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)

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

For the Quarterly Period Ended July 3, 2011

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

For the transition period from to
Commission File Number 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 ý No o

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 ý No o

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):

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

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

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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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)

	Three Months Ended July 3, 2011	Three Months Ended July 4, 2010	Six Months Ended July 3, 2011	Six Months Ended July 4, 2010
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

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

See notes to unaudited consolidated condensed financial statements.

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POWER-ONE, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS

(In thousands, except per share data, unaudited)

	July 3, 2011	January 2, 2011
ASSETS		
CURRENT ASSETS:		
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
Total current assets	586,370	672,390
PROPERTY AND EQUIPMENT, net of depreciation and amortization: $83,014 at July 3, 2011; $72,879 at January 2, 2011	79,729	63,325
OTHER INTANGIBLE ASSETS, net	18,816	18,802
OTHER ASSETS	8,494	7,295
TOTAL	$ 693,409	$ 761,812
LIABILITIES, PREFERRED STOCK AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
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
Total current liabilities	213,733	384,826
LONG-TERM DEBT, net of current portion	35,986	35,911
OTHER LIABILITIES	53,327	39,445
Total liabilities	303,046	460,182
COMMITMENTS AND CONTINGENCIES		
REDEEMABLE CONVERTIBLE PREFERRED STOCK par value $0.001; 23.625 series A redeemable convertible preferred stock issued and outstanding at July 3, 2011 and January 2, 2011; liquidation preference $1,000 per share plus accumulated dividends.	20,153	19,597
STOCKHOLDERS' EQUITY		
Common stock, par value $0.001; 300,000 shares authorized; 103,705 and 103,975 shares issued and 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)
Total stockholders' equity	370,210	282,033
TOTAL	$ 693,409	$ 761,812

See notes to unaudited consolidated condensed financial statements.

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POWER-ONE, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(In thousands, unaudited)

	Six Months Ended July 3, 2011	Six Months Ended July 4, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
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
CASH FLOWS FROM INVESTING ACTIVITIES:		
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)
CASH FLOWS FROM FINANCING ACTIVITIES:		
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)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	12,234	(3,908)
	(85,192)	55,662

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
CASH AND CASH EQUIVALENTS, BEGINNING OF 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)

	Three Months Ended		Six Months Ended	
	July 3, 2011	**July 4, 2010**	**July 3, 2011**	**July 4, 2010**
NET INCOME	$ 31,685	$ 25,162	$ 62,499	$ 29,763
OTHER COMPREHENSIVE INCOME (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

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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.

	July 3, 2011		January 2, 2011	
Description	**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, 2011	January 2, 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

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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 Intangible Assets	Accumulated Amortization	Net Intangible Assets	Weighted Average Life (In Years)
Non-amortizable intangibles				
Trade name	$ 11.4	$	$ 11.4	
Amortizable intangibles				
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 Intangible Assets	Accumulated Amortization	Net Intangible Assets	Weighted Average Life (In Years)
Non-amortizable intangibles				
Trade name	$ 11.4	$	$ 11.4	
Amortizable intangibles				
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 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.

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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):

Year Ending December 31,		Amortization Expense
2011 (six months)	$	1.1
2012		2.0
2013		1.9
2014		1.2
2015 and thereafter		1.2
Total	$	7.4

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

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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, 2011	January 2, 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, 2011	July 4, 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.

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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):

	Three Months Ended July 4, 2010	Six Months Ended July 4, 2010
Contract termination costs	$ 0.7	$ 0.8
Other facility costs	1.8	2.6
	$ 2.5	$ 3.4

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):

	Facilities Closure
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.

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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, 2011	January 2, 2011
Senior Convertible Notes, due 2019	$ 36.0	$ 35.9
2% Installment notes, due 2011		0.1
Total long-term debt	36.0	36.0
Less current portion		0.1
Total long-term debt, less current portion	$ 36.0	$ 35.9

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.

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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):

Year Ending December 31,		
2011 (six months)	$	
2012		
2013		
2014		
2015		
2016 and thereafter		36.0
Total	$	36.0

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.

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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, 2011	July 4, 2010	July 3, 2011	July 4, 2010
Basic EPS				
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
Diluted EPS				
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.

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.

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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, 2011	July 4, 2010	July 3, 2011	July 4, 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, 2011	July 4, 2010	July 3, 2011	July 4, 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 marking, 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 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%
Total	$ 260.3	100%	$ 214.5	100%	$ 504.8	100%	$ 366.9	100%