   | (5,767)                 |
| Other liabilities   | 6,791                   | 3,862                   |
| Net cash provided by (used in) operating activities   | (68,396)                | 79,998                  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                         |                         |
| Acquisition of property & equipment   | (19,238)                | (8,320)                 |
| Proceeds from sale of property and equipment  |                         | 348                     |
| Other assets  | (856)                   | (603)                   |
| Net cash used in investing activities   | (20,094)                | (8,575)                 |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                         |                         |
| Proceeds from (repayments of) borrowings on bank credit facilities, net                     |                         | (447)                   |
| Repayments of borrowings on long-term debt  | (108)                   | (10,537)                |
| Payment of debt issue costs   | (1,987)                 |                         |
| Repurchases of common stock   | (5,213)                 |                         |
| Issuance of common stock  | 400                     | 1,070                   |
| Cash paid to satisfy nonvested share related employee tax withholding obligations           | (847)                   | (166)                   |
| Dividends paid  | (1,181)                 | (1,773)                 |
| Net cash used in financing activities   | (8,936)                 | (11,853)                |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>  | <b>12,234</b>           | <b>(3,908)</b>          |
|   | (85,192)                | 55,662                  |



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INCREASE (DECREASE) IN CASH AND CASH  
EQUIVALENTS

|   |         |        |
|---|---------|--------|
| CASH AND CASH EQUIVALENTS, BEGINNING OF<br>PERIOD | 227,907 | 89,553 |
|---|---------|--------|

|  |            |            |
|--|------------|------------|
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 142,715 | \$ 145,215 |
|--|------------|------------|

SUPPLEMENTAL CASH FLOW INFORMATION:

|                        |            |          |
|------------------------|------------|----------|
| Cash paid for interest | \$ 1,958   | \$ 2,667 |
| Income taxes           | \$ 136,474 | \$ 8,886 |

See notes to unaudited consolidated condensed financial statements.

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**SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES**

During the six months ended July 3, 2011 and July 4, 2010, the Company recorded approximately \$0.6 million and \$0.5 million, respectively, in "Equity in earnings of joint venture" in the consolidated condensed statements of operations related to the Company's share in the earnings from the joint venture for which it holds a non-controlling interest.

During the six months ended July 4, 2010, the company paid \$10.0 million plus accrued interest to repurchase and extinguish \$4.5 million of its 8% Senior Secured Convertible Notes, and recorded a net loss of \$5.7 million related to the extinguishment of debt in its consolidated condensed statements of operations.

During the six months ended July 3, 2011 and July 4, 2010, an additional \$1.1 million and \$2.4 million, respectively, of property and equipment had been purchased but not yet paid for.

See notes to unaudited consolidated condensed financial statements.

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**POWER-ONE, INC.**

**CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

**(In thousands, unaudited)**

|   | <b>Three Months Ended</b> |                         | <b>Six Months Ended</b> |                         |
|---|---------------------------|-------------------------|-------------------------|-------------------------|
|   | <b>July 3,<br/>2011</b>   | <b>July 4,<br/>2010</b> | <b>July 3,<br/>2011</b> | <b>July 4,<br/>2010</b> |
| NET INCOME                              | \$ 31,685                 | \$ 25,162               | \$ 62,499               | \$ 29,763               |
| OTHER COMPREHENSIVE INCOME<br>(LOSS)    |                           |                         |                         |                         |
| Foreign currency translation adjustment | 8,491                     | (6,637)                 | 27,414                  | (11,757)                |
| COMPREHENSIVE INCOME                    | \$ 40,176                 | \$ 18,525               | \$ 89,913               | \$ 18,006               |

See notes to unaudited consolidated condensed financial statements.

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**POWER-ONE, INC.**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE 1 BASIS OF PRESENTATION**

These statements should be read in conjunction with our consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended January 2, 2011. The operating results for the three-month and six-month periods ended July 3, 2011 and cash flows for the six-month period ended July 3, 2011, are not necessarily indicative of the results that will be achieved for the full fiscal year ending January 1, 2012 or for future periods.

The accompanying consolidated condensed financial statements have been prepared without audit and reflect all adjustments, consisting of normal recurring adjustments, which are, in the opinion of management, necessary for a fair statement of financial position and the results of operations for the interim periods. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. Estimates are used for, but not limited to, the accounting for the allowance for doubtful accounts, inventory valuation, restructuring costs, goodwill and intangible asset valuation, impairment costs, depreciation and amortization, sales returns and discounts, warranty costs, derivative valuation, uncertain tax positions and the recoverability of deferred tax assets, stock compensation, business combinations, contingencies and the fair value of assets and liabilities disclosed. Actual results and outcomes may differ from management's estimates and assumptions. The statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures, normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to such SEC rules and regulations.

The balance sheet at January 2, 2011 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. The accompanying interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Power-One, Inc.'s ("the Company") Form 10-K for the year ended January 2, 2011.

The Company's reporting period coincides with the 52- to 53-week period ending on the Sunday closest to December 31, and its fiscal quarters are the 13- to 14-week periods ending on the Sunday nearest to March 31, June 30, September 30 and December 31. The three month and six month periods ended July 3, 2011 and July 4, 2010 were 13-week and 26-week periods, respectively.

**NOTE 2 CHANGES TO SIGNIFICANT ACCOUNTING POLICIES AND RELATED DISCLOSURES**

***Recent Pronouncements and Accounting Changes*** In October 2009, the FASB issued Accounting Standards Update ("ASU") No. 2009-13, "Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force," ("ASU 2009-13"). This update provides amendments to the criteria of ASC 605, "Revenue Recognition," for separating consideration in multiple-deliverable arrangements. The amendments to this update establish a selling price hierarchy for determining the selling price of a deliverable. This Accounting Standards Update will be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with earlier application permitted. Alternatively, an entity can elect to adopt this standard on a retrospective basis. The Company adopted the measurement requirements of this guidance prospectively with no impact to the consolidated financial statements.

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**POWER-ONE, INC.**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**NOTE 2 CHANGES TO SIGNIFICANT ACCOUNTING POLICIES AND RELATED DISCLOSURES (Continued)**

In May 2011, the FASB issued ASU No. 2011-04 which relates to fair value measurement (FASB ASC Topic 820), which amends current guidance to achieve common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards. The amendments generally represent clarification of FASB ASC Topic 820, but also include instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. The guidance also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This guidance is effective during interim and annual periods beginning after December 15, 2011 and is to be applied prospectively. The adoption of this standard will not materially impact the Company's consolidated financial statement statements.

In June 2011, the FASB issued Accounting Standards Update No. 2011-5, Presentation of Comprehensive Income. This standard requires presentation of the items of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive, statements of net income and other comprehensive income. The new requirements are effective for fiscal years beginning after December 15, 2011. Early adoption is permitted and full retrospective application is required. The Company does not expect a significant impact on the Company's financial positions as a result of adoption of these new requirements.

**NOTE 3 FAIR VALUE FINANCIAL INSTRUMENTS**

ASC 820, "Fair Value Measurements and Disclosures" establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair values into three levels as follows:

Level 1 Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Unobservable inputs reflect the Company's judgments about the assumptions market participants would use in pricing the asset or liability since limited market data exists. The Company develops these inputs based on the best information available, including the Company's own data.

The fair value of certain of the Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and other current liabilities approximate their recorded carrying amounts because of their short-term nature.

The fair value of the Senior Convertible Notes due 2019 was determined by adding the fair value of the notes' conversion feature to the present value of the notes which includes a 10% discount for lack of marketability. The fair value of the notes' conversion feature was

Table of Contents**POWER-ONE, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****(Unaudited)****NOTE 3 FAIR VALUE FINANCIAL INSTRUMENTS (Continued)**

determined using the Binomial model, using a stock price of \$8.21, an exercise price of \$1.35 per share, a volatility factor of 69%, a risk free interest rate of 0.84%, coupon rates of 6%, 8% and 10% and a contractual life of 2.9 years.

The fair value of the Redeemable Convertible Preferred Stock was determined by adding the fair value of the preferred stock conversion feature to the present value of the preferred stock which includes a 10% discount for lack of marketability. The fair value of the preferred stock conversion feature was determined using the Binomial model, using a stock price of \$8.21, a volatility factor of 69%, a risk free interest rate of 0.84%, a dividend yield factor of 10% and a contractual life of 2.9 years.

The fair values of the Company's installment notes were determined using quoted market prices for similar financial instruments.

| Description                            | July 3, 2011 |                | January 2, 2011 |                |
|--|--------------|----------------|-----------------|----------------|
|  | Fair Value   | Carrying Value | Fair Value      | Carrying Value |
| Senior Convertible Notes, due 2019     | \$ 205.0     | \$ 36.0        | \$ 254.4        | \$ 35.9        |
| Redeemable Convertible Preferred Stock | 133.0        | 20.2           | 165.5           | 19.6           |
| Installment notes                      | 0.1          |                | 0.1             | 0.1            |

**NOTE 4 INVESTMENTS**

The Company has an investment in a joint venture in China which is included in other assets on the Company's consolidated condensed balance sheets and is accounted for using the equity method. The carrying value of this investment was \$2.7 million and \$3.1 million at July 3, 2011 and January 2, 2011, respectively. During the three and six months ended July 3, 2011, the Company recorded equity in earnings in joint venture of \$0.4 million and \$0.6 million, respectively, in its consolidated condensed statement of operations. During the three and six months ended July 4, 2010, the Company recorded equity in earnings in joint venture of \$0.4 million and \$0.5 million, respectively, in its consolidated condensed statement of operations. See Note 15.

**NOTE 5 INVENTORIES**

Inventories consist of the following (in millions):

|                          | July 3,<br>2011 | January 2,<br>2011 |
|--------------------------|-----------------|--------------------|
| Raw materials            | \$ 127.3        | \$ 107.6           |
| Subassemblies-in-process | 9.0             | 6.3                |
| Finished goods           | 41.0            | 38.4               |
|                          | \$ 177.3        | \$ 152.3           |

The Company looks at historical and projected usage for inventory in determining what is excess and obsolete. 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. During the six

Table of Contents**POWER-ONE, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****(Unaudited)****NOTE 5 INVENTORIES (Continued)**

months ended July 3, 2011 and July 4, 2010 the Company wrote off approximately \$1.9 million and \$4.6 million, respectively, related to excess and obsolete inventory and other inventory adjustments, and recorded the charges as costs of goods sold. During the three months ended July 3, 2011 and July 4, 2010 the Company wrote off approximately \$1.9 million and \$2.4 million, respectively, related to excess and obsolete inventory and recorded the charges as costs of goods sold.

**NOTE 6 INTANGIBLE ASSETS**

Intangible assets consist of the following (in millions):

|                                    | July 3, 2011                  |                             |                             |  |
|------------------------------------|-------------------------------|-----------------------------|-----------------------------|--|
|                                    | Gross<br>Intangible<br>Assets | Accumulated<br>Amortization | Net<br>Intangible<br>Assets | Weighted<br>Average Life<br>(In Years) |
| <i>Non-amortizable intangibles</i> |                               |                             |                             |  |
| Trade name                         | \$ 11.4                       | \$                          | \$ 11.4                     |  |
| <i>Amortizable intangibles</i>     |                               |                             |                             |  |
| Product technology                 | 5.9                           | 1.7                         | 4.2                         | 7                                      |
| Customer relationships             | 6.0                           | 4.0                         | 2.0                         | 7                                      |
| Other                              | 6.4                           | 5.2                         | 1.2                         | 17                                     |
| Subtotal                           | 18.3                          | 10.9                        | 7.4                         | 11                                     |
| Total                              | \$ 29.7                       | \$ 10.9                     | \$ 18.8                     |  |

|                                    | January 2, 2011               |                             |                             |  |
|------------------------------------|-------------------------------|-----------------------------|-----------------------------|--|
|                                    | Gross<br>Intangible<br>Assets | Accumulated<br>Amortization | Net<br>Intangible<br>Assets | Weighted<br>Average Life<br>(In Years) |
| <i>Non-amortizable intangibles</i> |                               |                             |                             |  |
| Trade name                         | \$ 11.4                       | \$                          | \$ 11.4                     |  |
| <i>Amortizable intangibles</i>     |                               |                             |                             |  |
| Product technology                 | 8.0                           | 4.2                         | 3.8                         | 10                                     |
| Customer relationships             | 5.5                           | 3.3                         | 2.2                         | 7                                      |
| Other                              | 6.4                           | 5.0                         | 1.4                         | 17                                     |
| Subtotal                           | 19.9                          | 12.5                        | 7.4                         | 12                                     |
| Total                              | \$ 31.3                       | \$ 12.5                     | \$ 18.8                     |  |

In accordance with ASC 350, "Intangibles Goodwill and Other," the Company reviews its indefinite lived intangible assets for impairment annually at the end of each fiscal August, or more often if events or circumstances indicate that impairment may have occurred. In addition to

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the testing above, which is done on an annual basis, management considers whether certain impairment indicators are present in assessing whether the carrying value of its indefinite lived intangible assets may be impaired.



Table of Contents**POWER-ONE, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****(Unaudited)****NOTE 6 INTANGIBLE ASSETS (Continued)**

Total amortization expense for each of the six months ended July 3, 2011 and July 4, 2010 was \$1.1 million and \$0.9 million, respectively. Of the \$1.1 million of expense recorded during the six months ended July 3, 2011, \$0.9 million was recorded as amortization of intangibles and \$0.2 million recorded as cost of goods sold. Of the \$0.9 million of expense recorded during the six months ended July 4, 2010, \$0.7 million was recorded as amortization of intangibles and \$0.2 million recorded as cost of goods sold. Total amortization expense for each three months ended July 3, 2011 and July 4, 2010 was \$0.5 million. Of the \$0.5 million of expense recorded during each of the three months ended July 3, 2011 and July 4, 2010, \$0.4 million was recorded as amortization of intangibles and \$0.1 million recorded as cost of goods sold.

Estimated amortization expense related to amortizable intangibles for 2011 through 2015 is as follows (in millions):

| <b>Year Ending December 31,</b> | <b>Amortization<br/>Expense</b> |
|---------------------------------|---------------------------------|
| 2011 (six months)               | \$ 1.1                          |
| 2012                            | 2.0                             |
| 2013                            | 1.9                             |
| 2014                            | 1.2                             |
| 2015 and thereafter             | 1.2                             |
| <b>Total</b>                    | <b>\$ 7.4</b>                   |

**NOTE 7 CREDIT FACILITIES AND NOTES PAYABLE**

On March 29, 2011, the Company entered into a \$150 million revolving credit facility (the "Revolving Credit Facility") with Bank of America, N.A. and a syndicate of other lenders. Any amounts outstanding on the Revolving Credit Facility will be due on April 30, 2014. Borrowings under the Revolving Credit Facility will bear interest based on the London Interbank Offered Rate ("LIBOR"), plus an applicable margin or the base rate, plus an applicable margin.

The Revolving Credit Facility includes usual and customary covenants for credit facilities of this type, including covenants limiting debt, investments, dividends, transactions with affiliates, liens, mergers, asset sales, and material changes in the business of the Company or its subsidiaries. The Revolving Credit Facility also requires the Company to comply with various financial covenants: a minimum trailing twelve months EBITDA of not less than \$150 million as at the end of any fiscal quarter; maintenance of Gross Global Unencumbered Liquidity of not less than the greater of (i) \$20 million or (ii) 130% of the aggregate outstanding amounts under the Revolving Credit Facility; and a minimum Fixed Charge Coverage Ratio of not less than 1.50 to 1.00.

In addition to the Revolving credit facility secured in North America, the Company maintains other credit facilities with various banks in North Europe and Asia. The aggregate limit on all credit facilities was approximately \$169.2 million at July 3, 2011. The credit facilities bear interest on amounts outstanding at various intervals based on various applicable published market rates. At July 3, 2011, no amounts were outstanding on the credit facilities, and \$0.3 million was committed to guarantee letters of credit. After consideration of these commitments, \$168.9 million of additional borrowing capacity

Table of Contents**POWER-ONE, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****(Unaudited)****NOTE 7 CREDIT FACILITIES AND NOTES PAYABLE (Continued)**

was available to the Company as of July 3, 2011. The revolving credit agreements, other than the Revolving Credit Facility, do not contain financial covenants, but require the Company's subsidiary to provide certain financial reports to the lenders. The company was in compliance with all debt covenants at July 3, 2011.

**NOTE 8 OTHER ACCRUED EXPENSES**

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

|                                      | July 3,<br>2011 | January 2,<br>2011 |
|--------------------------------------|-----------------|--------------------|
| Litigation reserve                   | \$ 22.7         | \$ 22.1            |
| Accrued payroll and related expenses | 11.4            | 9.2                |
| Accrued warranties                   | 9.3             | 8.1                |
| Accrued bonuses                      | 6.2             | 16.3               |
| Other accrued expenses               | 13.8            | 11.6               |
|                                      | \$ 63.4         | \$ 67.3            |

**NOTE 9 WARRANTIES**

The Company offers its customers warranties on products sold based on product type and application. Management reviews and adjusts the warranty accrual based on warranty repair costs and the rate of return. Actual repair costs are charged against the reserve. A tabular presentation of the activity within the warranty accrual account for the six months ended July 3, 2011 and July 4, 2010 is presented below, (in millions):

|  | Six Months Ended |                 |
|--|------------------|-----------------|
|  | July 3,<br>2011  | July 4,<br>2010 |
| Balance, beginning of period                   | \$ 21.4          | \$ 4.1          |
| Charges and costs accrued                      | 10.6             | 2.3             |
| Adjustments related to pre-existing warranties | (0.1)            |                 |
| Less repair costs incurred                     | (4.7)            | (1.4)           |
| Changes due to foreign currency                | 1.7              | (0.1)           |
| Balance, end of period                         | \$ 28.9          | \$ 4.9          |

As of July 3, 2011, \$19.6 million of long-term accrued warranties were included as a component of Other Long-Term Liabilities in the Consolidated Balance Sheets.

The Company offers its renewable energy customers extended warranty contracts with terms between five and ten years after the base warranty period expires and accounts for such warranty contract in accordance with ASC 605-20-25. Deferred revenue related to such extended warranty contracts was \$15.5 million and \$8.8 million, as of July 3, 2011 and January 2, 2011, respectively, which were included as part of Other Long-Term Liabilities in the Consolidated Balance Sheets.

Table of Contents**POWER-ONE, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****(Unaudited)****NOTE 10 RESTRUCTURING COSTS**

There were no charges related to restructuring activity during the three and six months ended July 3, 2011. A summary of the charges related to the restructuring activity during the three and six months ended July 4, 2010 is as follows (in millions):

|                            | <b>Three Months<br/>Ended<br/>July 4,<br/>2010</b> | <b>Six Months<br/>Ended<br/>July 4,<br/>2010</b> |
|----------------------------|--|--|
| Contract termination costs | \$ 0.7   | \$ 0.8   |
| Other facility costs       | 1.8  | 2.6  |
|                            | <b>\$ 2.5</b>                                      | <b>\$ 3.4</b>                                    |

During the second quarter of 2009, the Company announced a plan to restructure its global organization in response to ongoing demand uncertainty and to exit its factory in the Dominican Republic. The restructuring plan was accounted for in accordance with ASC 420 and ASC 712, as applicable.

In connection with the Dominican Republic facility closure, the Company recorded \$1.7 million and \$2.7 million of inventory charges and \$0.1 million and \$0.8 million of accelerated depreciation as part of cost of goods sold in the consolidated condensed statements of operations for the three and six months ended July 4, 2010, respectively.

A summary of the restructuring activity during the six months ended July 3, 2011 is as follows (in millions):

|                            | <b>Facilities<br/>Closure</b> |
|----------------------------|-------------------------------|
| Balance at January 2, 2011 | \$ 0.5                        |
| Restructuring charges      |                               |
| Applications of reserve    | 0.4                           |
| Balance at July 3, 2011    | \$ 0.1                        |

At July 3, 2011, \$0.1 million of continuing lease obligations related to the 2005 restructuring plan were included in the Company's consolidated balance sheet. All restructuring obligations have been or will be settled with cash.

Table of Contents**POWER-ONE, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****(Unaudited)****NOTE 11 LONG-TERM DEBT**

Long-term debt consists of the following (in millions):

|   | July 3,<br>2011 | January 2,<br>2011 |
|---|-----------------|--------------------|
| Senior Convertible Notes, due 2019                | \$ 36.0         | \$ 35.9            |
| 2% Installment notes, due 2011                    |                 | 0.1                |
| <b>Total long-term debt</b>                       | <b>36.0</b>     | <b>36.0</b>        |
| Less current portion                              |                 | 0.1                |
| <b>Total long-term debt, less current portion</b> | <b>\$ 36.0</b>  | <b>\$ 35.9</b>     |

On April 23, 2009, the Company entered into a Securities Purchase Agreement (the "Purchase Agreement") with Silver Lake Sumeru Fund, L.P. and Silver Lake Technology Investors Sumeru, L.P. (collectively, "Silver Lake Sumeru") pursuant to which Silver Lake Sumeru invested \$60 million of new capital in the Company. As a result of the transaction, the Company issued \$36.4 million in aggregate principal amount of senior convertible notes due 2019 (the "New Notes"). The principal sum of the New Notes is due on May 8, 2019; however, the notes are redeemable at the option of the holder after five years from issuance and annually thereafter. Interest relating to the notes will be paid semi-annually at a rate of 6% per year the first year, 8% the second year and 10% thereafter, beginning November 8, 2009. The New Notes are convertible into Power-One common stock at a conversion price of \$1.35. The conversion price is subject to adjustment under certain circumstances. There are no financial covenants relating to the New Notes; however, there are certain restrictions that limit the sale of assets, and the incurrence of liens and debt.

The Company has certain long-term notes payable through fiscal year 2013 held at a European subsidiary. Amounts outstanding at July 3, 2011 and January 2, 2011 related to the installment notes were less than \$0.1 million, bearing interest at 2%. The long-term notes payable agreements require the Company's subsidiary to provide certain financial reports to the lender but do not require compliance with any financial covenants. In addition, this subsidiary has an agreement with a European bank to provide borrowings secured by the subsidiary's land and building over a ten-year period. The initial commitment to lend under this agreement was \$9.2 million, with the commitment amount reduced ratably on a quarterly basis beginning March 31, 2004 and ending December 30, 2013. No borrowings were outstanding under this secured note payable agreement at July 3, 2011 and January 2, 2011. The agreement contains financial covenants that require a minimum EBITDA as a percentage of net revenue and a maximum percentage of debt to equity. At July 3, 2011 and January 2, 2011, the Company was in compliance with the debt covenants related to all long-term borrowing arrangements.

Table of Contents**POWER-ONE, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****(Unaudited)****NOTE 11 LONG-TERM DEBT (Continued)**

Aggregate principal maturities on long-term debt outstanding at July 3, 2011 are as follows (in millions):

| <b>Year Ending December 31,</b> |                |
|---------------------------------|----------------|
| 2011 (six months)               | \$             |
| 2012                            |                |
| 2013                            |                |
| 2014                            |                |
| 2015                            |                |
| 2016 and thereafter             | 36.0           |
| <b>Total</b>                    | <b>\$ 36.0</b> |

**NOTE 12 CONTINGENCIES**

*SynQor, Inc. v Power-One, Inc, et. al.* United States District Court, Eastern District of Texas, Civil Action No. 2:07cv497 TJW/CE. This action was initiated by SynQor, Inc. against the Company and eight other power supply manufacturers on November 13, 2007. The complaint alleges that certain products of the Company infringe certain patents held by SynQor in relation to unregulated bus converters and/or point of load (POL) converters used in intermediate bus architecture power supply systems. On December 21, 2010 the jury returned a verdict in favor of SynQor, finding that all of the defendants directly or indirectly infringed all of the claims in the five patents-in-suit and finding Power-One liable for damages in the amount of approximately \$25.6 million. The patents-in-suit are United States patents and the decision covers only the sales of infringing products in the United States.

A final judgment has not yet been entered by the District Court; however the Company believes that errors were made during the trial and that there is a strong basis for an appeal. The Patents and Trademarks Office is re-examining four of the five patents-in-suit and has issued office actions that preliminarily reject the claims in two of the four patents.

Including interest, supplemental damages and other items, the Company believes that its maximum exposure related to this matter is \$30 million. The Company has accrued \$22.7 million representing what it believes to be probable and reasonably estimable based on its discussion with and analysis by counsel of the basis for its appeal.

In addition, the Company is involved in various other claims and legal proceedings which have arisen in the normal course of business. Management does not believe that the outcome of any currently pending claims or legal proceedings in which the Company is involved will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flow.

**NOTE 13 STOCK BASED COMPENSATION PLANS**

The Company accounts for stock-based awards in accordance with ASC 718, "Compensation Stock Compensation." The Company has granted stock awards under its 1996 and 2004 stock incentive plans, which generally vest between one and four years from the date of grant.

Table of Contents**POWER-ONE, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****(Unaudited)****NOTE 13 STOCK BASED COMPENSATION PLANS (Continued)**

During the quarter ended July 3, 2011, the Company issued 0.5 million performance share unit awards. The share units vest based on the performance of the Company's stock price measured over a three-year period measured against a specified index and are eligible for a maximum payout of 150% of the share units granted. The fair value of performance share units was estimated on the date of grant using the Monte Carlo Simulation method, as the share units contain market conditions. The grant date fair value of \$8.52 per share was determined using risk-free interest rate of 1.01%, volatility of 84%, and an expected term of three years.

The fair value of non-vested share units awarded by the Company is measured using the closing fair market value as reported on the NASDAQ Stock Market of the Company's stock on the date the awards are granted. The following table presents the non-vested share unit activity under the Company's stock based compensation plans:

|   | Three Months Ended |              | Six Months Ended |              |
|---|--------------------|--------------|------------------|--------------|
|   | July 3, 2011       | July 4, 2010 | July 3, 2011     | July 4, 2010 |
| Non-vested share units granted, in millions                               | 1.1                | 0.4          | 1.1              | 0.5          |
| Weighted average grant date fair value of non-vested share units          | \$ 8.29            | \$ 7.21      | \$ 8.35          | \$ 6.49      |
| Stock compensation expense related to non-vested share units, in millions | \$ 2.5             | \$ 0.8       | \$ 4.5           | \$ 1.5       |

The fair value of the options and stock appreciation rights granted during the three and six months ended July 3, 2011 and July 4, 2010 was estimated on the date of grant using the Black-Scholes valuation model, with the assumptions shown below.

|  | Three Months Ended |              | Six Months Ended |              |
|--|--------------------|--------------|------------------|--------------|
|  | July 3, 2011       | July 4, 2010 | July 3, 2011     | July 4, 2010 |
| Risk-free interest rate  | 2.5%               | 2.9%         | 2.5%             | 2.9%         |
| Volatility   | 85%                | 80%          | 85%              | 80%          |
| Option life, years   | 5.8                | 5.4          | 5.8              | 5.4          |
| Stock options granted, in millions                               | 1.1                | 0.6          | 1.1              | 0.6          |
| Weighted-average grant date fair value of stock options granted  | \$ 5.77            | \$ 5.09      | \$ 5.77          | \$ 5.09      |
| Stock compensation expense related to stock options, in millions | \$ 0.8             | \$ 0.2       | \$ 1.1           | \$ 0.4       |

**NOTE 14 EARNINGS PER SHARE (EPS)**

Basic and diluted earnings per common share ("EPS") are calculated utilizing the "two-class" method. Under the two-class method, EPS is computed by dividing earnings allocated to common stockholders by the weighted-average number of common shares outstanding for the period. Earnings are allocated to both common shares and participating securities based on the respective

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## POWER-ONE, INC.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

## NOTE 14 EARNINGS PER SHARE (EPS) (Continued)

number of weighted-average shares outstanding for the period. The Company's convertible preferred stock are participating securities due to their participation rights related to cash dividends declared by the Company. If dividends are distributed to the common stockholders, the Company is required to pay dividends to the holders of the preferred stock and common stock pro-rata on an as converted basis.

Components of basic and diluted earnings per share are calculated as follows (in millions, except per share data):

|  | Three Months Ended |                 | Six Months Ended |                 |
|--|--------------------|-----------------|------------------|-----------------|
|  | July 3,<br>2011    | July 4,<br>2010 | July 3,<br>2011  | July 4,<br>2010 |
| <b>Basic EPS</b>   |                    |                 |                  |                 |
| Net income attributable to common stockholders                               | \$ 30.8            | \$ 24.3         | \$ 60.8          | \$ 28.1         |
| Less: undistributed income allocated to participating preferred stockholders | 3.9                | 3.5             | 7.8              | 3.7             |
| Net income allocated to common stockholders                                  | \$ 26.9            | \$ 20.8         | \$ 53.0          | \$ 24.4         |
| Weighted average common shares outstanding (basic)                           | 103.6              | 88.5            | 103.7            | 88.4            |
|  | \$ 0.26            | \$ 0.23         | \$ 0.51          | \$ 0.28         |
| <b>Diluted EPS</b>   |                    |                 |                  |                 |
| Net income available to common stockholders                                  | \$ 30.8            | \$ 24.3         | \$ 60.8          | \$ 28.1         |
| Add: effect of dilutive convertible debt                                     | 1.0                | 1.8             | 2.3              | 3.6             |
| Less: undistributed income allocated to participating preferred stockholders | (3.0)              | (2.3)           | (5.9)            | (2.5)           |
| Net income attributable to common stockholders                               | \$ 28.8            | \$ 23.8         | \$ 57.2          | \$ 29.2         |
| Weighted average common shares outstanding (basic)                           | 103.6              | 88.5            | 103.7            | 88.4            |
| Common shares issuable assuming dilution                                     | 36.7               | 53.8            | 36.9             | 52.6            |
| Weighted average common shares outstanding (diluted)                         | 140.3              | 142.3           | 140.6            | 141.0           |
|  | \$ 0.21            | \$ 0.17         | \$ 0.41          | \$ 0.21         |

Using the treasury stock method, the weighted average common share equivalents outstanding during each period that were excluded from the computation of diluted earnings per share because the exercise price for these options was greater than the average market price of the Company's shares of common stock during the three and six months ended July 3, 2011 was 2.2 million and 1.8 million, respectively, and during the three and six months ended July 4, 2010 was 1.2 million and 1.8 million, respectively.

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**POWER-ONE, INC.**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**NOTE 15 RELATED PARTIES**

The Company maintains a non-controlling interest in a joint venture located in China. The joint venture is accounted for under the equity method and recorded on the consolidated condensed balance sheet as other assets. During the three and six months ended July 3, 2011, the Company recorded \$0.4 million and \$0.6 million, respectively, related to the company's equity share in the joint venture. During the three and six months ended July 4, 2010, the Company recorded \$0.4 million and \$0.5 million, respectively, related to the Company's equity share in the earnings of the joint venture.

The joint venture may purchase raw components and other goods from the Company and may sell finished goods to the Company as well as to other third parties. The Company records revenue on sales to the joint venture only when the components and goods are for sales to third parties. When the joint venture purchases components that will be assembled and sold back to the Company, no revenue is recorded. The Company also has significant and similar relationships with contract manufacturers. These contract manufacturers may purchase raw components from and sell finished goods back to the Company. No revenue is recognized for these transactions. Revenue is recognized only when the products are for sale to third parties. No revenue was recognized related to the joint venture during the three and six months ended July 3, 2011 or July 4, 2010.

The Company paid \$6.8 million and \$3.6 million for inventory purchased from the joint venture during the quarters ended July 3, 2011 and July 4, 2010, respectively, and \$9.4 million and \$5.6 million for inventory purchased from the joint venture during the six months ended July 3, 2011 and July 4, 2010, respectively. At July 3, 2011, the Company owed the joint venture approximately \$4.9 million.

**NOTE 16 SEGMENT INFORMATION**

The Company operates as two reportable business segments in accordance with ASC 280, "Segment Reporting." The Company's chief operating decision maker and management personnel review the Company's performance and make resource allocation decisions by reviewing the results of the two business segments separately. Revenue and operating profit is reviewed by the chief operating decision maker; however the Company assets are not divided based on business segment.

The Company is organized into the Renewable Energy Solutions and Power Solutions segments based on the products and services provided. Renewable Energy Solutions offers inverters and accessories for the photovoltaic/solar and wind markets. These inverters convert DC energy from solar panels and wind turbines into AC energy for customer use or for the utility grid. The Power Solutions segment represents the Company's products for AC/DC, DC/DC and digital power conversion, including power conversion products for data centers, such as servers, storage and networking, as well as telecom and industrial power conversion products.



Table of Contents**POWER-ONE, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****(Unaudited)****NOTE 16 SEGMENT INFORMATION (Continued)**

Revenue with respect to operating segments for the quarters and six months ended July 3, 2011 and July 4, 2010, (in millions):

|                            | Three Months Ended |                 | Six Months Ended |                 |
|----------------------------|--------------------|-----------------|------------------|-----------------|
|                            | July 3,<br>2011    | July 4,<br>2010 | July 3,<br>2011  | July 4,<br>2010 |
| Sales:                     |                    |                 |                  |                 |
| Renewable Energy Solutions | \$ 180.0           | \$ 142.3        | \$ 331.6         | \$ 224.4        |
| Power Solutions            | 80.3               | 72.2            | 173.2            | 142.5           |
| Total                      | \$ 260.3           | \$ 214.5        | \$ 504.8         | \$ 366.9        |

Operating Income (Loss) by operating segment for the quarters and six months ended July 3, 2011 and July 4, 2010 is as follows, (in millions):

|                                    | Three Months Ended |                 | Six Months Ended |                 |
|------------------------------------|--------------------|-----------------|------------------|-----------------|
|                                    | July 3,<br>2011    | July 4,<br>2010 | July 3,<br>2011  | July 4,<br>2010 |
| Operating Income:                  |                    |                 |                  |                 |
| Renewable Energy Solutions         | \$ 56.0            | \$ 60.1         | \$ 101.5         | \$ 89.2         |
| Power Solutions                    | 3.1                | (2.5)           | 14.9             | (5.7)           |
| Total segment operating income     | 59.1               | 57.6            | 116.4            | 83.5            |
| Unallocated amounts:               |                    |                 |                  |                 |
| Restructuring and Asset Impairment |                    | (2.9)           |                  | (3.9)           |
| Corporate and unallocated          | (5.8)              | (5.4)           | (11.9)           | (9.2)           |
| Total                              | \$ 53.3            | \$ 49.3         | \$ 104.5         | \$ 70.4         |

Corporate is a non-operating business segment with the main purpose of supporting operations. Restructuring and asset impairment charges are not allocated to business segment financial statements reviewed by the Company's chief operating decision maker and management personnel.

## Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

The following management's discussion and analysis should be read in conjunction with our management's discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the year ended January 2, 2011 filed with the SEC, and all of our other filings, including our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, filed with the SEC after such date and through the date of this report.

This Quarterly Report on Form 10-Q may contain certain statements that we believe are, or may be considered to be, "forward-looking statements" within the meaning of various provisions of the Securities Act of 1933 and of the Securities Exchange Act of 1934. These forward-looking statements generally can be identified by use of statements that include phrases such as we "expect," "anticipate," "plan," "intend," "continue," "may," "can," "believe" or other similar words or phrases. Similarly, statements that describe our objectives, plans or goals also are forward-looking statements. All of these forward-looking statements are subject to certain risks and uncertainties that could cause our actual results to differ materially from historical results or from those expressed or implied by the relevant forward-looking statement. We discuss these risks and uncertainties in detail in Part I. Item 1A. of our 2010 Form 10-K together with further risks discussed in Part II. Item 1A. Risk Factors of this Form 10-Q.

### Introduction

#### *Overview*

We are organized into two Strategic Business Units ("SBUs"), Renewable Energy Solutions and Power Solutions. The SBUs were created during fiscal 2010 to focus on both the products and services we provide and the customers and end markets that we serve. We are focused on improving our operational and financial performance. Our top objectives are to gain additional market share, execute our operational strategy, and increase profitability and cash flows.

Our strategy is to gain market share by entering new markets, including North America, Asia Pacific and the Middle East as well as provide our customers with innovative products and additional product offerings. Our new product introductions increase power density and provide our customers with a greater range of options to meet their diverse solar needs. Our new product offering range from a line of liquid-cooled inverters which serve the demands of the utility market, particularly in North America, to microinverters which are currently in the testing phase. In addition, we are adding software management capabilities to our inverter offering in order to allow customers the ability to remotely monitor and control individual photovoltaic plants or assets. We are also expanding our Power Solutions product line which includes our Platinum efficiency for custom front-end applications as well as other applications supporting the medical, rail and industrial equipment customers.

As part of our renewable energy solutions operational strategy, we have entered into the North American, Chinese and Indian markets and have established new factories in North America and China, product development laboratories, and continue to build our regional sales and service teams. We will continue to invest in sales and marketing, R&D and our global service team as we believe these are key drivers of our business. We are focused on reducing lead times, improving deliveries to customer request dates, and reducing freight and other transportation costs by localizing the supply chain.

Lastly, we are continuing to drive profitability and improving our cash flows by refining our manufacturing operations thereby reducing our costs to manufacture and ramping production at our new facilities in North America and China.

**Renewable Energy Solutions:** We offer inverters, management systems, accessories and services for the renewable energy market place that includes both photovoltaic/solar and wind applications.

In the renewable energy market, we sell a broad product line of inverters and service offerings that provide our customers with industry-leading efficiency, harvesting power, uptime, reliability, monitoring through software and ease-of-installation. We sell our renewable energy products to distributors/installers, EPCs and OEMs. We are engaged in the design and production of inverters for renewable energy products that convert photovoltaic/solar or wind energy into useable AC power. Our string inverters are used in residential and small commercial applications, while our central inverters are designed for large commercial and utility installations for both the solar and wind markets. These products scale in size from 300 watts up to 2.5 MW. Our product offering also provides our customers with greater control and monitoring of their renewable energy assets using a software-as-a-service (SaaS) platform.

**Power Solutions:** Our power conversion and power management solutions are used in computer servers, data storage, networking, telecommunications and industrial applications. We sell our power conversion products to OEMs, distributors, and service providers. We are engaged in the design and production of the following power conversion products:

AC/DC power supplies that convert AC from a primary power source, such as a wall outlet, into a precisely controlled DC voltage. Virtually every electronic device that plugs into an AC wall outlet requires some type of AC/DC power supply, and we provide a broad range of solutions that power a wide variety of OEM equipment;

DC power systems that are used by communications and Internet service providers to power their equipment, and are used as backup power for large communications infrastructure equipment;

DC/DC converters that modify an existing DC voltage level to a different DC voltage level to meet the power needs of various subsystems and components within electronic equipment. Our DC/DC converters include high-density and low-density "brick" converters that are generally used to control power on communications printed circuit boards and also include Point-of-Load ("POL") converters that power devices within an Intermediate Bus Architecture as well as in other applications; and

Additional products that include digital control products for motors and a variety of other application-specific specialty power products.

**Recent Pronouncements and Accounting Changes** See Part I. Item 1. Note 2 "CHANGES TO SIGNIFICANT ACCOUNTING POLICIES AND RELATED DISCLOSURES Recent Pronouncements and Accounting Changes" in the notes to the consolidated condensed financial statements, herein.

We follow accounting standards set by the Financial Accounting Standards Board, ("FASB"). The FASB sets generally accepted accounting principles ("GAAP") that we follow to ensure we consistently report our financial condition, results of operations, and cash flows. We have updated references to GAAP issued by the FASB in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" to reflect the guidance in the FASB Accounting Standards Codification ("ASC").

## Results of Operations

### *Consolidated*

During the first six months of fiscal 2011, demand in both the renewable energy and power markets remained strong. While certain macro-economic pressures in the European market impacted our ability to increase revenue over the levels achieved during the latter half of fiscal 2010, revenue

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grew by approximately 38% during the first six months of 2011 as compared with the same period of 2010.

**Net Sales.** Net sales increased \$137.9 million, or 37.6%, to \$504.8 million for the first six months of fiscal 2011 from \$366.9 million for the first six months of fiscal 2010. Net sales increased \$45.8 million, or 21.3%, during the second quarter of fiscal 2011 as compared with the same period in 2010. The increase in sales is a result of volume increases in the sales of products primarily impacted by the inverter sales for the rooftop market in Italy and Europe as well as by increased sales of renewable energy products into North America and Asia.

Net sales by business segment were as follows, in millions:

|                            | Three Months Ended |             |                 |             | Six Months Ended |             |                 |             |
|----------------------------|--------------------|-------------|-----------------|-------------|------------------|-------------|-----------------|-------------|
|                            | July 3, 2011       |             | July 4, 2010    |             | July 3, 2011     |             | July 4, 2010    |             |
| Renewable Energy Solutions | \$ 180.0           | 69%         | \$ 142.3        | 66%         | \$ 331.6         | 66%         | \$ 224.4        | 61%         |
| Power Solutions            | 80.3               | 31%         | 72.2            | 34%         | 173.2            | 34%         | 142.5           | 39%         |
| <b>Total</b>               | <b>\$ 260.3</b>    | <b>100%</b> | <b>\$ 214.5</b> | <b>100%</b> | <b>\$ 504.8</b>  | <b>100%</b> | <b>\$ 366.9</b> | <b>100%</b> |

Net sales by customer category were as follows, in millions:

|                   | Three Months Ended |             |                 |             | Six Months Ended |             |                 |             |
|-------------------|--------------------|-------------|-----------------|-------------|------------------|-------------|-----------------|-------------|
|                   | July 3, 2011       |             | July 4, 2010    |             | July 3, 2011     |             | July 4, 2010    |             |
| Distributors      | \$ 116.4           | 45%         | \$ 105.5        | 49%         | \$ 228.4         | 45%         | \$ 172.5        | 47%         |
| OEMs              | 92.6               | 35%         | 60.6            | 28%         | 179.9            | 36%         | 114.5           | 31%         |
| EPCs              | 50.8               | 20%         | 47.2            | 22%         | 93.6             | 18%         | 77.5            | 21%         |
| Service providers | 0.5                |             | 1.2             | 1%          | 2.9              | 1%          | 2.4             | 1%          |
| <b>Total</b>      | <b>\$ 260.3</b>    | <b>100%</b> | <b>\$ 214.5</b> | <b>100%</b> | <b>\$ 504.8</b>  | <b>100%</b> | <b>\$ 366.9</b> | <b>100%</b> |

We have redefined our end-markets based on the customers we serve, and have reclassified certain customers. Net sales for the three and six months ended July 3, 2011 and July 4, 2010 by end-markets under this new classification were as follows:

|                                 | Three Months Ended |              | Six Months Ended |              |
|---------------------------------|--------------------|--------------|------------------|--------------|
|                                 | July 3, 2011       | July 4, 2010 | July 3, 2011     | July 4, 2010 |
| Renewable Energy                | 69%                | 66%          | 66%              | 61%          |
| Servers, Storage and Networking | 14%                | 15%          | 15%              | 16%          |
| Industrial Equipment            | 11%                | 13%          | 13%              | 16%          |
| Network Power Systems           | 6%                 | 6%           | 6%               | 7%           |
| <b>Total</b>                    | <b>100%</b>        | <b>100%</b>  | <b>100%</b>      | <b>100%</b>  |

|                           | Three Months Ended |              | Six Months Ended |              |
|---------------------------|--------------------|--------------|------------------|--------------|
|                           | July 3, 2011       | July 4, 2010 | July 3, 2011     | July 4, 2010 |
| <b>Gross Profit</b>       |                    |              |                  |              |
| Gross profit, in millions | \$ 87.4            | \$ 79.4      | \$ 171.6         | \$ 125.1     |
| Gross profit margin       | 33.6%              | 37.0%        | 34.0%            | 34.1%        |

Gross profit for the first six months of fiscal 2011 was \$171.6 million compared with a gross profit of \$125.1 million in the comparable period in 2010. As a percentage of net sales, gross margin

decreased slightly to 34.0% for the first six months of fiscal 2011 from a gross margin of 34.1% for the same period in 2010. Gross profit for the second quarter of fiscal 2011 was \$87.4 million compared with a gross profit of \$79.4 million in the comparable period in 2010. As a percentage of net sales, gross margin decreased to 33.6% for the second quarter of fiscal 2011 from a gross margin of 37.0% for the same period in 2010. The decrease in gross margin during the second quarter of fiscal 2011 as compared with the same period of 2010 primarily related to higher factory overhead and start-up costs associated with the new facilities in North America and China.

**Selling, General and Administrative Expense.** Selling, general and administrative expense increased \$8.8 million, or 26%, to \$42.0 million for the first six months of fiscal 2011 from \$33.2 million for the same period in 2010. As a percentage of net sales, selling, general and administrative expense decreased to 8% for the first six months of fiscal 2011 from 9% for the same period in fiscal 2010. Selling, general and administrative expense increased \$2.7 million, or 15%, to \$20.9 million for the second quarter of fiscal 2011 from \$18.2 million for the same period in 2010. As a percentage of net sales, selling, general and administrative was 8% for both the second quarter of fiscal 2011 and fiscal 2010.

Selling expense increased \$4.0 million, or 26%, to \$19.1 million for the first six months of 2011 from \$15.1 million for the same period in 2010. Selling expense increased \$2.0 million, or 24%, to \$10.1 million for the second quarter of 2011 from \$8.1 million for the same period in 2010. The increase in selling expense was primarily related to our investment in the expansion of the sales and marketing teams as well as in advertising and trade shows in order to support our initiatives to grow market share and revenue.

General and administrative expense increased \$4.8 million, or 27%, to \$22.9 million for the first six months of 2011 from \$18.1 million for the same period in 2010. General and administrative expense increased \$0.7 million, or 7%, to \$10.8 million for the second quarter of 2011 from \$10.1 million for the same period in 2010. The increase in general and administrative expense is primarily a result of an increase in infrastructure to support the revenue growth.

**Research and Development.** Research and development expense increased by \$6.5 million, or 38%, to \$23.4 million for the first six months of fiscal 2011 from \$16.9 million in the first six months of fiscal 2010. As a percentage of net sales, research and development was 5% during the first six months of 2011 and 2010. Research and development increased by \$3.5 million, or 41%, to \$12.1 million for the second quarter of fiscal 2011 from \$8.6 million in the second quarter of fiscal 2010. As a percentage of net sales, research and development increased to 5% during the second quarter of 2011 from 4% during the same period of 2010. The increase in research and development was primarily due to our continued investment in new product introductions and expansion of research and development efforts during 2011.

**Amortization of Intangible Assets.** Amortization of intangible assets was \$0.9 million for the first six months of 2011 compared to \$0.7 million for the same period in 2010. Amortization of intangible assets was \$0.5 million for the second quarter of fiscal 2011 compared to \$0.4 million in the second quarter of 2010.

**Restructuring Charge and Asset Impairment.** During 2009, we announced and implemented a plan to restructure our global organization in response to ongoing demand uncertainty and to exit our factory in the Dominican Republic. Through implementation of this action, we were able to (i) realign global manufacturing and sourcing; (ii) improve operational performance; (iii) increase efficiencies in the supply chain and manufacturing process and (iv) improve our ability to respond to customer requirements in a cost effective manner. With respect to the 2009 restructuring plan, during the three and six months ended July 4, 2010, we recorded approximately \$2.5 million and \$3.4 million, respectively, of restructuring charges in accordance with ASC 420 and ASC 712, as applicable.

In addition, we recorded \$0.4 million of asset impairment charges in connection with the restructuring related to the consolidation of facilities during the three and six months ended July 4, 2010. No restructuring charges were recorded during the three or six month periods ended July 3, 2011.

**Income from Operations.** As a result of the items above, income from operations was \$104.5 million for the first six months of fiscal 2011 compared with income from operations of \$70.4 million for the first six months of fiscal 2010. Income from operations was \$53.3 million for the second quarter of fiscal 2011 compared with income from operations of \$49.3 million for second quarter of fiscal 2010.

**Interest Income (Expense), Net.** Net interest expense was approximately \$1.8 million for the first six months of fiscal 2011, compared with net interest expense of approximately \$4.0 million for the comparable period in 2010. Net interest expense was approximately \$0.9 million for the second quarter of fiscal 2011, compared with net interest expense of approximately \$2.0 million for the comparable period in 2010.

**Loss on Extinguishment of Debt.** Loss on extinguishment of debt was \$5.7 million for the first six months of fiscal 2010. We repurchased \$4.5 million in face value of outstanding 8% senior secured convertible notes due 2013 for approximately \$10 million during the first six months of fiscal 2010.

**Other Income (Expense), Net.** Net other expense was \$6.7 million for the first six months of fiscal 2011, compared with net other income of \$1.5 million for the same period in 2010. Included in net other expense for the first six months of fiscal 2011 were losses on foreign currency transactions of approximately \$4.9 million primarily related to fluctuations in the Euro, Swiss Franc and Chinese RMB. Included in net other income for the first six months of fiscal 2010 was approximately \$0.5 million of gain due to changes in the market value of the embedded derivatives related to the Company's preferred stock. Also included in net other income for the first six months of fiscal 2010 were gains on foreign currency transactions of approximately \$0.4 million.

Net other expense was \$4.5 million for the second quarter of fiscal 2011, compared with net other income of \$0.7 million for the same period in 2010. Included in net other expense for the second quarter of fiscal 2011 were losses on foreign currency transactions of approximately \$2.4 million. Included in net other income for the second quarter of 2010, were gains on foreign currency transactions of approximately \$0.1 million.

**Provision for Income Taxes.** The provision for income taxes was \$34.1 million for the first six months of fiscal 2011 as compared to \$33.0 million recorded during the first six months of fiscal 2010. The provision for income taxes was \$16.6 million for the second quarter of fiscal 2011 as compared to \$23.3 million recorded during the second quarter of fiscal 2010. The provision for income taxes recorded during 2011 and 2010 are primarily related to taxes recorded at certain of our profitable European locations and is a result of the increase in revenue and profitability during the first six months of fiscal 2011 in certain of our taxable jurisdictions. The effective tax rate decreased to 34.7% for the first six months of 2011 from 48.4% in the comparable period of 2010 and to 35.5% for the second quarter of 2011 from 52.9% in the comparable period in 2010 as a result of the change in geographical mix of pre-tax income at our foreign locations.

Our effective tax rate varies significantly from period to period due to the level, mix and seasonality of earnings generated in the U.S. and our various foreign jurisdictions. Under ASC 740-270, "Interim Reporting of Income Taxes," we are required to adjust our effective tax rate for each quarter to be consistent with the estimated annual effective tax rate. Jurisdictions with a projected loss where no tax benefit can be recognized are excluded from the calculation of the estimated annual effective tax rate. Applying the provisions of ASC 740-270 could result in a higher or lower effective tax rate during a particular quarter, based upon the mix and timing of actual earnings versus annual projections.

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Although we record deferred income tax assets in jurisdictions where we generate a loss for income tax purposes, we also record a valuation allowance against these deferred income tax assets when, in management's judgment, it is more likely than not that the deferred tax assets will not be realized. As a result, we may record no tax benefit in jurisdictions where we incur a loss, but record tax expense in jurisdictions where we record taxable income and have no net operating loss (NOL) carryforward. As a result, few meaningful comparisons can be made on our consolidated tax rates between periods.

**Equity in earnings of joint venture.** During the first six months of fiscal 2011 and 2010, we recorded approximately \$0.6 million and \$0.5 million, respectively, related to our equity share in the earnings of a joint venture. During each of the second quarters of fiscal 2011 and 2010, we recorded approximately \$0.4 million related to our equity share in the earnings of a joint venture.

**Preferred stock dividend and accretion.** During each of the six-month periods ended July 3, 2011 and July 4, 2010, and in connection with the issuance of \$23.6 million of redeemable convertible preferred stock to Silver Lake Sumeru, we recorded \$1.7 million related to the 10% preferred stock dividend and accretion. Included in expense during each of the six-month periods ended July 3, 2011 and July 4, 2010 was \$1.2 million related to preferred dividends declared and \$0.5 million related to the periodic accretions under the interest method. During each of the second quarters of fiscal 2011 and 2010, we recorded \$0.9 million related to the preferred stock dividend and accretion. Included in the expense during each of the second quarters of 2011 and 2010 was \$0.6 million related to the preferred stock dividend and \$0.3 million related to the periodic accretions under the interest method.

### Renewable Energy Solutions

Results for the Renewable Energy Solutions business segment for the three and six months ended July 3, 2011 and July 4, 2010 are as follows, in millions:

|                  | Three Months Ended |                 | Six Months Ended |                 |
|------------------|--------------------|-----------------|------------------|-----------------|
|                  | July 3,<br>2011    | July 4,<br>2010 | July 3,<br>2011  | July 4,<br>2010 |
| Revenue          | \$ 180.0           | \$ 142.3        | 331.6            | \$ 224.4        |
| Operating Income | 56.0               | 60.1            | 101.5            | 89.2            |

During the three and six months ended July 3, 2011, demand in the renewable energy market continued to increase at a rapid rate over levels achieved during the same periods of 2010. The revenue growth in the renewable energy market was driven by increased demand in the overall solar market, as well as by our expansion further into Asia, Australia, North America and the Middle East. Operating margins decreased to 31% during the first six months of 2011 from 40% for the comparable period of 2010 and 31% in the second quarter of fiscal 2011 from 42% in the comparable period of 2010 as a result of higher factory overhead and start-up costs associated with the new facilities established in North America and China, as well as increased investment in sales and marketing, service teams, and research and development.

### Power Solutions

Results for the Power Solutions business segment for the three and six months ended July 3, 2011 and July 4, 2010 are as follows, in millions:

|                         | Three Months Ended |                 | Six Months Ended |                 |
|-------------------------|--------------------|-----------------|------------------|-----------------|
|                         | July 3,<br>2011    | July 4,<br>2010 | July 3,<br>2011  | July 4,<br>2010 |
| Revenue                 | \$ 80.3            | \$ 72.2         | \$ 173.2         | \$ 142.5        |
| Operating income (loss) | 3.1                | (2.5)           | 14.9             | (5.7)           |

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The improved economic conditions in the power conversion industry as well as higher shipments due to order fulfillment of past due orders, improved factory performance and continued efforts in constraining operating expense contributed to increased revenue and operating profit levels during the three and six months ended July 3, 2011. During the six months ended July 3, 2011, revenue increased by \$30.7 million, or 22%, as compared with the same period of 2010. Operating income increased \$20.6 million to \$14.9 million during the six months ended July 3, 2011 from a loss of \$5.7 million during the comparable period in fiscal 2010. During the three months ended July 3, 2011, revenue increased by \$8.1 million, or 11%, as compared with the same period in 2010. Operating results increased \$5.6 million to \$3.1 million during the three months ended July 3, 2011 from a loss of \$2.5 million during the comparable period in fiscal 2010.

### Liquidity and Capital Resources

Our cash and cash equivalents balance decreased to \$142.7 million at July 3, 2011 from \$227.9 million at January 2, 2011. Our primary uses of cash in the first six months of fiscal 2011 consisted of \$68.4 million of cash used in operating activities, resulting primarily from \$136.5 million cash paid for income taxes, decreases in accounts payable of \$81.2 million, and increases in inventory of \$16.3 million. Income taxes paid primarily represent Italian tax payments for 2010 as well as estimated taxes on Italian income for the first six months of fiscal 2011. In addition, \$19.2 million was used for the acquisition of property and equipment, \$5.2 million for the repurchase of our common stock, and \$1.2 million for dividends paid related to our redeemable convertible preferred stock. Our primary sources of cash in the first six months of fiscal 2011 included net income of \$62.5 million, as well as decreases in accounts receivables of \$41.5 million.

The aggregate limit on all credit facilities was approximately \$169.2 million at July 3, 2011. The credit facilities bear interest on amounts outstanding at various intervals based on various applicable published market rates. At July 3, 2011, no amounts were outstanding on the credit facilities, and \$0.3 million was committed to guarantee letters of credit. After consideration of these commitments, \$168.9 million of additional borrowing capacity was available to us as of July 3, 2011.

We have certain long-term notes payable in a European subsidiary and amounts outstanding at January 2, 2011, were \$0.1 million and bore interest at an interest rate of 2%. The long-term notes payable agreements require our subsidiary to provide certain financial reports to the lender but do not require compliance with any financial covenants.

The company was in compliance with all debt covenants at July 3, 2011.

We currently anticipate that our total capital expenditures for 2011 will be in the range of \$45 to \$55 million primarily for manufacturing equipment and process improvements, equipment related to research and development and product development, additions and upgrades to our facilities and information technology infrastructure, and other administrative requirements. However, the amount of these anticipated capital expenditures likely will change during the year based on changes in expected revenues, our financial condition and the general economic climate.

Based on current plans and business conditions, we believe our existing working capital and borrowing capacity, coupled with the funds that we expect to generate from our operations, will be sufficient to meet our liquidity requirements for the next twelve months. We will continue to evaluate our liquidity position, and when and if necessary explore alternatives to maximize our position and we may determine to raise additional funding through the issuance of equity or incurrence of debt.

We may from time to time seek to retire or purchase our outstanding debt through cash purchases. Such repurchases, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.



Table of Contents**Off-Balance Sheet Arrangements**

Below we identify and disclose all of our significant off balance sheet arrangements and related party transactions. We do not utilize special purpose entities or have any known financial relationships with other companies' special purpose entities.

*Operating Leases.* We enter into operating leases where and when the economic climate is favorable.

*Purchase Commitments.* We have purchase commitments for materials, supplies, services, and property, plant and equipment as part of the normal course of business. Certain supply contracts may contain penalty provisions for early termination. Based on current expectations, we do not believe that we are reasonably likely to incur any material amount of penalties under these contracts.

*Other Contractual Obligations.* We do not have material financial guarantees that are reasonably likely to affect liquidity.

*Related Parties.* We have entered into certain transactions, or have other arrangements with related parties. (See Note 15 to the Consolidated Condensed Financial Statements in Part I, Item I)

*Summary of Contractual Obligations and Commitments.* A summary of our future contractual payments related to lease obligations and long-term debt is as follows, in millions:

| Year Ending December 31, | Operating<br>Leases(1) | Long-Term<br>Debt<br>Obligations | Estimated<br>Interest<br>Obligations(2) | Preferred<br>Stock<br>Dividend | Total       |
|--------------------------|------------------------|----------------------------------|---|--------------------------------|-------------|
| 2011 (six months)        | 2.6                    |                                  | 3.4                                     | 1.2                            | 7.2         |
| 2012                     | 4.4                    |                                  | 3.6                                     | 2.4                            | 10.4        |
| 2013                     | 4.1                    |                                  | 3.6                                     | 2.4                            | 10.1        |
| 2014                     | 3.5                    |                                  | 3.6                                     | 0.6                            | 7.7         |
| 2015                     | 1.8                    |                                  | 3.6                                     |                                | 5.4         |
| 2016 and thereafter      | 0.8                    | 36.4                             | 12.2                                    |                                | 49.4        |
| <b>Total</b>             | <b>17.2</b>            | <b>36.4</b>                      | <b>30.0</b>                             | <b>6.6</b>                     | <b>90.2</b> |

(1) Our restructuring reserve at July 3, 2011 includes approximately \$0.1 million relating to the above operating lease commitments.

(2) We calculated estimated interest payments for long-term debt as follows: for fixed-rate term debt, we calculated interest based on the applicable rates and payment dates; for variable-rate term debt, we calculated interest based on the most recent applicable interest rates in effect.

**Item 3 Quantitative and Qualitative Disclosures About Market Risk**

Market risks relating to our operations result primarily from changes in interest rates on outstanding financial debt instruments and changes in foreign currency exchange rates.

**Debt.** Our exposure to interest rate risk results from financial debt instruments that we enter. We may also enter into derivative financial instrument transactions, such as swaps, in order to manage or reduce our exposure to interest rate changes related to our indebtedness. However, under no circumstances do we enter into derivative or other financial instrument transactions for speculative purposes. We are exposed to cash flow risk due to changes in market interest rates related to our outstanding debt. For example, in Europe our variable long term debt bears interest on borrowings outstanding at various time intervals and is based on the Euro Interbank Offered Rate (EURIBOR). Our principal risk with respect to our variable long-term debt is to changes in this market rate.

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The table below presents principal cash flows and related weighted average interest rates for our long-term debt obligations at July 3, 2011 by expected maturity dates. The information is presented in U.S. dollar equivalents, our reporting currency, and parenthetically in Eurodollar, where applicable. Additionally, the U.S. dollar equivalent carrying value of Eurodollars 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 be expected to have a significant effect on our future earnings.

|   | Expected Maturity Date |      |      |      |      |            | Total | Fair Value |
|---|------------------------|------|------|------|------|------------|-------|------------|
|   | 2011                   | 2012 | 2013 | 2014 | 2015 | Thereafter |       |            |
| (Amounts in millions, except for percentages) |                        |      |      |      |      |            |       |            |
| <b>Long-term Debt:</b>                        |                        |      |      |      |      |            |       |            |
| Fixed Rate Sr. Convertible Notes              |                        |      |      |      |      |            |       |            |
| Due 2019 (USD)                                | \$                     | \$   | \$   | \$   | \$   | \$         | 36.4  | \$ 205.0   |
| Average Interest Rate                         |                        |      |      |      |      |            | 10.5% | 10.5%      |
| Fixed Rate (less than EUR 0.1)                | \$                     | \$   | \$   | \$   | \$   | \$         | \$    | \$ 0.1     |
| Average Interest Rate                         |                        | 2.0% |      |      |      |            |       | 2.0%       |

**Foreign Currency.** A significant portion of our business operations are conducted in various countries in Europe and Asia. 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, including inter-company transactions. Historically, we have not actively engaged in substantial exchange rate hedging activities, and at July 3, 2011, we had not entered into any significant foreign exchange contracts. A hypothetical 10% adverse change in foreign currency translation rates would result in a reduction of reported net sales of approximately \$34 million and a reduction of reported net income before income taxes of approximately \$12 million in the six months ended July 3, 2011. A hypothetical 10% adverse change in foreign currency translation rates would result in a reduction of reported total assets at July 3, 2011 of approximately \$53 million. These estimates assume an adverse shift in all foreign currency exchange rates, which do not always move in the same direction; actual results may differ materially.

#### **Item 4 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 Securities Exchange Act of 1934 ("Exchange Act") is recorded, processed, summarized and reported within the required time periods.

As of July 3, 2011, we had carried out an evaluation of our disclosure controls and procedures under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer of the effectiveness of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that such disclosure controls and procedures, as defined in Exchange Act Rules 13a-15(e) and 15d-15(e), are effective in that they are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. We review our disclosure controls and procedures on an ongoing basis and may from time to time make changes aimed at enhancing their effectiveness and to ensure that they evolve with our business.

There have been no changes in our internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f), during the quarter ended July 3, 2011 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q, including the Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as codified in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended from time to time. The forward-looking statements include comments and predictions regarding future events and our future results that are based on current expectations, estimates, forecasts, and projections about the industries in which we operate and the beliefs and assumptions of our management. Words such as "expect," "anticipate," "estimate," "plan," "intend," "continue," "may," "can," "believe" and similar expressions reflecting something other than historical fact are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. Any statements which refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances are forward-looking statements. Forward-looking statements are not guarantees, but rather are predictions of and make certain assumptions regarding anticipated future results. Achievement of actual results is dependent upon and will involve a variety of risks and uncertainties that could cause actual results to differ materially from assumptions and predictions.

Risks and uncertainties that could affect our results include, but are not limited to, the risk that the market for the sale of certain products and services may not develop as expected; the impact of competitive products or technologies; competitive pricing pressures; the ability to secure sufficient quantities of components within the time frame necessary to meet our customers' requirements; increases in raw material costs; the ability to resolve contract manufacturer supply chain constraints that might impact on-time deliveries to customers; inventory increases tied to component acquisitions or end product build up based on forecasts that do not materialize in part or in full; delays or cancellations of new product designs; delays or cancellations of orders by customers; the difficulty of efficiently managing the company's cost structure for capital expenditures, materials and overhead, as well as operating expenses such as wages and benefits due to the vertical integration of the company's manufacturing processes; the ability to achieve and execute upon planned movements of the location of manufacturing selected products, specifically the achievement of projected manufacturing realignment to, and increase in manufacturing utilization and output in, our China and North American facilities; the ability to implement our plans to improve operational efficiency; potential business disruptions, including labor unrest, work stoppages, and short or long term labor disruptions; the existence or enactment of adverse U.S. and foreign government regulation; the reduction or discontinuation of incentives; the risk that the development of products and services may not proceed as planned; general adverse domestic and international economic conditions including interest rate and currency exchange rate fluctuations; costs involved (i.e. the total amount, and/or the amount incurred in any given quarter) due to attacks and challenges to, or assertions by us of, our intellectual property rights; the ability to attract and retain key personnel; the ability to manage our international operations and currency exchange rate fluctuations relating to transactions or accounts conducted or maintained in currencies other than U.S. dollars; the ability to capture customers in new markets that we are pursuing; market fluctuations or volatility that could cause the trading price of our common stock to decline; and changes in the regulatory environment in which our business operates. Persons reading this Quarterly Report on Form 10-Q are cautioned that such forward-looking statements are only predictions, and actual events or results may differ materially and adversely. In evaluating such statements, readers should specifically consider the various factors which could cause actual events or results to differ materially and adversely from those indicated by such forward-looking statements. For a detailed description of such factors, see "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended January 2, 2011. We undertake no obligation to modify or revise any forward-looking statement to take into account or otherwise reflect subsequent events or circumstances arising after the date that the forward-looking statement was made.

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**PART II OTHER INFORMATION**

**Item 1 Legal Proceedings**

*SynQor, Inc. v Power-One, Inc, et. al.* United States District Court, Eastern District of Texas, Civil Action No. 2:07cv497 TJW/CE. This action was initiated by SynQor, Inc. against the Company and eight other power supply manufacturers on November 13, 2007. The complaint alleges that certain products of the Company infringe certain patents held by SynQor in relation to unregulated bus converters and/or point of load (POL) converters used in intermediate bus architecture power supply systems. On December 21, 2010 the jury returned a verdict in favor of SynQor, finding that all of the defendants directly or indirectly infringed all of the claims in the five patents-in-suit and finding Power-One liable for damages in the amount of approximately \$25.6 million. The patents-in-suit are United States patents and the decision covers only the sales of infringing products in the United States.

A final judgment has not yet been entered by the District Court; however the Company believes that errors were made during the trial and that there is a strong basis for an appeal. The Patents and Trademarks Office is re-examining four of the five patents-in-suit and has issued office actions that preliminarily reject the claims in two of the four patents.

Including interest, supplemental damages and other items, the Company believes that its maximum exposure related to this matter is \$30 million. The Company has accrued \$22.7 million representing what it believes to be probable and reasonably estimable based on its discussion with and analysis by counsel of the basis for its appeal.

In addition, the Company is involved in various other claims and legal proceedings which have arisen in the normal course of business. Management does not believe that the outcome of any currently pending claims or legal proceedings in which the Company is involved will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flow.

**Item 1A Risk Factors**

There have been no material changes from the risk factors disclosed in the "Risk Factors" section of our Annual Report on Form 10-K for the fiscal year ended January 2, 2011.

**Item 5 Submission of Matters to a Vote of Security Holders**

The annual meeting of stockholders of the Company was held on May 3, 2011. Proxies were solicited by the Company, pursuant to Regulation 14 under the Securities Exchange Act of 1934, to (i) elect the members of the Board of Directors, subject to the right of the holders of the Company's preferred stock to separately elect two directors; (ii) to adopt an advisory resolution on named executive officer compensation; (iii) to conduct an advisory vote on the frequency of future advisory votes on named executive officer compensation; (iv) to approve the amendment to the Amended and Restated Power-One Inc. 2004 Stock Incentive Plan; and (v) to ratify the appointment of Deloitte & Touche LLP as the independent registered public accounting firm of the Company for the 2011 fiscal year.

Proxies representing 89,846,283 shares of common stock eligible to vote at the meeting, or 83.9 percent of the outstanding shares, and 23,625 shares of preferred stock, which are convertible and represent 17,500,000 shares of common stock, were voted.

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All common stock directors nominated by the Company were elected. The following is a separate tabulation with respect to the vote for each nominee:

#### Election of Common Stock Directors

|                     | <b>Votes For</b> | <b>Votes Withheld</b> | <b>Broker Non-Votes</b> |
|---------------------|------------------|-----------------------|-------------------------|
| Kendall R. Bishop   | 58,690,736       | 1,170,192             | 29,985,355              |
| Jon Gacek           | 58,882,220       | 978,708               | 29,985,355              |
| Kambiz Hooshmand    | 58,868,968       | 991,960               | 29,985,355              |
| Mark Melliar-Smith  | 59,244,642       | 616,286               | 29,985,355              |
| Richard M. Swanson  | 59,352,487       | 508,441               | 29,985,355              |
| Richard J. Thompson | 59,148,421       | 712,507               | 29,985,355              |
| Jay Walters         | 59,017,268       | 843,660               | 29,985,355              |

All of the preferred stock was voted in favor of the two preferred stock directors.

#### Election of Preferred Stock Directors

|             | <b>Votes For</b> | <b>Votes Withheld</b> | <b>Broker Non-Votes</b> |
|-------------|------------------|-----------------------|-------------------------|
| Kyle Ryland | 17,500,000       | -0-                   | -0-                     |
| Ajay Shah   | 17,500,000       | -0-                   | -0-                     |

The advisory resolution approving the compensation of the Named Executive Officers (NEO's) was approved by 68.75% of the shares voted at the meeting of stockholders as follows:

| <b>Votes For</b> | <b>Votes Against</b> | <b>Votes Abstained</b> | <b>Broker Non-Votes</b> |
|------------------|----------------------|------------------------|-------------------------|
| 53,185,415       | 23,993,413           | 182,100                | 29,985,355              |

Of the shares voted, 60.48% were in favor of holding an advisory vote on NEO compensation annually.

| <b>1 Year</b> | <b>2 Year</b> | <b>3 Year</b> | <b>Votes Abstained</b> | <b>Broker Non-Votes</b> |
|---------------|---------------|---------------|------------------------|-------------------------|
| 46,786,626    | 8,857,965     | 21,597,105    | 119,232                | 29,985,355              |

The amendment and restatement of the Power-One, Inc. 2004 Stock Incentive Plan (the "Plan"), provides for an additional eight million five hundred thousand (8,500,000) shares for the Plan, increases the maximum number of shares available for full-value awards, increases the limit on the aggregate amount of compensation to be paid to any one participant in respect of performance-based awards, adds new performance goals and includes certain other administrative changes to the Plan, and was approved by 92.66 percent of the shares voted. The following is a breakdown of the vote on such matter:

| <b>Votes For</b> | <b>% of Voting For</b> | <b>Votes Against</b> | <b>Votes Abstained</b> | <b>Broker Non-Votes</b> |
|------------------|------------------------|----------------------|------------------------|-------------------------|
| 71,682,252       | 92.66                  | 5,442,574            | 236,102                | 29,985,355              |

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The appointment of Deloitte & Touche as the Company's independent registered public accounting firm for fiscal 2011 was ratified by 99.45% of the shares voted. The following is a breakdown of the vote.

| <b>Votes<br/>For</b> | <b>Votes<br/>Against</b> | <b>Votes<br/>Abstained</b> | <b>Broker<br/>Non-Votes</b> |
|----------------------|--------------------------|----------------------------|-----------------------------|
| 106,756,792          | 412,006                  | 177,485                    | -0-                         |

### **Item 6 Exhibits**

#### **(a) Exhibits**

|         |  |
|---------|--|
| 31.1    | Rule 13a-14(a) Certification of Principal Executive Officer  |
| 31.2    | Rule 13a-14(a) Certification of Principal Financial Officer  |
| 32.1    | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of Sarbanes-Oxley Act of 2002 |
| 101.INS | XBRL Instance Document**   |
| 101.SCH | XBRL Taxonomy Extension Schema Document**  |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document**  |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document**   |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document**  |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document**   |

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Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under these sections

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: August 12, 2011

POWER-ONE, INC.

By: /s/ GARY R. LARSEN

*Senior Vice President, Finance, and  
Chief Financial Officer  
(Principal Financial Officer)*

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