POWER ONE INC
Form 10-K
March 01, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended January 1, 2012

or

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

For the transition period from to

Commission File No. 001-34782

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 No.)
740 Calle Plano **Camarillo, California** (Address of principal executive offices)	**93012** (Zip code)

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

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

Common Stock, $0.001 par value	**The NASDAQ Stock Market LLC (NASDAQ Global Select Market)**

(Title of each class) (Name of each exchange on which registered)

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

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

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

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

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

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

Large accelerated filer ý	Accelerated filer o	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 Act). Yes o No ý

The aggregate market value of registrant's common stock held by non-affiliates of the registrant, based upon the closing price of a share of the registrant's common stock on July 3, 2011, as reported by the NASDAQ Global Select Market on that date, was approximately $833 million.

As of February 23, 2012, 121,941,782 shares of the registrant's $0.001 par value common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year ended January 1, 2012 are incorporated by reference into Part III of this Annual Report on Form 10-K.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Unless the context indicates otherwise, all references in this Annual Report on Form 10-K to "Power-One," "the Company," "we," "us," and "our" refer collectively to Power-One, Inc. and its subsidiaries.

This Annual Report on Form 10-K, including documents incorporated by reference, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that can be identified by the use of forward-looking terminology such as "may,""might," "will," "would," "can," "could," "believe," "expect," "anticipate," "estimate," "plan," "intend," "project," "predict," or "continue" or the negative or other variations of such terms or comparable terminology. Forward-looking statements contained or incorporated by reference in this document, including those set forth in the sections of this Annual Report on Form 10-K in Item 7 entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," and in Item 1 entitled "Business" include but are not limited to statements regarding our plans, objectives, goals, strategies, future events, future sales or performance, projections of revenues, income or loss, capital expenditures, plans for future operations, products and services, legal matters, financing risks, needs and expectations, and other information that is not historical information, as well as assumptions relating to the foregoing. All forward-looking statements are based on our current expectations, projections and

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assumptions. We undertake no obligation to modify or revise any forward-looking statements to reflect events or circumstances occurring after the date that the forward looking statement was made.

Forward-looking statements reflect our current views with respect to future events. They reflect our expectations, beliefs, projections and assumptions, are made in good faith and we believe there is a reasonable basis for them; however, there can be no assurance that our financial condition or results of operations will meet the expectations set forth in the forward-looking statements set forth below. Forward-looking statements are inherently subject to risks and uncertainties that in many cases are beyond our control and cannot be predicted or quantified. As a result, future events and actual results could differ materially from those set forth in, contemplated by, or underlying forward-looking statements. Such risks and uncertainties include, but are not limited to economic conditions in general, sensitivity to industry conditions, competitive factors such as technology and pricing pressures, business conditions in our particular markets, currency exchange rates, the risk that current economic conditions will negatively impact our ability to satisfy the covenants of our lending agreements, international sales operations, our level of dependence on major customers, increased material costs, risks and costs associated with integrating our acquired businesses, litigation and the risks that the costs of doing business will exceed our present estimates. See "Risk Factors" under Part I, Item 1A of this Annual Report on Form 10-K for a discussion of these and other specific risks.

Forward looking statements contained in this Annual Report on Form 10-K speak only as of the date of this Annual Report on Form 10-K or in the case of any document incorporated by reference, the date of that document. Except for our ongoing obligation to disclose material information as required by federal securities laws, we are not obligated, and we disclaim any obligation, to update or revise any forward-looking statement contained or incorporated by reference in this Annual Report on Form 10-K to reflect events, circumstances or changed assumptions or operating results occurring after the date of this Annual Report on Form 10-K.

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PART I

ITEM 1 BUSINESS

Overview

Power-One is a leading provider of high efficiency and high density power supply products for a variety of industries, including renewable energy, servers, storage & networking, industrials and network power systems. Our products convert, process, and manage both alternating current ("AC") and direct current ("DC") to meet the high levels of quality, reliability and precision required by our customers.

In 2010, we established two Strategic Business Units ("SBU"s), separating functions into the Renewable Energy Solutions SBU and the Power Solutions SBU, to better address the distinct market segments each SBU serves. (See Note 15 of the Notes to Consolidated Financial Statements under Part IV, Item 15 of this Annual Report on Form 10-K).

The Renewable Energy Solutions SBU offers one of the industry's broadest lines of high-efficiency inverters that provide superior power harvesting, longer uptime, and ease-of-installation and are supported by a wide range of standard and extended service offerings. We are the world's second-largest designer and manufacturer of photovoltaic inverters, selling string inverters to residential and commercial users, and central inverters to large commercial users and for utility applications. Our renewable energy products are among the best in the industry, enabling the highest yielding conversion of power from both solar arrays and wind farms, thereby providing customers with a better return on investment and a lower total cost of ownership. For better control of their renewable energy systems, we offer our customers asset management software and analytics.

Our Power Solutions SBU provides high efficiency and high power density AC/DC and DC/DC converters for a variety of applications, including data center technologies such as routers, data storage, servers and optical networking. We also design and manufacture complete power system solutions for the telecommunications industry employing both conventional AC/DC systems as well as systems employing alternative energy hybrid solutions for off-grid or poor-grid areas. Many of these products employ state of the art digital and analog controls as well as Power-One's own proprietary Digital Power Technology (DPT) for DC/DC applications. We also supply products for a wide range of industrial applications such as transportation, process control, medical and semiconductor test equipment markets. With hundreds of different standard products and the ability to create custom and semi-custom products, we offer one of the most comprehensive product lines in the power conversion and power management industry.

We design, manufacture, sell and service our products globally and have significant resources in Europe, North America and the Asia-Pacific region. Our Renewable Energy Solutions SBU strives to maintain a flexible manufacturing footprint, with manufacturing and supply facilities in each major region where we operate. Our Power Solutions SBU maintains manufacturing centers in Asia and Europe to efficiently supply the higher volumes demanded in these markets. We have established seven research and design centers in North America, Europe and Asia, with over 200 design engineers to support product development.

No customer accounted for more than 10% of our sales during the years ended January 1, 2012 ("Fiscal 2011"), January 2, 2011 ("Fiscal 2010"), or January 3, 2010 ("Fiscal 2009"). However, see "Risk Factors We rely on a few major customers for a material portion of our business and the loss of any of those customers, or a change in our product mix, could reduce our net income and operating results" under Part I, Item 1A of this Annual Report on Form 10-K.

We were originally incorporated in 1973 as a California corporation and re-incorporated in the State of Delaware on January 1, 1996. On June 14, 2010, we consummated a reorganization pursuant to which we merged with and into a newly-formed corporation incorporated in the state of Delaware,

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the purpose of which was to preserve the long-term value of our net operating loss carryforwards ("NOL"s), which can be used to reduce our future U.S. federal income tax liability. The surviving corporation was immediately renamed "Power-One, Inc."

Industry Background

The renewable energy, power conversion, and power management markets are comprised of a few large vendors as well as a number of smaller companies that focus on specialized products. The renewable energy market is one of the fastest growing markets in the power industry, with industry analysts estimating that the market will grow at a compound annual growth rate ("CAGR") of approximately 15% through 2015. The power conversion market, which includes the Servers, Storage & Network ("SSN"), Industrial and Transportation ("IND") and Network Power Systems ("NPS") markets, among others, is expected to grow at a 5-7% CAGR from 2011 through 2014 according to IMS Research. In 2011, the power conversion and power management products were negatively influenced by macroeconomic conditions throughout the globe, with industry sales decreasing versus 2010, according to market studies.

Longer term, we believe the following key trends will continue to drive demand for renewable energy inverters and power conversion and power management products:

Increasing Demand for Renewable Energy. With global power needs expected to double by 2025, according to the U.S. Department of Energy, suppliers and users of electricity are seeking renewable sources of energy, with both public and private global investment driving the emerging market for renewable energy. Concern about the supply of traditional energy sources, including oil and natural gas, global warming and the need to minimize the carbon footprint of the power generation industry have prompted wide-spread legislation throughout the world based on broad goals outlined in the Kyoto Protocol, an international agreement calling for the reduction of greenhouse gases. The outcome of this treaty has created a large number of country and local-level mandates and subsidies aimed at encouraging the emerging market for renewable forms of energy for electricity production. For example, certain European countries, such as Germany, Italy, France and the United Kingdom, and Asian countries, such as China, India and Japan, have adopted Feed in Tariffs ("FIT") whereby the government will pay approximately $0.30 to $0.40 per kilowatt hour ("/ kWh") over a 20-year time period for energy fed back into the utility grid. In the United States, the government has offered tax incentives to spur the adoption of renewable energy. These incentives are intended to bring the production cost of electricity from renewable sources to parity with power generated from fossil and other fuels, thereby encouraging creation of energy from clean, renewable sources. See "Risk Factors Much of our business is subject to risks associated with operations in foreign countries under Part I, Item 1A of this Annual Report on Form 10-K."

This convergence of energy needs and environmental concerns has resulted in significant growth in the markets for solar (including photovoltaic ("PV")) energy and for wind energy. These renewable energy technologies have the further advantages of low carbon footprint and distributed architectures, which allow for both small and scalable investments by residences, businesses and utilities. As solar and wind energy have gained scale, they have become more economically viable and are attracting worldwide investment in research and development ("R&D") and manufacturing.

While renewable energy sources still meet only a small percentage of total global energy demand, solar and wind capacity are growing rapidly. Industry sources estimate that in 2011, approximately 20 gigawatts ("GW") of solar capacity came on line, approximately in-line with 2010. According to the Global Wind Energy Council ("GWEC") and Jefferies & Co., 40 GW of wind generation were installed in 2011, versus 36 GW in 2010, and 37 GW in 2009. Growth has been particularly strong in Europe, where the European Union's ("EU") goal to increase the share of renewable energy as a percent of total energy delivery to 20% in 2020 is driving the market. Despite continued dependence on

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government subsidies and the current credit-constrained environment, solar and wind energy are expected to continue to experience strong growth based on commitments by governments to support renewable energy sources and the continued decline of production costs for solar and wind systems, making them increasingly competitive with traditional energy sources.

Currently, legislation in multiple countries supports grid-tie rooftop systems installed by commercial and residential users and centralized PV generation by independent power providers and utilities. Roof-top systems generate all or some of the electricity needed by the user and enable the user to sell back excess power to the grid, particularly during peak generating times. Because solar energy still costs more per watt than grid-supplied electricity, the industry is reliant on various subsidies. PV technology is expected to reach grid parity, meaning that the cost of power from PV will equal the price of conventional power delivered to the user in major regions within the next two to three years across most locales, with certain regions, such as southern Italy, potentially reaching grid parity in the next 12-24 months. PV technology has already reached grid parity in certain areas that do not have access to traditional energy sources and have high solar irradiance. It is expected that if prices decline enough to make solar energy competitive with traditional energy sources, the market size will further increase as solar energy becomes more widely adopted by utilities. Wind energy has already reached grid parity in certain locations.

Solar and wind energy generation systems require inverters to condition the electrical energy generated by PV modules or wind turbine generators and deliver it to the grid. In 2011, we estimate that the market for solar inverters was over $6.7 billion (as compared to $6.8 billion in 2010 and $2.8 billion in 2009), and the market for wind inverters was over $3.6 billion, of which $2.2 billion was attributable to sales in the merchant markets (as compared to $2.3 billion in 2010 and $1.9 billion in 2009). Inverters represent approximately 5-7% of the installation cost of a solar system and approximately 3-5% of the installation cost of a wind system. They are sold through multiple channels, including direct sales to end users, and through distributors, systems integrators, original equipment manufacturers ("OEM"s) and Engineering, Procurement and Construction firms ("EPC"s). The primary geographic market for PV installations has traditionally been in Europe, although Asia and North America are beginning to see significant PV investment. Wind turbine installations also initially gained strength primarily in Europe, but have seen rapid adoption in North America, Asia and other regions in recent years.

PV inverters are generally classed as either micro inverters embedded with PV modules, string inverters, which are typically used in rooftop applications for residences or small commercial applications, or central inverters, which are predominately used for ground mounted solar installations for larger commercial and utility applications. Power-One's product offering covers a wide spectrum of applications with products that are optimized for crystalline as well as thin-film solar panels.

Increasing Amounts of Power Required by the Communications Infrastructure Industry. With the development and proliferation of data centers and their related infrastructures, as well as the Internet, wireless communications, broadband applications, server and storage farms and other new technologies, recent years have witnessed unprecedented growth in the volume of information transmitted globally. We believe that the volume of broadband communication and data center usage will continue to drive a higher demand for infrastructure power and will further increase the demand for power conversion and power management products.

Increasing Demand for High Conversion Efficiencies, High-Density Power and Digital Power Management. Recent efforts in the EU, the United States and China to reduce energy consumption are increasing the demand for high conversion efficiencies and digital power control. In addition, groups such as the Climate Savers Computing Initiative, consisting of a consortium of companies including Google and Intel and other eco-conscious businesses and conservation organizations, are promoting the development, deployment and adoption of smart technologies that can both improve the

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efficiency of a computer's power delivery and reduce the energy consumed when the computer is in an inactive state. Because a large portion of electrical energy waste occurs during the power conversion process, power supply companies have an opportunity to improve conversion efficiency and meet this market demand. Our AC/DC front-end power supplies have met the target efficiency standards established by the Climate Savers Computing Initiative as the Platinum standard within the single-output category, requiring a 94% minimum efficiency rating at 50% of rated output. Our digital power technologies allow us to achieve levels of power conversion efficiency and control that are not possible with analog designs. Higher conversion efficiencies help reduce overall power usage, and therefore cut greenhouse gas emissions and total cost of infrastructure ownership.

In addition, the digital power management market has grown as a result of the need for high-density power. Circuit boards continue to shrink despite becoming more complex, creating the need for high-density and more intelligent AC/DC and DC/DC power supplies. As the number of elements increases on circuit boards to provide more functionality, the available space for power supplies is increasingly limited. The use of digital power and digital control techniques can contribute to improved conversion efficiencies of AC/DC and board mounted DC/DC power supplies across a wide range of conditions. Digital power technologies enable OEMs to utilize increased points-of-load in their products, increasing the end products' computing capabilities and performance. Digital power management reduces the footprint of DC/DC converters while increasing product efficiency. We believe this market will be one of the fastest growing markets in power management.

Increasing Demand for High Reliability Power from Network Power Systems. Power demands from the proliferated use of Internet-enabled devices, such as routers or mobile phones, is significantly different from the power provided by the electric utility grid. The electric utility grid supplies acceptable power quality, or power that is free from surges, spikes, or sags, 99.9% of the time, resulting in the equivalent of nine hours per year of interrupted, or unavailable, power. These nine hours of downtime often occur in many isolated interruptions of very short duration. In traditional industries, a brief interruption of power only interrupts operations for the time that the power is actually unavailable. For a modern communications network, however, a minor power disturbance or brief interruption could cause equipment to crash and significantly shorten the life-span of electrical components. A network crash could result in several hours of downtime, including the time necessary for complex microprocessor-based equipment to reboot and regain power. This downtime could lead to significant lost revenue and customer dissatisfaction. As a result, communications network operators demand significantly more reliable power than that provided by the electric utility grid. We believe this demand will increase as wireless communications, broadband applications and other new technologies become more pervasive in society and as society becomes more dependent on their reliability.

Our Strategy: Powering the Renewable Energy, Data Center and Communications Markets

Our primary objective is to continue to be a worldwide leader in energy-efficient power conversion and power management equipment for the global renewable energy, data center, communications equipment, industrial and telecommunications network power markets. To achieve this objective, we plan to do the following:

Continue to Invest and Expand in Renewable Energy. In 2007, we entered the commercial solar market with a series of inverter products that today range in power from 300 watts ("W") to 1.4 megawatts ("MW"). Our products operate across a wide range of voltages that enable high levels of solar energy harvesting within single and multiple PV arrays, using multiple channel and high-speed maximum power point tracking ("MPPT") in our inverters. The inverters provide for longer periods of energy harvesting and high reliability.

During 2008, we began to develop wind inverter products for use in residential, commercial medium power applications, and mega turbine wind farms. These inverters range in power from

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5 kilowatts ("kW") in residential applications to 2.5 MW in large wind turbines, and are expected to improve efficiency while reducing capital cost. In addition, we are expanding our development teams to expand our offering to include 500kW monolithic and liquid cooled inverter designs to address both the Doubly Fed and Full Conversion markets. We are investing in expanding our worldwide sales and service infrastructure, focused primarily in Europe, but also in the United States and Asia, where we believe there is substantial opportunity.

We are developing leading-edge products for future solar and wind technologies. We continue to expand our renewable energy product line to match global requirements for indoor and outdoor applications and we are investing in design and test capabilities to increase efficiency, provide higher power density products and improve the long-term reliability of our products.

In 2011, we introduced the TRIO 20 and TRIO 27.6 kW, innovative three-phase string inverters with very low installation costs and high energy harvest performance, aimed to fulfill the demands of the industrial roof-top solar market. We also installed in the field the first AURORA ULTRA, an innovative utility scale 1.4 MW outdoor-rated inverter. The product is designed to reduce the total cost of ownership by reducing the costs of operation due to an innovative maintenance-free liquid cooling design. In early 2012, we expect to introduce our new micro inverter globally, and we plan to finalize the development of wind turbine applications to serve the growing off-shore market and the emerging on-shore applications market in Asia.

Continue to Expand into Adjacent Markets on a Global Basis. Over the years, we expanded both the breadth of our product technologies and geographic reach of our business. While a majority of our renewable energy products were shipped to Europe, which historically has been the world's largest market for PV installations, we also expanded our product line to meet the needs of customers in North America and Asia. In addition, we established design, manufacturing and service operations in each of these locations to more efficiently serve our customers. We believe the North American and Asian markets will provide substantial growth opportunities over the next several years.

Continue to Invest and Expand Energy Management Software. We have participated in the Monitoring, Plant Equipment and Accessories market for several years, primarily by manufacturing string combiners and by re-selling monitoring solutions. In 2010 and 2011, we broadened our portfolio of solutions through acquisition and now offer a complete monitoring and software services product line for operations and maintenance, production reporting, and consumer web displays. Our plant equipment includes plant data acquisition, networking, string combiners, environmental sensors, and metering. Our accessories and diagnostic tools include local displays, protocol adaptors, and downloadable PC software.

Target Data Center and Communications Markets. We continue to invest in our power solutions in order to target the growing market for higher efficiency and higher density power supplies. This market is driven primarily by the building of large data centers necessary to support the proliferation of wireless and Internet-enabled communication devices around the world. The high power demands of the data centers put them at the forefront of greenhouse gas reduction initiatives and efforts to reduce operational costs. We believe our high efficiency, high density and digital power management technologies create significant opportunities for growth in these markets over the next several years.

Continue to Support Industrial Markets. We continue to support and invest in our robust line of standard products that allow us to compete successfully across many different industrial end-market applications. The high margins in these less cost-sensitive applications help improve our overall gross margin. While this market has not been as sensitive to energy efficiency pressures as the computing market, we believe it will be increasingly affected as efficiency gains become harder to achieve in other markets.

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License our Digital Power Management Technology. We began licensing our digital power management technology, for which we have over 32 patents and over 800 claims, to semiconductor and modular power companies in 2008. The typical terms of these non-exclusive licenses include an upfront fee plus royalties paid through a termination date that is based on the last-to-expire of the licensed patents. Currently, we have field of use licensing agreements with Linear Technology Corporation, Infineon Technologies AG, CUI Inc., Powervation Ltd., Texas Instruments, Ericsson Modules, Maxim Integrated Circuits, Lineage Power Corporation, Emerson, TDK-Lambda Corporation, ZMDI and STMicroelectronics NV. We expect additional companies to license our digital power technology patents during 2012.

Our Products

We design, develop, manufacture and market our products, which are designed to convert, regulate, purify, store, manage or distribute electrical power for electronic equipment. Renewable energy inverters convert either solar (DC power) or wind energy (variable AC) into conditioned AC energy for transportation on the grid. Power conversion products generally convert from AC to DC or modify the voltage being delivered (DC-to-DC), while power management products generally manage multiple voltages and provide other functionality.

Depending on our customer's needs, including the balancing of cost and time-to-market of new products, we offer standard, modified-standard and custom-designed products. Standard products refer to products that are standard to a particular manufacturer, while modified-standard products refer to standard products of a manufacturer that can be easily modified to meet a customer's particular application. Because they have already been designed and manufactured, standard and modified-standard products allow our customers to reduce their time-to-market and minimize costs for new product introductions. Custom products are usually designed to meet the specifications of a unique customer application and may require significant tool and die costs and four-to twelve-month lead-times from conception through production.

Our products can be classified into the following main groups: renewable energy inverters and associated products, AC/DC power supplies, DC/DC converters, DC power systems and a category of other products, including smart motor controls. Our silicon board power management products fall into the DC/DC converter category. These categories can be distinguished based on their location within a system, and on their size and function.

Renewable Energy (RE) Inverters:

- convert solar (PV) or wind energy into useable grid connected power;
- power a range of 300 W to 2.5 MW;
- provide auxiliary products, such as string combiners, and utility grade medium voltage turnkey substations
- provide software technologies to enhance control and product yield and monitoring of the renewable energy systems and enterprise by providing software-as-a-system ("SaaS") platform; and
- offer conversion efficiencies of over 98% for use in residential, commercial, and utility-grade solar panels and wind turbine farms.

AC/DC Power Supplies:

- convert AC from a primary power source, such as a wall outlet, into a precisely controlled DC voltage;

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- are typically embedded within the equipment that they are powering;
- may be standard, modified-standard or custom-designed;
- are used primarily in networking systems, network servers and storage, and industrial equipment; and
- include increasing product efficiency (>90%) and power densities (>20w/cu3).

DC/DC Converters ("Bricks") and Point of Load Converters (including Digital Power Management):

- 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;
- include high-density and low-density "brick" converters that are embedded within the equipment that they are powering and are generally mounted directly on a printed circuit board within the equipment;
- include point-of-load ("POL") converters that power devices within an intermediate bus architecture ("IBA") as well as in other applications; our digital power management products fall into the DC/DC converter category and are the cornerstone of DPA and IBA technology; and
- are used by our customers primarily to power communications infrastructure equipment, although their usage is expanding to other markets including server and storage.

DC Power Systems:

- convert AC voltage into DC voltage and, together with a generator or an array of batteries, provide several hours of additional power capacity in the event of an AC input disturbance or power outage;
- can be either stand-alone units that are external to the equipment or sub-systems (commonly called "racks") that are integrated into a system; and
- are used primarily to power communications networks and cellular communications systems.

Smart Motor Control and Other Products:

- are used primarily in sophisticated appliances, such as high-end clothes washers and dryers, and air conditioners, where energy efficiency is very important; and
- are generally board-level products or modules that are incorporated by the manufacturer in their system.

Restructuring

During 2009, we announced and implemented a plan to restructure our global organization in response to ongoing demand uncertainty and to exit our factory in the Dominican Republic. As a result, we reduced our global headcount by approximately 1,300, or 29% of our workforce. The plan was completed during the second quarter of 2010. Through implementation of these actions, we were able to (i) realign global manufacturing and sourcing; (ii) improve operational performance; (iii) increase efficiencies in the supply chain and manufacturing process and (iv) improve our ability to respond to customer requirements in a cost effective manner. We incurred restructuring charges of approximately $11.4 million during the two years ended January 2, 2011, of which $7.1 million related to severance benefits and $4.3 million related to facilities closure charges in connection with exiting our factory in the Dominican Republic, all of which were settled in cash.

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Reorganization

During 2010, we adopted a plan of reorganization (the "Reorganization") intended to better protect our substantial NOLs by completing a two-step merger, following which the Company was merged with and into New Power-One, Inc. ("New Power-One"), a newly formed Delaware corporation subsequently renamed "Power-One, Inc." The Reorganization was approved at our annual shareholders meeting on May 24, 2010 and consummated on June 14, 2010. The NOLs can benefit us by offsetting our U.S. federal taxable income dollar-for-dollar by the amount of the NOLs, thereby reducing or eliminating our U.S. federal corporate income tax (other than the U.S. federal alternative minimum tax) on such income. However, if there is an ownership change of the Company for tax purposes, significant limitations will be imposed on our use of the NOLs. Pursuant to the Reorganization, our charter contains restrictions on transfers of our capital stock that are expected to reduce the risk of an ownership change for tax purposes. The purpose of the transfer restrictions is to help preserve the long-term value to us of our accumulated NOLs. At the same time, we terminated our Shareholder Rights Plan.

Sales and Marketing

We market our products through a global sales force. We have direct sales offices in Europe, North America, Asia and the Middle East. Our direct sales force works closely with existing and potential customers to determine their long-term technology requirements for power conversion products. This close collaboration allows us to design products that best fit our customers' expected applications. Our direct sales force is augmented by an extensive network of manufacturers' representatives and distributors.

Service

Our service organization is geographically-focused in order to provide service support to our renewable energy customers worldwide. Our renewable energy customers may purchase a full solution to solve their business needs, beginning with the base product and carrying forward through installation, service and maintenance. Our service offering includes repair, technical support, on-line support, monitoring and system integration, including swap for residential inverters, extended warranty for central inverters and customer training. The services offering varies based on geographic location, customer type, sales channel, product range, operating capability, and commercial requirements. Our service program includes both internal resources and third party providers. In addition to service offices, we also have strategically located repair depots across Europe, China, Australia and North America to provide pre-sale and post-sale support services to our customers.

Research and Development

We have spent and expect to continue spending, significant funding on R&D efforts related to power conversion and power management technology. We spent approximately $30.2 million on R&D in 2011, approximately $23.2 million in 2010, and approximately $15.6 million in 2009. We established engineering and design centers in strategic locations where we have strong access to technical talent and where we are best able to service our customer base. Our engineering and design centers in the United States are located in Carlsbad and San Jose, California and Phoenix, Arizona. We also operate engineering and design centers in Uster, Switzerland; Dubnica Nad Vahom, Slovakia; Valdarno, Italy; and GongMing, China. Additionally, we have engineering teams at each of our manufacturing facilities and at each of our power plant system integration facilities to enable more efficient customization of our system configurations for our customers.

We design software that provides critical insight into revenue-generating renewable energy assets and provides a remote monitoring and asset management solution, increasing our inverter value to our

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customers, and adding experienced software engineers to our renewable energy assets. Our software solutions identify and address problematic assets, allowing energy producers to increase energy harvest and performance ratios, cut the cost of operations and maintenance, reduce operational and financial risk, and improve return on investment.

Manufacturing Process and Quality Control

Production of many of our products typically entails subassembly of sophisticated printed circuit boards that are in turn combined with hardware components to produce a final product. In response to demand for increased quality and reliability, design complexity, and sophisticated technology, we continue to invest in state-of-the-art processes. We have also standardized many of our manufacturing processes and much of our equipment worldwide to increase efficiency and optimize flexibility between facilities.

Our manufacturing processes are designed to rapidly produce a wide variety of quality products at low cost. 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. The use of surface mount technology ("SMT") permits us to reduce board size by eliminating the need for holes in the printed circuit boards and by allowing us to use smaller components. Our investment in SMT has significantly improved our product development processes and increased production capacity and it has also improved our product quality. Additionally, we have outsourcing arrangements with contract manufacturers in Asia.

Product quality and responsiveness to our customers' needs are critical to our ability to compete successfully and we emphasize quality and reliability in both the design and manufacturing of our products. In addition to testing throughout the design and manufacturing process, we test and /or burn-in our products using automated equipment and customer-approved processes. We also perform out-of-box tests and pre-ship audits on randomly selected units before delivery. We insist on the same levels of quality from our contract manufacturers. As a result, we have incurred, and may continue to incur, additional costs related to quality assurance.

As our customers' operations expand internationally, they increasingly require that their power products meet or exceed established international safety and quality standards. We therefore design and manufacture our power conversion and power management products in accordance with the certification requirements of many international agencies, including Underwriters Laboratories in the U.S., CSA International in Canada, and TUV Product Service for the European market. Our renewable energy products are designed to meet local safety requirements in each respective country in which products are sold. In addition, various products may be tested to Network Equipment-Building System requirements for the U.S. telecommunications market and to European Telecom Standard Institute requirements for the EU telecommunications market.

We have manufacturing operations in the United States, China, Italy and Slovakia. All of our manufacturing facilities are ISO-certified. In addition to our own facilities, we utilize low-cost, outsourced contract manufacturing, including for all of our silicon-based products, in several locations around the world. Most of our contract manufacturers are located in Asia.

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Suppliers

We maintain a network of suppliers for components and other materials used in the manufacture of our power conversion and power management products. We typically design products using components readily available from several sources and attempt to minimize our use of components that we can only obtain through a single source. We procure components based upon our enterprise resource planning system and use a combination of forecasts, customer purchase orders and formal purchase agreements to create our materials requirements plan.

We occasionally use components or other materials that we can only obtain from a single source. We may seek to establish long-term relationships with such suppliers and we have volume purchase agreements with certain suppliers of key items. This practice enables us to maintain a more constant source of required supplies and produces cost savings through volume purchase discounts.

Backlog

We generally sell our products pursuant to purchase orders rather than long-term contracts. Our 180-day backlog consists of purchase orders on-hand having delivery dates scheduled within the next six months. Our backlog may not necessarily be a reliable indicator of future revenue because our standard agreements with our customers provide that they can cancel or modify orders up to 60 days prior to delivery without penalty. In addition, a significant portion of our revenue is derived from "turns" business (that is, revenues from orders that are booked and shipped within the same reporting period). Under a Vendor Managed Inventory ("VMI") program, we manufacture products for our customers based on their forecast. As a result, the booking and billing occur simultaneously upon use of the product, and therefore there is always a book-to-bill ratio of 1.0 for these programs. We may bring additional VMI programs on-line in the future, which would result in higher "turns" business, lower backlog, and higher finished goods inventory.

Competition

In the renewable energy market, we compete with a number of companies, some of which are larger than Power-One, and have broader product portfolios and well-established distribution channels. Our competitors include SMA Solar Technology (Germany), Fronius International (Austria), KACO New Energy, Inc. (Germany), and Siemens (Germany), with new entrants into the market including General Electric (United States) and Delta (Taiwan). We compete on the basis of quality, reliability, technology, service, brand recognition, and on-time delivery. We believe that technological performance is the most important characteristic in gaining brand recognition and increasing market share and is the primary reason behind the significant growth in our revenue from the renewable energy market.

The power conversion and power management industry is highly fragmented and characterized by intense competition. No single company dominates the overall market, and our competitors vary depending upon the specific type of products they manufacture or sell. We believe that the principal bases of competition in our targeted markets are breadth of product line, technological advantages, stability and reputation of the provider, and cost. Our main competition includes companies located throughout the world, including Emerson Electric (US), Delta Electronics (Taiwan), LiteOn (Taiwan), General Electric (US), and Eltek Valere (Norway).

We believe that we have key advantages that have helped us to establish a leading brand for our products. Some of the factors that we believe have contributed to this leading position are:

Broad Product Line. We offer a broad range of products in both SBUs ranging in power from 1 W to 2.5 MW. Our smaller products are no larger than a fingernail, while our larger DC power systems and renewable energy inverters can weigh over 3 tons. With millions of potential current and voltage configurations, our diverse product line offers our customers a one-stop-shop opportunity,

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allowing them to purchase nearly all of their power conversion and power management products from a single supplier. As a result, we are one of the few companies that can power virtually every component and system of an infrastructure network. In addition, we offer a broad product line for renewable energy, with products for both wind and solar.

Leading Design and Development Capabilities. There are a limited number of highly skilled power engineers in the world, and we believe that we have assembled some of the most capable and innovative of such engineers through our hiring efforts and through strategic acquisitions. Furthermore, we have been effective at maintaining a high retention rate among our technical staff. This team of engineering talent has allowed us to consistently upgrade to new generations of power conversion and power management products, each of which has outperformed prior products with higher power density and smaller size. It has enabled us to become a market leader in the segments in which both SBUs compete.

Our design centers are equipped to deliver innovative designs for the renewable energy and power conversion and power management markets. In addition to excellent engineering resources, we have equipped our laboratories with design and simulation software, advanced test equipment and product certification capabilities. Design activities are governed by marketing-defined product roadmaps and custom requirements. To satisfy technological advances we collaborate with leading universities. Our main technology areas of focus are: advanced circuit topologies, digital controls, innovative packaging and thermal management technologies, and cost competitive designs. Our products achieved the following performance differentiating features:

Renewable Energy:

- High energy harvesting
- High power conversion efficiencies
- High-speed and multiple channel maximum power point tracking (MPPT)
- Wide range of voltage inputs
- Field-proven reliability and high availability

Power Conversion (AC/DC and DC/DC Board Mounted Power):

- High power densities
- High efficiencies
- Digital controls
- Rugged design for harsh environments

Reputation for Quality and Reliability. We have been in the power conversion and power management product industry since 1973. By establishing rigorous internal quality control programs, we believe that we have been able to provide our customers with products that are highly reliable.

In the renewable energy industry, the inverter is seen as a single point of failure and the critical component in the PV array or the wind turbine. As a result, operators cannot afford to have their system fail due to product failure. Our inverter products have established a reputation for high reliability, with longer uptimes and longer mean-time between failures than many of our competitors, due in part to our modular design and other engineering factors. We believe this is a major factor in our market share growth in the inverter industry.

In the communications infrastructure industry, we have established a strong customer base that includes many of the industry's largest manufacturers as a result of our focus on quality. Although power conversion products typically represent only 2% to 5% of the cost of an entire network, their

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failure can cripple the entire system in which they are installed. Consequently, we believe most customers are not willing to risk buying from an unproven supplier in an effort to cut costs in this area.

Intellectual Property Matters

We consider our intellectual property to be very important and valuable, and we have made intellectual property protection a key element of our overall business strategy. We rely on a combination of patent, trade secret and other intellectual property laws, confidentiality agreements executed by most of our exempt employees and other measures to protect our proprietary rights. We currently maintain 139 active U.S. patents, many of which are protected by corresponding foreign patents in selected jurisdictions. Additionally, 95 U.S. and foreign patent applications are pending. We hold eight U.S. registered trademarks with additional trademark applications pending, and we claim common law trademark rights to additional marks. We consider our intellectual property in the area of digital power management and control, including trademarks and patents that we have secured and are continuing to seek in that area, to be of particular importance and strategic significance. These particular patents have all been issued since 2004 and have patent terms extending for approximately 20 years from date of grant. See "Risk Factors We face, and might in the future face, intellectual property infringement claims by competitors and actions by foreign governments that could adversely affect our intellectual property rights, which in turn could adversely affect our sales" under Part I, Item 1A of this Annual Report on Form 10-K.

Employees

At January 1, 2012, we employed 3,263 employees at our facilities in the following functions:

Function	Number of Employees
Manufacturing	2,279
Research and development	555
General and administrative	188
Sales and marketing	241
Total	3,263

In certain foreign locations, our employees operate under labor unions or work counsels. We believe that our continued success depends, in part, on our ability to attract and retain qualified personnel. We consider our relations with our employees to be good.

Financial information about geographic areas

For financial information about geographic areas, including revenue and long-lived assets, Note 15 of the Notes to Consolidated Financial Statements under Part IV, Item 15 of this Annual Report on Form 10-K.

Company Website, Corporate Governance Website and Access to Company Filings

We post all of our periodic reports on Form 10-K and 10-Q, current reports on Form 8-K, and amendments to these reports filed or furnished pursuant to the Securities Exchange Act of 1934 on our Internet website at *www.power-one.com* as soon as reasonably practicable after we file or furnish the reports with the Securities and Exchange Commission. Access to these reports is free of charge. In addition, we maintain a Corporate Governance section on our website to provide the investor community with easy access to relevant information about our corporate governance. The public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549, and the public may obtain information on the operation of

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the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at *http://www.sec.gov*.

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EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below is certain information concerning our executive officers.

Name	Age(1)	Position
Richard J. Thompson	62	President and Chief Executive Officer
Gary R. Larsen	48	Senior Vice President, Finance, and Chief Financial Officer
Alexander Levran	61	President, Renewable Energy Solutions
Neil Dial	60	Senior Vice President, Operations
Steve Hogge	54	President, Power Solutions
Tina D. McKnight	54	Secretary and General Counsel

(1) As of March 15, 2011

Richard J. Thompson. Mr. Thompson joined us as our Chief Executive Officer in February 2008. Before joining Power-One as an executive officer, Mr. Thompson served as a member of the Company's Board of Directors since August 2007. Mr. Thompson continues to serve on the Board of Directors. Mr. Thompson served as Senior Vice President, Finance and Chief Financial Officer of American Power Conversion Corporation (acquired by Schneider Electric in February 2007) from May 2005 to March 2007. Prior to joining American Power Conversion Corporation, Mr. Thompson served as Chief Financial Officer, Secretary and Treasurer of Artesyn Technologies for fifteen years. Mr. Thompson earned his BBA from Lamar University in Beaumont, Texas.

Gary R. Larsen. Mr. Larsen joined Power-One in August 2010 as our Senior Vice President, Finance and Chief Financial Officer. Before joining us, Mr. Larsen served as the CFO of AuthenTec, Inc., a provider of security identity management and touch control solutions since December 2006. Prior to joining AuthenTec, Mr. Larsen served as the CFO of Artesyn Technologies, Inc., a global power conversion and embedded systems manufacturer from May 2005 until November 2006, and as Artesyn's Controller from May 1999 until April 2005. Mr. Larsen also has held various financial positions with W.R. Grace & Co., from April 1988 until April 1999, and was with KPMG Peat Marwick LLP prior to joining W.R. Grace. Mr. Larsen holds a BS in Finance and Accounting from State University of New York at Buffalo and an M.B.A from New York University.

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Alexander Levran. Dr. Levran, who joined Power-One in January 2007 as Chief Technology Officer, became the President of the Renewable Energy Solutions SBU in April 2010. Dr. Levran previously served as Executive Vice President and Chief Technology Officer of Magnetek, Inc. from July 1993 to December 2006. Dr. Levran received his B.S.E.E., and M.S.E.E. from Technion-Israel Institute of Technology, Haifa, Israel. He received his Ph.D. in Electrical Engineering from Polytechnic Institute of NY. Dr. Levran is a Director of the Power Sources Manufacturers Association, and is active in other industry associations and standards bodies. Dr. Levran holds a number of U.S. and foreign patents in the field of power conversion and electronics.

Neil Dial. Neil Dial joined Power-One in October 2008 as our Senior Vice President, Operations. Prior to joining the Company, Mr. Dial served as Vice President, North American Operations, at Plexus Corporation, an electronic manufacturing service provider, from September 2002 to September 2008. Mr. Dial has also held senior management positions at Dell Computer, Adflex Solutions, Motorola, and Texas Instruments. Mr. Dial graduated from the University of Northern Iowa with a BA in Business Administration and from the University of Northern Colorado with a Masters in Management.

Steve Hogge. Mr. Hogge joined the Company in July 2010 as President of the Power Solutions SBU. Prior to joining the Company, Mr. Hogge held several senior management positions at Cooper Industries from 1998 to June 2010 including serving as Vice President and General Manager for Cooper Bussmann's Electronics and Transportation business units, and as Managing Director of Bussmann's Asia Pacific operations. Prior to Cooper, Mr. Hogge also held senior management positions at Bourns Inc. and Raychem Corporation. Mr. Hogge holds an MBA from New York University's Stern School of Business and a B.S. in Electrical Engineering from the U.S. Naval Academy, Annapolis MD.

Tina D. McKnight. Ms. McKnight joined Power-One in December 2008 as Secretary and General Counsel. Before joining Power-One, Ms. McKnight served as Senior Vice President and General Counsel of BCBG Max Azria Group, an international retailer, from December 2007 to November 2008. Prior to that she served as General Counsel and Secretary of Magnetek, Inc., a global power supplies and renewable energy business, from September 2000 to December 2006. Ms. McKnight has also held in-house legal positions with Natrol, Inc. and Great Western Financial Corporation and was an attorney in the Los Angeles office of Brobeck, Phleger and Harrison after graduating from law school. Ms. McKnight earned her J.D. from the University of Southern California's Gould School of Law and her B.A. from the University of California, Los Angeles.

Our officers serve at the discretion of the Board.

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ITEM 1A RISK FACTORS

We are a worldwide organization and leading designer and manufacturer of inverters for the renewable energy industry. We make hundreds of high-quality brand name AC/DC and DC/DC power supplies, converters, and power management products for the servers, storage, and networking, network power systems and industrial markets. We sell our products to OEMs, distributors, EPC firms, and service providers who value quality, reliability, technology and service. We have established a broad and global customer base.

Our future results of operations are subject to risks and uncertainties over which we have limited control and which could cause our actual results to differ materially from our expectations. We are subject to all of the business risks facing manufacturing companies, including business cycles and trends in the general economy, financial market conditions, demand variations and volatility, potential loss of key personnel, supply chain disruptions, government legislation and regulation, and natural causes. The following list of risk factors is not all-inclusive. Other factors and unanticipated events could adversely affect our financial position or results of operations. We believe that the most significant potential risk factors that could adversely impact us are the following:

Uncertain economic conditions, particularly in Europe, may adversely affect overall demand and profitability levels.

Currently, Europe is facing a debt crisis that could lead the entire region into an economic slowdown that would adversely affect our results of operations and financial condition. The possibility that one or more of the euro zone members could leave the Economic and Monetary Union (EMU or euro zone), or that the currency union could break apart, could raise legal, practical and procedural issues between the Company and its European customer base. The continuation or deterioration of current global market conditions, including the current economic instability and uncertainty in Europe, could be accompanied by decreased demand for our customers' products and weakness in our customers' businesses that result in decreased demand for, or additional downward pricing pressure on, our products, and could adversely impact our collection of receivables and our overall European operations. As capital and credit markets continue to experience volatility, the limited availability of funds continues to adversely affect the European markets where over half of our revenues are generated. The ability of our customers to access the capital and credit markets may be limited by these or other factors, which could have an impact on our ability to maintain or increase our current revenue levels.

The risks associated with our business are more acute during economic slowdown or recession. Accordingly, any prolonged economic slowdown or a lengthy or severe recession could have a material adverse effect on our results of operations, financial condition and business prospects.

Changes in demand or downturns in the renewable energy, communications infrastructure, server/storage or industrial markets could affect our business and profitability.

A majority of our sales in the past year have been to companies in the renewable energy industry. We expect our sales to renewable energy companies to continue to be significant in the future, and also have customers in other industries, including the server/storage, network power systems, communications, medical, and defense and transportation industries, among others. All of these industries are highly cyclical and may experience downturns. These industries also experience volatility, and future volatility as well as downturns in any of these industries, or any failure of these industries to recover from downturns, could materially harm our business and profitability. Likewise, if we have difficulty managing growth in this business, it could materially and adversely affect us. In addition, our business and financial position may be adversely affected by current and future economic conditions

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that cause a decline in business and consumer spending in the markets served by our or our customer's products.

Significant feed-in tariff and subsidy reductions could impact revenue and results of operations in the renewable energy markets.

Feed-in tariffs have been a significant driver in the growth of the solar industry, with countries throughout the world providing incentives to spur adoption of renewable energy. While many countries have adopted feed-in tariffs, subsidies, or other incentives, some are beginning to re-evaluate the level of incentives they wish to provide. Examples of government-sponsored financial incentives aimed at promoting the use of solar power in both on-grid and off-grid applications and reducing dependency on other forms of energy include capital cost rebates, feed-in tariffs, tax credits, net metering and other incentives to end-users, distributors, system integrators and manufacturers of solar power products. However, political changes in a particular country could result in significant reductions or eliminations of subsidies or economic incentives, and the effects of the recent global financial crisis may affect the fiscal ability of governments to offer certain types of incentives, such as tax credits. A number of countries, including Germany, Italy and the United Kingdom, have adopted reductions to their feed-in tariffs, and Spain recently announced a temporary suspension of all subsidies for new renewable energy projects. As we do significant business in these regions, the proposed reductions could negatively affect the results of our operations. Feed-in tariff reductions and suspensions could result in a significant decline in demand and price levels for renewable energy products, which could have a material adverse effect on our business, financial condition and results of operations.

Failure to anticipate trends in the product offering of renewable energy and power conversion products that our customers will demand may adversely affect our business.

During 2007 and 2008, we entered the solar and wind markets, which are fast-growing markets still in their infancy, and the trends within the industry are not yet well established. Failure to forecast trends within the industry may negatively impact us if we are not able to fulfill our customers' needs. In order to focus on customer needs and to better align our strategy to meet those needs, we continue to invest in the expansion of our sales and services in Europe, North America and Asia. There can, however, be no assurance that such investments will result in increased revenue or allow us to better address trends within the industry. In addition, because our power business has many customers in the communications infrastructure industry, the factors and economic trends that affect those companies also affect our power business. The communications infrastructure industry has experienced rapid change in recent years. To respond to the needs of our customers in that industry, we must continuously develop new and more advanced products at lower prices. We have made, and will continue to make, significant investments in next generation technologies, but there can be no assurance that the resulting products will be successful or that we will recoup our R&Ds costs through increased sales.

We face intense industry competition, price erosion and product obsolescence, which, in turn, could reduce our profitability.

We operate in an industry that is generally characterized by intense competition and rapid technological change. We believe that the principal bases of competition in our markets are breadth of product line, quality of products, stability, reliability and reputation of the provider, along with cost. Quantity discounts, price erosion, and rapid product obsolescence due to technological improvements are therefore common in our industry as competitors strive to retain or expand market share. Product obsolescence can lead to increases in unsellable inventory that may need to be written off and therefore could reduce our profitability. Similarly, price erosion can reduce our profitability by decreasing our

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revenues and our gross margins. In fact, we have seen price erosion over the last several years on most of the products we sell, and we have factored additional price erosion into our forecasts.

Our long-term operating results depend substantially upon our ability to continually develop, introduce, and market new and innovative products, to modify existing products, to respond to technological change, and to customize certain products to meet customer requirements. There are numerous risks inherent in this process, including the risks that we will be unable to anticipate the direction of technological change or that we will be unable to develop and market new products and applications in a timely fashion to satisfy customer demands, which could result in a decrease in our net sales and a loss of market share to our competitors. Historically, we have had write-offs of excess and obsolete inventory which negatively impacted our results of operations. In the future, excess or obsolete inventory may need to be written off, and this in turn could reduce our profitability.

We may fail to capture customers in the new markets that we are pursuing.

We are pursuing customers in new markets, most notably for our digital power management products, renewable energy, and in the server/storage industry. While we have secured design wins and order commitments from significant customers in these industries in the past, no guarantee exists that these design wins and order commitments will turn into revenue in the quantity or timeframe projected. We have made investments in our infrastructure, increased our operating costs and forgone other business opportunities in order to service these new and potentially significant customers. Failure of these design wins to translate into revenue in the quantities or timeline projected could have a materially adverse impact on our revenue, operating results and financial stability. In addition, we are pursuing new geographic markets in our Renewable Energy Solutions SBU. The inability to capture new customers in the high-growth geographic markets could have a material adverse effect on our business, financial condition or results of operations.

Businesses and consumers might not adopt renewable energy solutions as a means for obtaining their electricity and power needs.

On-site distributed power generation solutions, such as PV and wind turbine systems, which utilize our products, provide an alternative means for obtaining electricity and are relatively new methods of obtaining electrical power that businesses may not adopt at levels sufficient to grow this part of our business. Traditional electricity distribution is based on the regulated industry model whereby businesses and consumers obtain their electricity from a government regulated utility. For the renewable energy industry to succeed, businesses and consumers must adopt new purchasing practices and must be willing to rely upon less traditional means of purchasing electricity. Businesses and consumers may not choose to utilize on-site distributed power at levels sufficient to sustain our business in this area. The development of a mass market for our products may be impacted by many factors which are out of our control, including:

market acceptance of PV and wind turbine systems that incorporate our products;

the cost competitiveness of these systems;

regulatory requirements; and

the emergence of newer, more competitive technologies and products.

If a mass market fails to develop or develops more slowly than we anticipate, we may be unable to recover the costs incurred to develop these products.

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Cancellations, reductions or delays in purchases could cause our quarterly results to fluctuate.

We do not obtain long-term purchase orders or commitments from our customers, and therefore customers may generally cancel, reduce or postpone orders without penalty, prior to a 60-day delivery window. Cancellations, reductions and delays in orders could reduce our net sales and profitability. Our expense levels are based, in part, on expected future revenues and are relatively fixed once set. Our expectations for net sales beyond 90 days are based partially on our own estimates of future demand and partially on customer orders. However, we are limited in our ability to reduce expenses quickly if, for any reason, net sales do not meet our expectations in a particular period. Therefore, fluctuations in net sales, particularly if customers cancel, postpone or delay orders, may adversely impact our operating results.

Fluctuations in customer needs may also affect our mix of products sold and our volume of products ordered, which in turn would affect our gross margin and operating results. In addition, high-volume orders, if cancelled, may increase the risk of inventory obsolescence and asset write-offs due to excess capacity.

We are subject to credit risks.

Some of our customers have experienced and may continue to experience financial difficulties and/or have failed to meet their financial obligations to us. As a result, we have incurred charges for bad debt provisions related to some trade receivables. In certain cases where our end-customers utilize contract manufacturers or distributors, our accounts receivable risk may lie with the contract manufacturer or distributor and may not be guaranteed by the end-customer. In addition, in connection with the growth of the renewable energy market, we are gaining a substantial number of new customers, some of which have relatively short histories of operations or are newly formed companies. As a result, it is difficult to ascertain financial information in order to appropriately extend credit to these customers. If more customers fail to meet their financial obligations to us, or if the assumptions underlying our recorded bad debt provisions with respect to receivables obligations do not accurately reflect our customers' financial conditions and payment levels, we could incur additional write-offs of receivables in excess of our provisions, which could have a material adverse effect on our cash flow and operating results.

We rely on a few major customers for a material portion of our business and the loss of any of those customers, or a change in our product mix, could reduce our net income and operating results.

Historically, a few customers accounted for a material portion of our net sales each year. For 2011, 2010 and 2009, our consolidated top five customers accounted for approximately 22%, 20% and 24% of our consolidated net sales, respectively. For 2011, 2010 and 2009, our top five Renewable Energy Solutions customers accounted for approximately 27%, 27% and 36% of our Renewable Energy net sales, respectively. For 2011, 2010 and 2009, our top five Power Solutions customers accounted for approximately 44%, 40% and 34% of our Power Solutions net sales, respectively. If we lose any of these key customers, if any of them reduces or cancels a significant order, if any of them experiences significant financial or other failure, or if the purchased product mix changes significantly in favor of products that have lower gross margins, our net sales and operating results could decrease significantly.

We may experience manufacturing and supply chain problems that can cause an inability to deliver product on time.

We have experienced difficulties in aligning demand forecast with factory loading, materials procurement, and manpower utilization, such that certain delivery commitments have been missed, delayed, or rescheduled. Also, we may fail to adequately respond to unplanned increases in customer demand due to capacity constraints and material shortages on longer lead-time components. We have

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initiated actions that we believe will limit our exposure to these problems, but dynamic business conditions in many of our markets may challenge these solutions and these or similar issues may recur in the future.

We manufacture products at various facilities around the world. Any disruption of operations at those facilities, including through natural disaster, terrorist attack, labor strike or work stoppage, or other events that may be outside of our control, could seriously impact our business and profitability; however, we have established manufacturing operations on three continents, (Asia, Europe and North America) and are positioned to quickly transfer orders to an unaffected facility if necessary.

In addition, some of our products are manufactured, assembled and tested by third party subcontractors and contract manufacturers located in Asia. While we have had relationships with many of these third parties in the past, we cannot predict how or whether these relationships will continue in the future. In addition, changes in management, financial viability, manufacturing demand or capacity, or other factors at these third parties could hurt our ability to have our products manufactured.

We also transfer the production of certain products between our internal factories as well as between our contract manufacturers, and are ramping production levels in our new factories in North America and China. These product transfers and factory establishment efforts may cause delays in the production and shipment of certain products. Furthermore, due to the amount of time often required to qualify manufacturers, assemblers and testers, both on our part and by some of our customers, we could experience delays in the shipment of our products to customers and distributors if we are forced to find alternative third parties to manufacture, assemble or test products. These delays could adversely affect our business and profitability.

Problems with product quality or product performance may cause us to incur warranty expenses and may damage our market reputation and prevent us from achieving increased sales and market share.

Consistent with customary practice in our industry, we warrant our products to be free from defects in material and workmanship under normal use and service. We generally provide a five to ten year warranty on our Renewable Energy products and two year warranty on our Power Solutions products. A provision is recorded upon revenue recognition to cost of revenues for estimated warranty expense based on historical experience. Although we conduct accelerated testing on our products, the renewable energy inverters cannot be tested in an environment simulating the full warranty period. The possibility of future product failures or issues related to services we provided could cause us to incur substantial expenses to repair or replace defective products or re-perform such services. Furthermore, widespread product failures may damage our market reputation and reduce our market share and cause sales to decline and in turn adversely impact our financial results from operations.

Our inventory levels may be too high or too low.

During periods of growth and high demand for our products, we may not have adequate supplies of inventory on hand to satisfy our customers' needs. Furthermore, during these periods of growth, our suppliers may also experience high demand and therefore may not have adequate levels of the components and other materials that we require to build products so that we can meet our customers' needs. As a result, it may take us longer to procure components than our customers are willing to accept, and we therefore may lose sales. This could negatively affect our profitability.

In addition, we may transfer production between our facilities or our contract manufacturers. During the periods in which production is being transferred, we may be required to maintain inventory at both locations to ensure a seamless transition between factories.

We may choose to mitigate these risks by purchasing and maintaining higher inventory levels in order to better meet our customers' needs during these periods of growth, high demand, and

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production transfers. However, increased inventory levels could lead to increases in excess and obsolete inventory if these periods of high demand do not materialize or if there are unexpected changes to our product mix or our forecasts are otherwise inaccurate.

Much of our business is subject to risks associated with operations in foreign countries.

We generate a significant percentage of our revenue internationally through sales offices located throughout Europe and Asia, and many of our operations are located outside of the United States. For example, manufacturing is performed in our own facilities in China, Italy, and Slovakia, and at contract manufacturers in Asia and Canada. We expect to continue to build, acquire or move operations to lower cost locations, and there are inherent risks from operating overseas that may impact our business. For example, we face risks that the countries in which we conduct business, or in which we have customers, suppliers, or contract manufacturers could:

- experience financial, economic or political instability;
- adopt laws that make the enforcement of our contractual or other legal rights and remedies difficult or uncertain;
- provide inadequate intellectual property protection for our technology;
- impose restrictions on the export or import of technology that would affect our ability to obtain supplies from, or sell products into, such countries;
- impose tariffs, quotas, taxes, other market barriers; or
- impose other laws, regulations or policies adversely affecting trade, investment or taxes, including those relating to the repatriation of funds and to withholding taxes.

In addition, because of our international operations, we face additional risks such as:

- currency exchange risk, since we increasingly receive payments and purchase components in foreign currencies, and we have historically not engaged in foreign currency hedging activities;
- compliance with laws and regulations in various regions in which we operate;
- reliance on overseas contract manufacturers that may not be able to manufacture and deliver products in the quantity, quality and timeline required;
- greater difficulty and longer delays in collecting accounts receivable from international customers;
- increased challenges to management associated with overseeing operations that are geographically dispersed across Europe and Asia, particularly in countries where we have not historically done business and where we therefore may not be familiar with laws, regulations and business practices; and
- increased risk of shipping disruptions particularly in foreign countries experiencing political instability.

Compliance with government regulations may restrict our operations and ability to enter new geographic markets.

We are subject to local laws and regulations in various regions in which we operate, including for example the United States, the EU and China. Several countries where we sell our products or intend to sell our products have developed certain product certification standards. In order for us to sell our products covered by the certification requirement into those countries, our products must first earn the applicable certification. Delays in meeting, or failure to meet, these certification standards may cause us

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to miss market opportunities and may hinder us from entering and selling our products in those markets.

In addition, we face risks in complying with, or seeking to conduct our business in connection with various local laws and regulations, including directives like Restriction of Certain Hazardous Substances Directive ("RoHS"), Waste Electrical and Electronic Equipment Directive ("WEEE"), and Regulation Nº 1907/2006 on the Registration, Evaluation, Authorization of Chemicals ("REACH") that were issued by the EU, and Management Measures on Electronic Information Product Pollution Control issued by China. We believe we are in compliance with the existing directives; however the authorities have the ability to review and challenge our compliance which could result in additional costs.

We also face risks that our products may not be compliant with future directives or product certification standards which may result in reduced sales and also in additional excess and obsolete inventory risk related to non-compliant inventory. Costs of compliance with product certification, environmental, health and safety laws may have a material adverse impact on our net sales and operating results.

Our success depends on our ability to retain our senior management and to attract and retain key personnel.

Turnover in key management positions could temporarily harm our financial performance and results of operations. In addition, if we lose certain members of our senior management, our operations may be disrupted and our operating results could be adversely affected. In addition, our capacity to develop and implement new technologies depends on our ability to employ personnel with highly technical skills. Competition for such qualified technical personnel in our industry is intense due to the relatively limited number of power supply engineers worldwide, and we believe that this supply will remain constrained because of the limited number of engineering students concentrating on power conversion. If we cannot attract and retain key technical personnel, our technical expertise may suffer, and our operating results could be adversely affected. In addition, it could be difficult, time consuming and expensive to replace any key management member or other critical personnel and no guarantee exists that we will be able to recruit suitable replacements or assimilate new key management personnel into our organization to achieve our operating objectives.

Failure of our information technology infrastructure to operate effectively could adversely affect our business.

We depend heavily on information technology infrastructure to achieve our business objectives. If a problem occurs that impairs this infrastructure, the resulting disruption could impede our ability to record or process orders, manufacture and ship in a timely manner, or otherwise carry on business in the normal course. Any such events could cause us to lose customers or revenue and could require us to incur significant expense to remediate.

Tax positions taken or failure to accumulate and consider relevant tax information may result in non-compliance with tax regulations or adverse tax consequences.

We conduct business in many countries, which requires us to interpret the income tax laws and rulings in each of those tax jurisdictions. Due to the combined impact of tax laws between those jurisdictions, as well as the subjectivity of factual interpretations, our estimates of income tax liabilities may differ from actual payments or assessments. Claims from tax authorities related to these differences could have an adverse impact on our operating results and financial position. In addition, we have accumulated significant NOLs in the U.S. which are subject to section 382 of the Internal

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Revenue Code. Limitation of our NOLs under section 382 could have a material adverse impact on our future operating and financial results.

Market fluctuations or volatility could cause the trading price of our common stock to decline and limit our ability to raise capital.

The stock market in general and the market for stocks of power conversion and power management companies in particular have experienced price and volume fluctuations, often unrelated to the operating performance of the affected companies. We believe that such volatility contributes to the decline in the trading price of common stock and that such volatility may negatively impact our stock price. Trading volumes of our common stock can increase dramatically, resulting in a volatile trading price for our common stock. In addition, the trading price of our common stock could decline significantly as a result of sales of substantial number of shares of our common stock, or the perception that significant sales could occur.

We are subject to risks associated with future company and technology acquisitions, divestitures, joint ventures and strategic investments.

We may continue to pursue acquisitions and disposals of businesses, products and technologies, or enter into joint ventures and equity investment arrangements that could complement or otherwise enhance our business. The negotiation of potential acquisitions, divestitures, joint ventures or investments as well as the integration of an acquired business, product or technology could require us to incur significant costs and divert management's time and resources. Further, if a transaction does not occur, those economic and opportunity costs cannot be recouped. Future transactions by us could result in the following consequences:

dilutive issuances of equity securities;

incurrence of debt and contingent liabilities;

impairment of tangible and intangible assets;

R&D write-offs; and

other acquisition-related expenses.

We may also encounter difficulties in integrating acquired assets with our operations. Furthermore, we may not realize the benefits we anticipated when entering into these transactions. In addition, after we complete an acquisition, our management must be able to assume greater responsibilities, and this in turn may divert their attention from our existing operations. Any of the foregoing could have a material adverse effect on our financial position and results of operations.

We face, and might in the future face, intellectual property infringement claims by competitors and actions by foreign governments that could adversely affect our intellectual property rights, which in turn could adversely affect our results.

We rely upon a combination of patents, trademarks, contractual provisions and trade secret laws to protect our proprietary rights in certain of our products. We have from time to time received, and may in the future receive, communications from third parties asserting patent or other intellectual property rights that are alleged to cover our products, some of which in the past have resulted in litigation. See "Legal Proceedings" under Part I, Item 3 of this Annual Report on Form 10-K. We have in the past initiated lawsuits against companies whom we believe are violating our intellectual property and we may bring such lawsuits in the future, further increasing our costs. If we do not prevail in any such litigation, our business may be adversely affected.

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In addition, our industry is characterized by uncertain and conflicting intellectual property claims and vigorous protection and pursuit of intellectual property rights or positions, which have, on occasion, resulted in significant and often protracted and expensive litigation. See "Legal Proceedings" under Part I, Item 3 of this Annual Report on Form 10-K. We cannot assure that intellectual property claims will not be made against us in the future, that we will not be prohibited from using our technologies subject to any such claims or that we will not be required to obtain licenses and make corresponding royalty payments. In addition, the necessary management attention diverted to litigation, along with the associated legal costs, could have a significant adverse effect on operating results. In addition, competitors (either individually, or via alliance-type arrangements) may release infringing product(s) prior to or after any court ruling or other judicial action which upholds or supports our intellectual property rights, with the goal of securing market share with competing products. Significant costs associated with litigation, slower-than-expected adoption rates of our new products, and competitor introductions of competing products could, individually or in combination, have a material adverse impact on our operating results.

Protecting our global intellectual property rights and contending with unlicensed copying and use of our products and other intellectual property is difficult. While piracy adversely affects U.S. revenue, the impact on revenue from outside the U.S. is more significant, particularly in countries where laws are less protective of intellectual property rights. As a result, our revenue in these markets will grow more slowly than the underlying power conversion and power management markets. Similarly, the absence of harmonized patent laws makes it more difficult to ensure consistent respect for patent rights. We currently own patents and continue to apply for additional patents, but the applicable governing patent office may reject some or all of our patent applications. The patents that we ultimately receive may not provide us with a competitive advantage or create a sufficiently broad claim to protect the technology that we develop.

Pending or future litigation could have a material adverse effect on our operating results and financial condition.

We are involved, from time to time, in litigation incidental to our business, including, but not limited to litigation related to product liability, patent infringement, contracts, employment and labor issues. Such litigation could result in substantial costs and could divert management's attention and resources which could harm our business. See "Legal Proceedings" under Part I, Item 3 of this Annual Report on Form 10-K. Risks associated with legal liability are often difficult to assess or quantify, and their existence and magnitude can remain unknown for significant periods of time. In cases where we record an estimated liability, the amount of our estimates could be wrong. As a result, the actual outcome of pending or future litigation could have a material adverse effect on our results of operations or financial condition.

Certain provisions in our charter documents and Delaware law may hinder or prevent a change in control of our company.

Certain provisions of our Certificate of Incorporation and Bylaws could make it difficult for a third party to obtain control of the Company. For example, stockholders must timely inform our corporate secretary before a stockholders' meeting of any business they wish to discuss and any directors they wish to nominate. In addition, only our directors have the ability to call a special meeting of our stockholders, and our Certificate of Incorporation requires approval of the holders of at least 75% of our voting stock, together with the approval of the holders of the majority of our voting stock (exclusive of stock held by holders of 5% or more of our stock), to amend certain provisions. Subject to the rules of the NASDAQ Stock Market, our Board of Directors may also be able to issue preferred stock without stockholder approval. Stockholder rights could be adversely affected by the rights of holders of preferred stock that we may issue in the future. Finally, our Certificate of Incorporation

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contains certain provisions which restrict any person from buying our stock if the transfer would result in a stockholder, or "group" of stockholders under federal tax law, owning 5% or more of our outstanding stock. Any one of the provisions discussed above could discourage third parties from obtaining control of us. Such provisions may also impede a transaction in which our stockholders could receive a premium over then-current market prices and our stockholders' ability to approve transactions that they consider in their best interests.

ITEM 1B UNRESOLVED STAFF COMMENTS

None.

ITEM 2 PROPERTIES

The table below lists our principal facilities currently in operation.

Location	Approximate Size (square feet)	Employees	Primary Activity
Camarillo, California	98,000	108	Administration, Warehousing, Marketing and Sales
Phoenix, Arizona	100,000	128	Administration and Manufacturing
Dubnica Nad Vahom, Slovakia	245,000	717	Administration, Manufacturing and Systems Integration, Warehousing, R&D
Valdarno, Italy	197,000	565	Administration, Manufacturing and Assembly, Warehousing, R&D, Marketing and Sales for the Renewable Energy Solutions SBU
Gongming, China	424,000	1,321	Administration, Manufacturing and Assembly, Warehousing, Marketing and Sales

We believe that the facilities we now use are adequate for our current and anticipated operating needs. We own facilities in Italy, Slovakia and Switzerland. We lease the remainder of our facilities pursuant to lease agreements with expiration dates through 2014 in Asia, 2015 in North America and 2016 in Europe. We believe that we will be able to renew these leases with similar terms upon expiration. If we cannot renew, we believe that we could find other suitable premises without any material adverse impact on our operations.

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ITEM 3 LEGAL PROCEEDINGS

SynQor, Inc. v Power-One, Inc, et. al. United States District Court, Eastern District of Texas, Civil Action No. 2:07cv497 TJW/CE. This action was initiated by SynQor, Inc. against the Company and eight other power supply manufacturers on November 13, 2007. The complaint alleged that certain products of the Company infringe certain patents held by SynQor in relation to unregulated bus converters and/or POL converters used in IBA power supply systems. On December 21, 2010, the jury returned a verdict in favor of SynQor, finding that the defendants directly or indirectly infringed all of the asserted 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 U.S. patents and the decision covers only the sales or uses of infringing products in the U.S. On August 17, 2011, final judgment in the amount of approximately $27.0 million was entered, including supplemental damages of $1.1 million covering sales of accused products from November 1, 2010 through trial and pre-judgment interest in the amount of $0.4 million.

On October 28, 2011 notice was filed in the United States District Court, Eastern District of Texas, of Power-One's intent to appeal the district court's final judgment entered on August 17, 2011, the court's partial judgment entered on December 29, 2010, and all other orders decided adversely, in whole or in part, against Power-One. On November 22, 2011, Power-One filed a motion to stay the appeal pending re-examination of the patents-in-suit. On January 31, 2012, the court denied the motion.

Currently all of the asserted claims of the '190 and '021 patent (upon which most of the damages against Power-One are based), have been fully rejected and are now before the Board of Patent Appeals and Interferences ("BPAI"). Final office actions rejecting the asserted claims of the '702 and '083 patents have been issued.

On October 6, 2011, SynQor filed a separate action, *SynQor, Inc. v Power-One, Inc, et. al.* United States District Court, Eastern District of Texas, Civil Action 2:11-CV-00444-DF. This action was initiated by SynQor against the Company and the other power supply manufacturers sued in the above-described lawsuit. The complaint seeks post injunction damages against all of the defendants for inducement of infringement. Power-One has filed a motion to be dismissed from the lawsuit on grounds that all accused products sold by Power-One after December 21, 2010, the date of the jury verdict, were sold outside the U.S. and were marked, as required by the injunction, as being subject to an injunction and not available for use in products for the U.S. market. Including interest, supplemental damages, and other items, the Company believes that its maximum exposure related to this matter is $30.0 million. The Company has accrued $23.1 million representing what it believes to be probable and reasonably estimable damages and costs in the event of an unsuccessful appeal.

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

ITEM 4 MINE SAFETY DISCLOSURES

None.

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PART II

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

Our common stock is listed on the NASDAQ Global Select Market and is traded under the symbol "PWER." The following table sets forth, for the quarterly periods indicated, the range of high and low closing sale prices for our common stock.

	Year Ended			
	January 1, 2012		January 2, 2011	
	High	Low	High	Low
First Quarter	11.79	7.27	4.51	3.10
Second Quarter	9.07	7.24	8.80	4.08
Third Quarter	7.97	4.50	12.78	7.61
Fourth Quarter	5.58	3.77	11.14	8.65

As of February 7, 2012, there were 29,870 holders of record of our common stock.

In September 2010, the Company announced that it had received authorization from its Board of Directors to purchase up to 10 million shares of its outstanding common stock in open-market transactions. At January 1, 2012, 6.4 million shares remain available for purchase in accordance with this authorization. This authorization expires on September 21, 2012.

We have not paid any cash dividends on our common stock and do not anticipate paying cash dividends in the foreseeable future. Existing and future debt, credit and similar agreements may limit or restrict our ability to pay dividends or repurchase our outstanding common stock.

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Performance Graph

The following performance graph compares the yearly percentage change in the Company's cumulative total shareholder return to the cumulative total return of the NASDAQ Composite, the Russell 2000 Index, the Russell 3000 Index, and the Research Data Group Inc. ("RDG") Technology Composite Index for each period from December 31, 2006 through December 31, 2011, and the MAC Global Solar Energy Index for each period from December 31, 2008 through December 31, 2011. The comparison is based on the investment of $100 in each stock and in the identified Russell, RDG and NASDAQ indexes on December 31, 2006 and in the MAC Global Solar Energy Index on December 31, 2008 (the earliest year-end date possible for investment in the MAC Global Solar Energy Index), and includes the reinvestment of dividends. The total return is measured by dividing the difference between the common stock or index price at the end and the beginning of the applicable measurement period by the common stock or index price at the beginning of the applicable measurement period.

The Company believes that the peer-group of indices selected for inclusion in the graph is representative for comparison purposes. The Russell 3000 Index is a major index that is used by third party corporate governance raters for evaluating the Company's corporate governance performance. The RDG Index used in previous years has been replaced with the MAC Global Solar Energy Index for comparison purposes. The MAC Global Solar Energy Index was chosen because the Company believes this index contains companies that are more closely aligned with the product markets and industries most comparable to the Company's products and target markets. Despite its being replaced by the MAC Global Solar Energy Index as the Company's chosen peer index, the RDG Index is included in the following performance graph to satisfy the requirements of Item 201(e) of Regulation S-K.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN

$100 invested on 12/31/06* and 12/31/08** in stock or index including reinvestment of dividends.
Fiscal year ended December 31,

Year Ended December 31,	2006	2007	2008	2009	2010	2011
Power-One, Inc*.	100.00	54.81	16.35	59.75	140.11	53.71
NASDAQ Composite*	100.00	109.81	65.29	93.95	109.84	107.86
Russell 2000*	100.00	98.43	65.18	82.89	105.14	100.75
Russell 3000*	100.00	105.14	65.92	84.60	98.92	99.93
RDG Technology Composite*	100.00	115.01	65.30	105.06	118.52	118.29
MAC Global Solar Energy Index**			100.00	122.38	87.97	31.10

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ITEM 6 SELECTED FINANCIAL DATA

In the table below, we provide selected consolidated historical financial and operating data. We prepared this information using audited financial statements for the fiscal years ended January 1, 2012, January 2, 2011, January 3, 2010, December 28, 2008 and December 30, 2007. When reading this selected historical consolidated financial and operating data, it is important to read it along with "Item 7 Management's Discussion and Analysis of Financial Condition and Operating Results" included in this Form 10-K. Historical results are not necessarily indicative of future results.

	Fiscal Year Ended				
	January 1, 2012(5)	January 2, 2011(4)	January 3, 2010(3)	December 28, 2008(2)	December 30, 2007(1)
	(In millions, except per share amounts and percentages)				
STATEMENT OF OPERATIONS DATA:					
Net sales	$ 1,016.7	$ 1,047.1	$ 431.6	$ 537.5	$ 511.6
Cost of goods sold	704.0	644.0	335.3	426.9	406.5
Gross profit	312.7	403.1	96.3	110.6	105.1
Selling, general and administrative	88.5	74.6	57.7	75.1	76.0
Engineering and quality assurance	48.1	36.4	30.3	45.5	48.9
Amortization of intangible assets	1.8	1.5	1.6	2.4	4.4
Litigation	1.3	22.1			
Restructuring and asset impairment costs		3.9	8.0		4.3
Goodwill impairment			57.0		
Total expenses	139.7	138.5	154.6	123.0	133.6
Income (loss) from operations	173.0	264.6	(58.3)	(12.4)	(28.5)
Interest income	2.0	0.3	0.2	0.7	1.2
Interest expense	(5.5)	(6.7)	(8.7)	(10.0)	(7.9)
Liquidation of subsidiary	18.4				
Gain (loss) on extinguishment of debt		(5.7)	8.6	3.9	
Other income (expense), net	7.7	(2.3)	1.2	(2.6)	1.2
Income (loss) before provision (benefit) for income taxes	195.6	250.2	(57.0)	(20.4)	(34.0)
Provision (benefit) for income taxes	59.9	103.6	6.9	(0.2)	2.4
Income (loss) before equity in earnings of joint venture	135.7	146.6	(63.9)	(20.2)	(36.4)
Equity in earnings of joint venture, net of tax	0.6	1.2	0.6	2.7	
Net income (loss)	$ 136.3	$ 147.8	$ (63.3)	$ (17.5)	$ (36.4)
Preferred stock dividend and accretion	3.0	3.4	2.2		
Net income (loss) attributable to common stockholders	$ 133.3	$ 144.4	$ (65.5)	$ (17.5)	$ (36.4)
Basic income (loss) per common share	$ 1.08	$ 1.30	$ (0.74)	$ (0.20)	$ (0.42)
Diluted income (loss) per common share	$ 0.88	$ 0.96	$ (0.74)	$ (0.20)	$ (0.42)
Basic weighted average shares outstanding	106.4	95.7	88.1	87.6	87.1
Diluted weighted average shares outstanding	138.5	141.9	88.1	87.6	87.1
SELECTED OPERATING DATA:					
Gross profit margin	30.8%	38.5%	22.3%	20.6%	20.5%

Depreciation and amortization	$ 18.7	$ 15.4	$ 17.1	$ 18.9	$ 20.6
Capital expenditures	42.2	27.6	6.7	8.8	8.4
Cash flows provided by (used in):					
Operating activities	$ 38.5	$ 209.9	$ 55.0	$ (22.3)	$ 2.6
Investing activities	(42.6)	(29.9)	(6.6)	(1.2)	(1.7)
Financing activities	(11.5)	(42.9)	10.6	22.8	(8.4)
BALANCE SHEET DATA:					
Working capital	$ 377.5	$ 287.6	$ 160.1	$ 128.6	$ 121.8
Total assets	743.5	761.8	371.3	429.0	431.6
Total long-term debt(6)		36.0	79.4	70.9	52.9
Total debt(7)		36.0	79.9	97.8	74.7
Total stockholders' equity	440.6	282.0	122.6	184.2	199.4

(1) During the year ended December 30, 2007, we recorded pre-tax restructuring charges of $3.1 million. We recorded approximately $1.6 million related to severance payments for a reduction in headcount of approximately 100

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employees, $1.2 million as contract termination costs related to facility closures and downsizing, and $0.3 million related to consolidation of excess facilities and other contract termination costs. As a result of the restructuring, we recorded asset impairment charges of $1.2 million for the year ended December 30, 2007. These charges were primarily incurred by our North American facilities and were related to leasehold improvements, computer software and manufacturing equipment at facilities whose operations are being closed or downsized.

(2)

During the year ended December 28, 2008, we recorded a cash dividend of $1.2 million from the joint venture located in China, representing a return on investment. The cash dividend and approximately $1.5 million related to our share in the earnings of the joint venture were recorded in "Equity in earnings of joint venture" in the consolidated statements of operations. We also realized a net gain of $3.9 million from the repurchase and retirement of $10 million of outstanding convertible debt for $5.5 million.

(3)

During the year ended January 3, 2010, we recorded pre-tax restructuring charges of $8.0 million in accordance with Accounting Standards Codification ("ASC") 420 "Exit or Disposal Cost Obligations" and ASC 712 "Compensation Nonretirement Postemployment Benefits," as applicable, as a result of our plan to restructure our global organization in response to ongoing demand uncertainty and to exit our factory in the Dominican Republic. We recorded approximately $7.1 million of severance benefits and approximately $0.9 million of facility closure costs related to continuing lease obligations and other facility closure costs.

In accordance with ASC 350 "Intangibles Goodwill and Other," and as a result of the continued decrease in our market capitalization during the first fiscal quarter of 2009, we tested our goodwill for impairment and determined that goodwill was impaired. As a result of the impairment test, a goodwill impairment charge of $57.0 million was recorded in our consolidated statement of operations for the year ended January 3, 2010.

During the year ended January 3, 2010, we realized a net gain of $8.6 million from the repurchase $31.3 million of outstanding 8% senior secured convertible notes for approximately $20.9 million.

(4)

As a result of the 2009 plan to restructure our global organization, we recorded approximately $3.4 million for facility closure costs related to continuing lease obligations and other costs to close and vacate the facility during the year ended January 2, 2011. In addition, we recorded $0.4 million of asset impairment charges in connection with the restructuring related to the consolidation of facilities.

During the year ended January 2, 2011, we realized a net loss of $5.7 million from the repurchase $4.5 million of outstanding 8% senior secured convertible notes for approximately $10 million.

During fiscal 2010, we recorded a litigation charge of $22.1 million related to a judgment assessed by the court in connection with the patent infringement lawsuit initiated by SynQor, Inc. See "Legal Proceedings" under Part I, Item 3 of this Annual Report on Form 10-K.

(5)

During the year ended January 1, 2012, we recorded a cash dividend of $1.0 million from the joint venture located in China, representing a return on investment. Approximately $0.6 million related to our share in the earnings of the joint venture was recorded in "Equity in earnings of joint venture" in the consolidated statements of operations.

We also converted $36.0 million of long term debt into 36,375 shares of Series C Junior Preferred Stock pursuant to the terms of the Securities Purchase Agreement entered into on April 23, 2009 with Silver Lake Sumeru Fund, L.P. and Silver Lake Technology Investors Sumeru, L.P. As a result of our notice of automatic conversion to Silver Lake Sumeru, the registered holder of the outstanding Series A Convertible Preferred Stock, all 23,625 shares of preferred stock were converted into 17,500,000 shares of the Company's common stock.

During the year ended January 1, 2012, we recorded a gain on liquidation of subsidiary of $18.4 million from the cumulative translation adjustment balance in connection with the liquidation of several of our European subsidiaries. The cumulative foreign currency gain related to the subsidiaries was released out of accumulated other comprehensive income and recorded in our consolidated statements of operations.

(6)

Includes current and long-term portions of long-term debt and capital leases.

(7) Includes items in footnote (6) above and short-term debt.

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ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

We are organized into two SBUs, Renewable Energy Solutions and Power Solutions. The SBUs 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 and by providing 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. These new product offerings 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 offerings in order to allow customers the ability to remotely monitor and control individual PV 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 our medical, rail and industrial equipment customers.

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

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

Renewable Energy Solutions: We offer inverters, management systems, accessories and services for the renewable energy marketplace 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, more harvested power, increased uptime and reliability, ease of installation, and monitoring software. 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 PV/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 Ws up to 2.5 MW. Our product offering also provides our customers with greater control and monitoring of their renewable energy assets using a 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.

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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 POL converters that power devices within a IBA as well as in other applications.

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

Critical Accounting Policies

Application of our accounting policies requires management to make judgments and estimates about the amounts reflected in the financial statements. Management uses historical experience and all available information to make these estimates and judgments, although differing amounts may be reported if there are changes in the assumptions and estimates. Estimates are used for, but not limited to, the accounting for the allowance for doubtful accounts, inventory valuation, restructuring costs, goodwill impairment, 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. Management has identified the following accounting policies as critical to an understanding of our financial statements and as areas most dependent on management's judgment and estimates. Other accounting policies are described in Note 2 of Notes to Consolidated Financial Statements under Part IV, Item 15 of this Annual Report on Form 10-K.

Revenue Recognition We recognize revenue when persuasive evidence of an arrangement exists, title transfer has occurred, the price is fixed or readily determinable, and collectability is reasonably assured. We recognize revenue in accordance with ASC 605, "Revenue Recognition." Sales are recorded net of sales returns and discounts, which are estimated at the time of shipment based upon historical data.

We generally recognize revenue at the time of shipment (or at the time of inventory consumption for customers on Vendor Managed Inventory ("VMI") programs) because this is the point at which revenue is earned and realizable and the earnings process is complete. For most shipments, title to shipped goods transfers at the shipping point, so the risks and rewards of ownership transfer to the customer once the product leaves our warehouse. For shipments in which title transfers at a later date, revenue recognition is delayed. Revenue is only recognized when collectability is reasonably assured. Shipping and handling costs are included in cost of goods sold. We may charge shipping and handling costs to customers, which are included in revenue.

We offer our distributors a standard agreement which includes payment terms, description of rights to return or exchange product, and price discounts. Under our standard agreement, payment is due within 30 days of shipment of the product to a distributor. The distributor has a right to return only if we discontinue a product that the distributor has on hand. The distributor has a right to exchange up to 5% of the dollar value of products purchased within the prior six-month period, so long as the distributor is currently purchasing at least the equivalent dollar value in new product. Estimated product exchanges or returns are accrued for at the time of the sale based on historical information in accordance with ASC 605-15 "Revenue Recognition-Products." Finally, we may give price discounts to a distributor at the time a purchase order is received from the distributor for product that it will sell to a specific customer. The price discount is available for one year following issuance of the purchase order for items listed on the purchase order. We accrue for the estimated price discount at the time revenue is recognized.

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We recognize revenue in accordance with the standards set forth in ASC 605-25. The standard sets the requirements for establishing separate units of accounting in a multiple element arrangement and requires the allocation of arrangement consideration to each deliverable based on the relative selling price. The selling price for each deliverable is based on vendor-specific objective evidence ("VSOE") if available, third-party objective evidence ("TPOE") if VSOE is not available, or estimated selling price ("ESP") if neither VSOE or TPOE is available. We offer remote monitoring services and related hardware to monitor the performance of its inverters, and recognize the related revenue as earned. The adoption of ASU 2009-13 for the fiscal year ending on January 1, 2012 did not materially impact our consolidated statement of operations.

We have a joint venture in China which, along with certain of our contract manufacturers, may purchase raw components and other goods from Power-One, and sell finished goods back to Power-One as well as to other third parties. We record revenue on sales to the joint venture and contract manufacturers only when the components and goods are for sales to third parties. When the joint venture or contract manufacturers purchase components that will be assembled and sold back to us, no revenue is recorded because the earnings process has not been completed.

Warranties The Company generally offers its customers a two-year warranty on power products sold, although warranty periods may vary by product type and application. The Company offers five and ten year warranty on its renewable energy products and also offers customers extended warranty contracts with terms between five and ten years after the base warranty period expires. The Company accounts for such warranty contracts in accordance with ASC 605-20-25, "Revenue Recognition." Based on warranty repair costs and the estimated rate of return, the Company periodically reviews and adjusts its warranty accrual. Actual warranty repair costs are charged against the reserve balance as incurred.

Impairment of Long-Lived Assets and Goodwill We review the recoverability of the carrying value of long-lived assets using the methodology prescribed in ASC 360 "Property, Plant, and Equipment." We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Upon such an occurrence, recoverability of these assets is determined by comparing the forecasted undiscounted net cash flows to which the assets relate to the carrying amount. If the asset is determined to be unable to recover its carrying value, it is written down to fair value. Fair value is determined based on discounted cash flows, appraised values or other information available in the market, depending on the nature of the assets. Methodologies for determining fair value are inherently based on estimates that may change, such as the useful lives of assets and our cash flow forecasts associated with certain assets. A change in these estimates may result in impairment charges, which would impact our operating results.

We review the carrying value of goodwill and non-amortizable intangible assets using the methodology prescribed in ASC 350 "Intangibles Goodwill and Other." ASC 350 requires that we not amortize goodwill, but instead subject it to impairment tests on at least an annual basis and whenever circumstances suggest that they may be impaired. These impairment tests are also dependent on management's forecasts, which frequently change. A change in our forecasts may result in impairment charges. ASC 350 requires the Company to perform a two-step impairment test. Under the first step of the goodwill impairment test, we are required to compare the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered impaired and we do not perform the second step. If the results of the first step impairment test indicate that the fair value of a reporting unit does not exceed its carrying amount, then the second step of the goodwill impairment test is required. The second step of the goodwill impairment test compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. The impairment loss is measured by the excess of the carrying amount of the reporting unit goodwill over the implied fair value of that goodwill.

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We test goodwill for impairment on an annual basis at the end of each August fiscal month. As a result of the continued decrease in our market capitalization during the first fiscal quarter of 2009, we tested our goodwill for impairment and determined that goodwill was impaired. As our carrying value exceeded our estimated fair value as of March 29, 2009, we applied the approach prescribed in ASC 350-20 for determining the impairment amount. As a result of the interim test, a goodwill impairment charge of $57.0 million was recorded in our consolidated statements of operations for the fiscal year ended January 3, 2010.

Restructuring Charges We record restructuring charges in accordance with ASC 420 "Exit or Disposal Cost Obligations" and ASC 712 "Compensation Nonretirement Postemployment Benefits," as applicable. ASC 420 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, in contrast to the date of an entity's commitment to an exit plan. In accordance with the guidance provided under ASC 712, we accrue for severance expenses prior to notification for termination benefits that are contractual or required by regional labor laws or are pursuant to a substantive plan where the costs are deemed probable and reasonably estimable. Restructuring costs were related to the downsizing of operations and primarily consisted of specific charges that had been incurred or were to be incurred with no future economic benefit. These charges included costs related to personnel severance, continuing lease obligations for vacant facilities, and certain contract termination penalties and other shutdown costs. Calculation of the restructuring reserves includes management's judgment regarding closed facilities, which include assumptions about the length of time it will take for facilities to be subleased as well as the likely sublease income amount. Changes in these estimates may impact our operating results.

Income Taxes We record a deferred income tax asset in jurisdictions where the Company generates a loss. We also record a valuation allowance against these deferred income tax assets in accordance with ASC 740, "Income Taxes," when, in management's judgment, it is more likely than not that the deferred income tax assets will not be realized in the foreseeable future. We record uncertain tax positions under the provisions of ASC 740. We recognize in the consolidated financial statements only those tax positions determined to be more likely than not of being sustained upon examination, based on the technical merits of the positions. Under these provisions, we must assume that the taxing authority will examine the income tax position and will have full knowledge of all relevant information. For each income tax position that meets the more likely than not recognition threshold, we then assess the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with the taxing authority. Unrecognized tax positions, if ever recognized in the financial statements, are recorded in the statement of operations as part of the income tax provision.

Inventories Inventories are stated at the lower of cost (first-in, first-out method) or market. Slow moving and obsolete inventory are written down quarterly based on a comparison of on-hand quantities to historical and projected usages. Additionally, reserves for non-cancelable open purchase orders for components we are obligated to purchase in excess of projected usage, or for open purchase orders where the market price is lower than the purchase order price, are recorded as other accrued expenses on the balance sheet. Calculation of inventory write-downs is based on management's assumptions regarding projected usage of each component, which are subject to changes in market demand.

Accounts Receivable and Allowance for Doubtful Accounts We establish the allowance for doubtful accounts using the specific identification method and also provide a reserve in the aggregate. Our estimates for calculating the aggregate reserve are based on historical information. Any changes to our assumptions or estimates may impact our operating results.

Recent Pronouncements and Accounting Changes See Note 2 "Recent Pronouncements and Accounting Changes" of Notes to Consolidated Financial Statements under Part IV, Item 15 of this Annual Report on Form 10-K.

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Results of Operations

Our fiscal year ends on the Sunday closest to December 31. The fiscal years ended January 1, 2012 (fiscal 2011) and January 2, 2011 (fiscal 2010) represent 52-week years. The fiscal year ended January 3, 2010 (fiscal 2009) represents a 53-week year. The following table represents our consolidated statements of operations as a percentage of net sales for the periods presented:

	Fiscal Year Ended		
	January 1, 2012	January 2, 2011	January 3, 2010
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	69.2	61.5	77.7
Gross profit	30.8	38.5	22.3
Selling, general and administrative	8.7	7.1	13.4
Engineering and quality assurance	4.7	3.5	7.0
Amortization of intangibles	0.2	0.1	0.4
Restructuring and asset impairment costs		0.4	1.9
Goodwill impairment			13.2
Litigation	0.2	2.1	
Income (loss) from operations	17.0	25.3	(13.6)
Interest income	0.2		0.1
Interest expense	(0.5)	(0.6)	(2.0)
Other income (expense), net	2.5	(0.8)	2.3
Income (loss) before provision for income taxes	19.2	23.9	(13.2)
Provision for income taxes	5.9	9.9	1.6
Income (loss) before equity in earnings of joint venture	13.3	14.0	(14.8)
Equity in earnings of joint venture, net of tax	0.1	0.1	0.1
Net Income (loss)	13.4	14.1	(14.7)
Preferred stock dividend and accretion	0.3	0.3	0.5
Net Income (loss) attributable to common stockholders	13.1%	13.8%	(15.2)%

Comparison of Fiscal Year Ended January 1, 2012 with Fiscal Year Ended January 2, 2011

During fiscal 2011, revenue remained relatively flat compared to fiscal 2010 despite macroeconomic pressures, specifically in the European market. The European market was affected by reductions in local government feed-in-tariffs and government subsidies which negatively influenced customer demand for our renewable energy products. In addition, competitive pricing pressures negatively impacted the revenue and profitability of our Renewable Energy SBU.

Net Sales. Net sales decreased $30 million, or 3%, to $1,017 million for the fiscal year ended January 1, 2012 from $1,047 million for the fiscal year ended January 2, 2011. Demand for our renewable energy products increased as we continued to penetrate Europe and expand into North America, Asia and Australia. During fiscal 2011, we shipped 2.9 GW versus 2.6 GW sold during 2010. The increased volume was offset by price declines as excess inventories and capacity in the inverter market increased competitive pressures. Feed-in-tariffs and other related government legislation will continue to drive the revenue levels of the renewable energy solutions business unit as we continue our expansion into high-growth markets such as India and North America. Power revenue declined as macroeconomic pressures impacted our customer demand levels in the second half of 2011.

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

	Year Ended January 1, 2012		Year Ended January 2, 2011	
Renewable Energy Solutions	$ 697.3	69%	$ 715.4	68%
Power Solutions	319.4	31%	331.7	32%
Total	$ 1,016.7	100%	$ 1,047.1	100%

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

	Year Ended January 1, 2012		Year Ended January 2, 2011	
Distributors	$ 447.3	44%	$ 495.9	47%
OEMs	378.4	37%	307.8	29%
EPCs	186.9	18%	236.1	23%
Service providers	4.1	1%	7.3	1%
Total	$ 1,016.7	100%	$ 1,047.1	100%

No customer accounted for more than 10% of our sales during either of the fiscal years ended January 1, 2012 or January 2, 2011.

We have defined our end-markets based on the customers we serve, and have reclassified certain customers. Net sales for the fiscal years 2011 and 2010 by end-markets were as follows:

	Year Ended January 1, 2012	January 2, 2011
Renewable Energy	69%	68%
Servers, Storage and Networking	15%	14%
Industrial Equipment	11%	12%
Network Power Systems	5%	6%
Total	100%	100%

Gross Profit.

	Year Ended January 1, 2012	January 2, 2011
Gross profit, in millions	$ 312.7	$ 403.1
Gross margin	30.8%	38.5%

Gross profit for fiscal 2011 decreased by $90.4 million to $312.7 million from a gross profit of $403.1 million for fiscal 2010. As a percentage of net sales, gross margin decreased to 30.8% for fiscal 2011 from a gross margin of 38.5% for fiscal 2010. Gross margin for the fiscal year ended January 1, 2012 was negatively impacted by macroeconomic and industry specific pressures in the European market. These included an aggressive pricing environment for PV inverters as compared to 2010. Gross margin was also negatively impacted by increased factory overhead including start-up costs associated with our new Renewable Energy factories in North America and China, increased costs related to the establishment of our Renewable Energy service organization, offset partially by reductions in material costs.

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Selling, General and Administrative. Selling, general and administrative expense increased $13.9 million, or 19%, to $88.5 million for fiscal 2011 from $74.6 million for fiscal 2010. As a percentage of net sales, selling, general and administrative expense increased to 9% for fiscal 2011 from 7% for fiscal 2010. The increase in selling and general administrative expense for fiscal 2011 was primarily related to our investment in the expansion of the Renewable Energy SBU into North America and Asia including sales and marketing teams as well as incremental administrative costs to support the new markets. In addition, selling expense increased as a result of increased advertising and trade shows in order to support our initiatives to grow market share and revenue.

Research and Development. R&D expense increased $11.7 million, or 32% to $48.1 million for fiscal 2011 from $36.4 million for fiscal 2010. As a percentage of net sales, R&D expense increased to 5% for fiscal 2011 from 4% for fiscal 2010. The increase in R&D spending was primarily due to our investment in new product introductions and expansion of R&D efforts during 2011 as compared with 2010.

Amortization of Intangibles. Amortization of intangible assets increased by $0.3 million to $1.8 million for fiscal 2011 compared to $1.5 million for fiscal 2010 as a result of intangible assets acquired upon the acquisition of two renewable energy software firms in order to provide increased value and support to our inverter customers.

Restructuring Costs and Asset impairment. No restructuring or asset impairment charges were recorded during fiscal 2011. During fiscal 2010, we recorded pre-tax restructuring and asset impairment charges of $3.9 million. These charges were recorded in accordance with ASC 420 "Exit or Disposal Cost Obligations" and ASC 712 "Compensation Nonretirement Postemployment Benefits," as applicable.

During fiscal 2009, we announced and implemented a plan to restructure our global organization in response to ongoing demand uncertainty and to exit our factory in the Dominican Republic. The plan was completed during the second quarter of fiscal 2010. Through implementation of this action, we have (i) realigned global manufacturing and sourcing; (ii) improved operational performance; (iii) increased efficiencies in the supply chain and manufacturing process and (iv) improved our ability to respond to customer requirements in a cost effective manner.

During fiscal 2010, we recorded approximately $3.4 million for facility closure costs related to continuing lease obligations and other costs to close and vacate our Dominican Republic facility. In addition, we recorded $0.4 million of asset impairment charges in connection with the restructuring related to the consolidation of our facilities. In connection with the facility closure, we also recorded $2.7 million of inventory charges and $0.8 million of accelerated depreciation to cost of goods sold in the consolidated statement of operations for fiscal 2010.

Litigation Charges. During fiscal 2010, we recorded $22.1 million in costs related to a judgment assessed by the court in connection with the patent infringement lawsuit initiated by SynQor, Inc. During fiscal 2011, we recorded an additional $1.3 million related to interest charges for the same lawsuit. On December 22, 2010, the jury found that certain of our products directly or indirectly infringe on SynQor patents and awarded damages plus interest against the Company. See "Legal Proceedings" under Part I, Item 3 of this Annual Report on Form 10-K. In accordance with ASC 450-20, "Accounting for Contingencies: Loss Contingencies", we accrued the portion of the contingency that was deemed to be probable and reasonably estimable.

Income (Loss) from Operations. As a result of the items above, income from operations decreased $91.6 million to $173.0 million for fiscal 2011 from income of $264.6 million for fiscal 2010.

Interest Income (Expense), Net. Net interest expense decreased $2.8 million to $3.5 million for fiscal 2011 compared to net interest expense of $6.3 million for fiscal 2010 due to lower debt

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outstanding during 2011 as a result of the conversion of our 8% senior secured convertible notes due 2013 into 17.1 million shares of our common stock during the third quarter of fiscal 2010 and due to the conversion of our Senior Secured Convertible Notes due 2019 into non-voting Series C Junior Participating Convertible Preferred Stock in the fourth quarter of fiscal 2011. In addition, interest income increased $1.7 million.

Gain (Loss) on Extinguishment of Debt. Loss on extinguishment of debt was $5.7 million for fiscal 2010. We repurchased $4.5 million in face value of outstanding 8% senior secured convertible notes due 2013 for approximately $10 million during fiscal 2010.

Gain on Liquidation of Foreign Subsidiaries. In accordance with FASB ASC Section 830, "Foreign Currency Matters", we are required to recognize the cumulative translation adjustment balance from stockholders' equity upon the complete or substantially complete liquidation of a foreign subsidiary. During the fiscal year ended January 1, 2012, we recorded a gain of approximately $18.4 million from the cumulative translation adjustment balance in connection with the liquidation of several of our European subsidiaries. The cumulative foreign currency gain related to the subsidiaries was released out of accumulated other comprehensive income on our consolidated balance sheet and recorded in our consolidated statements of operations.

Other Income (Expense), Net. Net other income was $7.8 million for fiscal 2011, compared with net other expense of $2.3 million for fiscal 2010. Net other income during fiscal 2011 was related to gains on foreign currency transactions of approximately $10.4 million predominately from fluctuations in the Euro which weakened against the US dollar throughout 2011. Our primary foreign currencies are the Euro, the Chinese RMB, and the British Pound. Net other expense during fiscal 2010 was primarily related to foreign currency transaction losses.

Provision (Benefit) for Income Taxes. The provision for income taxes was $59.9 million for fiscal 2011 as compared to $103.6 million recorded during fiscal 2010. The provision for income taxes recorded during 2011 and 2010 are primarily related to taxes recorded at certain of our profitable European locations. The effective tax rate decreased to 30.6% for fiscal 2011 from 41.4% in fiscal 2010 as a result of the change in geographical mix of pre-tax income at our foreign locations and also due to no tax expense recorded on the gain from liquidation of foreign subsidiaries.

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

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

Equity in Earnings of Joint Venture. During fiscal 2011 and fiscal 2010 we recorded approximately $0.6 million and $1.2 million, respectively, related to our equity share in the earnings of our joint venture in China.

Preferred Stock Dividend and Accretion. On the $23.6 million of Series A Convertible Preferred Stock ("Series A Preferred Stock") issued to Silver Lake Sumeru, we recorded a $2.0 million dividend

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related to the 10% preferred stock dividend and $1.0 million related to the periodic accretions under the interest method during fiscal 2011. This compares to a $2.4 million dividend related to the 10% preferred stock dividend and $1.1 million related to the periodic accretions under the interest method during fiscal 2010. During the fiscal year ended January 1, 2012, we also sent a notice of automatic conversion to Silver Lake Sumeru, the registered holder of the Series A Preferred Stock. Pursuant to the terms of the certificate of designation governing the Series A Preferred Stock, all shares of Series A Preferred Stock outstanding on November 8, 2011 were converted into 17.5 million shares of the Company's common stock.

Renewable Energy Solutions

Results for the Renewable Energy Solutions business segment for the fiscal years ended January 1, 2012 and January 2, 2011 were as follows, in millions:

	Year Ended	
	January 1, 2012	**January 2, 2011**