

POWER ONE INC  
Form 10-Q  
October 26, 2012

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

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**FORM 10-Q**

(Mark One)

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

For the Quarterly Period Ended September 30, 2012

**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 001-34782

**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  No

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  No

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

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Exchange Act. (Check one):

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

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

As of October 16, 2012, 121,460,653 shares of the Registrant's \$0.001 par value common stock were outstanding.

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1 Consolidated Condensed Financial Statements****POWER-ONE, INC.****CONSOLIDATED CONDENSED BALANCE SHEETS****(In thousands, except per share data, unaudited)**

|  | September 30,<br>2012 | January 1,<br>2012 |
|--|-----------------------|--------------------|
| <b>ASSETS</b>  |                       |                    |
| <b>CURRENT ASSETS:</b>   |                       |                    |
| Cash and cash equivalents  | \$ 251,940            | \$ 204,881         |
| Investments in fixed-income securities   | 35,440                |                    |
| Accounts receivable:   |                       |                    |
| Trade, less allowance for doubtful accounts: \$12,597 at September 30, 2012; \$9,763 at January 1, 2012  | 249,021               | 233,252            |
| Other  | 7,809                 | 9,639              |
| Inventories  | 187,565               | 160,515            |
| Prepaid expenses and other current assets  | 14,377                | 15,351             |
| Total current assets   | 746,152               | 623,638            |
| PROPERTY AND EQUIPMENT, net of depreciation and amortization: \$89,669 at September 30, 2012; \$82,494 at January 1, 2012  | 95,376                | 87,223             |
| OTHER INTANGIBLE ASSETS, net   | 15,976                | 17,414             |
| OTHER ASSETS   | 12,570                | 15,241             |
| <b>TOTAL</b>   | <b>\$ 870,074</b>     | <b>\$ 743,516</b>  |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                       |                    |
| <b>CURRENT LIABILITIES:</b>  |                       |                    |
| Accounts payable   | \$ 183,995            | \$ 177,333         |
| Income tax payable   | 26,216                | 4,020              |
| Other accrued expenses   | 72,502                | 64,754             |
| Total current liabilities  | 282,713               | 246,107            |
| DEFERRED REVENUE   | 27,170                | 20,707             |
| WARRANTIES, less current portion   | 31,003                | 21,824             |
| OTHER LONG-TERM LIABILITIES  | 12,180                | 14,293             |
| COMMITMENTS AND CONTINGENCIES  |                       |                    |
| <b>STOCKHOLDERS' EQUITY</b>  |                       |                    |
| Series C junior participating convertible preferred stock, par value \$0.001; liquidation preference \$1,000 per share; 36.900 shares authorized; 36.375 shares outstanding and convertible into 26,944 shares of common stock at September 30, 2012 and January 1, 2012 | 36,326                | 36,326             |
| Common stock, par value \$0.001; 300,000 shares authorized; 121,392 and 121,844 shares issued and outstanding at September 30, 2012 and January 1, 2012  | 121                   | 122                |
| Additional paid-in capital   | 658,589               | 652,971            |
| Accumulated other comprehensive income   | 2,040                 | 4,048              |
| Accumulated deficit  | (180,068)             | (252,882)          |
| Total stockholders' equity   | 517,008               | 440,585            |
| <b>TOTAL</b>   | <b>\$ 870,074</b>     | <b>\$ 743,516</b>  |

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See notes to unaudited consolidated condensed financial statements.

Table of Contents**POWER-ONE, INC.****CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS****(In thousands, except per share data, unaudited)**

|  | Three Months Ended    |                    | Nine Months Ended     |                    |
|--|-----------------------|--------------------|-----------------------|--------------------|
|  | September 30,<br>2012 | October 2,<br>2011 | September 30,<br>2012 | October 2,<br>2011 |
| NET SALES  | \$ 283,649            | \$ 245,031         | \$ 830,920            | \$ 749,878         |
| COST OF GOODS SOLD                                       | 201,702               | 176,223            | 596,488               | 509,434            |
| GROSS PROFIT   | 81,947                | 68,808             | 234,432               | 240,444            |
| EXPENSES:  |                       |                    |                       |                    |
| Selling, general and administrative                      | 27,346                | 22,613             | 76,985                | 64,593             |
| Research and development                                 | 10,885                | 11,575             | 34,573                | 34,957             |
| Amortization of intangible assets                        | 404                   | 489                | 1,226                 | 1,399              |
| Litigation   | 200                   | 236                | 282                   | 1,109              |
| Total expenses   | 38,835                | 34,913             | 113,066               | 102,058            |
| INCOME FROM OPERATIONS                                   | 43,112                | 33,895             | 121,366               | 138,386            |
| INTEREST AND OTHER (EXPENSE) INCOME:                     |                       |                    |                       |                    |
| Interest income  | 339                   | 446                | 1,184                 | 1,638              |
| Interest expense   | (496)                 | (1,697)            | (1,302)               | (4,715)            |
| Liquidation of foreign subsidiary                        |                       | 16,879             |                       | 16,879             |
| Other (expense) income, net                              | (6,604)               | 8,656              | (3,341)               | 1,947              |
| Total interest and other (expense) income, net           | (6,761)               | 24,284             | (3,459)               | 15,749             |
| INCOME BEFORE INCOME TAXES                               | 36,351                | 58,179             | 117,907               | 154,135            |
| PROVISION FOR INCOME TAXES                               | 15,350                | 16,774             | 44,830                | 50,826             |
| INCOME BEFORE EQUITY IN EARNINGS (LOSS) OF JOINT VENTURE | 21,001                | 41,405             | 73,077                | 103,309            |
| EQUITY IN EARNINGS (LOSS) OF JOINT VENTURE               | 122                   | 32                 | (263)                 | 627                |
| NET INCOME   | \$ 21,123             | \$ 41,437          | \$ 72,814             | \$ 103,936         |
| PREFERRED STOCK DIVIDEND AND ACCRETION                   |                       | 874                |                       | 2,610              |
| NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS           | \$ 21,123             | \$ 40,563          | \$ 72,814             | \$ 101,326         |
| BASIC EARNINGS PER SHARE                                 | \$ 0.14               | \$ 0.34            | \$ 0.49               | \$ 0.85            |
| DILUTED EARNINGS PER SHARE                               | \$ 0.13               | \$ 0.27            | \$ 0.47               | \$ 0.67            |
| BASIC WEIGHTED AVERAGE SHARES OUTSTANDING                | 121,253               | 103,804            | 121,683               | 103,744            |
| DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING              | 156,696               | 139,788            | 156,252               | 140,330            |

See notes to unaudited consolidated condensed financial statements.



Table of Contents**POWER-ONE, INC.****CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(In thousands, unaudited)**

|  | Three Months Ended    |                    | Nine Months Ended     |                    |
|--|-----------------------|--------------------|-----------------------|--------------------|
|  | September 30,<br>2012 | October 2,<br>2011 | September 30,<br>2012 | October 2,<br>2011 |
| NET INCOME   | \$ 21,123             | \$ 41,437          | \$ 72,814             | \$ 103,936         |
| OTHER COMPREHENSIVE INCOME (LOSS)  |                       |                    |                       |                    |
| Gain from liquidation of foreign subsidiary, recognized in statement of operations |                       | (16,879)           |                       | (16,879)           |
| Foreign currency translation adjustment  | 8,809                 | (31,555)           | (2,008)               | (4,141)            |
| COMPREHENSIVE INCOME (LOSS)  | \$ 29,932             | \$ (6,997)         | \$ 70,806             | \$ 82,916          |

See notes to unaudited consolidated condensed financial statements.



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|   | <b>Nine Months Ended</b> |                   |
|---|--------------------------|-------------------|
|   | <b>September 30,</b>     | <b>October 2,</b> |
|   | <b>2012</b>              | <b>2011</b>       |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                          |                   |
| Net income  | \$ 72,814                | \$ 103,936        |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                          |                   |
| Depreciation and amortization   | 16,776                   | 13,781            |
| Undistributed loss (earnings) of joint venture  | 263                      | (627)             |
| Gain on liquidation of subsidiary   |                          | (16,879)          |
| Stock compensation  | 10,693                   | 9,442             |
| Foreign exchange gain   | (1,643)                  | (1,208)           |
| Net loss on disposal of property and equipment  | 416                      | 1,425             |
| Deferred income taxes   | (711)                    | (237)             |
| Changes in operating assets and liabilities:  |                          |                   |
| Accounts receivable, net  | (14,222)                 | 34,475            |
| Inventories   | (27,640)                 | (2,426)           |
| Prepaid expenses and other current assets   | (954)                    | 2,610             |
| Accounts payable  | 7,437                    | (80,005)          |
| Income tax payable  | 22,111                   | (85,836)          |
| Other accrued expenses  | 9,748                    | 2,849             |
| Other liabilities   | 16,049                   | 9,501             |
| <b>Net cash provided by (used in) operating activities</b>                                  | <b>111,137</b>           | <b>(9,199)</b>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                          |                   |
| Purchase of fixed-income securities   | (35,440)                 |                   |
| Acquisition of property and equipment   | (24,034)                 | (26,834)          |
| Other assets  | 489                      | (44)              |
| <b>Net cash used in investing activities</b>  | <b>(58,985)</b>          | <b>(26,878)</b>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                          |                   |
| Proceeds from borrowings on bank credit facility  | 15,000                   |                   |
| Repayments of borrowings on bank credit facility  | (15,000)                 |                   |
| Repayments of borrowings on long-term debt  |                          | (108)             |
| Payments of debt issuance costs   |                          | (1,986)           |
| Repurchases of common stock   | (4,829)                  | (5,213)           |
| Issuance of common stock  | 755                      | 509               |
| Cash paid to satisfy nonvested share related employee tax withholding obligations           | (1,001)                  | (1,393)           |
| Dividends paid  |                          | (1,772)           |
| <b>Net cash used in financing activities</b>  | <b>(5,075)</b>           | <b>(9,963)</b>    |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>  | <b>(18)</b>              | <b>839</b>        |
| <b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                                     | <b>47,059</b>            | <b>(45,201)</b>   |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>                                       | <b>204,881</b>           | <b>227,907</b>    |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>   | <b>\$ 251,940</b>        | <b>\$ 182,706</b> |

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SUPPLEMENTAL CASH FLOW INFORMATION:

|  |    |        |    |         |
|--|----|--------|----|---------|
| Cash paid for interest                     | \$ | 409    | \$ | 2,046   |
| Cash paid for income taxes, net of refunds | \$ | 23,751 | \$ | 133,221 |

See notes to unaudited consolidated condensed financial statements.

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**SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES**

During the nine months ended September 30, 2012 and October 2, 2011, the Company recorded approximately \$0.3 million loss and \$0.6 million earnings, respectively, in "Equity in earnings (loss) of joint venture" in the consolidated condensed statements of operations related to the Company's share in the earnings (loss) from the joint venture for which it holds a minority interest.

During the nine months ended September 30, 2012 and October 2, 2011, an additional \$1.7 million and \$5.6 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.**

**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 1, 2012. The balance sheet at January 1, 2012 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 operating results for the three-month and nine-month periods ended September 30, 2012 and cash flows for the nine-month period ended September 30, 2012 are not necessarily indicative of the results that will be achieved for the full fiscal year ending December 30, 2012 or for future periods.

The accompanying consolidated condensed financial statements have been prepared without audit and reflect all adjustments, consisting of normal recurring adjustments, which are, in the opinion of management, necessary for a fair statement of financial position and the results of operations for the interim periods. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. Estimates are used for, but not limited to, the accounting for the allowance for doubtful accounts, inventory valuation, goodwill and intangible asset valuation, depreciation and amortization, sales returns and discounts, warranty costs, uncertain tax positions and the recoverability of deferred tax assets, stock compensation, 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 Company's reporting period coincides with the 52- to 53-week period ending on the Sunday closest to December 31, and its fiscal quarters are the 13- to 14-week periods ending on the Sunday nearest to March 31, June 30, September 30 and December 31. The three-month and nine-month periods ended September 30, 2012 and October 2, 2011 were 13-week and 39-week periods, respectively.

**NOTE 2 CHANGES TO SIGNIFICANT ACCOUNTING POLICIES AND RELATED DISCLOSURES**

***Recent Pronouncements and Accounting Changes*** In May 2011, the FASB issued an accounting standard update ("ASU") ASU 2011-04 to provide guidance on achieving a consistent definition of and common requirements for measurement of and disclosure concerning fair value as between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 is effective for fiscal years beginning after December 15, 2011. The adoption of ASU 2011-04 had no material impact on the Company's consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05 (subsequently amended by ASU 2011-12) to provide guidance on increasing the prominence of items reported in other comprehensive income. This accounting standard update eliminates the option to present components of other comprehensive income as part of the statement of equity and requires that the total of comprehensive income, the components of net income, and the components of other comprehensive income be presented either in a single continuous statement of income and comprehensive income or in two separate but consecutive statements. The Company has implemented the required portion of ASU 2011-05 when preparing its interim consolidated condensed financial statements. In October 2011, the FASB proposed a deferral of

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**POWER-ONE, INC.**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

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

a portion of the guidance issued in June 2011 that requires reclassification adjustments from other comprehensive income be measured and presented by income statement line item in net income and also in other comprehensive income. The proposed deferral of this guidance was finalized by the FASB in December 2011. The deferral is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company does not expect that the proposed deferral guidance will have a material impact on its consolidated financial statements when and if adoption is required.

In September 2011, the FASB issued ASU 2011-08 to simplify how an entity tests goodwill for impairment. The amendment will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity no longer will be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. ASU 2011-08 is effective for fiscal years beginning after December 15, 2011. Because the Company has no goodwill, the adoption of this guidance had no impact on its consolidated financial statements.

In December, 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210) Disclosures about Offsetting Assets and Liabilities. The amendments in this update will enhance disclosures required by U.S. GAAP by requiring improved information about financial instruments and derivative instruments that are either (1) offset in accordance with either ASC 210-20-45 or ASC 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either ASC 210-20-45 or ASC 815-10-45. This information will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments in the scope of this Update. The amendments in this Update are effective for annual periods for fiscal years beginning on or after January 1, 2013. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In July 2012, the FASB issued ASU 2012-02, Intangibles - Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. The objective of the measure is to reduce the cost and complexity associated with performing an impairment test for indefinite-lived intangible assets and to make the impairment test similar to the recent changes for testing goodwill for impairment (ASU 2011-08, Testing Goodwill for Impairment). ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 and early adoption is permitted. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

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**POWER-ONE, INC.**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**NOTE 3 FAIR VALUE FINANCIAL INSTRUMENTS**

ASC 820, "Fair Value Measurements and Disclosures" establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair values into three levels as follows:

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

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

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

The Company had money market fund investments, primarily invested in U.S. treasuries, totaling \$144.3 million as of September 30, 2012, which utilize Level 1 valuation techniques. Additionally, as of September 30, 2012, the Company also had \$35.4 million invested in fixed-income held-to-maturity securities, which utilize Level 2 valuation techniques.

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.

**NOTE 4 INVESTMENTS**

In accordance with ASC 320 Investments, the Company records its fixed-income held-to-maturity securities at cost and adjusts for the amortization of premiums and discounts as the Company has the intent and ability to hold these securities to maturity. As of September 30, 2012, the Company had fixed-income held-to-maturity securities with an amortized cost of \$35.4 million, unrealized gains of \$0.2 million, and fair value of \$35.6 million as of September 30, 2012. All fixed-income held-to-maturity securities have contractual maturity dates of less than a year.

The Company has an investment in a joint venture in China, which is included in other assets on the Company's consolidated condensed balance sheets and is accounted for using the equity method. The carrying value of this investment was \$2.4 million and \$2.7 million at September 30, 2012 and January 1, 2012, respectively. During the three and nine months ended September 30, 2012, the Company recorded equity in earnings (loss) in joint venture of approximately \$0.1 million earnings and \$0.3 million loss, respectively, in its consolidated condensed statements of operations. During the three and nine months ended October 2, 2011, the Company recorded equity in earnings in joint venture of less than \$0.1 million and \$0.6 million, respectively, in its consolidated condensed statements of operations. See Note 12.

Table of Contents**POWER-ONE, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****(Unaudited)****NOTE 5 INVENTORIES**

Inventories consist of the following, in millions:

|                          | September 30,<br>2012 | January 1,<br>2012 |
|--------------------------|-----------------------|--------------------|
| Raw materials            | \$ 111.4              | \$ 107.9           |
| Subassemblies-in-process | 7.5                   | 6.7                |
| Finished goods           | 68.7                  | 45.9               |
|                          | \$ 187.6              | \$ 160.5           |

The Company reviews the historical and projected usage for inventory in determining excess and obsolete inventory. The Company estimates the projected usage of each inventory item by performing a quarterly analysis of expected future usage of raw materials, subassemblies-in-process and finished goods on an item-by-item basis. Such analysis includes the consideration of current sales backlog supported by customer purchase orders as well as forecasted sales of each inventory item for the next four quarters. Forecasted sales of each inventory item takes into consideration historical usage during the last 12 months, expected demand in the next 12 months, known or anticipated technological changes, the commonality of components and sub-assemblies used in multiple products, the maturity of the product in its life cycle, and any other macroeconomic factors. The methodology for forecasting demand may be modified depending on specific product lifecycles and local circumstances. The Company reserves inventory in excess of this demand.

During the nine months ended September 30, 2012 and October 2, 2011 the Company reserved approximately \$3.9 million and \$4.3 million, respectively, related to excess and obsolete inventory and recorded the charges as costs of goods sold. During the three months ended September 30, 2012 and October 2, 2011 the Company reserved approximately \$0.8 million and \$2.4 million, respectively, related to excess and obsolete inventory and recorded the charges as costs of goods sold.

**NOTE 6 INTANGIBLE ASSETS**

Intangible assets consist of the following, in millions:

|                                    | September 30, 2012            |                             |                             |  |
|------------------------------------|-------------------------------|-----------------------------|-----------------------------|--|
|                                    | Gross<br>Intangible<br>Assets | Accumulated<br>Amortization | Net<br>Intangible<br>Assets | Weighted<br>Average Life<br>(In Years) |
| <i>Non-amortizable intangibles</i> |                               |                             |                             |  |
| Trade name                         | \$ 11.4                       | \$                          | \$ 11.4                     |  |
| <i>Amortizable intangibles</i>     |                               |                             |                             |  |
| Product technology                 | 5.6                           | 2.6                         | 3.0                         | 7                                      |
| Customer relationships             | 5.3                           | 4.5                         | 0.8                         | 7                                      |
| Other                              | 6.3                           | 5.5                         | 0.8                         | 17                                     |
| Subtotal                           | 17.2                          | 12.6                        | 4.6                         | 11                                     |
| Total                              | \$ 28.6                       | \$ 12.6                     | \$ 16.0                     |  |

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## POWER-ONE, INC.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

## NOTE 6 INTANGIBLE ASSETS (Continued)

|                                    | January 1, 2012               |                             |                             |  |
|------------------------------------|-------------------------------|-----------------------------|-----------------------------|--|
|                                    | Gross<br>Intangible<br>Assets | Accumulated<br>Amortization | Net<br>Intangible<br>Assets | Weighted<br>Average Life<br>(In Years) |
| <i>Non-amortizable intangibles</i> |                               |                             |                             |  |
| Trade name                         | \$ 11.4                       | \$                          | \$ 11.4                     |  |
| <i>Amortizable intangibles</i>     |                               |                             |                             |  |
| Product technology                 | 5.6                           | 2.0                         | 3.6                         | 7                                      |
| Customer relationships             | 5.3                           | 3.9                         | 1.4                         | 7                                      |
| Other                              | 6.3                           | 5.3                         | 1.0                         | 17                                     |
| Subtotal                           | 17.2                          | 11.2                        | 6.0                         | 11                                     |
| Total                              | \$ 28.6                       | \$ 11.2                     | \$ 17.4                     |  |

In accordance with ASC 350, "Intangibles Goodwill and Other," the Company reviews its indefinite-lived intangible assets for impairment annually at the end of each fiscal August, or more often if events or circumstances indicate that impairment may have occurred. In addition to the testing above, management considers whether certain impairment indicators are present in assessing whether the carrying value of its indefinite-lived intangible assets may be impaired.

Total amortization expense for each of the nine months ended September 30, 2012 and October 2, 2011 was \$1.4 million and \$1.6 million, respectively. Of the \$1.4 million of expense recorded during the nine months ended September 30, 2012, \$1.2 million was recorded as amortization of intangibles and \$0.2 million recorded as cost of goods sold. Of the \$1.6 million of expense recorded during the nine months ended October 2, 2011, \$1.4 million was recorded as amortization of intangibles and \$0.2 million recorded as cost of goods sold. Total amortization expense for the three months ended September 30, 2012 was \$0.5 million. Of the \$0.5 million of expense recorded during the three months ended September 30, 2012, \$0.4 million was recorded as amortization of intangibles and \$0.1 million was recorded as cost of goods sold. Total amortization expense for the three months ended October 2, 2011 was \$0.6 million. Of the \$0.6 million of expense recorded during the three months ended October 2, 2011, \$0.5 million was recorded as amortization of intangibles and \$0.1 million recorded as cost of goods sold.

Estimated amortization expense related to amortizable intangibles for 2012 through 2016 is as follows, in millions:

| Year Ending December 31, | Amortization<br>Expense |
|--------------------------|-------------------------|
| 2012 (three months)      | \$ 0.5                  |
| 2013                     | 1.8                     |
| 2014                     | 1.1                     |
| 2015                     | 0.9                     |
| 2016                     | 0.3                     |
| Total                    | \$ 4.6                  |



Table of Contents**POWER-ONE, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****(Unaudited)****NOTE 7 OTHER ACCRUED EXPENSES**

Other accrued expenses consist of the following, in millions:

|                                      | September 30,<br>2012 | January 1,<br>2012 |
|--------------------------------------|-----------------------|--------------------|
| Litigation reserve                   | \$ 23.4               | \$ 23.1            |
| Accrued warranties, current portion  | 17.1                  | 9.6                |
| Accrued payroll and related expenses | 11.0                  | 11.5               |
| Accrued bonuses                      | 9.7                   | 6.0                |
| Other accrued expenses               | 11.3                  | 14.6               |
|                                      | \$ 72.5               | \$ 64.8            |

**NOTE 8 WARRANTIES**

The Company offers its customers warranties on products sold based on product type and application. In general, these standard warranties range from two to ten years. The Company reviews its warranty liability quarterly. The Company's estimate for product warranties is based on an analysis of actual expenses by specific product line and estimated future costs related to warranty. Factors taken into consideration when evaluating the Company's warranty reserve are (i) historical claims for each product, (ii) the development stage of the product, (iii) volume increases, (iv) life of warranty, and (v) other factors. To the extent actual experience differs from the Company's estimate, the provision for product warranties will be adjusted in future periods.

A tabular presentation of the activity within the warranty accrual account for the nine months ended September 30, 2012 and October 2, 2011 is presented below, in millions:

|   | September 30,<br>2012 | October 2,<br>2011 |
|---|-----------------------|--------------------|
| Beginning balance   | \$ 31.4               | \$ 21.4            |
| Charges and costs accrued   | 27.7                  | 14.2               |
| Adjustments related to pre-existing warranties (including changes in estimates) | 4.6                   | 0.5                |
| Less repair costs incurred  | (15.4)                | (5.4)              |
| Change due to foreign currency  | (0.2)                 | (0.4)              |
| Ending balance  | \$ 48.1               | \$ 30.3            |

The increase in accrued warranties and repair costs from October 2, 2011 to September 30, 2012 is primarily due to the sales mix of increased commercial inverter sales that have higher repair costs and longer warranties. As of September 30, 2012 and January 1, 2012, \$31.0 million and \$21.8 million of the accrued warranties were included in Warranties, less Current Portion in the consolidated condensed balance sheets.

The Company offers its renewable energy customers extended warranty contracts with terms between five and ten years after the base warranty period expires and accounts for such warranty contracts in accordance with ASC 605-20-25. Deferred revenue related to such extended warranty contracts was \$24.0 million and \$18.9 million, as of September 30, 2012 and January 1, 2012, respectively, and was included as part of deferred revenue in the consolidated condensed balance sheets.

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**POWER-ONE, INC.**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**NOTE 9 CONTINGENCIES**

*SynQor, Inc. v Power-One, Inc., et. al.* United States District Court, Eastern District of Texas, Civil Action No. 2:07cv497 TJW/CE (parent case). 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 point of load (POL) converters used in Intermediate Bus Architecture (IBA) power supply systems. On December 21, 2010, a jury verdict in favor of SynQor was returned, 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 United States patents and the decision covers only the sales or uses of infringing products in the United States. On August 17, 2011, final judgment in the amount of approximately \$27 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. The company filed its appeal brief with the Court of Appeals, Federal Circuit (CAFC) on March 20, 2012. Oral argument was heard on October 2, 2012.

Currently all of the asserted claims of the '190 and '021 patent (upon which half of the damages against Power-One are based), have been fully rejected and are now before the Board of Patent Appeals and Interferences ("BPAI"). The initial round of briefing on the appeal of those two patents was completed as of April 2012 and the BPAI heard oral argument on the appeal of the '190 patent on October 17, 2012. In the '702 and '083 reexaminations, actions closing prosecution have been issued in which the asserted claims of the '702 and '083 patents have been rejected. Right of Appeal Notices were issued for the '702 and '083 patents on August 21, 2012 and SynQor has filed its Notice of Appeal. Appeal briefs are due on October 27, 2012 for the '083 patent and on November 21, 2012 for the '702 patent.

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, Inc. has filed a motion to be dismissed from the lawsuit on grounds that all accused products sold by Power-One, Inc. after December 21, 2010, the date of the jury verdict, were sold outside the United States 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. Trial was scheduled to begin on October 15, 2012. On October 2-3, 2012 the parties participated in mediation but were unsuccessful in settling the case. On October 5, 2012 defendants filed a motion to continue the trial pending the CAFC's decision on the appeal of the parent case. On October 12, 2012 the motion was granted. SynQor filed a motion for reconsideration on October 17, 2012.

Table of Contents**POWER-ONE, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****(Unaudited)****NOTE 9 CONTINGENCIES (Continued)**

Including interest, supplemental damages and other items, the Company believes that its maximum exposure related to these matters is \$30.0 million. As of September 30, 2012 the Company accrued \$23.4 million for the SynQor claims, covering what the Company believes to be its probable exposure, including interest and supplemental damages.

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

**NOTE 10 STOCK-BASED COMPENSATION PLANS**

The Company accounts for stock-based awards in accordance with ASC 718, "Compensation Stock Compensation." The Company has granted stock awards under its 1996 and 2004 stock incentive plans which generally vest between one and four years from the date of grant.

The fair value of non-vested share units awarded by the Company is measured using the closing fair market value as reported on the NASDAQ Stock Market of the Company's stock on the date the awards are granted. Stock compensation expense related to non-vested share units, including performance-based share units, for the three months ended September 30, 2012 and October 2, 2011 was \$2.7 million and \$2.8 million, respectively. Stock compensation expense related to non-vested share units, including performance-based share units, for the nine months ended September 30, 2012 and October 2, 2011 was \$7.7 million and \$7.3 million, respectively. The following table presents the non-vested share unit activity for which only a service condition exists under the Company's stock-based compensation plans:

*Non-Vested Share Units Service Based*

|  | Three Months Ended |                 | Nine Months Ended  |                 |
|--|--------------------|-----------------|--------------------|-----------------|
|  | September 30, 2012 | October 2, 2011 | September 30, 2012 | October 2, 2011 |
| Non-vested share units granted, in millions                      | 0.1                | 0.1             | 1.2                | 0.7             |
| Weighted average grant date fair value of non-vested share units | \$ 4.54            | \$ 7.14         | \$ 4.29            | \$ 8.11         |

*Non-Vested Share Units Market Based*

The non-vested share units granted that are performance share units (PSUs) vest dependent upon the performance of the Company's stock price measured over a three-year period against a specified index. These market-based stock awards are eligible for a maximum payout of 150% of the share units granted. The table below represents the share unit activity and assumptions used to determine the fair value of the PSUs as estimated on the date of the grants by utilizing the Monte Carlo Simulation method calculation. The Monte Carlo Simulation method was used as the share units contain market

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## POWER-ONE, INC.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

## NOTE 10 STOCK-BASED COMPENSATION PLANS (Continued)

condition criteria. The following table presents the assumptions used to determine the valuation of the PSUs for the three and nine months ended September 30, 2012 and October 2, 2011:

|   | Three Months Ended |                 | Nine Months Ended  |                 |
|---|--------------------|-----------------|--------------------|-----------------|
|   | September 30, 2012 | October 2, 2011 | September 30, 2012 | October 2, 2011 |
| Non-vested share units granted, in millions     |                    |                 | 0.6                | 0.5             |
| Risk-free interest rate                         |                    |                 | 0.4%               | 1.0%            |
| Volatility                                      |                    |                 | 67%                | 84%             |
| Expected term, years                            |                    |                 | 3.0                | 3.0             |
| Grant date fair value of non-vested share units |                    |                 | \$ 4.35            | \$ 8.52         |

*Stock Options*

The fair value of the stock options granted during the three and nine months ended September 30, 2012 and October 2, 2011 was estimated on the date of grant using the Black-Scholes valuation model, with the assumptions shown below.

|  | Three Months Ended |                 | Nine Months Ended  |                 |
|--|--------------------|-----------------|--------------------|-----------------|
|  | September 30, 2012 | October 2, 2011 | September 30, 2012 | October 2, 2011 |
| Risk-free interest rate  | 1.1%               | 1.8%            | 1.3%               | 2.4%            |
| Volatility   | 86%                | 85%             | 86%                | 85%             |
| Estimated option life, years                                     | 5.8                | 5.8             | 5.8                | 5.8             |
| Dividend yield   |                    |                 |                    |                 |
| Stock options granted, in millions                               | 0.1                | 0.1             | 2.0                | 1.2             |
| Weighted-average grant date fair value of stock options          | \$ 3.24            | \$ 5.07         | \$ 3.06            | \$ 5.86         |
| Stock compensation expense related to stock options, in millions | \$ 1.2             | \$ 1.0          | \$ 3.0             | \$ 2.1          |

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**POWER-ONE, INC.**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**NOTE 11 EARNINGS PER SHARE (EPS)**

For the three and nine months ended September 30, 2012 and October 2, 2011, basic earnings per common share ("EPS") was calculated utilizing the "two-class" method. For the three and nine months ended October 2, 2011, diluted EPS was calculated utilizing the two-class method, while diluted EPS for the three and nine months ended September 30, 2012 was calculated utilizing the "if-converted" method. In prior periods, the Company's outstanding participating redeemable convertible preferred stock was more dilutive under the two-class method; however, given the conversion of such preferred stock into common stock during the fourth quarter of 2011, together with the issuance of the Series C junior participating convertible preferred stock at the same date, the impact of the outstanding participating securities during the three and nine months ended September 30, 2012 was not more dilutive when computing diluted EPS using the two-class method. As such, the if-converted method was used to compute diluted EPS during the three and nine months ended September 30, 2012.

Under the two-class method, EPS is computed by dividing earnings allocated to common stockholders by the weighted-average number of common shares outstanding for the period. Earnings are allocated to both common shares and participating securities based on the respective number of weighted-average shares outstanding for the period. The Company's Series C junior participating convertible preferred stock are participating securities due to their participation rights related to cash dividends declared by the Company. If dividends are distributed to the common stockholders, the Company is required to pay dividends to the holders of the preferred stock and common stock pro-rata on an as converted basis.

Table of Contents**POWER-ONE, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****(Unaudited)****NOTE 11 EARNINGS PER SHARE (EPS) (Continued)**

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

|  | Three Months Ended    |                    | Nine Months Ended     |                    |
|--|-----------------------|--------------------|-----------------------|--------------------|
|  | September 30,<br>2012 | October 2,<br>2011 | September 30,<br>2012 | October 2,<br>2011 |
| <b>Basic EPS</b>   |                       |                    |                       |                    |
| Net income attributable to common stockholders                               | \$ 21.1               | \$ 40.6            | \$ 72.8               | \$ 101.3           |
| Less: undistributed income allocated to participating preferred stockholders | 3.8                   | 5.3                | 13.2                  | 13.1               |
| Net income allocated to common stockholders                                  | \$ 17.3               | \$ 35.3            | \$ 59.6               | \$ 88.2            |
| Weighted average common shares outstanding (basic)                           | 121.3                 | 103.8              | 121.7                 | 103.7              |
|  | \$ 0.14               | \$ 0.34            | \$ 0.49               | \$ 0.85            |
| <b>Diluted EPS</b>   |                       |                    |                       |                    |
| Net income attributable to common stockholders                               | \$ 21.1               | \$ 40.6            | \$ 72.8               | \$ 101.3           |
| Add: effect of dilutive convertible debt                                     |                       | 1.0                |                       | 3.1                |
| Less: undistributed income allocated to participating preferred stockholders |                       | 4.1                |                       | 10.0               |
| Net income attributable to common stockholders                               | \$ 21.1               | \$ 37.5            | \$ 72.8               | \$ 94.4            |
| Weighted average common shares outstanding (basic)                           | 121.3                 | 103.8              | 121.7                 | 103.7              |
| Common shares issuable assuming dilution                                     | 35.4                  | 36.0               | 34.6                  | 36.6               |
| Weighted average common shares outstanding (diluted)                         | 156.7                 | 139.8              | 156.3                 | 140.3              |
|  | \$ 0.13               | \$ 0.27            | \$ 0.47               | \$ 0.67            |

Employee equity share options, unvested shares, convertible preferred stock, and similar equity instruments granted by the Company are treated as potential common shares outstanding in computing diluted earnings per share. Diluted shares outstanding include the dilutive effect of in-the-money options, and non-vested share units. The dilutive effect of such equity awards is calculated based on the average share price for each fiscal period using the treasury stock method. Under the treasury-stock method, the weighted average common share equivalents outstanding during each period that were excluded from the computation of diluted earnings per share because the exercise price for these options was greater than the average market price of the Company's shares of common stock during the three and nine months ended September 30, 2012 was 5.6 million and 6.1 million, respectively, and during the three and nine months ended October 2, 2011 was 5.0 million and 3.0 million, respectively.

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**POWER-ONE, INC.**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**NOTE 12 RELATED PARTIES**

The Company maintains minority ownership in a joint venture located in China. The joint venture is accounted for and recorded on the consolidated condensed balance sheet as other assets under the equity method. During the three and nine months ended September 30, 2012, the Company recorded approximately \$0.1 million earnings and \$0.3 million loss, respectively, related to the company's equity share in the joint venture. During the three and nine months ended October 2, 2011, the Company recorded equity in earnings in joint venture of less than \$0.1 million and \$0.6 million, respectively.

The joint venture may purchase raw components and other goods from the Company and may sell finished goods to the Company as well as to other third parties. The Company records revenue on sales to the joint venture only when the components and goods are sold to third parties. When the joint venture purchases components that will be assembled and sold back to the Company, no revenue is recorded. The Company also has significant and similar relationships with contract manufacturers. These contract manufacturers may purchase raw components from and sell finished goods back to the Company. No revenue is recognized for these transactions. Revenue is recognized only when the products are sold to third parties. No revenue was recognized related to the joint venture during the three and nine months ended September 30, 2012 or October 2, 2011.

The Company paid \$2.8 million and \$6.1 million for inventory purchased from the joint venture during the three months ended September 30, 2012 and October 2, 2011, respectively, and \$7.0 million and \$15.6 million for inventory purchased from the joint venture during the nine months ended September 30, 2012 and October 2, 2011, respectively. At September 30, 2012 and January 1, 2012, the Company owed the joint venture approximately \$4.3 million and \$2.3 million, respectively.

**NOTE 13 SEGMENT INFORMATION**

The Company operates as two reportable business segments in accordance with ASC 280, "Segment Reporting." The Company's chief operating decision maker and management personnel review the Company's performance and make resource allocation decisions by reviewing the results of the two business segments separately. Revenue and operating profit are reviewed by the chief operating decision maker; however, the Company assets are not divided based on business segment.

The Company is organized into the Renewable Energy Solutions and Power Solutions segments based on the products and services provided. Renewable Energy Solutions offers inverters and accessories for the photovoltaic/solar ("PV") market. These inverters convert DC energy from solar panels into AC energy for customer use or for the utility grid. The Power Solutions segment represents the Company's products for AC/DC, DC/DC and digital power conversion, including power conversion products for data centers, such as servers, storage and networking, as well as telecom and industrial power conversion products.

Table of Contents**POWER-ONE, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****(Unaudited)****NOTE 13 SEGMENT INFORMATION (Continued)**

Revenue with respect to operating segments for the three and nine months ended September 30, 2012 and October 2, 2011, in millions:

|                            | Three Months Ended |                 | Nine Months Ended  |                 |
|----------------------------|--------------------|-----------------|--------------------|-----------------|
|                            | September 30, 2012 | October 2, 2011 | September 30, 2012 | October 2, 2011 |
| <b>Sales:</b>              |                    |                 |                    |                 |
| Renewable Energy Solutions | \$ 216.3           | \$ 174.3        | \$ 619.7           | \$ 506.0        |
| Power Solutions            | 67.3               | 70.7            | 211.2              | 243.9           |
| <b>Total</b>               | <b>\$ 283.6</b>    | <b>\$ 245.0</b> | <b>\$ 830.9</b>    | <b>\$ 749.9</b> |

Operating Income by operating segment for the quarters and nine months ended September 30, 2012 and October 2, 2011 is as follows, in millions:

|                                       | Three Months Ended |                 | Nine Months Ended  |                 |
|---------------------------------------|--------------------|-----------------|--------------------|-----------------|
|                                       | September 30, 2012 | October 2, 2011 | September 30, 2012 | October 2, 2011 |
| <b>Operating Income:</b>              |                    |                 |                    |                 |
| Renewable Energy Solutions            | \$ 47.1            | \$ 39.9         | \$ 131.0           | \$ 141.4        |
| Power Solutions                       | 3.9                | 2.2             | 13.3               | 17.1            |
| <b>Total segment operating income</b> | <b>51.0</b>        | <b>42.1</b>     | <b>144.3</b>       | <b>158.5</b>    |
| <b>Unallocated amounts:</b>           |                    |                 |                    |                 |
| Corporate and unallocated             | (7.9)              | (8.2)           | (22.9)             | (20.1)          |
| <b>Total</b>                          | <b>43.1</b>        | <b>\$ 33.9</b>  | <b>\$ 121.4</b>    | <b>\$ 138.4</b> |

Corporate is a non-operating business segment with the main purpose of supporting operations. Litigation charges are not allocated to business segment financial statements reviewed by the Company's chief operating decision maker and management personnel.



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**Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following management's discussion and analysis of financial condition and results of operations should be read in conjunction with our management's discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the year ended January 1, 2012 filed with the SEC on March 1, 2012, and all of our other filings, including our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, filed with the SEC after such date and through the date of this report.

This Quarterly Report on Form 10-Q may contain certain statements that we believe are, or may be considered to be, "forward-looking statements" within the meaning of various provisions of the Securities Act of 1933 and of the Securities Exchange Act of 1934. These forward-looking statements generally can be identified by the use of statements that include phrases such as we "expect," "anticipate," "plan," "intend," "continue," "may," "can," "believe" or other similar words or phrases. Similarly, statements that describe our objectives, plans or goals also are forward-looking statements. All of these forward-looking statements are subject to certain risks and uncertainties that could cause our actual results to differ materially from historical results or from those expressed or implied by the relevant forward-looking statement. We discuss these risks and uncertainties in detail in Part I. Item 1A. of our 2011 Form 10-K together with further risks discussed in Part II. Item 1A. Risk Factors of this Form 10-Q.

**Introduction**

*Overview*

We are organized into two Strategic Business Units ("SBUs"), Renewable Energy Solutions and Power Solutions. The SBUs 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 power and 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 have added software management capabilities to our inverter offerings through our Vision software technology 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.

We are focused on improving our operational strategy and are implementing lean manufacturing processes at all of our factories. In addition, we are reducing lead times, improving deliveries to customer request dates, and reducing freight and other transportation costs by localizing the supply chain. As part of our strategy for geographic diversification in our Renewable Energy Solutions SBU, we have entered into the North American and Asia Pacific markets and have established new factories in North America and China, product development laboratories in North America, and sustaining engineering facilities in China; 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.

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

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production levels at our facilities in North America and China. We have stabilized the cost of our Asian operations and continue to work through certain facility ramp-up costs in our North American facility as we establish a local North American supply chain.

**Renewable Energy Solutions:** We offer inverters, management systems, accessories and services for the renewable energy marketplace that includes photovoltaic/solar 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 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 the solar market. 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.

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 an 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.

**Recent Pronouncements and Accounting Changes** See Part I. Item 1. Note 2 "CHANGES TO SIGNIFICANT ACCOUNTING POLICIES AND RELATED DISCLOSURES Recent Pronouncements and Accounting Changes" in the notes to the consolidated condensed financial statements herein.

We follow accounting standards set by the FASB, which sets GAAP, to ensure we consistently report our financial condition, results of operations, and cash flows. There have been no material changes in our critical accounting policies described in Management's Discussion and Analysis in our Annual Report on Form 10-K for the fiscal year ended January 1, 2012.

**Results of Operations**

*Consolidated*

**Net Sales** Net sales increased \$81.0 million, or 11%, to \$830.9 million for the first nine months of fiscal 2012 from \$749.9 million for the first nine months of fiscal 2011. The increase in sales primarily

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relates to increases in volume within the Renewable Energy SBU during the first nine months of 2012 over the levels of the same period of 2011, as demand increased in advance of Feed-in-Tariff reductions in Germany and Italy, which were effective during the third quarter of 2012. This volume increase was partially offset by price declines due to a competitive pricing environment resulting in a negative impact to revenue. Renewable Energy revenue increases were partially offset by decreases in the Power SBU as a result of softening within the power industry during fiscal 2012 and the clearance of backlog in the first quarter of 2011, which accumulated at the end of fiscal 2010 as a result of supply chain constraints. This favorable impact did not recur during the first nine months of fiscal 2012.

Net sales increased \$38.6 million, or 16%, to \$283.6 million for the third quarter of fiscal 2012 from \$245.0 million in the comparable period of 2011. The increase in revenue relates to volume increases in the Renewable Energy SBU as demand increased in advance of Feed-in-Tariff changes in Germany and Italy and favorable market acceptance of the new Trio product. These increases in revenue were partially offset by a decrease in revenue for the Power SBU as a result of softening within the industry across all product lines.

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

|                            | Three Months Ended |                 | Nine Months Ended  |                 |
|----------------------------|--------------------|-----------------|--------------------|-----------------|
|                            | September 30, 2012 | October 2, 2011 | September 30, 2012 | October 2, 2011 |
| Renewable Energy Solutions | \$ 216.3           | 76%             | \$ 174.3           | 71%             |
| Power Solutions            | 67.3               | 24%             | 70.7               | 29%             |
| <b>Total</b>               | <b>\$ 283.6</b>    | <b>100%</b>     | <b>\$ 245.0</b>    | <b>100%</b>     |

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

|                   | Three Months Ended |                 | Nine Months Ended  |                 |
|-------------------|--------------------|-----------------|--------------------|-----------------|
|                   | September 30, 2012 | October 2, 2011 | September 30, 2012 | October 2, 2011 |
| Distributors      | \$ 185.3           | 65%             | \$ 114.0           | 47%             |
| OEMs              | 56.5               | 20%             | 87.8               | 36%             |
| EPCs              | 41.6               | 15%             | 42.8               | 17%             |
| Service providers | 0.2                |                 | 0.4                |                 |
| <b>Total</b>      | <b>\$ 283.6</b>    | <b>100%</b>     | <b>\$ 245.0</b>    | <b>100%</b>     |

Net sales for the three and nine months ended September 30, 2012 and October 2, 2011 by end markets were as follows:

|                                 | Three Months Ended |                 | Nine Months Ended  |                 |
|---------------------------------|--------------------|-----------------|--------------------|-----------------|
|                                 | September 30, 2012 | October 2, 2011 | September 30, 2012 | October 2, 2011 |
| Renewable Energy                | 76%                | 71%             | 75%                | 67%             |
| Servers, Storage and Networking | 12%                | 15%             | 13%                | 15%             |
| Industrial Equipment            | 10%                | 10%             | 9%                 | 12%             |
| Network Power Systems           | 2%                 | 4%              | 3%                 | 6%              |
| <b>Total</b>                    | <b>100%</b>        | <b>100%</b>     | <b>100%</b>        | <b>100%</b>     |

Table of Contents**Gross Profit**

|                           | Three Months Ended |                 | Nine Months Ended  |                 |
|---------------------------|--------------------|-----------------|--------------------|-----------------|
|                           | September 30, 2012 | October 2, 2011 | September 30, 2012 | October 2, 2011 |
| Gross profit, in millions | \$ 81.9            | \$ 68.8         | \$ 234.4           | \$ 240.4        |
| Gross profit margin       | 28.9%              | 28.1%           | 28.2%              | 32.1%           |

Gross profit for the first nine months of fiscal 2012 decreased by \$6.0 million to \$234.4 million from a gross profit of \$240.4 million in the comparable period in 2011. As a percentage of net sales, gross margin decreased to 28.2% for the first nine months of fiscal 2012 from a gross margin of 32.1% for the same period in 2011. Gross margin for the nine months ended September 30, 2012 was negatively impacted by reductions in pricing, increased warranty-related expenses, and factory ramp-up costs in our Renewable Energy SBU, partially offset by reductions in material costs.

Gross profit for the third quarter of fiscal 2012 was \$81.9 million compared with a gross profit of \$68.8 million in the comparable period in 2011. As a percentage of net sales, gross margin increased to 28.9% for the third quarter of fiscal 2012 from a gross margin of 28.1% for the same period in 2011. Gross margin for the three months ended September 30, 2012 improved due to increased absorption of factory costs on higher volume and reductions in material costs, partially offset by price erosion.

**Selling, General and Administrative Expense** Selling, general and administrative expense increased \$12.4 million, or 19%, to \$77.0 million for the first nine months of fiscal 2012 from \$64.6 million for the same period in 2011. As a percentage of net sales, selling, general and administrative expense was 9% for the first nine months of both fiscal 2012 and fiscal 2011. The increase in selling, general and administrative expense was primarily a result of the expansion of our sales team in the North America region and increased investment in marketing to support our Renewable Energy business.

Selling, general and administrative expense increased \$4.7 million, or 21%, to \$27.3 million for the third quarter of fiscal 2012 from \$22.6 million for the same period in 2011. As a percentage of net sales, selling, general and administrative expense increased to 10% for the third quarter of fiscal 2012 from 9% for the same period in fiscal 2011.

**Research and Development** Research and development expense decreased by \$0.4 million, or 1%, to \$34.6 million for the first nine months of fiscal 2012 from \$35.0 million in the first nine months of fiscal 2011. As a percentage of net sales, research and development decreased to 4% for the first nine months of fiscal 2012 compared with 5% for the same period of 2011. Research and development decreased to \$10.9 million in the third quarter of fiscal 2012 from \$11.6 million in the third quarter of fiscal 2011. As a percentage of net sales, research and development decreased to 4% during the third quarter of 2012 from 5% during the same period of 2011.

**Amortization of Intangible Assets** Amortization of intangible assets was \$1.2 million for the nine-month period ended September 30, 2012 compared to \$1.4 million for the same period ended October 2, 2011. Amortization of intangible assets was \$0.4 million for the third quarter of fiscal 2012 compared to \$0.5 million in the third quarter of 2011.

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**Litigation Charges** On December 22, 2010, a United States District Court assessed a judgment against the Company indicating that certain of our products directly or indirectly infringe on patents established by SynQor, Inc. and awarded damages plus interest against the Company. See "Legal Proceedings" under Part II, Item 1 of this Quarterly Report on Form 10-Q. 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. During the nine-month periods ended September 30, 2012 and October 2, 2011, we recorded approximately \$0.1 million and \$1.1 million, respectively, for interest charges related to the damages accrued. During the quarter ended September 30, 2012, we also recorded approximately \$0.2 million to increase our estimates for damages based on a refinement of the potentially infringing sales.

**Income from Operations** As a result of the items above, income from operations was \$121.4 million for the first nine months of fiscal 2012 compared with income from operations of \$138.4 million for the first nine months of fiscal 2011. Income from operations was \$43.1 million for the third quarter of fiscal 2012 compared with income from operations of \$33.9 million for third quarter of fiscal 2011.

**Interest (Expense) Income, Net** Net interest expense was \$0.1 million for the first nine months of fiscal 2012 compared with net interest expense of approximately \$3.1 million for the comparable period in 2011. Net interest expense was \$0.2 million for the third quarter of fiscal 2012 compared with net interest expense of approximately \$1.3 million for the comparable period in 2011.

The net interest expense recorded during the three and nine months ended September 30, 2012 primarily related to amortization of issuance costs associated with the \$150 million revolving credit facility entered into on March 29, 2011. The net interest expense recorded during the three and nine months ended October 2, 2011 primarily related to approximately \$36 million of senior convertible notes issued May 8, 2009 at an effective interest rate of 10.5%.

**Other (Expense) Income, Net** Net other expense was \$3.3 million for the first nine months of fiscal 2012 compared with net other income of \$1.9 million for the same period in 2011. Included in net other expense for the first nine months of fiscal 2012 were losses on foreign currency transactions of approximately \$3.1 million compared with gains on foreign currency transactions of approximately \$4.1 million in 2011. Net other expense was \$6.6 million for the third quarter of fiscal 2012 compared with net other income of \$8.7 million for the same period in 2011. Net other expense for the third quarter of fiscal 2012 consisted of losses on foreign currency transactions of approximately \$6.3 million compared with gains on foreign currency transactions of approximately \$9.0 million in 2011. The losses related to remeasurement of foreign currency transactions during the three and nine months of fiscal 2012 were due primarily to the Euro weakening against the USD. Our primary foreign currencies are the Euro, the Chinese RMB, and the British Pound.

**Provision for Income Taxes** The provision for income taxes was \$44.8 million for the first nine months of fiscal 2012 compared to \$50.8 million for the first nine months of fiscal 2011. The provision for income taxes was \$15.4 million for the third quarter of fiscal 2012 as compared to \$16.8 million recorded during the third quarter of fiscal 2011. The provision for income taxes recorded primarily related to taxes recorded at certain of our profitable European locations. The effective tax rate increased to 38% for the first nine months of fiscal 2012 from 33% in the first nine months of fiscal 2011 and to 42% for the third quarter as a result of higher pre-tax losses in the U.S., where no deferred tax benefit is recorded as a result of valuation allowances.

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

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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 (Loss) of Joint Venture** During the first nine months of fiscal 2012, we recorded a loss of approximately \$0.3 million related to our equity share in the joint venture compared with income of \$0.6 million recorded during the same period in fiscal 2011. During the third quarter of fiscal 2012, we recorded earnings of approximately \$0.1 million related to our equity share in the joint venture compared with earnings of less than \$0.1 million recorded during the same quarter of fiscal 2011. Losses incurred by the joint venture during the first nine months of 2012 relate to softness in the power industry as certain customers delayed their orders in light of the uncertain macroeconomic environment.

**Preferred Stock Dividend and Accretion** During the first nine months of fiscal 2011 in connection with the issuance of \$23.6 million of redeemable convertible preferred stock to Silver Lake Sumeru, we recorded \$2.6 million related to the 10% preferred stock dividend and accretion, of which \$1.8 million related to preferred dividends declared and \$0.8 million related to the periodic accretions under the interest method. During the third quarter of fiscal 2011, we recorded \$0.9 million, consisting of \$0.6 million related to the preferred stock dividend and \$0.3 million related to the periodic accretions under the interest method. The preferred stock was converted to common stock during the fourth quarter of fiscal 2011.

**Renewable Energy Solutions**

Results for the Renewable Energy Solutions business segment for the three and nine months ended September 30, 2012 and October 2, 2011 are as follows, in millions:

|                  | Three Months Ended |                 | Nine months Ended  |                 |
|------------------|--------------------|-----------------|--------------------|-----------------|
|                  | September 30, 2012 | October 2, 2011 | September 30, 2012 | October 2, 2011 |
| Revenue          | \$ 216.3           | \$ 174.3        | \$ 619.7           | \$ 506.0        |
| Operating Income | 47.1               | 39.9            | 131.0              | 141.4           |

During the first nine months of fiscal 2012, revenue increased \$113.7 million, or 22%, to \$619.7 million from \$506.0 million during the comparable period of fiscal 2011. During the third quarter of fiscal 2012, revenue increased \$42.0 million, or 24%, to \$216.3 million from \$174.3 million during the comparable period of fiscal 2011. The increase in revenue was a result of volume increases due to higher demand in Europe based on reductions in Feed-in-Tariffs in Germany and Italy, which were effective in the third quarter of 2012, and gains in market share within Europe.

Operating margins decreased to 21% during the first nine months of fiscal 2012 from 28% for the comparable period of 2011 and decreased to 22% during the third quarter of fiscal 2012 from 23% for the comparable period of 2011 as a result of declines in sales prices, increased warranty costs, factory ramp-up costs, and increased investment in sales and marketing and service teams, partially offset by reductions in material costs.

Table of Contents**Power Solutions**

Results for the Power Solutions business segment for the three and nine months ended September 30, 2012 and October 2, 2011 are as follows, in millions:

|                  | Three Months Ended |                 | Nine months Ended  |                 |
|------------------|--------------------|-----------------|--------------------|-----------------|
|                  | September 30, 2012 | October 2, 2011 | September 30, 2012 | October 2, 2011 |
| Revenue          | \$ 67.3            | \$ 70.7         | \$ 211.2           | \$ 243.9        |
| Operating income | 3.9                | 2.2             | 13.3               | 17.1            |

During the first nine months of fiscal 2012, revenue decreased \$32.7 million, or 13%, to \$211.2 million from \$243.9 million during the comparable period of fiscal 2011. Operating margins decreased to 6% during the first nine months of fiscal 2012 as compared to 7% operating margins in the comparable period of 2011. Revenue for the first nine months of fiscal 2011 was favorably impacted as it included a substantial amount of delinquent backlog, built up as a result of the constrained supply chain during fiscal 2010, which was cleared out during that nine-month period. The decreased operating margin in the first nine months of 2012 was the result of the reduction in sales volumes.

During the third quarter of fiscal 2012, revenue decreased \$3.4 million, or 5%, compared to fiscal 2011. Operating margins increased to 6% during the third quarter of 2012 as compared to 3% during the third quarter of fiscal 2011. The decrease in revenue for the third quarter of fiscal 2012 as compared with the same period of 2011 was due to industry-wide softening across all markets. The increase in operating margin in the third quarter of 2012 was due to favorable gross margin from a reduction in factory costs.

**Liquidity and Capital Resources**

Our cash and cash equivalents balance increased to \$251.9 million at September 30, 2012 from \$204.9 million at January 1, 2012. Our primary sources of cash in the first nine months of fiscal 2012 consisted of \$111.1 million of cash generated from operating activities. Our net cash used in investing activities in the first nine months of fiscal 2012 consisted primarily of \$35.4 million for the purchase of fixed-income securities and \$24.0 million for the acquisition of property and equipment. Cash used in financing activities included \$4.8 million used to repurchase 1.1 million shares of our common stock.

Cash provided by operating activities of \$111.1 million included increases in income tax payable, other accrued expenses, and other liabilities of \$22.1 million, \$9.7 million, and \$16.0 million, respectively; partially offset by increases in accounts receivable and inventories of \$14.2 million and \$27.6 million, respectively.

The aggregate limit on all credit facilities was approximately \$150.8 million at September 30, 2012. The credit facilities bear interest on amounts outstanding at various intervals based on various applicable published market rates. At September 30, 2012, no amounts were outstanding on the credit facilities, and \$0.9 million was committed to guarantee letters of credit. After consideration of these commitments, \$149.9 million of additional borrowing capacity was available to us as of September 30, 2012. The company was in compliance with all debt covenants at September 30, 2012.

Our total in cash and cash equivalents held outside of the U.S. in various foreign subsidiaries was approximately \$237.0 million as of September 30, 2012. Historically, we have deemed the earnings of our foreign subsidiaries to be permanently reinvested in the foreign operations. Under current tax laws and regulations, if cash and cash equivalents held outside the U.S. were to be distributed to the U.S. in the form of dividends or otherwise, we would be subject to additional U.S. income taxes and foreign withholding taxes. With respect to our U.S. operations, we believe that cash and cash equivalents held in the U.S.; expected cash generated from our U.S. operations; and borrowings available under our

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U.S. credit facility are adequate to continue to meet our U.S. obligations (including our plans to repurchase stock) without the repatriation of undistributed earnings in the form of cash and cash equivalents of our subsidiaries outside the U.S.

We currently anticipate that our total capital expenditures for 2012 will be in the range of \$35 million to \$45 million primarily for manufacturing equipment, equipment related to research and development and product development, additions and upgrades to our facilities and information technology infrastructure, and other administrative requirements. However, the amount of these anticipated capital expenditures likely will change during the year based on changes in expected revenues, our financial condition and the general economic climate.

We establish the allowance for doubtful accounts based on our assessment of the collectability of individual customer accounts. We regularly review the adequacy of these allowances by considering internal factors such as historical experience, credit quality and age of the receivable balances as well as external factors such as economic conditions that may affect a customer's ability to pay, historical default rates, and long-term historical loss rates published by major third-party credit-rating agencies. We also consider the concentration of receivables outstanding with a particular customer in assessing the adequacy of our allowances. An allowance for doubtful accounts is recorded when it is probable that the receivable is uncollectible.

Currently we have not experienced any increasing trends in uncollectible accounts that are material to our financial statements; however, we continue to focus on the impacts of the European sovereign debt crisis, which has reduced the availability of capital and credit markets impacting our customers in the Renewable Energy segment and may, in turn, impact our ability to collect our receivables from our European customers. Availability of capital to our customers correlates to the markets in which government incentives and feed-in tariffs are offered, and the increases or decreases of available customer financing follows the increases and decreases in such incentives in most markets. Accordingly, as a result of the uncertainty in Europe, we have established credit insurance covering approximately 65% of our European receivables, established upfront credit limits with our customers, require certain customers to provide bank guarantees and letters of credit, and have required certain customers to make advanced payment for product in order to mitigate uncollectible accounts.

Based on current plans and business conditions, we believe our existing working capital and borrowing capacity, coupled with the funds that we expect to generate from our operations, will be sufficient to meet our liquidity requirements for at least the next twelve months. We will continue to evaluate our liquidity position, and when and if necessary, explore alternatives to maximize our position and we may determine to raise additional funding through the issuance of equity or incurrence of debt. However, there can be no assurance that we will be able to raise such funds if they are required.

**Off-Balance Sheet Arrangements**

Below we identify and disclose all of our significant off balance sheet arrangements and related party transactions. We do not utilize special purpose entities or have any known financial relationships with other companies' special purpose entities.

*Operating Leases* We enter into operating leases based on business need and where and when the economic climate is favorable.

*Purchase Commitments* We have purchase commitments for materials, supplies, services, and property, plant and equipment as part of the normal course of business. Certain supply contracts may contain penalty provisions for early termination. Based on current expectations, we do not believe that we are reasonably likely to incur any material amount of penalties under these contracts.



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*Other Contractual Obligations* We do not have material financial guarantees that are reasonably likely to affect liquidity.

*Related Parties* We have entered into certain transactions, or have other arrangements with related parties. (See Note 12 to the Consolidated Condensed Financial Statements in Part I, Item I)

*Summary of Contractual Obligations and Commitments* A summary of our future contractual payments related to lease obligations and other commitments is as follows, in millions:

| <b>Year Ending December 31,</b> | <b>Operating<br/>Leases</b> |
|---------------------------------|-----------------------------|
| 2012 (three months)             | \$ 1.4                      |
| 2013                            | 5.2                         |
| 2014                            | 4.5                         |
| 2015                            | 2.7                         |
| 2016                            | 0.6                         |
| 2017 and thereafter             | 0.5                         |
| <b>Total</b>                    | <b>\$ 14.9</b>              |

At September 30, 2012, a tax liability of \$6.5 million related to uncertain tax positions was recorded under ASC 740 Income Taxes. This amount has been excluded from the summary table of contractual obligations and commitments because we could not reasonably estimate the timing of future cash outflows associated with our ASC 740 liabilities.

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**Item 3 Quantitative and Qualitative Disclosures about Market Risk**

Market risks relating to our operations result primarily from changes in interest rates on outstanding financial debt instruments and changes in foreign currency exchange rates.

**Debt** Our exposure to interest rate risk results from financial debt instruments that we enter. We may also enter into derivative financial instrument transactions, such as swaps, in order to manage or reduce our exposure to interest rate changes related to our indebtedness. However, under no circumstances do we enter into derivative or other financial instrument transactions for speculative purposes. At September 30, 2012 we had no debt borrowings.

**Foreign Currency** A significant portion of our business operations are conducted in various countries in Europe and Asia. As a result, we have a certain degree of market risk with respect to our cash flows due to changes in foreign currency exchange rates when transactions are denominated in currencies other than our functional currency, including inter-company transactions. We may hedge these foreign currency exposures based on our assessment of their significance. As of September 30, 2012 we had not entered into any foreign currency hedges.

A hypothetical 10% adverse change in foreign currency translation rates would result in a reduction of reported net sales of approximately \$60.0 million and a reduction of reported net income before income taxes of approximately \$20.1 million in the nine months ended September 30, 2012. A hypothetical 10% adverse change in foreign currency translation rates would result in a reduction of reported total assets at September 30, 2012 of approximately \$43.7 million. These estimates assume an adverse shift in all foreign currency exchange rates, which do not always move in the same direction; actual results may differ materially.

**Item 4 Controls and Procedures**

Disclosure controls and procedures are designed to ensure that information required to be disclosed in our periodic reports filed or submitted under the Securities Exchange Act of 1934 ("Exchange Act") is recorded, processed, summarized and reported within the required time periods.

As of September 30, 2012, we had carried out an evaluation of our disclosure controls and procedures under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer of the effectiveness of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that such disclosure controls and procedures, as defined in Exchange Act Rules 13a-15(e) and 15d-15(e), are effective in that they are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. We review our disclosure controls and procedures on an ongoing basis and may from time to time make changes aimed at enhancing their effectiveness and to ensure that they evolve with our business.

There have been no changes in our internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f), during the quarter ended September 30, 2012 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q, including the Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward- looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as codified in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended from time to time. The forward-looking statements include comments and predictions regarding future events and our future results that are based on current expectations, estimates, forecasts, and projections about the industries in which we operate and the beliefs and assumptions of our management. Words such as "expect," "anticipate," "estimate," "plan," "intend," "continue," "may," "can," "believe" and similar expressions reflecting something other than historical fact are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. Any statements which refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances are forward-looking statements. Forward-looking statements are not guarantees, but rather are predictions of and make certain assumptions regarding anticipated future results. Achievement of actual results is dependent upon and will involve a variety of risks and uncertainties that could cause actual results to differ materially from assumptions and predictions.

Such risks and uncertainties include, but are not limited to, the risk that the market for the sale of certain products and services may not develop as expected; the impact of competitive products or technologies and competitive pricing pressures; the ability to secure sufficient quantities of components within the time frame necessary to meet our customers' requirements; increases in raw material costs; the ability to resolve contract manufacturer supply chain constraints that have caused an inability to deliver product on time; inventory increases tied to component acquisitions or end product build up based on forecasts that do not materialize in part or in full; delays or cancellations of new product designs by customers; the difficulty of efficiently managing the company's cost structure for capital expenditures, materials and overhead, as well as operating expenses such as wages and benefits due to the vertical integration of the company's manufacturing processes; the ability to achieve and execute upon planned movements of the location of manufacturing of selected products, specifically the achievement of projected manufacturing realignment to, and increase in manufacturing utilization and output in, our various facilities; the ability to implement our plans to improve our operational efficiency; potential business disruptions, including labor unrest, work stoppages, or other short or longer term labor disruptions; the existence or enactment of adverse U.S. and foreign government regulation; the risk that the development of products and services may not proceed as planned; general adverse domestic and international economic conditions including interest rate and currency exchange rate fluctuations; costs involved (i.e. the total amount, and/or the amount incurred in any given quarter) due to attacks and challenges to, or assertions by us of, our intellectual property rights; the ability to attract and retain key personnel; the ability to manage our international operations and currency exchange rate fluctuations relating to transactions or accounts conducted or maintained in currencies other than U.S. dollars; the ability to capture customers in new markets that we are pursuing; market fluctuations or volatility that could cause the trading price of our common stock to decline; and changes in the regulatory environment in which our business operates. Persons reading this Quarterly Report on Form 10-Q are cautioned that such forward-looking statements are only predictions, and actual events or results may differ materially and adversely. In evaluating such statements, readers should specifically consider the various factors which could cause actual events or results to differ materially and adversely from those indicated by such forward-looking statements. For a detailed description of such factors, see "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended January 1, 2012. We undertake no obligation to modify or revise any forward-looking statement to take into account or otherwise reflect subsequent events or circumstances arising after the date that the forward-looking statement was made.

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**PART II OTHER INFORMATION**

**Item 1 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 (parent case). 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 point of load (POL) converters used in IBA power supply systems. On December 21, 2010, a jury verdict in favor of SynQor was returned, 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 United States patents and the decision covers only the sales or uses of infringing products in the United States. On August 17, 2011, final judgment in the amount of approximately \$27 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. The company filed its appeal brief with the Court of Appeals, Federal Circuit (CAFC) on March 20, 2012. Oral argument was heard on October 2, 2012.

Currently all of the asserted claims of the '190 and '021 patent (upon which half of the damages against Power-One are based), have been fully rejected and are now before the Board of Patent Appeals and Interferences ("BPAI"). The initial round of briefing on the appeal of those two patents was completed as of April 2012 and the BPAI heard oral argument on the appeal of the '190 patent on October 17, 2012. In the '702 and '083 reexaminations, actions closing prosecution have been issued in which the asserted claims of the '702 and '083 patents have been rejected. Right of Appeal Notices were issued for the '702 and '803 patents on August 21, 2012 and SynQor has filed its Notice of Appeal. Appeal briefs are due on October 27, 2012 for the '083 patent and on November 21, 2012 for the '702 patent.

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, Inc. has filed a motion to be dismissed from the lawsuit on grounds that all accused products sold by Power-One, Inc. after December 21, 2010, the date of the jury verdict, were sold outside the United States 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. Trial was scheduled to begin on October 15, 2012. On October 2-3, 2012 the parties participated in mediation but were unsuccessful in settling the case. On October 5, 2012 defendants filed a motion to continue the trial pending the CAFC's decision on the appeal of the parent case. On October 12, 2012 the motion was granted. SynQor filed a motion for reconsideration on October 17, 2012.

Including interest, supplemental damages and other items, the Company believes that its maximum exposure related to these matters is \$30.0 million. As of September 30, 2012 the Company accrued \$23.4 million for the SynQor claims, covering what the Company believes to be its probable exposure, including interest and supplemental damages.

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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 1A Risk Factors**

There have been no material changes from the risk factors disclosed in the "Risk Factors" section of our Annual Report on Form 10-K for the fiscal year ended January 1, 2012.

**Item 2 Unregistered Sales of Equity Securities and Use of Proceeds**

On October 23, 2012, the Company received authorization from its Board of Directors to repurchase up to 15 million shares of its outstanding common stock over a three-year period in the open-market or in privately negotiated transactions. This authorization replaces the previous share repurchase program that expired on September 21, 2012.

**Item 6 Exhibits**

**(a) Exhibits**

- 31.1 Rule 13a-14(a) Certification of Principal Executive Officer
  - 31.2 Rule 13a-14(a) Certification of Principal Financial Officer
  - 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of Sarbanes-Oxley Act of 2002
  - 101.INS XBRL Instance Document\*\*
  - 101.SCH XBRL Taxonomy Extension Schema Document\*\*
  - 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document\*\*
  - 101.DEF XBRL Taxonomy Extension Definition Linkbase Document\*\*
  - 101.LAB XBRL Taxonomy Extension Label Linkbase Document\*\*
  - 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document\*\*
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Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under these sections.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: October 26, 2012

POWER-ONE, INC.

By: /s/ GARY R. LARSEN

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*Senior Vice President, Finance, and  
Chief Financial Officer  
(Principal Financial Officer)*

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