POWER ONE INC
Form 10-Q
May 07, 2008

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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 March 30, 2008

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 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 May 4, 2008, 87,464,659 shares of the Registrant's $0.001 par value common stock were outstanding.

POWER-ONE, INC.

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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	
	March 30, 2008	April 1, 2007
NET SALES	$ 117,758	$ 124,021
COST OF GOODS SOLD	96,432	100,104
GROSS PROFIT	21,326	23,917
EXPENSES:		
Selling, general and administrative	20,214	20,514
Engineering and quality assurance	12,028	12,561
Amortization of intangible assets	868	1,409
Total expenses	33,110	34,484
LOSS FROM OPERATIONS	(11,784)	(10,567)
INTEREST AND OTHER INCOME (EXPENSE):		
Interest income	218	400
Interest expense	(1,971)	(1,653)
Other income (expense), net	(1,718)	293
Total interest and other income (expense), net	(3,471)	(960)
LOSS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF JOINT VENTURE	(15,255)	(11,527)
PROVISION (BENEFIT) FOR INCOME TAXES.	(440)	783
EQUITY IN EARNINGS OF JOINT VENTURE	1,176	
NET LOSS	$ (13,639)	$ (12,310)
BASIC & DILUTED LOSS PER SHARE	$ (0.16)	$ (0.14)
BASIC & DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING	87,393	86,722

See notes to consolidated condensed financial statements.

POWER-ONE, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS

(In thousands, except per share data, unaudited)

	March 30, 2008	December 30, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 20,726	$ 28,364
Investments	5,718	7,477
Accounts receivable:		
Trade, less allowance for doubtful accounts: $5,686 at March 30, 2008; $5,454 at December 30, 2007	121,270	129,984
Other	6,338	5,634
Inventories	119,720	105,930
Prepaid expenses and other current assets	8,564	7,487
Total current assets	282,336	284,876
PROPERTY AND EQUIPMENT, net of depreciation and amortization: $85,420 at March 30, 2008; $77,750 at December 30, 2007	65,188	62,809
GOODWILL	63,253	59,487
OTHER INTANGIBLE ASSETS, net	22,985	23,261
OTHER ASSETS	2,613	1,163
TOTAL	$ 436,375	$ 431,596
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Bank credit facilities and notes payable	$ 27,176	$ 21,843
Accounts payable	106,991	107,751
Restructuring reserve	5,737	6,726
Long-term debt, current portion	2,209	2,338
Other accrued expenses	25,285	24,410
Total current liabilities	167,398	163,068
INDEBTEDNESS TO RELATED PARTIES	49,384	50,000
LONG-TERM DEBT	1,025	550
OTHER LIABILITIES	18,519	18,552
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, par value $0.001; 300,000 shares authorized; 87,430 and 87,356 shares issued and outstanding at March 30, 2008 and December 30, 2007, respectively	87	87
Additional paid-in capital	616,326	615,040
Accumulated other comprehensive income	53,503	40,527
Accumulated deficit	(469,867)	(456,228)
Total stockholders' equity	200,049	199,426
TOTAL	$ 436,375	$ 431,596

See notes to consolidated condensed financial statements.

POWER-ONE, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(In thousands, unaudited)

	Three Months Ended	
	March 30, 2008	April 1, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (13,639)	$ (12,310)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	5,052	5,509
Stock compensation	646	727
Exchange (gain) loss	958	(355)
Deferred income taxes	(698)	(264)
Net loss on disposal of property and equipment	1	41
Changes in operating assets and liabilities:		
Accounts receivable, net	14,101	4,305
Inventories	(7,400)	1,997
Prepaid expenses and other current assets	(767)	(1,150)
Accounts payable	(5,659)	(5,616)
Other accrued expenses	237	(1,038)
Restructuring reserve	(1,116)	(401)
Other liabilities	205	968
Net cash used in operating activities	(8,079)	(7,587)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(45)	(44)
Proceeds from investments	1,803	
Acquisition of property & equipment	(3,488)	(2,183)
Proceeds from sale of property and equipment		18
Other assets	(838)	27
Investment in Power Electronics Group, net of purchase price adjustment		1,577
Net cash used in investing activities	(2,568)	(605)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings on bank credit facilities	3,339	4,037
Repayments of borrowings on notes payable		(103)
Bank overdraft		(618)
Debt issue costs on related party indebtedness	(500)	
Repayments of borrowings on long-term debt	(744)	(341)
Issuance of common stock		626
Net cash provided by financing activities	2,095	3,601
EFFECT OF EXCHANGE RATE CHANGES ON CASH	914	(226)
DECREASE IN CASH AND CASH EQUIVALENTS	(7,638)	(4,817)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	28,364	34,422
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 20,726	$ 29,605

	Three Months Ended	
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$ 1,766	$ 1,279
Income taxes	$ 147	$ 645

See notes to consolidated condensed financial statements.

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES

On October 23, 2006, the Company completed its acquisition of certain assets and liabilities of Magnetek, Inc. and all of the outstanding common stock of Magnetek, SpA, a subsidiary of Magnetek, Inc. (collectively the "Power Electronics Group"). The aggregate purchase price for the equity was approximately $69.4 million, consisting of $66.1 million in cash and $3.3 million in direct acquisition costs. The purchase price was funded with cash on hand and the proceeds of a $50 million promissory note issued by the Company.

In the first quarter of 2007, the Company received $1.8 million of cash from Magnetek, Inc. for adjustments made to the preliminary purchase price based on the closing balance sheet of the Power Electronics Group. At December 31, 2006, the $1.8 million was recorded as an other receivable on the Company's consolidated balance sheet and reduced the Company's investment in the Power Electronics Group as presented in the consolidated statement of cash flows for the year ended December 31, 2006. Additionally, the company incurred $0.2 million of acquisition costs during the three months ended April 1, 2007 for a net cash inflow of $1.6 million in the first quarter of 2007.

During the quarter ended March 30, 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, entered into in connection with the $50 million PWER Bridge loan extension as a discount on the Indebtedness to related parties and an increase to Additional paid-in capital.

During the quarter ended March 30, 2008 and April 1, 2007, an additional $0.6 million and $2.0 million of property and equipment had been purchased but not yet paid.

See notes to consolidated condensed financial statements.

POWER-ONE, INC.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands, unaudited)

	Three Months Ended	
	March 30, 2008	**April 1, 2007**
NET LOSS	$ (13,639)	$ (12,310)
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized gain (loss) on investment securities	(7)	483
Foreign currency translation adjustment	12,983	1,032
COMPREHENSIVE LOSS	$ (663)	$ (10,795)

See notes to consolidated condensed financial statements.

POWER-ONE, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 BASIS OF PRESENTATION

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, 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 March 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 28, 2008.

The balance sheet at December 30, 2007 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 30, 2007.

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 periods ended March 30, 2008 and April 1, 2007 were 13-week periods.

NOTE 2 CHANGES TO SIGNIFICANT ACCOUNTING POLICIES AND RELATED DISCLOSURES

Recent Pronouncements and Accounting Changes In December 2007, the FASB issued SFAS No. 141(revised 2007), "Business Combinations" ("SFAS No. 141R"). SFAS No. 141R will significantly change the accounting for business combinations in a number of areas, 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." This statement is effective for fiscal years beginning after December 15, 2008. The Company is assessing the impact of SFAS No. 141R and has not determined whether it will have a material impact on the Company's results of operations or financial position.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," which permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 also includes an amendment to SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" which applies to all entities with available-for-sale and trading securities. This Statement is effective as of the beginning of an entity's

POWER-ONE, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

first fiscal year that begins after November 15, 2007. The Company adopted SFAS No. 159 effective December 31, 2007 and did not elect the fair value option for any existing eligible items.

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 FAS Statement No. 157 for nonfinancial assets and nonfinancial liabilities. The adoption of SFAS No. 157 did not have a material impact on the Company's consolidated financial statements.

The Company has various financial instruments that are measured at fair value in its consolidated condensed financial statements. The Company's financial assets and liabilities are measured using inputs from the three levels of the fair value hierarchy established by SFAS No. 157. A financial asset or liability classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The three levels are 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 following table presents the Company's assets and liabilities recognized in the consolidated condensed balance sheet and measured at fair value as of March 30, 2008 (in millions):

	March 30, 2008		
	Input Levels for Fair Value Measurements		
Description	**Level 2**	**Level 3**	**Total**
Assets and Liabilities measured at fair value on a recurring basis			
Other fixed income investments	$ 5.7	$	$ 5.7
Assets and Liabilities measured at fair value on a non-recurring basis			
Warrants		0.6	0.6
	$ 5.7	$ 0.6	$ 6.3

Other fixed income investments include insurance products that are recorded at fair value based on the value guaranteed by the issuer in accordance with the contract terms and quoted prices for

similar financial instruments. The guaranteed value is equivalent to the contract price and the sum of interest earned to date.

The Black-Scholes Model was used to estimate the fair value of the warrants (see Note 10). The following represents the assumptions used in the Black-Scholes valuation model:

Stock Price: The stock price of $2.50 used was based on the closing price of the Company's common stock on March 6, 2008.

Exercise Price: The exercise price of $2.50 was based on the Warrant Agreement entered into with PWER Bridge, LLC.

Expected Term: The expected term of five years was based on the assumption that the warrant holder would hold the warrant through its contractual term.

Risk-Free Rate: The risk-free rate of 2.50% was based on the return of the U.S government bonds maturing at approximately the same time as the expected term of the Warrants.

Dividend Yield: The dividend yield was estimated to be 0.0% based on the Company's historical dividend payout.

Expected Volatility: The expected volatility of 60% was based on the historical volatilities of selected guideline companies and factors applicable to the Company, including size and leverage. The Company also considered its implied volatilities based on publicly traded options.

NOTE 3 INVESTMENTS

Debt and Other Fixed Income Investments Investments in certain debt securities have been classified on the balance sheet as available-for-sale securities in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Available-for-sale securities are recorded at fair value based upon quoted market prices, with unrealized gains and losses (net of applicable deferred income taxes) included in accumulated other comprehensive income. Realized gains and losses on sales of investments are determined using the specific identification method. During the quarter ended March 30, 2008, the Company received $1.8 million from the sale of investments classified as available-for-sale securities and realized an immaterial gain on the transactions. The Company did not sell any securities during the quarter ended April 1, 2007.

Other fixed income investments include insurance products that are recorded at the value guaranteed by the issuer in accordance with the contract terms. The guaranteed value is equivalent to the contract price and the sum of interest earned to date.

The following tables summarize the Company's debt and other fixed income investments (in millions):

	March 30, 2008		
	Amortized Cost	**Unrealized Pretax Net Gains (Losses)**	**Fair Value**
Other fixed income investments	$ 5.7		$ 5.7

POWER-ONE, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

	December 30, 2007		
	Amortized Cost	Unrealized Pretax Net Gains (Losses)	Fair Value
U.S. government and agencies notes and bonds	$ 1.8	$	$ 1.8
Other fixed income investments	5.7		5.7
	$ 7.5	$	$ 7.5

The fair value of the Company's available-for-sale investments at March 30, 2008 is $5.7 million and the investments mature in less than one year.

Equity Investments The Company also has investments in privately-held companies that are included in other assets on the Company's consolidated condensed balance sheets and are accounted for using the cost or equity methods, depending on the nature and circumstances surrounding the investment. The carrying value of these investments was $0.3 million at March 30, 2008 and December 30, 2007. During the quarter ended March 30, 2008, the Company received a dividend of approximately $1.2 million, representing a return on our investment in a foreign joint venture in China. See Note 14.

NOTE 4 INVENTORIES

Inventories consist of the following (in millions):

	March 30, 2008	December 30, 2007
Raw materials	$ 84.3	$ 63.5
Subassemblies-in-process	7.4	12.1
Finished goods	28.0	30.3
	$ 119.7	$ 105.9

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 quarters ended March 30, 2008 and April 1, 2007 the Company wrote off approximately $1.9 million and $1.2 million, respectively, related to excess inventory and other inventory adjustments, and recorded the charges as costs of goods sold.

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):

	March 30, 2008			
	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets	Weighted Average Life (In Years)
Non-amortizable intangibles				
Goodwill	$ 63.3	$	$ 63.3	
Trade name	11.4		11.4	
Subtotal	74.7		74.7	
Amortizable intangibles				
Product technology	6.9	3.8	3.1	9
Customer relationships	11.2	5.6	5.6	8
Other	6.5	3.7	2.8	16
Subtotal	24.6	13.1	11.5	10
Total	$ 99.3	$ 13.1	$ 86.2	

	December 30, 2007			
	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets	Weighted Average Life (In Years)
Non-amortizable intangibles				
Goodwill	$ 59.5	$	$ 59.5	
Trade name	11.4		11.4	
Subtotal	70.9		70.9	
Amortizable intangibles				
Product technology	18.7	15.4	3.3	9
Customer relationships	10.7	5.2	5.5	8
Other	6.9	3.9	3.0	16
Subtotal	36.3	24.5	11.8	10
Total	$ 107.2	$ 24.5	$ 82.7	

Total amortization expense for the three months ended March 30, 2008 and April 1, 2007 was $1.0 million, and $1.5 million, respectively. Of the $1.0 million of expense recorded during the three months ended March 30, 2008, $0.9 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 three months ended April 1, 2007, $1.4 million was recorded as amortization of intangibles

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POWER-ONE, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

and $0.1 million recorded as cost of goods sold. Estimated amortization expense related to amortizable intangibles for 2008 through 2012 is as follows (in millions):

Year Ending December 31,	Amortization Expense
2008 (nine months)	$ 1.8
2009	2.4
2010	2.0
2011	1.9
2012	1.5
Total	$ 9.6

The changes in the carrying amount of goodwill for the three months ended March 30, 2008 is as follows (in millions):

	March 30, 2008
Beginning balance	$ 59.5
Changes due to foreign currency fluctuations	3.8
Ending balance	$ 63.3

NOTE 6 CREDIT FACILITIES AND NOTES PAYABLE

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

	March 30, 2008	December 30, 2007
Revolving credit facilities	$ 19.7	$ 14.9
Secured credit facility	7.2	6.7
Total credit facilities	26.9	21.6
Notes payable	0.3	0.2
Total credit facilities and notes payable	$ 27.2	$ 21.8

The Company maintains credit facilities with various banks in Europe and Asia. These credit facilities were acquired primarily as a result of acquisitions in 1998, 2000 and 2006. The aggregate limit on all credit facilities is approximately $33.2 million. The credit facilities bear interest on amounts outstanding at various intervals based on published market rates. At March 30, 2008, the total outstanding balance on all credit facilities was $26.9 million at a weighted average interest rate of 5.8%, and $1.4 million was committed to guarantee letters of credit. After consideration of these commitments, $4.9 million of additional borrowing capacity was available to the Company as of March 30, 2008. At December 30, 2007, the total outstanding balance on all credit facilities was $21.6 million at a weighted average interest rate of 6.1%, and $1.2 million was committed to guarantee letters of credit. After consideration of these commitments, $13.1 million of additional borrowing capacity was available to the Company as of December 30, 2007. Some credit agreements require the Company's subsidiaries to provide certain financial reports to the lenders and meet certain financial ratios.

POWER-ONE, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

At March 30, 2008, $25.7 million of the total $26.9 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 $18.5 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 5.7% at March 30, 2008.

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 $7.2 million at March 30, 2008 and bore interest at the EURIBOR plus one and one-half percent (6.4% at March 30, 2008). The agreement along with credit agreements related to a $0.3 million note payable contain financial covenants that require a minimum EBITDA as a percentage of net revenue and a maximum percentage of debt to equity. At March 30, 2008, this subsidiary was not in compliance with these financial covenants. The $7.2 million outstanding balance under this credit agreement at a 6.4% interest as well as the $0.3 million notes payable have been classified as current liabilities as the Company has not sought to obtain a waiver and considers this debt potentially callable by the bank.

The remaining $1.2 million balance outstanding under credit facilities is held by another European subsidiary of the Company and bore interest of 4.0% at March 30, 2008. The credit agreement requires the Company's subsidiary to provide certain financial reports to the lender but does not require compliance with any financial covenants.

NOTE 7 OTHER ACCRUED EXPENSES

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

	March 30, 2008	December 30, 2007
Accrued payroll and related expenses	$ 10.6	$ 7.9
Income tax payable	3.0	2.5
Accrued warranties	3.3	3.1
Accrued bonuses	1.8	1.0
Other accrued expenses	6.6	9.9
	$ 25.3	$ 24.4

Included in other accrued expenses at March 30, 2008 and December 30, 2007 was approximately $0.6 million accrued interest owed to PWER Bridge, LLC related to the $50 million term debt.

NOTE 8 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 actual warranty repair costs and the rate of return. Actual repair costs are offset against the reserve. A tabular presentation of the activity within the warranty accrual account for the three months ended March 30, 2008 and April 1, 2007 is presented below, in millions:

	Three Months Ended	
	March 30, 2008	April 1, 2007
Balance, beginning of period	$ 3.1	$ 2.0
Charges and costs accrued	0.9	1.0
Less repair costs incurred	(0.8)	(0.8)
Changes due to foreign currency	0.1	
Balance, end of period	$ 3.3	$ 2.2

NOTE 9 RESTRUCTURING COSTS

A summary of the restructuring reserve activity during the three months ended March 30, 2008 is as follows:

	Worldwide Workforce Reduction	Facilities Closure	Total
Balance at December 30, 2007	$ 2.0	$ 4.7	$ 6.7
Applications of reserve	(0.5)	(0.6)	(1.1)
Changes due to foreign currency fluctuations	0.1		0.1
Balance at March 30, 2008	$ 1.6	$ 4.1	$ 5.7

In connection with the acquisition of the Power Electronics Group of Magnetek, Inc. in October 2006, the Company developed and implemented a plan to exit certain activities of the acquired business. The Company's plan included the integration and restructure of the operations of the acquired business in order to more closely align the Company's consolidated operations. The plan included costs related to severance, facility lease costs and termination, and contract termination costs that were incurred as a direct result of these integration and restructuring efforts. The restructuring liabilities related to this plan at March 30, 2008 were approximately $2.1 million consisting of severance liabilities of $1.5 million, expected to be paid out by the end of the first quarter of 2009, and facility closure costs of $0.6 million expected to be paid out during 2008.

The restructuring liabilities related to facilities closure include $3.1 million and $0.4 million continuing lease obligations incurred during 2005 and 2007, respectively, upon consolidation of the Company's North American facilities. The 2005 and 2007 liabilities are expected to be paid over the life of the leases, which extend into 2011 and 2014, respectively. All restructuring charges have been and will be settled with cash.

POWER-ONE, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 10 LONG-TERM DEBT

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

	March 30, 2008	December 30, 2007
Promissory Note (related party indebtedness)	$ 49.4	$ 50.0
Installment notes ranging from 2% to 6%, due through 2011	3.2	2.9
Total long-term debt	52.6	52.9
Less current portion	2.2	2.3
Total long-term debt, less current portion	$ 50.4	$ 50.6

On March 6, 2008, the Company entered into an Amended and Restated Term Loan Agreement (the "Amended Loan Agreement") with PWER Bridge, pursuant to which the maturity date of the $50 million promissory note (the "Note") issued by the Company to PWER Bridge, which was originally due on April 30, 2008, was extended to April 30, 2010. The original Term Loan Agreement was entered into in connection with the acquisition of the Power Electronics Group of Magnetek, Inc. In connection with obtaining the extension during the quarter ended March 30, 2008, the Company paid PWER Bridge a loan extension fee of $0.5 million, equal to 1% of the outstanding amount of the Note which has been included as a component of Other Current Assets in the Consolidated Condensed Balance Sheet.

Under the terms of the Amended Loan Agreement, interest will continue to accrue at 12% per annum on the outstanding principal balance of the Note and will be payable monthly in cash. A maintenance fee is payable on each anniversary of the date of the Amended Loan Agreement, equal to 1% of the outstanding principal balance on such date, and the Note is prepayable at any time without premium or penalty. The Amended Loan Agreement contains customary representations and warranties, events of default and affirmative and restrictive covenants. Specifically, the Amended Loan Agreement contains covenants that, in general, limit the sale of assets except in the ordinary course of business, the incurrence of certain indebtedness or the issuance of securities (subject to certain exceptions), mergers, consolidations or other corporate events not otherwise permitted, the lines of business in which the Company may engage, the payment of dividends or repurchase of common stock, the amendment of the charter or bylaws of the Company, and the existence of any lien (subject to certain exceptions). The Amended Loan Agreement provides for events of default that would permit PWER Bridge to accelerate the maturity of the Note upon, in general, failure to make payments thereon, failure to timely comply with the covenants, representations and warranties contained therein in all material respects, certain events of insolvency or dissolution, defaults under certain other debt agreements permitting acceleration or certain legal proceedings under such agreements, the occurrence of certain legal judgments against the Company, the occurrence of certain materially adverse events, or the occurrence of certain events constituting a change of control. The Amended Loan Agreement also requires the Company to perform certain affirmative covenants, including the delivery of certain reports and information, payment of certain expenses and delivery of certain notices.

In connection with the Amended Loan Agreement and to secure its obligations thereunder, the Company entered into a Security Agreement (the "Security Agreement") in favor of PWER Bridge, pursuant to which certain inventory and accounts receivable of the Company and its domestic

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(Unaudited)

subsidiaries and certain interests in the equity of the Company's directly held foreign subsidiaries, have been pledged to secure the obligations of the Company under the Amended Loan Agreement.

The Company also entered into a warrant agreement (the "Warrant Agreement") with PWER Bridge, pursuant to which the Company issued PWER Bridge warrants exercisable for up to 2.0 million shares of common stock of the Company (the "Warrants"). The vesting schedule for the exercise of the Warrants is as follows: warrants for 0.5 million shares vested immediately upon the closing on March 6, 2008; approximately 0.8 million shares will vest on September 30, 2008 if any principal amount remains outstanding under the Note on such date; and approximately 0.7 million shares will vest on March 31, 2009 if any principal amount remains outstanding under the Note on such date. The Warrants have an exercise price of $2.50 per share. The Company recorded the fair value of the Warrants of $0.6 million as a discount on the Indebtedness to Related Parties and an increase to Additional paid-in capital in the consolidated condensed balance sheet. The fair value of the warrants was determined using the Black-Scholes valuation model, using a risk-free interest rate of 2.5%, a contract life of five years and a volatility factor of 60%. The discount on the note is being amortized to interest expense in the accompanying consolidated condensed statement of operations over the term of the loan.

As of March 30, 2008, the remaining outstanding principal balance of the Note Payable was $49.4 million. The Company has reflected the Indebtedness to Related Parties in the accompanying balance sheet net of the unamortized discount related to the value of the Warrants of $0.6 million.

In addition, the Power Electronics Group has certain long-term notes payable due through fiscal year 2011. Amounts outstanding at March 30, 2008 were $3.2 million and bore interest at various rates ranging from 2% to 6% at a weighted-average interest rate of 3.2%. Amounts outstanding at December 30, 2007 were $2.9 million and bore interest at various rates ranging from 2% to 6% at a weighted-average interest rate of 3.6%. 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.

At March 30, 2008 and December 30, 2007, the Company was in compliance with the debt covenants related to these long-term borrowing arrangements.

Aggregate principal maturities on long-term debt outstanding at March 30, 2008 are as follows:

Year Ending December 31,		
2008 (nine months)	$	2.2
2009		0.4
2010		50.4
2011		0.2
Total	$	53.2

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NOTE 11 CONTINGENCIES

The Company is involved in certain 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 currently involved will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flow.

Power-One, Inc. v. Artesyn Technologies, Inc. United States District Court, Eastern District of Texas, Civil Action No. 2-05-CV-463 (LED). This action was initiated by the Company against Artesyn Technologies on September 30, 2005. The complaint alleged that certain product of Artesyn Technologies infringes certain patents held by the Company that focus on technologies relating to digital power management and control. The complaint sought certain injunctive relief against and compensatory damages from Artesyn Technologies. A trial by jury was held in November, 2007. The jury found that all Power-One patents in the suit were valid, and found that the accused Artesyn product infringed Power-One's U.S. patent No. 7,000,125. Post-jury verdict motions were filed and the Court issued rulings on April 11, 2008 favorable to the Company, including issuance of a permanent injunction against Artesyn Technologies and its successors. Artesyn Technologies has not yet indicated its plans regarding an appeal of the Court rulings.

Astec America, Inc. v. Power-One, Inc. United States District Court, Eastern District of Texas, Civil Action No. 6:07-CV-464 (LED) (JDL). This action was initiated by Astec America on July 27, 2007, originally filed in the United States District Court, Central District of California. The action seeks a declaratory judgment in favor of Astec America that certain products of Astec America do not infringe certain patents of Power-One. The patents at issue in this matter are essentially the same patents as are at issue in the Power-One v. Artesyn Technologies matter noted above. Per motion of Power-One, the action was transferred to the Eastern District Court in Texas, and placed before the same judge handling the Power-One v. Artesyn Technologies matter. The Court denied Power-One's motion to dismiss on April 11, 2008. The case will proceed into the discovery phase.

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. The Company has filed its answer to the complaint denying infringement of the patents alleged, denying all claims of SynQor for entitlement to damages or other relief, and asserting various affirmative defenses, to include invalidity and unenforceability of the applicable patents. Proceedings are in the earliest stages of discovery.

Antonio Canova v. Power-One Italy S.p.A. and Magnetek, Inc. Labor Court, Arezzo, Italy. The former Managing Director of our Italian subsidiary has brought suit in Italy against the Italian subsidiary, and against his former U.S. employer Magnetek, Inc., alleging various causes of action and rights to damages relating to claims of wrongful dismissal of employment, specific Italian employment indemnities, general economic losses, and contractual claims relating specifically to his employment relationship and contracts entered into between the individual and Magnetek, Inc. The various claims and assertions arise from and relate to the individual's removal from office with the Italian subsidiary, and his contractual relationships with Magnetek, Inc., which actions occurred in connection with our acquisition of Magnetek, Inc.'s Power Electronics Group in October 2006. Proceedings are pending

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before the applicable Italian civil court, with the initial introductory and scheduling hearing set for July, 2008.

The Company accounts for unrecognized tax positions under FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109." The total amount of unrecognized tax positions that would impact the effective tax rate is approximately $3.6 million at March 30, 2008 and includes $1.2 million of interest and penalties. The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense.

The Company is currently under audit by several tax authorities. Because timing of the resolution and/or closure of these audits is highly uncertain, it is not possible to estimate resulting changes to the amount of unrecognized tax benefits for positions existing at March 30, 2008. During 2007, the Company determined that in certain of its 2006 income tax filings that it inadvertently omitted information regarding the restructuring of certain foreign operations. The Company is in the process of supplying this information and believes that it is more likely than not that it will receive reasonable cause relief with respect to the late submission of the omitted information. Accordingly, the Company has not accrued any taxes, penalties nor interest with respect to these items. The Company does not currently anticipate such uncertain income tax positions will significantly increase or decrease prior to December 31, 2008; however, developments in this area could differ from those currently expected. Such unrecognized tax positions, if ever recognized in the financial statements, would be recorded in the consolidated statement of operations as part of the income tax provision.

NOTE 12 STOCK BASED COMPENSATION PLANS

The Company accounts for stock-based awards in accordance with Statement of Financial Accounting Standards ("SFAS") No. 123(R), "Share-Based Payment." Upon adoption of SFAS No. 123(R) in 2006, the Company elected the modified prospective method.

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. 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 activity under the Company's stock based compensation plans:

	Three Months Ended	
	March 30, 2008	**April 1, 2007**
Non-vested share units granted, in millions	0.5	0.1
Weighted average grant date fair value of non-vested share units	$ 2.45	$ 6.33
Stock compensation expense related to non-vested share units, in millions	$ 0.6	$ 0.6

During the quarter ended March 30, 2008, the Company's Board of Directors approved an amendment to the stock options and non-vested share units previously granted by the Company to its former Chief Executive Officer as part of the "Employment Separation and General Release Agreement" dated March 18, 2008. The amendment effectively extended the exercise term of certain of his vested stock options and non-vested share units for approximately one year. The Company recorded approximately $0.1 million in compensation expense related to the stock option and award modifications during the three months ended March 30, 2008.

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(Unaudited)

On February 19, 2008, Richard J. Thompson was appointed as the Company's Chief Executive Officer. Pursuant to his Employment Agreement, Mr. Thompson was granted 0.5 million non-vested share units, 0.5 million stock options and 0.3 million stock appreciation rights. The non-vested share units, stock options and stock appreciation rights were each granted pursuant to written award agreements and are scheduled to vest over a four-year term. The stock options and stock appreciation rights are scheduled to become 100% vested on the anniversary of the fourth year. However, the stock options and stock appreciation rights will vest earlier if certain market and performance conditions are achieved. The Company expects to settle the stock appreciation rights in shares of its common stock. During the quarter ended March 30, 2008, the Company recorded an immaterial amount of stock compensation expense related to these non-vested share units, stock options and stock appreciation rights. The stock compensation expense related to the non-vested share units is included in the table above in the caption "Stock compensation expense related to non-vested share units."

The fair value of the options and stock appreciation rights granted during the quarter ended March 30, 2008 was estimated on the date of grant using the Black-Scholes valuation model and securities weighted average time to vest using the Monte Carlo Simulation method, with the assumptions shown below.

	Three Months Ended March 30, 2008
Risk-free interest rate	3.1%
Volatility	65%
Option life, years	6.7
Dividends	
Expected stock return/discount rate	2.5%
Stock options granted, in millions	0.5
Stock appreciation rights granted, in millions	0.3
Weighted-average grant date fair value of stock options and stock appreciation rights granted	$ 1.52
Stock compensation expense related to stock options and stock appreciation rights, in millions	$ 0.1

No stock options were granted by the Company during the quarter ended April 1, 2007. The Company recorded stock compensation expense of approximately $0.1 million related to stock options during the quarter ended April 1, 2007.

NOTE 13 EARNINGS PER SHARE

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

	Three Months Ended	
	March 30, 2008	April 1, 2007
Net loss	$ (13.6)	$ (12.3)
Basic and diluted weighted average outstanding shares	87.4	86.7
Basic and diluted loss per share	$ (0.16)	$ (0.14)

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(Unaudited)

Basic earnings per share are computed based upon the weighted average number of common shares outstanding and diluted earnings per share are computed based upon the weighted average number of common shares outstanding and dilutive common share equivalents (consisting of incentive stock options, non-qualified stock options and non-vested share units) outstanding during the periods using the treasury stock method. Due to the Company's net loss in both of the three-month periods ended March 30, 2008 and April 1, 2007, the inclusion of dilutive common share equivalents in the calculation of diluted earnings per share would be anti-dilutive, therefore such common share equivalents have been excluded from the computation of diluted loss per share.

Had the Company been in a net income position for the respective periods, the weighted average common share equivalents of 0.1 million and 1.5 million which were outstanding during the three-month periods ended March 30, 2008 and April 1, 2007, respectively, would have been dilutive.

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-month periods ended March 30, 2008 and April 1, 2007 were 8.9 million and 4.6 million, respectively.

NOTE 14 RELATED PARTIES

On March 6, 2008, the Company extended the maturity date of the Note to April 30, 2010 pursuant to the terms of an Amended and Restated Loan Agreement (the "Amended Loan Agreement"). During the quarter ended March 30, 2008 and in connection with obtaining the extension, the Company paid PWER Bridge a loan extension fee of $0.5 million, equal to 1% of the outstanding amount of the Note. Interest will continue to accrue at 12% per annum on the outstanding principal balance of the Note and will be payable monthly in cash. A maintenance fee is payable on each anniversary of the date of the Amended Loan Agreement, equal to 1% of the outstanding principal balance on such date, and the Note is prepayable at any time without premium or penalty. The Company recorded approximately $1.5 million and $1.3 million of interest expense in its consolidated condensed statements of operations related to PWER Bridge, LLC