POWER ONE INC
Form 10-Q
May 12, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended April 4, 2010

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

For the transition period from to
Commission File Number 0-29454

POWER-ONE, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or Organization)	**77-0420182** (I.R.S. Employer Identification Number)
740 Calle Plano, Camarillo, California (Address of principal executive offices)	**93012** (Zip Code)

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

Not Applicable
(Former name or former address, if changed since last report)

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

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

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

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

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

As of May 7, 2010, 88,401,309 shares of the Registrant's $0.001 par value common stock were outstanding.

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PART I FINANCIAL INFORMATION

Item 1 Consolidated Condensed Financial Statements

POWER-ONE, INC.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(In thousands, except per share data, unaudited)

	Three Months Ended April 4, 2010	Three Months Ended March 29, 2009
NET SALES	$ 152,377	$ 97,840
COST OF GOODS SOLD	106,649	83,975
GROSS PROFIT	45,728	13,865
EXPENSES:		
Selling, general and administrative	14,974	13,186
Research and development	8,378	7,508
Amortization of intangible assets	377	402
Restructuring costs	929	1,131
Goodwill impairment		56,999
Total expenses	24,658	79,226
INCOME (LOSS) FROM OPERATIONS	21,070	(65,361)
INTEREST AND OTHER INCOME (EXPENSE):		
Interest income		205
Interest expense	(2,019)	(2,125)
Gain (loss) on extinguishment of debt	(5,658)	3,100
Other income (expense), net	800	2,014
Total interest and other income (expense), net	(6,877)	3,194
INCOME (LOSS) BEFORE INCOME TAXES	14,193	(62,167)
PROVISION (BENEFIT) FOR INCOME TAXES	9,700	(852)
INCOME (LOSS) BEFORE EQUITY IN EARNINGS OF JOINT VENTURE	4,493	(61,315)
EQUITY IN EARNINGS OF JOINT VENTURE	108	141
NET INCOME (LOSS)	$ 4,601	$ (61,174)
PREFERRED STOCK DIVIDEND AND ACCRETION	851	
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ 3,750	$ (61,174)
BASIC EARNINGS (LOSS) PER SHARE	$ 0.04	$ (0.70)
DILUTED EARNINGS (LOSS) PER SHARE	$ 0.04	$ (0.70)
BASIC WEIGHTED AVERAGE SHARES OUTSTANDING	88,300	87,865
DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING	95,562	87,865

See notes to unaudited consolidated condensed financial statements.

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POWER-ONE, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS

(In thousands, except per share data, unaudited)

	April 4, 2010	January 3, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 101,114	$ 89,553
Accounts receivable:		
Trade, less allowance for doubtful accounts: $3,773 at April 4, 2010; $3,946 at January 3, 2010	120,669	119,783
Other	2,583	2,763
Inventories	77,380	73,173
Prepaid expenses and other current assets	10,821	10,612
Total current assets	312,567	295,884
PROPERTY AND EQUIPMENT, net of depreciation and amortization: $90,265 at April 4, 2010; $88,218 at January 3, 2010	47,312	48,906
OTHER INTANGIBLE ASSETS, net	17,868	18,602
OTHER ASSETS	8,141	7,943
TOTAL	$ 385,888	$ 371,335
LIABILITIES, PREFERRED STOCK AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Bank credit facilities and notes payable	$	$ 504
Accounts payable	101,387	89,074
Restructuring reserve	6,647	6,866
Long-term debt, current portion	1,257	1,269
Other accrued expenses	42,891	38,080
Total current liabilities	152,182	135,793
LONG-TERM DEBT, net of current portion	73,174	78,146
OTHER LIABILITIES	19,700	16,281
Total liabilities	245,056	230,220
COMMITMENTS AND CONTINGENCIES		
REDEEMABLE CONVERTIBLE PREFERRED STOCK par value $0.001; 23.625 series A redeemable convertible preferred stock issued and outstanding at April 4, 2010 and January 3, 2010; liquidation preference $1,000 per share plus accumulated dividends.	18,793	18,533
STOCKHOLDERS' EQUITY		
Common stock, par value $0.001; 300,000 shares authorized; 88,370 and 88,239 shares issued and outstanding at April 4, 2010 and January 3, 2010 respectively	88	88
Additional paid-in capital	620,237	620,261
Accumulated other comprehensive income	34,147	39,267
Accumulated deficit	(532,433)	(537,034)
Total stockholders' equity	122,039	122,582
TOTAL	$ 385,888	$ 371,335

See notes to unaudited consolidated condensed financial statements.

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POWER-ONE, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(In thousands, unaudited)

	Three Months Ended April 4, 2010	Three Months Ended March 29, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 4,601	$ (61,174)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	4,967	3,846
Undistributed earnings of joint venture	(108)	(141)
Goodwill impairment		56,999
Change in fair value of derivative liability	(150)	
Stock compensation	874	583
Foreign exchange gain	(1,273)	(3,720)
Net (gain) loss on debt extinguishment	5,658	(3,100)
Net loss on disposal of property and equipment		17
Changes in operating assets and liabilities:		
Accounts receivable, net	(4,950)	25,104
Inventories	(5,932)	10,945
Prepaid expenses and other current assets	(737)	118
Accounts payable	15,914	(18,732)
Other accrued expenses	8,796	(858)
Restructuring reserve	(220)	(967)
Other liabilities	1,509	(1,785)
Net cash provided by operating activities	28,949	7,135
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property & equipment	(4,186)	(959)
Proceeds from sale of property and equipment		6
Other assets	(549)	(190)
Net cash used in investing activities	(4,735)	(1,143)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from (repayments of) borrowings on bank credit facilities, net	(486)	(3,089)
Repayments of borrowings on long-term debt	(10,218)	(3,979)
Issuance of common stock, net of tax withholding obligations	(48)	(18)
Dividends paid	(1,181)	
Net cash used in financing activities	(11,933)	(7,086)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(720)	1,084
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	11,561	(10)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	89,553	28,414

CASH AND CASH EQUIVALENTS, END OF PERIOD	$	101,114	$	28,404
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid for interest	$	828	$	2,003
Income taxes	$	90	$	205

See notes to unaudited consolidated condensed financial statements.

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SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES

During both quarters ended April 4, 2010 and March 29, 2009, the Company recorded approximately $0.1 million in "Equity in earnings of joint venture" in the consolidated condensed statements of operations related to the Company's share in the earnings from the joint venture for which it holds a minority interest.

During the quarter ended April 4, 2010, the company paid $10.0 million plus accrued interest to repurchase and extinguish $4.5 million of its 8% Senior Secured Convertible Notes, and recorded a net loss of $5.7 million related to the extinguishment of debt in its consolidated condensed statements of operations. During the quarter ended March 29, 2009, the company paid $3.6 million plus accrued interest to repurchase and extinguish $7 million of its 8% Senior Secured Convertible Notes, and recorded a net gain of $3.1 million related to the extinguishment of debt in its consolidated condensed statements of operations.

During the quarters ended April 4, 2010 and March 29, 2009, an additional $0.9 million and $0.6 million, respectively, of property and equipment had been purchased but not yet paid.

See notes to unaudited consolidated condensed financial statements.

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POWER-ONE, INC.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands, unaudited)

	Three Months Ended	
	April 4, 2010	March 29, 2009
NET INCOME (LOSS)	$ 4,601	$ (61,174)
OTHER COMPREHENSIVE LOSS		
Foreign currency translation adjustment	(5,120)	(7,362)
COMPREHENSIVE LOSS	$ (519)	$ (68,536)

See notes to unaudited consolidated condensed financial statements.

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POWER-ONE, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 BASIS OF PRESENTATION

These statements should be read in conjunction with our consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended January 3, 2010. The operating results for the period ended April 4, 2010 are not necessarily indicative of the results that will be achieved for the full fiscal year ending January 2, 2011 or for future periods.

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

The balance sheet at January 3, 2010 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. The accompanying interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Power-One, Inc.'s ("the Company") Form 10-K for the year ended January 3, 2010.

The Company's reporting period coincides with the 52- to 53-week period ending on the Sunday closest to December 31, and its fiscal quarters are the 13- to 14-week periods ending on the Sunday nearest to March 31, June 30, September 30 and December 31. The three-month periods ended April 4, 2010 and March 29, 2009 were 13-week periods.

NOTE 2 CHANGES TO SIGNIFICANT ACCOUNTING POLICIES AND RELATED DISCLOSURES

Recent Pronouncements and Accounting Changes In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2010-06, an update that improves the requirements related to Fair Value Measurements and Disclosures Subtopic 820-10 of the FASB Accounting Standards Codification ("ASC") originally issued as FASB Statement 157. This update requires disclosures about transfers between Level 1, Level 2 and Level 3 assets and the disaggregated activity in the roll forward for level 3 Fair Value measurements. The Company adopted the measurement requirements of this guidance in the current quarter with no impact to the consolidated financial statements.

POWER-ONE, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

In October 2009, the FASB issued ASU No. 2009-13, "Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force," ("ASU 2009-13"). This update provides amendments to the criteria of ASC 605, "Revenue Recognition," for separating consideration in multiple-deliverable arrangements. The amendments to this update establish a selling price hierarchy for determining the selling price of a deliverable. This Accounting Standards Update will be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with earlier application permitted. Alternatively, an entity can elect to adopt this standard on a retrospective basis. The Company is currently evaluating the potential impact this standard may have on its financial position and results of operations upon adoption.

NOTE 3 FAIR VALUE FINANCIAL INSTRUMENTS

The Company adopted ASC 820, "Fair Value Measurements and Disclosures" on December 31, 2007 for financial assets and liabilities and December 29, 2008 for non-financial assets and non-financial liabilities. This statement establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair values into three levels as follows:

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

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

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

The following table presents the fair values of the Company's financial instruments (in millions):

Description	**Level 3**
Embedded Put Options (at January 3, 2010)	$ 0.7
Change in fair value of derivative liability	(0.2)
Embedded Put Options (at April 4, 2010)	$ 0.5

The fair value of the Embedded Put Options was determined using the Binomial model using, stock price of $4.16, volatility factor of 76%, risk-free interest rate of 2.2%, contractual term of 4 years and a probability factor of 9.5%. During the quarter ended April 4, 2010, the Company recorded an unrealized gain of $0.2 million as other income in the consolidated statement of operations resulting from the change in fair value of the embedded put option.

POWER-ONE, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 3 FAIR VALUE FINANCIAL INSTRUMENTS (Continued)

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

The fair values of the Company's installment notes and 8% Senior Secured Convertible Notes due 2013 were determined using quoted market prices for similar financial instruments.

The fair value of the Senior Convertible Notes due 2019 was determined by adding the fair value of the notes' conversion feature to the present value of the notes which includes a 15% discount for lack of marketability. The fair value of the notes' conversion feature was determined using the Binomial model, using an adjusted stock price of $4.16, a volatility factor of 76%, a risk free interest rate of 2.2%, coupon rates of 6%, 8% and 10% and a contractual life of 4 years.

The fair value of the Redeemable Convertible Preferred Stock was determined by adding the fair value of the preferred stock conversion feature to the present value of the preferred stock which includes a 15% discount for lack of marketability. The fair value of the preferred stock conversion feature was determined using the Binomial model, using an adjusted stock price of $4.16, a volatility factor of 76%, a risk free interest rate of 2.2%, a dividend yield factor of 10% and a contractual life of 4 years.

The secured notes payable have variable rates of interest and reflect current market rates of interest and the fair value approximates the carrying amount.

	April 4, 2010		January 3, 2010	
Description	**Fair Value**	**Carrying Value**	**Fair Value**	**Carrying Value**
8% Senior Secured Convertible Notes, due 2013	$ 74.6	$ 34.3	$ 84.6	$ 38.8
Senior Convertible Notes, due 2019	106.1	35.8	94.5	35.7
Redeemable Convertible Preferred Stock	67.2	18.8	60.4	18.5
Credit facilities, secured note payable and installment notes	4.4	4.4	5.4	5.4

NOTE 4 INVESTMENTS

The Company has an investment in a joint venture in China which is included in other assets on the Company's consolidated condensed balance sheets and is accounted for using the equity method. The carrying value of this investment was $1.8 million and $1.7 million at April 4, 2010 and January 3, 2010, respectively. During the three months ended April 4, 2010 and March 29, 2009, the Company recorded equity in earnings in joint venture of approximately $0.1 million, in its consolidated condensed statements of operations. See Note 15.

POWER-ONE, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 5 INVENTORIES

Inventories consist of the following (in millions):

	April 4, 2010	January 3, 2010
Raw materials	$ 51.5	$ 45.6
Subassemblies-in-process	4.9	4.8
Finished goods	21.0	22.8
	$ 77.4	$ 73.2

The Company looks at historical and projected usage for inventory in determining what is excess and obsolete. The methodology for forecasting demand may be modified depending on specific product lifecycles and local circumstances. Any inventory in excess of this demand is written off. During the quarters ended April 4, 2010 and March 29, 2009 the Company wrote off approximately $2.2 million and $5.9 million, respectively, related to excess and obsolete inventory and recorded the charges as costs of goods sold.

NOTE 6 INTANGIBLE ASSETS

Intangible assets consist of the following (in millions):

	April 4, 2010			
	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets	Weighted Average Life (In Years)
Non-amortizable intangibles				
Trade name	$ 11.4	$	$ 11.4	
Amortizable intangibles				
Product technology	5.6	3.8	1.8	13
Customer relationships	5.6	2.7	2.9	7
Other	6.4	4.6	1.8	17
Subtotal	17.6	11.1	6.5	13
Total	$ 29.0	$ 11.1	$ 17.9	

POWER-ONE, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 6 INTANGIBLE ASSETS (Continued)

	January 3, 2010			
	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets	Weighted Average Life (In Years)
Non-amortizable intangibles				
Trade name	$ 11.4	$	$ 11.4	
Amortizable intangibles				
Product technology	5.8	3.7	2.1	13
Customer relationships	5.9	2.7	3.2	7
Other	6.5	4.6	1.9	17
Subtotal	18.2	11.0	7.2	12
Total	$ 29.6	$ 11.0	$ 18.6	

In accordance with ASC 350, "Intangibles Goodwill and Other," the Company reviews goodwill and intangible assets for impairment annually at the end of each fiscal August, or more often if events or circumstances indicate that impairment may have occurred. In addition to the testing above, which is done on an annual basis, management considers whether certain impairment indicators are present in assessing whether the carrying value of goodwill and other intangible assets may be impaired. As a result of the continued decrease in its market capitalization during the first quarter of fiscal 2009, the Company tested its goodwill for impairment in accordance with ASC 350-20 and determined that goodwill was impaired. The Company's testing approach utilized a discounted cash flow analysis and comparative market multiples to determine the entity's (single reporting unit) fair value for comparison to its carrying value. As the Company's carrying value exceeded its estimated fair value as of March 29, 2009, the Company applied the approach prescribed in ASC 350-20 for determining the impairment amount. As a result of the Company's interim test, a goodwill impairment charge of $57.0 million was recorded in the Company's consolidated condensed statements of operations during the quarter ended March 29, 2009.

Total amortization expense for each quarter ended April 4, 2010 and March 29, 2009 was $0.5 million. Of the $0.5 million of expense recorded during each of the periods, $0.4 million was recorded as amortization of intangibles and $0.1 million recorded as cost of goods sold.

Estimated amortization expense related to amortizable intangibles for 2010 through 2014 is as follows (in millions):

Year Ending December 31,	Amortization Expense
2010 (nine months)	$ 1.3
2011	1.5
2012	1.3
2013	1.2
2014	0.5
Total	$ 5.8

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POWER-ONE, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 7 CREDIT FACILITIES AND NOTES PAYABLE

The Company maintains credit facilities with various banks in Europe and Asia. The aggregate limit on all credit facilities was approximately $21.8 million at April 4, 2010. The credit facilities bear interest on amounts outstanding at various intervals based on published market rates. At April 4, 2010, no amounts were outstanding on the credit facilities, and $2.9 million was committed to guarantee letters of credit. After consideration of these commitments, $18.9 million of additional borrowing capacity was available to the Company as of April 4, 2010. The revolving credit agreements do not contain financial covenants, but require the Company's subsidiary to provide certain financial reports to the lenders.

NOTE 8 OTHER ACCRUED EXPENSES

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

	April 4, 2010	January 3, 2010
Income taxes payable	$ 17.9	$ 12.0
Accrued payroll and related expenses	7.4	7.6
Accrued warranties	4.6	4.1
Accrued bonuses	2.6	2.9
Other accrued expenses	10.4	11.5
	$ 42.9	$ 38.1

NOTE 9 WARRANTIES

The Company offers its customers warranties on products sold based on product type and application. Management reviews and adjusts the warranty accrual based on warranty repair costs and the rate of return. Actual repair costs are charged against the reserve. A tabular presentation of the activity within the warranty accrual account for the three months ended April 4, 2010 and March 29, 2009 is presented below, (in millions):

	April 4, 2010	March 29, 2009
Beginning balance	$ 4.1	$ 4.0
Charges and costs accrued	1.5	0.8
Less repair costs incurred	(0.9)	(0.6)
Change due to foreign currency	(0.1)	(0.1)
Ending balance	$ 4.6	$ 4.1

POWER-ONE, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 10 RESTRUCTURING COSTS

A summary of the restructuring activity during the three months ended April 4, 2010 is as follows (in millions):

	Worldwide Workforce Reduction	Facilities Closure	Total
Balance at January 3, 2010	$ 5.1	$ 1.8	$ 6.9
Restructuring charges		0.9	0.9
Applications of reserve	(0.1)	(1.1)	(1.2)
Balance at April 4, 2010	$ 5.0	$ 1.6	$ 6.6

During the second quarter of 2009, the Company announced a plan to restructure its global organization in response to ongoing demand uncertainty and to exit its factory in the Dominican Republic. The plan to close the plant is expected to be completed by the end of June 2010. The Company expects to record additional severance and other related charges of $2 to $3 million during the second quarter of fiscal 2010. The Company anticipates that it will incur future cash expenditures of approximately $6 million for severance for terminated employees and approximately $4 million for other costs associated with the facility closure. The Company has also accelerated depreciation on certain assets related to the Dominican Republic closure and has evaluated the recoverability of its inventory based on its closure plan. The Company believes it has appropriately determined any excess and obsolete inventory in the Dominican Republic based on historical and projected usage; however, the ultimate disposition of inventory after transfers and last time buys in connection with the closure of the facility could result in additional inventory charges.

During the three months ended April 4, 2010 and March 29, 2009, the Company recorded pre-tax restructuring charges of $0.9 million and $1.1 million, respectively, in accordance with ASC 420 and ASC 712, as applicable.

In connection with the Dominican Republic facility closure, the Company has recorded $1.0 million of inventory charges and $0.8 million of accelerated depreciation as part of cost of goods sold in the consolidated condensed statements of operations for the three months ended April 4, 2010.

Liabilities established previously in connection with restructurings of the Company's North American operations are expected to be paid over the life of the leases, which extend into 2011 and 2014. All restructuring charges have been or will be settled with cash.

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POWER-ONE, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 11 LONG-TERM DEBT

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

	April 4, 2010	January 3, 2010
Senior Convertible Notes, due 2019	$ 35.8	$ 35.7
8% Senior Secured Convertible Notes, due 2013	34.3	38.8
Secured note payable	4.1	4.6
2% Installment notes, due 2011	0.3	0.3
Total long-term debt	74.5	79.4
Less current portion	1.3	1.3
Total long-term debt, less current portion	$ 73.2	$ 78.1

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

The Company's 8% Senior Secured Convertible Notes, due 2013 ("8% Notes"), are governed by an indenture, dated as of June 17, 2008 between the Company and The Bank of New York Trust Company, N.A., as trustee. The Notes bear interest at a rate of 8% per annum, payable in cash in arrears on March 31, June 30, September 30 and December 31 of each year, beginning September 30, 2008. The 8% Notes will mature on June 17, 2013. The 8% Notes rank equal in right of payment with all of the Company's existing and any future senior unsecured indebtedness that is not subordinated by its terms. The 8% Notes are convertible, at any time prior to the close of business on the business day immediately preceding the maturity date, into shares of common stock of the Company, $0.001 par value per share (the "Common Stock"), at an adjusted conversion rate of 500 shares of Common Stock per $1,000 in principal amount of the 8% Notes (which is equivalent to an adjusted conversion price of $2.00 per share), subject to certain adjustments set forth therein. The Company has the right to redeem some or all of the 8% Notes on or after June 17, 2010, if the closing price of the Common Stock as reported on The Nasdaq Global Market exceeds for twenty (20) or more trading days out of a thirty (30) consecutive trading day period, 175% of the conversion price of the 8% Notes. The redemption price will be equal to 100% of the principal amount of the 8% Notes, plus accrued and unpaid interest to, but excluding, the redemption date, and the present value of all remaining interest on the 8% Notes through and including the maturity date. During the three months ended April 4, 2010 and March 29, 2009, the Company used $10.0 million net cash to repurchase and extinguish $4.5 million of the 8% Notes and $3.5 million net cash to repurchase and extinguish $7.0 million of the 8% Notes,

POWER-ONE, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 11 LONG-TERM DEBT (Continued)

respectively. The Company recorded a net loss on extinguishment of debt of $5.7 million and a net gain on extinguishment of debt of $3.1 million for the three months ended April 4, 2010 and March 29, 2009, respectively.

The Company has certain long-term notes payable through fiscal year 2013 held at a European subsidiary. Amounts outstanding at April 4, 2010 and January 3, 2010 related to the installment notes were $0.3 million, bearing interest at 2%. The long-term notes payable agreements require the Company's subsidiary to provide certain financial reports to the lender but do not require compliance with any financial covenants. In addition, this subsidiary has an agreement with a European bank to provide borrowings secured by the subsidiary's land and building over a ten-year period. The initial commitment to lend under this agreement was $9.2 million, with the commitment amount reduced ratably on a quarterly basis beginning March 31, 2004 and ending December 30, 2013. Borrowings outstanding under this secured note payable agreement were $4.1 million and $4.6 million at April 4, 2010 and January 3, 2010 and bore interest at the EURIBOR plus one and one-half percent (2.3% at April 4, 2010). The agreement contains financial covenants that require a minimum EBITDA as a percentage of net revenue and a maximum percentage of debt to equity.

At April 4, 2010 and January 3, 2010, the Company was in compliance with the debt covenants related to all long-term borrowing arrangements.

Aggregate principal maturities on long-term debt outstanding at April 4, 2010 are as follows (in millions):

Year Ending December 31,		
2010 (nine months)	$	1.3&n