POWER ONE INC
Form 10-Q
August 06, 2009

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 June 28, 2009

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	**77-0420182**
(State or other jurisdiction of incorporation or Organization)	(I.R.S. Employer Identification Number)
740 Calle Plano, Camarillo, California	**93012**
(Address of principal executive offices)	(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 o 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 July 31, 2009, 88,111,355 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		Six Months Ended	
	June 28, 2009	June 29, 2008	June 28, 2009	June 29, 2008
NET SALES	$91,169	$149,273	$189,009	$267,031
COST OF GOODS SOLD	73,028	118,692	157,003	215,124
GROSS PROFIT	18,141	30,581	32,006	51,907
EXPENSES:				
Selling, general and administrative	13,653	18,834	26,839	39,048
Engineering and quality assurance	7,234	11,796	14,742	23,824
Amortization of intangible assets	372	540	774	1,408
Restructuring costs	3,882		5,013	
Goodwill impairment			56,999	
Total expenses	25,141	31,170	104,367	64,280
LOSS FROM OPERATIONS	(7,000)	(589)	(72,361)	(12,373)
INTEREST AND OTHER INCOME (EXPENSE):				
Interest income	17	165	222	383
Interest expense	(2,211)	(3,149)	(4,336)	(5,120)
Gain on extinguishment of debt	5,348		8,448	
Other income (expense), net	(2,166)	(968)	(152)	(2,686)
Total interest and other income (expense), net	988	(3,952)	4,182	(7,423)
LOSS BEFORE INCOME TAXES	(6,012)	(4,541)	(68,179)	(19,796)
PROVISION (BENEFIT) FOR INCOME TAXES	446	240	(406)	(200)
LOSS BEFORE EQUITY IN EARNINGS OF JOINT VENTURE	(6,458)	(4,781)	(67,773)	(19,596)
EQUITY IN EARNINGS OF JOINT VENTURE	134	872	275	2,048
NET LOSS	$ (6,324)	$ (3,909)	$ (67,498)	$ (17,548)
PREFERRED STOCK DIVIDEND AND ACCRETION	506		506	
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ (6,830)	$ (3,909)	$ (68,004)	$ (17,548)
BASIC AND DILUTED LOSS PER SHARE	$ (0.08)	$ (0.04)	$ (0.77)	$ (0.20)
BASIC AND DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING	88,005	87,554	87,934	87,473

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)

	June 28, 2009	December 28, 2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 75,681	$ 28,414
Accounts receivable:		
Trade, less allowance for doubtful accounts: $3,728 at June 28, 2009; $5,331 at December 28, 2008	94,531	143,093
Other	4,512	2,698
Inventories	81,426	101,608
Deferred income taxes	3,861	2,723
Prepaid expenses and other current assets	8,165	8,314
Total current assets	268,176	286,850
PROPERTY AND EQUIPMENT, net of depreciation and amortization: $86,255 at June 28, 2009; $81,169 at December 28, 2008	50,573	55,381
GOODWILL		59,027
OTHER INTANGIBLE ASSETS, net	19,392	20,284
OTHER ASSETS	8,378	7,417
TOTAL	$ 346,519	$ 428,959
LIABILITIES, PREFERRED STOCK AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Bank credit facilities and notes payable	$ 17,392	$ 26,949
Accounts payable	65,647	100,658
Restructuring reserve	5,542	3,651
Long-term debt, current portion	210	472
Other accrued expenses	26,478	26,544
Total current liabilities	115,269	158,274
DEFERRED INCOME TAXES	4,892	4,661
LONG-TERM DEBT	77,280	70,425
OTHER LIABILITIES	12,064	11,380
Total liabilities	209,505	244,740
COMMITMENTS AND CONTINGENCIES		
REDEEMABLE CONVERTIBLE PREFERRED STOCK par value $0.001; 23.625 series A redeemable convertible preferred stock issued and outstanding at June 28, 2009; liquidation preference $1,000 per share plus accumulated dividends.	18,051	
STOCKHOLDERS' EQUITY		
Common stock, par value $0.001; 300,000 shares authorized; 88,111 and 87,801 shares issued and outstanding at June 28, 2009 and December 28, 2008, respectively	88	88
Additional paid-in capital	621,982	618,255
Accumulated other comprehensive income	38,160	39,645
Accumulated deficit	(541,267)	(473,769)
Total stockholders' equity	118,963	184,219

TOTAL	$ 346,519	$ 428,959

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 June 28, 2009	Six Months Ended June 29, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (67,498)	$ (17,548)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	8,093	10,079
Undistributed earnings of joint venture	(275)	(872)
Goodwill impairment	56,999	
Investment write-off		243
Stock compensation	1,033	1,367
Foreign exchange (gain) loss	(5,190)	1,067
Deferred income taxes	(799)	(1,350)
Write-off of unamortized debt issue costs		908
Net gain on debt extinguishment	(8,448)	
Net loss on disposal of property and equipment	19	364
Changes in operating assets and liabilities:		
Accounts receivable, net	47,628	(9,464)
Inventories	20,348	(8,139)
Prepaid expenses and other current assets	197	(3,830)
Accounts payable	(35,380)	6,809
Other accrued expenses	73	3,014
Restructuring reserve	1,922	(2,070)
Other liabilities	(1,468)	(42)
Net cash provided by (used in) operating activities	17,254	(19,464)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of available for sale investments		(115)
Proceeds from available for sale investments		7,590
Acquisition of property & equipment	(1,514)	(5,762)
Proceeds from sale of property and equipment	6	15
Other assets	(107)	(117)
Net cash provided by (used in) investing activities	(1,615)	1,611
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from (repayments of) borrowings on bank credit facilities, net	(9,220)	8,297
Repayments of borrowings on notes payable		(239)
Proceeds from issuance of long-term debt, net of debt issue costs	33,889	70,309
Repayments of borrowings on long-term debt	(19,389)	(1,822)
Repayments of indebtedness to related parties		(50,000)
Issuance of preferred stock, net of issue costs	22,286	
Issuance of common stock, net of tax	(94)	
Net cash provided by financing activities	27,472	26,545
EFFECT OF EXCHANGE RATE CHANGES ON CASH	4,156	682
INCREASE IN CASH AND CASH EQUIVALENTS	47,267	9,374
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	28,414	28,364
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 75,681	$ 37,738
SUPPLEMENTAL CASH FLOW INFORMATION:		

Cash paid for interest	$ 3,434	$ 3,618
Income taxes	$ 1,518	$ 243

See notes to unaudited consolidated condensed financial statements.

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SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES

During the quarter and six months ended June 28, 2009, the Company declared a dividend of approximately $0.3 million to the Preferred Stockholders. The Company also issued stock warrants with a fair value of $3.1 million and recorded a corresponding increase to Additional paid-in-capital in the consolidated condensed balance sheet at June 28, 2009. In addition, the Company recorded a liability representing the fair value of $1.8 million of embedded put options in connection with the issuance of redeemable convertible preferred stock and convertible notes. (See Note 10)

During the six months ended June 28, 2009, the company paid $18.7 million to repurchase and extinguish $28.8 million of its 8% Senior Secured Convertible Notes. The Company recorded a net gain of $8.4 million related to the extinguishment of debt in its consolidated statements of operations.

During the six months ended June 28, 2009 and June 29, 2008, an additional $0.3 million and $0.8 million, respectively, of property and equipment had been purchased but not yet paid.

During the six months ended June 29, 2008, the Company recorded the fair value of $0.6 million related to the warrants issued pursuant to a Warrant Agreement dated as of March 6, 2008 between the company and PWER Bridge, LLC. The warrants were issued in connection with the $50 million PWER Bridge loan extension and were recorded as a discount on the Indebtedness to related parties and an increase to Additional paid-in capital.

See notes to unaudited consolidated condensed financial statements.

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POWER-ONE, INC.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands, unaudited)

	Three Months Ended		Six Months Ended	
	June 28, 2009	June 29, 2008	June 28, 2009	June 29, 2008
NET LOSS	$(6,324)	$(3,909)	$(67,498)	$(17,548)
OTHER COMPREHENSIVE INCOME (LOSS)				
Unrealized gain (loss) on investment securities				(7)
Foreign currency translation adjustment	5,877	170	(1,485)	13,153
COMPREHENSIVE LOSS	$ (447)	$(3,739)	$(68,983)	$ (4,402)

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 December 28, 2008. The Company has evaluated subsequent events through August 6, 2009, the date these consolidated condensed financial statements were issued. The operating results for the three-month and six-month periods ended June 28, 2009 and cash flows for the six-month period ended June 28, 2009, are not necessarily indicative of the results that will be achieved for the full fiscal year 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, uncertain tax positions and the recoverability of deferred tax assets, stock compensation, business combinations and contingencies. 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 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. Operating results for the period ended June 28, 2009 are not necessarily indicative of the results that may be expected for the year ending January 3, 2010.

The balance sheet at December 28, 2008 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 December 28, 2008.

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 and six month periods ended June 28, 2009 and June 29, 2008 were 13-week and 26-week periods, respectively.

NOTE 2 CHANGES TO SIGNIFICANT ACCOUNTING POLICIES AND RELATED DISCLOSURES

Recent Pronouncements and Accounting Changes In November 2008, the FASB ratified Emerging Issues Task Force ("EITF") Issue No. 08-6, "Equity Method Investment Accounting Considerations" ("EITF 08-6"). EITF 08-6 clarifies the accounting for certain transactions and impairment considerations involving equity method investments. EITF 08-6 is effective for fiscal years beginning after December 15, 2008. The Company determined that EITF 08-6 does not currently have a material impact on its 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 November 2008, the FASB ratified EITF Issue No. 08-7, "Accounting for Defensive Intangible Assets" ("EITF 08-7"). EITF 08-7 clarifies the accounting for certain separately identifiable intangible assets which an acquirer does not intend to actively use but intends to hold to prevent its competitors from obtaining access to them. EITF 08-7 requires an acquirer in a business combination to account for a defensive intangible asset as a separate unit of accounting which should be amortized to expense over the period the asset diminishes in value. EITF 08-7 is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. The implementation of EITF 08-7 does not currently have a material impact on the Company's financial statements.

On August 27, 2008, the SEC announced that it will issue for comment a proposed roadmap regarding the potential use by U.S. issuers of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). IFRS is a comprehensive series of accounting standards published by the International Accounting Standards Board ("IASB"). Under the proposed roadmap, the Company could be required in fiscal 2014 to prepare financial statements in accordance with IFRS, and the SEC will make a determination in 2011 regarding the mandatory adoption of IFRS. The Company has not yet assessed the impact that this potential change would have on its consolidated financial statements.

In May 2008, the FASB issued FSP APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)." This FSP specifies that issuers that have convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. This FSP is effective for financial statements issued in fiscal years (and interim periods) beginning after December 15, 2008, and should be applied retrospectively to all past periods presented even if the instrument has matured, has been converted, or has otherwise been extinguished as of the FSP's effective date. The Company determined that FSP APB 14-1 does not currently have a material impact on its financial statements as its existing convertible debt instruments do not fall within the scope of FSP APB 14-1.

In April 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") No. 142-3 ("FSP No. 142-3") "Determination of the Useful Life of Intangible Assets." FSP No. 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets" to include an entity's historical experience in renewing or extending similar arrangements, adjusted for entity-specific factors, even when there is likely to be "substantial cost or material modifications." FSP No. 142-3 states that in the absence of historical experience an entity should use assumptions that market participants would make regarding renewals or extensions, adjusted for entity-specific factors. The guidance for determining the useful life of intangible assets included in this FSP will be applied prospectively to intangible assets acquired after the effective date of fiscal years beginning after December 15, 2008. The Company has determined that FSP No. 142-3 does not currently have a material impact on its financial statements.

In December 2007, the FASB issued SFAS No. 141(revised 2007), "Business Combinations". SFAS No. 141R will significantly change the accounting for business combinations in a number of areas,

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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)

including the treatment of contingent consideration, contingencies, acquisition costs, in-process research and development and restructuring costs. SFAS No. 141R includes an amendment to SFAS No. 109, "Accounting for Income Taxes." Under SFAS No. 141R an acquiring entity is required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS No. 141R also includes a substantial number of new disclosure requirements. SFAS No. 141R applies to us prospectively for business combinations with acquisition dates on or after December 29, 2008. The Company expects that SFAS No. 141R will have an impact on accounting for business combinations once applied, but the effect is dependent upon acquisitions at that time.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." The Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements, and does not require any new fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements. The Statement is effective for the fiscal years beginning after November 15, 2007. The Company adopted the provisions of SFAS No. 157 for the financial assets and liabilities recognized at fair value on a recurring and non-recurring basis effective December 31, 2007. FSP No. 157-2 delays the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. In October 2008, the FASB issued FSP 157-3, "Determining the Fair Value of a Financial Asset in a Market that is Not Active." FSP 157-3 clarifies the application of FAS 157 in an inactive market and was effective upon issuance. The Company determined that SFAS No. 157, FSP 157-2 and FSP 157-3 do not currently have a material impact on its consolidated financial statements.

In April 2009, the FASB issued FSP 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly". FSP 157-4 provides additional guidance for estimating fair value in accordance with SFAS No. 157 when the volume and level of activity for the asset or liability have significantly decreased and also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP 157-4 is effective for interim and annual reporting periods ending after June 15, 2009. The Company determined that FSP 157-4 does not currently have a material impact on its consolidated financial statements.

Fair Value of Financial Instruments In April 2009, the FASB issued FSP 107-1, "Interim Disclosures about Fair Value of Financial Instruments". FSP 107-1 requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements and amends APB Opinion No. 28, "Interim Financial Reporting" to require those disclosures in summarized financial information at interim reporting periods. FSP 107-1 is effective for interim and annual reporting periods ending after June 15, 2009. Accordingly, the fair value of certain of the Company's financial instruments, including cash and cash equivalents, accounts receivable, and other current liabilities approximate their recorded carrying amounts because of their short-term nature.

The fair values of the Company's credit facilities and 8% Senior Secured Convertible Notes due 2013 were determined using quoted market prices for those securities or similar financial instruments. The credit facilities have variable rates of interest and reflect current market rates of interest and the fair value approximates the carrying amount.

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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)

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 15% discount for lack of marketability. The fair value of the preferred stock conversion feature was determined using the Binomial model, using an adjusted stock price of $0.91, a volatility factor of 67%, a risk free interest rate of 1.97%, a dividend yield factor of 10% and a contractual life of 5 years.

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 15% discount for lack of marketability. The fair value of the notes' conversion feature was determined using the Binomial model, using an adjusted stock price of $0.91, a volatility factor of 67%, a risk free interest rate of 1.97%, coupon rates of 6%, 8% and 10% and a contractual life of 5 years.

Description	Fair Value	Carrying Value
Senior Convertible Notes, due 2019	$ 35.0	$ 35.7
8% Senior Secured Convertible Notes, due 2013	36.5	41.3
Redeemable Convertible Preferred Stock	19.1	18.1
Credit facilities and installment notes	17.9	17.9

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*, which provides general standards of accounting for and disclosure of subsequent events. SFAS No. 165 clarifies that management must evaluate, as of each reporting period, events or transactions that occur after the balance sheet date "through the date that the financial statements are issued or are available to be issued." It also requires management to disclose the date through which subsequent events have been evaluated and whether that is the date on which the financial statements were issued or were available to be issued. Statement 165 is effective prospectively for interim or annual financial periods ending after June 15, 2009. The Company adopted SFAS No. 165 in the second quarter of 2009 (see Note 1).

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162*. SFAS No. 168 establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in accordance with GAAP. All guidance included in the Codification will be considered authoritative at that time, even guidance that comes from what is currently deemed to be a non-authoritative section of a standard. Once the Codification becomes effective, all non-grandfathered, non-SEC accounting literature not included in the Codification will become non-authoritative. SFAS No. 168 is applicable for interim and annual periods ending after September 15, 2009. This pronouncement will have no effect on the Company's financial position, results of operations, or cash flows. However, upon adoption, all current references to FASB accounting standards will be replaced with references to the applicable codification sections.

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POWER-ONE, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 3 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. During the three and six months ended June 28, 2009, the Company recorded equity in earnings in joint venture of $0.1 million and $0.3 million, respectively, in its consolidated condensed statement of operations. During the three and six months ended June 29, 2008, the Company recorded equity in earnings in joint venture of approximately $0.9 million and $2.1 million, respectively. During the six months ended June 29, 2008, the Company received a dividend of approximately $1.2 million, representing a return on its investment in the joint venture. See Note 14.

During the three and six months ended June 29, 2008, the Company wrote off approximately $0.2 million related to an investment in a privately-held company.

NOTE 4 INVENTORIES

Inventories consist of the following (in millions):

	June 28, 2009	December 28, 2008
Raw materials	$ 54.0	$ 74.4
Subassemblies-in-process	5.6	5.9
Finished goods	21.8	21.3
	$ 81.4	$ 101.6

The Company considers 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 months ended June 28, 2009 and June 29, 2008 the Company wrote off approximately $7.6 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 June 28, 2009 and June 29, 2008 the Company wrote off approximately $1.7 million and $2.7 million, respectively, related to excess and obsolete inventory and other inventory adjustments, and recorded the charges as costs of goods sold.

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POWER-ONE, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 5 GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets consist of the following (in millions):

	June 28, 2009			
	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	5.7	3.5	2.2	13
Customer relationships	5.8	2.2	3.6	7
Other	6.4	4.2	2.2	17
Subtotal	17.9	9.9	8.0	12
Total	$ 29.3	$ 9.9	$ 19.4	

	December 28, 2008			
	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets	Weighted Average Life (In Years)
Non-amortizable intangibles				
Goodwill	$ 59.0	$	$ 59.0	
Trade name	11.4		11.4	
Subtotal	70.4		70.4	
Amortizable intangibles				
Product technology	5.7	3.2	2.5	13
Customer relationships	10.4	6.4	4.0	8
Other	6.4	4.0	2.4	17
Subtotal	22.5	13.6	8.9	12
Total	$ 92.9	$ 13.6	$ 79.3	

The changes in the carrying amount of goodwill for the six months ended June 28, 2009 is as follows (in millions):

	June 28, 2009
Beginning balance	$ 59.0

Decrease related to impairment charge		(57.0)
Changes due to foreign currency fluctuations		(2.0)
Ending balance	$	

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," the Company reviews goodwill and intangible assets for impairment annually at the end of each fiscal August, or more often

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POWER-ONE, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 5 GOODWILL AND INTANGIBLE ASSETS (Continued)

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 goodwill and other intangible assets may be impaired. As a result of the continued decrease in its market capitalization during the first fiscal quarter of 2009, the Company tested its goodwill for impairment in accordance with SFAS No. 142 and determined that goodwill was impaired. The Company's testing approach utilized a discounted cash flow analysis and comparative market multiples to determine the entity's (single reporting unit) fair value for comparison to its carrying value. As the Company's carrying value exceeded its estimated fair value as of March 29, 2009, the Company applied the approach prescribed in SFAS No. 142 for determining the impairment amount. As a result of the Company's interim test, a goodwill impairment charge of $57.0 million was recorded in the Company's consolidated condensed statements of operations during the six months ended June 28, 2009.

Total amortization expense for the six months ended June 28, 2009 and June 29, 2008 was $0.9 million, and $1.5 million, respectively. Of the $0.9 million of expense recorded during the six months ended June 28, 2009, $0.8 million was recorded as amortization of intangibles and $0.1 million recorded as cost of goods sold. Of the $1.5 million of amortization expense recorded during the six months ended June 29, 2008, $1.4 million was recorded as amortization of intangibles and $0.1 million recorded as cost of goods sold. For the three months ended June 28, 2009 and June 29, 2008, amortization expense was $0.5 million and $0.6 million, respectively. Of the $0.5 million of expense recorded during the three months ended June 28, 2009, $0.4 million was recorded as amortization of intangibles and $0.1 million recorded as cost of goods sold. Of the $0.6 million of expense recorded during the three months ended June 28, 2008, $0.5 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 2009 through 2013 is as follows (in millions):

Year Ending December 31,	Amortization Expense
2009 (six months)	$ 0.9
2010	1.7
2011	1.6
2012	1.4
2013	1.2
Total	$ 6.8

POWER-ONE, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 6 CREDIT FACILITIES AND NOTES PAYABLE

Credit facilities and notes payable outstanding consist of the following (in millions):

	June 28, 2009	December 28, 2008
Revolving credit facilities	$ 12.1	$ 21.2
Secured credit facility	5.3	5.7
Total credit facilities	$ 17.4	$ 26.9

The Company maintains credit facilities with various banks in Europe and Asia. The aggregate limit on all credit facilities is approximately $29.0 million. The credit facilities bear interest on amounts outstanding at various intervals based on published market rates. At June 28, 2009, the total outstanding balance on all credit facilities was $17.4 million at a weighted average interest rate of 6.1%, and $1.3 million was committed to guarantee letters of credit. After consideration of these commitments, $10.3 million of additional borrowing capacity was available to the Company as of June 28, 2009. At December 28, 2008, the total outstanding balance on all credit facilities was $26.9 million at a weighted average interest rate of 6.8%, and $1.8 million was committed to guarantee letters of credit. Some credit agreements require the Company's subsidiaries to provide certain financial reports to the lenders and meet certain financial ratios.

At June 28, 2009, the $17.4 million credit facilities outstanding were held at a subsidiary that the Company acquired in connection with the acquisition of the Power Electronics Group of Magnetek, Inc. in October 2006 of which $12.1 million relates to revolving credit arrangements with various banks. These revolving credit arrangements bear interest at various rates based on the European Interbank Offering Rate (EURIBOR) and bore a weighted average interest rate of 6.1% at June 28, 2009.

In addition, this acquired 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. Borrowings outstanding under this agreement were $5.3 million at June 28, 2009 and bore interest at the EURIBOR plus one and one-half percent (4.5% at June 28, 2009). 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 June 28, 2009, this subsidiary was not in compliance with these financial covenants. The $5.3 million outstanding balance under this credit agreement has been classified under current liabilities as the Company has not sought to obtain a waiver and considers this debt potentially callable by the bank.

NOTE 7 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

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POWER-ONE, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 7 WARRANTIES (Continued)

activity within the warranty accrual account for the six months ended June 28, 2009 and June 29, 2008 is presented below (in millions):

	Six Months Ended June 28, 2009	Six Months Ended June 29, 2008
Balance, beginning of period	$ 4.0	$ 3.1
Charges and costs accrued	1.6	2.0
Less repair costs incurred	(1.1)	(1.5)
Changes due to foreign currency		0.1
Balance, end of period	$ 4.5	$ 3.7

NOTE 8 RESTRUCTURING COSTS

During the first six months 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 plan is expected to be completed by the end of the first half of 2010. With respect to this plan, the Company expects to record severance and other charges of $13 to $15 million during 2009 and through the first half of 2010. The Company anticipates that the portion of the charge that will result in future cash expenditures will be approximately $6 million for severance for terminated employees and approximately $4 million for other costs associated with the facility closure. The Company also expects to record non-cash charges of approximately $3 to $5 million related to asset and inventory charges. During the three and six months ended June 28, 2009, the Company recorded pre-tax restructuring charges of $3.9 million and $5.0 million, respectively, in accordance with SFAS No. 146, "Accounting for Costs Associated with Disposal Activities" and SFAS No. 112, "Employers' Accounting for Postemployment Benefits, an Amendment of FASB Statements No. 5 and 43," as applicable. No restructuring charges were recorded during the three and six months ended June 29, 2008

A summary of the restructuring reserve activity during the six months ended June 28, 2009 is as follows (in millions):

	Worldwide Workforce Reduction	Facilities Closure	Total
Balance at December 28, 2008	$ 0.9	$ 2.8	$ 3.7
Restructuring charges	4.8	0.2	5.0
Applications of reserve	(2.4)	(0.7)	(3.1)
Changes due to foreign currency fluctuations	(0.1)		(0.1)
Balance at June 28, 2009	$ 3.2	$ 2.3	$ 5.5

During the three and six months ended June 28, 2009, the Company recorded severance benefits of approximately $3.7 million for approximately 1,100 employees and $4.8 million for approximately 2,100 employees, respectively. Additionally, the Company recorded approximately $0.2 million of facility closure costs related to continuing lease obligations during the three and six months ended June 28, 2009. All restructuring charges will be settled with cash.