POWER ONE INC
Form 10-K
March 16, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2006

or

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

For the transition period from to

Commission File No. 0-29454

POWER-ONE, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**77-0420182**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
740 Calle Plano **Camarillo, California**	**93012**
(Address of principal executive offices)	(Zip code)

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

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

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

Common Stock, $0.001 par value

(Title of class)

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer o Accelerated filer x Non-accelerated filer o

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

Aggregate market value of registrant s common stock held by non-affiliates of the registrant, based upon the closing price of a share of the registrant s common stock on July 2, 2006, as reported by the National Market System of the National Association of Securities Dealers Automated Quotation (NASDAQ) System on that date was approximately $409,157,000

As of March 9, 2007, 86,809,911 shares of the registrant s $0.001 par value common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A and relating to the registrant s Annual Meeting of Stockholders For Fiscal Year 2006, to be held on April 24, 2007, are incorporated by reference into Parts II and III of this Annual Report on Form 10-K.

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Unless the context indicates otherwise, all references herein to Power-One, the Company, we, us, and our refer collectively to Power-One, Inc. and its subsidiaries.

This Annual Report on Form 10-K, including 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 that can be identified by the use of forward-looking terminology such as may, will, can, believe, expect, anticipate, estimate, plan, intend or continue or the negative or other variations of such terms or comparable terminology. We caution that the matters set forth under Risk Factors, constitute cautionary statements identifying important factors with respect to such forward-looking statements, including certain risks and uncertainties that could cause actual results to differ materially from those in such forward-looking statements.

PART I

ITEM 1 BUSINESS

Overview

We are a leading designer and manufacturer of power conversion and power management products, most of which are sold into the communications infrastructure and high technology markets. Our products are used to convert, process and manage electrical energy, in both alternating current (AC) and direct current (DC) form, to the high levels of quality, reliability and precision required by communications infrastructure and other equipment. With hundreds of different standard products and the ability to create custom products, we have one of the most comprehensive product lines in the power conversion and power management industry and are one of just a few companies that can power virtually every component and system of an infrastructure network.

Our power conversion and power management products include:

- 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 AC/DC power supplies that power a wide variety of equipment in the communications, networking, server/storage, computer, instrumentation, industrial, and electronic industries;

- DC power systems that are used by communications and Internet service providers to power 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 Point-of-Load (POL) converters that power devices within an Intermediate Bus Architecture as well as in other applications. Our Z-One® digital power management products fall into the DC/DC converter category.

- A range of other products that include alternative energy (AE) products that convert solar (photo-voltaic) or wind energy into useable AC/DC power, digital control products for motors, and a variety of application-specific specialty power products.

We design our power conversion and power management products primarily to meet the needs of higher-end markets, including manufacturers of communications and server/storage infrastructure equipment; industrial applications; and higher-end consumer and industrial appliances; rather than for use in personal computers, and mobile phones. For high-end manufacturers, a fluctuation of power may cause severe damage to sensitive systems, resulting in data loss, file corruption and significantly reduced productivity. We design our products to take lower-quality power from the electrical grid and convert, process, and purify it to meet the higher quality demanded by communications networks, providing significantly greater protection against power disturbances, fluctuations and outages. In addition, our products compact designs are critical to our customers who need to minimize the space allocated to power conversion products within a system in order to maximize the space available for other components and subsystems. We continually strive to stay ahead of the technology curve to develop innovative products that meet and exceed our customers needs.

While approximately 35.9% of our sales were to our top ten customers in 2006, we sell our products to hundreds of direct customers worldwide. Our largest customer in 2006 was Cisco Systems and its contract manufacturers, which accounted for 12.2% of our sales in 2006 and 15.1% of our sales in both 2005 and 2004. No other customer accounted for more than 10% of our sales during 2006, 2005, and 2004.

In October 2006, we completed the acquisition of Magnetek, Inc. s Power Electronics Group for approximately $69.0 million plus the assumption of approximately $27.8 million in debt. The acquisition added a team of experienced engineers to our employee base, enhanced our custom AC/DC design capabilities, expanded our product portfolio, broadened our customer list, and provided us with a low-cost manufacturing operation in China.

We were originally incorporated in 1973 as a California corporation and re-incorporated in the State of Delaware in January 1, 1996.

Industry Background

The power conversion and power management industry is highly fragmented and diverse. Manufacturers of power conversion and power management products are generally divided into two broad categories: those who sell to third-party customers (merchant) and those who sell for use in-house to other divisions within the manufacturer s own company (captive). We are a merchant power supply manufacturer whose products are sold to third parties.

The communications industry experienced rapid change in the late 1990s through 2000 as deregulation and privatization fueled the entry of new competitors. In addition, advances in technology allowed communications service providers to offer a more varied range of services, and increases in Internet usage and demand for broadband and wireless services contributed to the growth of the communications industry. Because these technological advances required significantly greater and more reliable power, the demand for power conversion and power management products also grew. In 2001, however, the communications infrastructure industry entered into a severe, multi-year downturn that was characterized by delayed network deployments and upgrades by service providers due to lower-than-expected demand for their products and services and a resulting oversupply of capacity and inventory. Due to the downturn, we experienced decreasing sales, price erosion, cancellation of orders, write-offs of excess inventory, restructuring charges and asset impairment charges. In recent years, however, we have experienced revenue growth.

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

Increasing Amounts of Power Required by the Communications Infrastructure Industry. With the development and proliferation of the Internet, wireless communications, broadband applications and other new technologies, recent years have witnessed unprecedented growth in the volume of information being transmitted around the world at any given moment. We believe that this increasing volume will drive demand for larger data processing capabilities among communications infrastructure companies and that increased data processing needs in turn will require increases in power and more demand for power conversion and power management products. Industry sources project that the amount of power required by communications infrastructure equipment manufacturers will grow significantly faster than the demand by other traditional users of power.

Increasing Demand for High Conversion Efficiencies. Recent developments in the European Union (EU), the United States and China to cut energy consumption will increase the demand for digital power. The use of digital control techniques can contribute to improved conversion efficiencies of AC/DC power supplies across a wide range of conditions.

Increasing Demand for High Reliability Power. The nature of power demanded by the digital economy is significantly different from the power provided by the electric utility grid. The electric utility grid supplies acceptable power quality, or power that is free from surges, spikes, or sags, 99.9% of the time, resulting in the equivalent of nine hours per year of interrupted, or unavailable, power. These nine hours of downtime often occur in many isolated interruptions of very short duration. In traditional industries, a

brief interruption of power only interrupts operations for the time that the power is actually unavailable. For a modern communications network, however, even a minor power disturbance or brief interruption could cause equipment to crash and significantly shorten the life-span of electrical components. A network crash could result in several hours of downtime, including the time necessary for complex microprocessor-based equipment to reboot and regain power. This downtime could lead to significant lost revenue and customer dissatisfaction. As a result, modern communications network operators are increasingly requiring significantly more reliable power than that provided by the electric utility grid. We believe this demand will increase as wireless communications, broadband applications and other new technologies became more pervasive in society and as society becomes more dependent on their reliability.

Proliferation of Distributed Power Architecture and Intermediate Bus Architecture, as well as the Trend Toward Power Management Rather than Simple Power Conversion. Traditional power supply architecture uses a single, centralized power supply, which distributes power through a cable of wires to the various individual components and subsystems dispersed throughout a system. Newer communications systems demand increasing amounts of power for semiconductors located throughout their communications equipment. At the same time, newer-generation communications technologies being developed are requiring semiconductors that use lower voltages than previous-generation technologies. In many sophisticated systems, the traditional architecture distributes power too inefficiently to accomplish these goals because as power increases and voltage decreases, the current level increases and therefore the cable thickness increases, often to an unacceptable size.

Distributed Power Architecture, or DPA, is a technology that has been developed to address this technical issue. DPA uses a front-end power supply that converts AC voltage into a high-level DC voltage, typically 48 volts, thus allowing a smaller cable to be used within a system to distribute power and then uses DC/DC brick converters that are placed throughout the system close to the devices that actually use power and reduce the voltage to the precise amount needed by the devices. Furthermore, DPA helps to diversify the risk within a large communications system. While the failure of a traditional centralized power supply could jeopardize the entire system, the failure of a single DC/DC brick converter in a DPA system may only affect those few individual components that it serves. Finally, because there are many DC/DC brick converters within a system, DPA allows for greater flexibility by permitting part of the system to be reconfigured or upgraded without requiring a major change to the overall system.

More recently, a modified version of DPA called Intermediate Bus Architecture, or IBA, has emerged, which addresses the number of different and lower voltages required by different systems. Instead of using multiple DC/DC brick converters that have a typical input of 48 volts and low output voltages of less than 3 volts, the IBA uses a single brick converter with an input of 48 volts and an intermediate output voltage (typically between 12 volts and 3 volts) that is then transmitted to multiple DC/DC Point-of-Load (POL) converters, each of which converts the intermediate voltage to the voltages required by the local devices (typically 3 volts or less). During 2003 we announced our new Silicon Power Systems (SPS) division to focus on the design of highly innovative and efficient silicon-based solutions for next generation DC/DC power management products in the IBA market. We developed our maXyz® product line specifically for the IBA market. In 2004 we introduced our Z-One® digital power management architecture and related products as part of the maXyz product line. We have spent and anticipate spending significant capital on research and development efforts to develop new power conversion technology.

Our Competitive Advantages

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

Broad Product Line. We offer hundreds of products, in power ranging from one watt to a half-megawatt. Our smaller products are no larger than a fingernail, while our larger DC power systems could fill an entire cabinet. With millions of potential current and voltage configurations, our broad product line offers our customers a one stop-shop opportunity, allowing them to purchase nearly all of their power conversion and power management products from a single supplier. As a result, we are one of the few companies that can power virtually every component and system of an infrastructure network.

Leading Design and Development Capabilities. There are a limited number of highly-skilled power engineers in the world, and we believe that we have assembled some of the most capable and innovative of such engineers through our hiring efforts and through strategic acquisitions, including our October 2006 acquisition of Magnetek, Inc. s Power Electronics Group. Furthermore, we have been effective at maintaining a high retention rate among our technical staff. This team of engineering talent has allowed us to consistently upgrade to new generations of power conversion and power management products, each of which has outperformed prior products with higher power density and smaller size. It has also allowed us to become a leader in the implementation of DPA technology, and we expect to achieve a similar leading position in IBA technology. We believe that our Z-One digital power management architecture has created a first-to-market competitive advantage for us, although certain of our competitors are working to develop similar or competing products and to promote such products via a competing strategic alliance and open-standards consortium. We have been diligent in seeking to secure patent and other intellectual property rights for the technology that we have developed and implemented in our Z-One digital power management architecture and products, and we have also been diligent in protecting those rights. We are currently involved in patent infringement litigation against one company that has announced and introduced products that we believe infringe upon certain of our intellectual property rights as secured in certain U.S. patents issued to us.

Reputation for Quality and Reliability. We have been in the power conversion and power management product industry since 1973. By establishing rigorous internal quality control programs, we believe that we have been able to provide our customers with products that are highly reliable. This is particularly important for manufacturers of infrastructure equipment. As a result, we established a strong customer base that includes many of the largest manufacturers in the communications infrastructure industry. Although power conversion products typically represent only 2% to 5% of the cost of an entire network, their failure can cripple the entire system in which they are installed. Consequently, we believe most customers are not willing to risk buying from an unproven supplier in an effort to cut costs in this area.

Changing Customer Needs. Manufacturers and service providers are facing greater competition to accelerate the time-to-market for their new products and are increasingly expected to produce newer generations of products in a shorter period of time. As a result, they are more likely to purchase from suppliers who can offer a broad range of standardized power conversion products, rather than highly customized products that take more time to design and manufacture. Manufacturers of communications infrastructure equipment are also focusing more on their core competencies and therefore increasingly are outsourcing the manufacture of power conversion and power management products to more efficient suppliers. Consequently, these customers are moving towards sourcing from the limited number of suppliers who can meet all of these needs.

Our Strategy: Powering the High Technology and Communications Markets

Our primary objective is to become one of the worldwide leaders in power conversion and power management equipment for the global communications and high technology equipment markets. To achieve this objective, we plan to do the following:

Expand Product Lines, Including DPA and IBA Products. We provide one of the most comprehensive lines of power conversion and power management products, including DPA and IBA products. Our products are increasingly being designed into infrastructure equipment. We believe that we have good relationships with our customers, including leading infrastructure equipment manufacturers, and through these relationships we can work with our customers to understand their changing product needs in order to proactively develop leading technology products for them. We intend to continue our extensive research and development program to improve our products performance and expand the breadth of our product offerings. Our Z-One digital power management products play a key role in this strategy.

Continue to Cross-Sell Products on a Global Basis. We expanded the geographic reach of our business into Europe and Asia through internal efforts and through a series of strategic acquisitions from 1998 through 2006. We believe we have substantial opportunities to market products developed in one region to customers located in other regions and to market products to customers who had previously purchased only a single line or family of products from us but who have increasing needs for other products that we develop.

Continue to Acquire and Invest in Strategic Businesses and Technologies. We plan to selectively acquire and invest in businesses and technologies that can extend our geographic reach, increase the breadth of our product line, enhance the performance of our products, lower our manufacturing costs or expand our customer base in the communications infrastructure equipment market. We believe the fragmentation of the power conversion and power management product industry presents opportunities for further consolidation. In addition, we are investing aggressively in research and development initiatives to create next-generation power conversion and power management products and continuing to invest in advanced technologies to enable significantly smaller DC/DC power converter products, higher efficiencies in these products, and better performance by them in controlling and managing power on communications-oriented printed circuit boards. We continue to earmark a significant portion of our overall research and development budget to develop this technology.

In 2004, we introduced our Z-One digital power management architecture and released products designed using this architecture. We believe that these products integrate conversion, communications, and control for a digital board-level solution in a significantly enhanced manner over traditional power supplies. Features of this architecture and the related Z-7000 product line include the ability to fully manage up to 32 POL DC/DC converters with a single-wire digital bus. It also provides a significant reduction in printed circuit board space, design time and number of components, which in turn can lead to cost savings.

In 2005, we introduced our Z-1000 product line, which includes power conversion and power management products that contain many, but not all, of the same features as the Z-7000 products, and we market the Z-1000 products for customers mid-range applications.

In 2006, we redesigned our products in such a way that allowed the circuit board to be one-sixth the size of its predecessor, and we further increased the capability of the system by adding functionality that allows the control of devices manufactured by third parties. This provides the ability of the Z-One architecture to integrate with existing analog systems to provide customers with more flexibility and further enables adoption to a broader range of customers and applications.

Our Products

We design, develop, manufacture and market power conversion and power management products. All of our products are designed to convert, regulate, purify, store, manage or distribute electrical power for electronic equipment but power conversion products generally convert one voltage into another voltage, whether AC-to-DC or DC-to-DC, while power management products generally manage multiple voltages and provide other functionality.

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

We operate in an industry where quantity discounts, price erosion (and corresponding decreases in revenues and margins), and product obsolescence due to technological improvements are normal. While we see price erosion on most of the products we sell, we also have seen a smaller price erosion on many of the components we purchase for inclusion in our products, thereby decreasing our costs. Product obsolescence refers to the tendency of small and less expensive products to replace larger and more expensive products. For example, the functions of a full-size DC/DC brick converter were replaced by a half-brick, which was subsequently replaced by a quarter brick and then a 1/8th-brick, and this will eventually be replaced by a 1/16th-brick or even smaller product. Each successive product is smaller and somewhat less costly than its predecessor but has usually retained or expanded the functionality of its predecessor. Sales of each successor product typically replace sales of the predecessor product, making the predecessor product obsolete. These phenomena are normal in our industry, and we have experienced price erosion and product obsolescence in line with industry trends. Price erosion and product obsolescence may continue to negatively impact gross margins and result in inventory write-offs. Price erosion may also mask increases in unit sales (as opposed to revenues) of certain products.

Our products can be classified into the following main groups: AC/DC power supplies, DC/DC converters, DC power systems, alternative energy (AE), and a category of other products, including smart motor control. Our Z-One silicon board power management products fall into the DC/DC converter category. These categories can be distinguished based on their location within a system, size and function.

AC/DC power supplies:

- are typically embedded within the equipment that they are powering;
- range in size from a small paperback book to a desktop computer;
- may be standard, modified-standard or custom designed;
- convert AC voltage, from a primary power source such as a wall outlet, into DC voltage; and
- are used primarily in networking systems, large scale data processors and industrial equipment.

DC/DC converters (Bricks) and POL converters:

- are embedded within the equipment that they are powering and are generally mounted directly on a printed circuit board within the equipment;

- bricks range in size from an AA battery to a portable CD player, while POL converters may be silicon-based and range in size from a fingernail to a small matchbox;

- modify an existing DC voltage level to a different DC voltage level;

- are the cornerstone of DPA and IBA technology; and

- are used by our customers primarily to power communications infrastructure equipment, although their usage is expanding to other markets including server and storage.

DC power systems:

- can be either stand-alone units that are external to the equipment or sub-systems (commonly called racks) that are integrated into a system;

- range in size from a shelf of integrated modules to large-scale systems that can fill entire cabinets;

- convert AC voltage into DC voltage and, together with a generator or an array of batteries, provide several hours of additional power capacity in the event of an AC input disturbance or power outage; and

- are used primarily to power communications networks and cellular communications systems.

Smart motor control and other products:

- are used primarily in sophisticated appliances, such as high-end clothes washers and dryers, and air conditioners, where energy efficiency is very important; and

- are generally board-level products or modules that are incorporated by the manufacturer in their system.

Alternative energy (AE) products:

- are generally stand-alone units that are sometimes called inverters. These products are DC-to-AC converters that convert DC voltage from either solar, wind, or fuel cells into useable AC power.

- range in size from a briefcase to a small file cabinet.

We organize these products into two product lines, referred to as embedded products and power systems. Embedded products include AC/DC power supplies, DC/DC converters (including brick converters and POL converters), alternative energy, and smart motor control products. Power systems products include DC power systems.

Division Structure

Prior to 2005, we had four divisions: the Compact Advanced Power Systems (CAPS) division, the Energy Solutions (ES) division, the Silicon Power Systems (SPS) division and di/dt. In 2005, we restructured and integrated most of our operations into a single integrated business. The most significant components of the restructuring involved the elimination of most of the DC power systems operations in Norway through their integration into our other existing locations and the elimination of certain manufacturing operations in North America through their transfer to our other existing locations or to contract manufacturers. Our SPS group is focused on developing next-generation silicon-based digital power management products for our Z-One digital power management architecture. We intend to fully integrate the Power Electronics Group that we acquired from Magnetek, Inc. in October 2006 into our existing business and not operate it as a separate division.

Customers

We sell our power conversion and power management products to a diversified group of hundreds of equipment manufacturers, including contract manufacturers. Cisco Systems and its contract manufacturers accounted for 12.2% of our sales in 2006, 15.1% of our sales in 2005, and 15.1% of our sales in 2004. Cisco Systems and its contract manufacturers collectively were the only customers to account for more than 10% of our sales during these periods.

Our top 10 customers accounted for approximately 35.9% of net sales in 2006, 36.2% of net sales in 2005 and 38.4% of net sales in 2004. Although our sales are diversified across many markets, our strategy has been to focus our efforts on the communications infrastructure equipment and other high technology markets because the quality, reliability and precision of our products make them particularly suitable for these markets and because of the higher long-term growth we believe these markets will experience. The following table illustrates the percentage of our net sales in our primary markets:

	Year Ended December 31,	
	2006	2005
Communications	59 %	61 %
Instrumentation and Industrial	27 %	30 %
Server, Storage and Computer	7 %	3 %
Other	7 %	6 %
Total	100 %	100 %

Our customers are located throughout the world, and the following table summarizes our revenues in different geographic locations for our two product lines (in millions):

	Years Ended December 31,								
	2006			2005			2004		
	Embedded products	Power systems	Total	Embedded products	Power systems	Total	Embedded products	Power systems	Total
Revenues:(a)									
North America	$ 109.0	$ 12.7	$ 121.7	$ 91.8	$ 14.9	$ 106.7	$ 112.5	$ 20.3	$ 132.8
European countries	74.5	54.2	128.7	50.1	43.5	93.6	55.3	41.8	97.1
Malaysia	30.3	0.9	31.2	25.5	1.0	26.5	19.5	1.3	20.8
Other Asian countries	32.7	18.4	51.1	18.9	11.0	29.9	12.8	11.6	24.4
Other	0.5	4.8	5.3	0.2	4.7	4.9	0.1	5.1	5.2
Total	$ 247.0	$ 91.0	$ 338.0	$ 186.5	$ 75.1	$ 261.6	$ 200.2	$ 80.1	$ 280.3

(a) Revenues are attributable to countries based on location of customer.

Long-lived Assets

The following is a summary of our long-lived assets by geographical locations, in millions:

	December 31, 2006	2005
Long-Lived Assets:		
United States	$ 48.1	$ 51.4
Italy	47.9	
Switzerland	14.5	14.2
Dominican Republic	14.0	15.8
China	9.4	1.0
Slovakia	7.2	5.0
Other foreign countries	5.8	2.8
Total	$ 146.9	$ 90.2

Sales and Marketing

We market our products through a global sales force. We have direct sales offices in Europe, North America, Asia, Middle East, South America, and Australia. These direct sales offices are augmented by an extensive network of manufacturers representatives and distributors.

Our direct sales force is typically oriented towards customers that have the potential to purchase large volumes of our products, generally several million dollars or more annually. Our direct sales force works closely with existing and potential customers to determine their long-term technology requirements for power conversion products. This close collaboration allows us to design products that best fit our customers expected applications. We expect that our direct sales to strategic accounts will increase in the future as we increasingly focus on sales to these customers.

Research, Development and Engineering

Worldwide we have 458 employees in our research and development departments of which 182 are engineers. We spent approximately $21.7 million on research and development (R&D) in 2006, approximately $22.0 million in 2005 and approximately $29.4 million in 2004. During 2006, we shifted our R&D operations toward lower-cost locations, thereby significantly reducing R&D costs with only a modest decrease in R&D resources. We have established engineering and design centers in areas that are strategically located for servicing our customers and where we have strong access to technical talent. Our four engineering and design centers in the United States are located in Andover, Massachusetts and Camarillo, Carlsbad, and Morgan Hill, California. We also have engineering and design centers in Santo Domingo, Dominican Republic; Uster, Switzerland; Dubnica, Slovakia; Tuscany, Italy; Shenzhen, China and Limerick, Ireland. Additionally, we have engineering staff on site in each of our manufacturing facilities. Finally, we have engineering teams at each of our power plant system integration facilities to enable more efficient customization of our system configurations for our customers.

Manufacturing Process and Quality Control

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

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

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

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

We have manufacturing operations in the United States, Dominican Republic, Slovakia, Italy, China, and Hungary; and we expect that for 2007 we will manufacture and assemble approximately 70% of our products at our facilities in the Dominican Republic, China, Italy, and Slovakia. Production of our silicon-based products is outsourced to contract manufacturers in North America and in Asia. All of our manufacturing facilities are ISO certified. In our global operations, we currently have an aggregate of approximately 630,000 square feet of manufacturing space. In addition to our own facilities, we utilize low-cost contract manufacturing in several locations around the world, although most of our subcontractors are located in Asia.

Suppliers

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

We occasionally use components or other materials for which a single supplier is the only source of supply. We may seek to establish long-term relationships with such suppliers. We have volume purchase agreements with certain suppliers of key items. This practice enables us to maintain a more constant source for required supplies and produce cost savings through volume purchase discounts.

Backlog

We generally sell our products pursuant to purchase orders rather than long-term contracts. Backlog consists of purchase orders on-hand having delivery dates scheduled within the next six months. Customers may cancel or reschedule most deliveries without penalty. We do not maintain long-term contracts with our customers and they are free to cancel or modify their orders. We also derive a significant portion of our revenues from turns business (that is, revenues from orders that are booked and shipped within the same reporting period and that therefore do not appear as backlog at the end of a reporting period). In addition, customers on our Vendor Managed Inventory (VMI) programs exercise discretion as to the timing of inventory consumption. When customers adopt our VMI program, they no longer place orders with us and instead use an automated forecasting model. We then manufacture products for the customer based on its forecast, and the customer uses the inventory as needed. As a result, under a VMI program, the booking and billing occur simultaneously upon use of the product, and therefore there is always a book-to-bill ratio of 1.0 for these programs. We may bring additional VMI programs on-line in the future, which would result in higher turns business, lower book-to-bill ratio, and higher finished goods inventory. As such, we believe that backlog may not necessarily be a reliable indicator of future results.

Competition

The power conversion and power management industry is highly fragmented and characterized by intense competition. No single company dominates the overall market, and our competitors vary depending upon the specific type of products they produce. We believe that the principal bases of competition in our targeted markets are breadth of product line, stability and reputation of the provider, along with cost. Our main competition includes companies located throughout the world, including Emerson Electric, C&D Technologies, Delta Electronics, Eltek and a division of Tyco International.

Intellectual Property Matters

We consider our intellectual property to be very important and valuable, and we have made intellectual property protection a key element of our overall business strategy. We rely on a combination of patent, trade secret and other intellectual property laws, confidentiality agreements executed by most of our exempt employees and other measures to protect our proprietary rights. We currently maintain 116 active U.S. patents, many of which are protected by corresponding foreign patents in selected jurisdictions. Additional U.S. and foreign patent applications are pending. We hold 18 U.S. registered trademarks with additional trademark applications pending, and we claim common law trademark rights to additional marks. We consider our intellectual property in the area of digital power management and control, including trademarks and patents that we have secured and are continuing to seek in that area, to be of particular importance and strategic significance. These particular patents have all been issued since 2004 and have patent terms extending for approximately 20 years from date of grant.

Employees

At December 31, 2006, we employed 4,167 employees at our facilities in the following functions:

Function	Number of Employees
Manufacturing	3,037
Engineering	458
General and administrative	291
Sales and marketing	187
Quality assurance	194
Total	4,167

We believe that our continued success depends, in part, on our ability to attract and retain qualified personnel. We consider our relations with our employees to be good.

Company Website, Corporate Governance Website and Access to Company Filings

We post all of our periodic reports on Form 10-K and 10-Q, current reports on Form 8-K, and amendments to these reports filed or furnished pursuant to the Securities Exchange Act of 1934 on our website at *www.power-one.com* as soon as reasonably practicable after we file or furnish the reports with the Securities and Exchange Commission. Access to these reports is free of charge. In addition, we maintain a Corporate Governance section on our Website to provide the investor community with easy access to relevant information about our corporate governance. The public may read and copy any materials that we file with the SEC at the SEC s Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549, and the public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at *http://www.sec.gov.*

EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below is certain information concerning our executive officers.

Name	Age(1)	Position
Steven J. Goldman	49	Chairman of the Board
William T. Yeates	46	Chief Executive Officer
Brad W. Godfrey	47	President and Chief Operating Officer
Paul E. Ross	33	Vice President Finance, Treasurer and Chief Financial Officer
Randall H. Holliday	57	Secretary and General Counsel

(1) As of March 16, 2007

Steven J. Goldman. Mr. Goldman, our Chairman of the Board, joined Power-One in 1982 and has held several positions with us, including Vice President of Engineering, Senior Vice President and Chief Financial Officer. In July 1990, Mr. Goldman was selected by the Board of Directors as our President and CEO and served in these positions until February 2006. He was named Chairman of the Board in 1997. Mr. Goldman received his B.S. Degree in Electrical Engineering from the University of Bridgeport in 1979. He is a 1989 graduate of the Pepperdine University Presidential and Key Executive MBA Program, and in 1999 he was recognized by Pepperdine as a Distinguished Alumnus of the Graziado School. Mr. Goldman is a contributing member of the San Fernando Valley Chapter of the Young Presidents Organization.

William T. Yeates. Mr. Yeates joined us in January 2000 and served as our President and Chief Operating Officer until February 2006 when he was appointed our Chief Executive Officer. Before joining us, Mr. Yeates held various positions of increasing responsibility at Lucent Technologies, including Vice President and General Manager of the Titania Power Division. He received his B.S. degree in Electrical Engineering and his M.B.A degree in Finance from Louisiana Tech University.

Brad W. Godfrey. Mr. Godfrey, who joined us in 1988, was appointed President and Chief Operating Officer in February 2006. During his tenure with us, he has held a variety of positions of increasing responsibility and scope within the Company, including Senior Vice President Global Operations. He served as the CAPS Division President from July 2003 until February 2006.

Paul E. Ross. Mr. Ross, who joined us in April 2001, was appointed Vice President Finance in January 2005, and Treasurer and Chief Financial Officer in May 2005. Prior to that, he served as Assistant Treasurer from May 2004 until May 2005. Prior to joining the Company, Mr. Ross was employed with British Petroleum, Los Angeles. Mr. Ross is a CPA and holds a B.A. degree from the University of California, Los Angeles, and an M.B.A. degree from the University of Southern California. On February 12, 2007, Mr. Ross advised the Company that he will resign from the Company at a date to be determined by mutual agreement with the Company. As previously announced, the Company has appointed Mr. Jeffrey J. Kyle to succeed Mr. Ross as the Company s principal financial officer. Mr. Kyle will officially assume the position and duties as the Company s principal financial officer upon the departure of Mr. Ross.

Randall H. Holliday. Mr. Holliday joined us in 2000 as General Counsel and was appointed Secretary in 2001. Before joining us, Mr. Holliday served as Secretary and General Counsel of Xircom, Inc. He has held a variety of in-house legal positions in diverse industries since 1981. Mr. Holliday received his J.D. degree in 1974 from Florida State University, Tallahassee, FL.

Our officers serve at the discretion of the Board.

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ITEM 1A RISK FACTORS

Changes in demand or downturns in the volatile and cyclical communications infrastructure and server/storage industries could affect our business and profitability.

A majority of our sales in the past five years have been to companies in the communications infrastructure industry. We expect our sales to communications infrastructure companies to continue to be significant in the future, and we are also pursuing customers in other industries, including the server/storage industry. All of these industries are highly cyclical and experience downturns. We have experienced such downturns in the past, and we cannot predict when we may experience such downturns in the future. These industries also experience volatility, and future volatility as well as downturns in any of these industries, or any failure of these industries to recover from downturns, could materially harm our business and profitability.

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

We operate in an industry that is generally characterized by intense competition. We believe that the principal bases of competition in our markets are breadth of product line, stability and reputation of the provider, along with cost. Quantity discounts, price erosion, and rapid product obsolescence due to technological improvements are therefore common in our industry as competitors strive to retain or expand market share. Product obsolescence can lead to increases in unsaleable inventory that may need to be written off and therefore could reduce our profitability. Similarly, price erosion can reduce our profitability by decreasing our revenues and our gross margins. In fact, we have seen price erosion over the last several years on most of the products we sell, and we have factored additional price erosion into our forecasts.

Our inventory levels may be too high or too low, reducing our profitability.

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

We may choose to mitigate this risk by purchasing and maintaining higher inventory levels in order to better meet our customers needs during these periods of growth and high demand. However, increased inventory levels could lead to increases in excess and obsolete inventory if these periods of high demand do not materialize or if there are unexpected changes to our product mix or our forecasts are otherwise inaccurate. Historically, we have had write-offs of excess and obsolete inventory which negatively impacted our results of operations. In the future, excess or obsolete inventory may need to be written-off, and this in turn could reduce our profitability.

Failure to anticipate trends in the mix of power conversion products that our customers will demand may adversely affect our business.

Because we have many customers in the communications infrastructure industry, the factors and economic trends that affect these companies also affect our business. The communications infrastructure industry has experienced rapid change in recent years. With advances in technology, communications service providers offer a more varied range of services. Increasing usage of the Internet as well as demand for broadband and wireless services all contributed to the growth of the communications infrastructure industry. Because resulting technological advances required significantly greater and more reliable power, the demand for newer generation power conversion and power management products has also grown. To respond to the needs of our customers in the communications infrastructure industry, we must continuously develop new and more advanced products at lower prices. We have made and will continue to make significant investments in next generation technologies, but there can be no assurance that the resulting products will be successful or that we will recoup our research and developments costs through increased sales.

During 2003, we announced the creation of a new division dedicated to developing next-generation DC/DC products, and this division launched its first major digital power management products during 2004. Many of these new products are based on silicon technology, which may expose us to new and unfamiliar competitors. We also have limited experience in the semiconductor industry. While we believe that our technology is ahead of our competitors, and is protected by adequate intellectual property rights, some of our traditional competitors have formed a consortium with other power supply and semiconductor technology companies to address the same market as we are seeking to address. This consortium has created doubt about our technology and products in the marketplace. In addition, although we have licensed our technology to other companies in order to address customers second source concerns, there can be no assurance that sufficient quantities of our products will be available. The market may not accept our technology or adoption rates have been and may continue to be slower than expected. Our inability to properly assess developments in the communications infrastructure industry or to anticipate the needs of our customers could cause us to lose some or all of these customers, prevent us from obtaining new customers, or cause us to record substantial write-offs.

Vendor managed inventory programs give rise to variability in our revenue and operating results.

Certain significant customers are on vendor managed inventory, or VMI, programs. For VMI programs, we build product to the customer s forecasts and the inventory is physically located at a site controlled by the customer, but the sale of product does not occur until the customer uses the inventory. We therefore cannot predict when the sale may occur, and this in turn may result in variability in our net sales and operating results and higher inventory balances.

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

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

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

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

Historically, a few customers accounted for a material portion of our net sales each year. Cisco Systems and its contract manufacturers represented approximately 12% and 15% of our net sales in 2006 and 2005, respectively. For 2006 and 2005, our top five original equipment manufacturers customers accounted for approximately 27% and 28% of our net sales, respectively. If we lose any of these key customers, if any of them reduces or cancels a significant order, if any of them experiences significant financial or other failures, or if our product mix changes significantly in favor of products that have lower gross margins, our net sales and operating results could decrease significantly.

Interruptions in manufacturing of our products may impair our business and profitability.

We manufacture products at various facilities around the world. Any disruption of operations at those facilities, including through natural disaster, terrorist attack, labor strike or work stoppage, or other events that may be outside of our control, could hurt our business and profitability.

In addition, some of our products are manufactured, assembled and tested by third party subcontractors and contract manufacturers located in Asia. While we have had relationships with many of these third parties in the past, we cannot predict how or whether these relationships will continue in the future. In addition, changes in management, financial viability, manufacturing demand or capacity, or other factors at these third parties could hurt our ability to have our products manufactured. Furthermore, due to the amount of time often required to qualify manufacturers, assemblers and testers, both on our part and by certain customers of ours, we could experience delays in the shipment of our products to customers and distributors if we are forced to find alternative third parties to manufacture, assemble or test products. These delays could adversely affect our business and profitability.

Environmental, health and safety laws may restrict our operations.

We are subject to local laws and regulations in various regions in which we operate, including for example the United States, the European Union (EU) and China. There are certain risks we face in complying with, or seeking to conduct our business in connection with various local laws and regulations, including directives like Restriction of Certain Hazardous Substances Directive (RoHS) and Waste Electrical and Electronic Equipment Directive (WEEE) that were issued by the EU, and Management Measures on Electronic Information Product Pollution Control issued by China. We believe we are in compliance with the existing directives, however the authorities have the ability to review and challenge our compliance which could result in additional costs. We face risks that our products may not be compliant with any new directives, which may result in reduced sales and also in additional excess and obsolete inventory risk related to non-compliant inventory that we may continue to hold for which there is reduced demand and that we may need to write down. Costs of compliance with environmental, health and safety laws may also have a material adverse impact on our net sales and operating results.

We are subject to credit risks.

Some of our customers have experienced and may continue to experience financial difficulties and/or have failed to meet their financial obligations to us. As a result, we have incurred charges for bad debt provisions related to certain trade receivables. In certain cases where our end-customers utilize contract manufacturers or distributors, our accounts receivable risk may lie with the contract manufacturer or

distributor and may not be guaranteed by the end-customer. If there are additional failures of our customers to meet their receivables obligations to us, or if the assumptions underlying our recorded bad debt provisions with respect to receivables obligations do not materially reflect our customers financial conditions and payment levels, we could incur additional write-offs of receivables in excess of our provisions, which could have a material adverse effect on our cash flow and operating results.

We face, and might in the future face, intellectual property infringement claims that might be costly to resolve.

We have from time to time received, and may in the future receive, communications from third parties asserting patent or other intellectual property rights that are alleged to cover our products, some of which in the past have resulted in litigation. If we do not prevail in any such litigation, our business may be adversely affected.

In addition, our industry is characterized by uncertain and conflicting intellectual property claims and vigorous protection and pursuit of intellectual property rights or positions, which have on occasion resulted in significant and often protracted and expensive litigation. We cannot assure that intellectual property claims will not be made against us in the future or that we will not be prohibited from using our technologies subject to any such claims or that we will not be required to obtain licenses and make corresponding royalty payments. In addition, the necessary management attention diverted to litigation, along with the associated legal costs, could have a significant adverse effect on operating results.

Actions by our competitors and by foreign governments could undermine our intellectual property rights, which in turn could adversely affect our results.

We rely upon a combination of patents, trademarks, contractual provisions and trade secret laws to protect our proprietary rights in certain of our products. Our competitors may, however, misappropriate our technology or independently develop technologies that are as good as, or better than, ours. Additionally, the laws of some foreign countries do not protect our proprietary rights as much as U.S. laws do. We currently own patents and continue to apply for additional patents, but the U.S. Patent and Trademark Office may reject some or all of our patent applications. The patents that the U.S. government issues to us may not provide us with a competitive advantage or create a sufficiently broad claim to protect the technology that we develop.

Our competitors may challenge or circumvent our patents, and some of our patents may be invalidated. Litigation may be necessary to enforce our patents and other intellectual property rights, to protect our trade secrets, to determine the validity of and scope of the proprietary rights of others or to defend against claims of infringement or invalidity. Litigation could result in substantial costs and diversion of resources and could have a significant adverse effect on operating results.

During 2005 we initiated legal proceedings against two companies whom we believe have infringed on some of our patents in the area of digital power management. One of these cases settled in July 2006. While we believe our ongoing case is strong, there can be no assurance that the judicial system will uphold our patents, or will find that our patent(s) have been infringed. We may incur significant costs in the current proceeding protecting our technology though the judicial system, which costs may not be recouped through damages awards, settlements, royalties or other payments.

Additionally, we may bring suit against additional companies in the future whom we believe violate our intellectual property, further increasing our costs. In addition, competitors (either individually, or via alliance-type arrangements) may release infringing product(s) prior to any court ruling or other judicial action which upholds or supports our intellectual property rights, with the goal of securing market share with competing product. Significant costs associated with litigation, slower-than-expected adoption rates of

our new product, and competitor introductions of competing product could individually or in combination have a material adverse impact on our operating results.

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

We have recently completed our acquisition of the Power Electronics Group of Magnetek, Inc., and we may in the future continue to pursue acquisitions and disposals of businesses, products and technologies, or enter into joint ventures and equity investment arrangements, that could complement or otherwise enhance our business. The negotiation of potential acquisitions, divestitures, joint ventures or investments could require us to incur significant costs and cause diversion of management s time and resources for which economic and opportunity costs cannot be recouped if the transactions do not occur. Future transactions by us could result in the following consequences:

- dilutive issuances of equity securities to finance the acquisition or other transaction, and, furthermore, these equity securities may have rights, preferences, and privileges that are senior to our outstanding common stock;

- incurrence of debt to finance the acquisition or other transactions and contingent liabilities as a result of the transaction;

- impairment of tangible and intangible assets;

- research and development write-offs; and

- other acquisition-related expenses.

We may also encounter difficulties in integrating acquired businesses and assets with our operations. For example, some acquisitions, including our recently completed acquisition of the Power Electronics Group of Magnetek, Inc., include business operations located in various countries around the world, and integrating such geographically dispersed businesses presents additional communications, management, logistics, and cultural challenges. In addition, newly acquired assets or operations may include new businesses or legacy product lines with which we have minimal or no prior experience. For example, through our recently completed acquisition of the Power Electronics Group of Magnetek, Inc., we acquired product lines relating to alternative energy (e.g. solar power) and intelligent motor drives and controls, although we had no such lines of products before the acquisition. Our management may need to spend resources gaining the experience to integrate these businesses and product lines with our existing ones.

Furthermore, we may not realize the benefits we anticipated when entering into these transactions, including our recently completed acquisition of the Power Electronics Group of Magnetek, Inc. In addition, after we complete an acquisition, our management must be able to assume significantly greater responsibilities, and this in turn may cause them to divert their attention from our existing operations. Any of the foregoing could hurt our financial position and results of operations.

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

If we lose certain members of our senior management, our operations may be disrupted and our operating results could be adversely affected. In addition, our capacity to develop and implement new technologies depends on our ability to employ personnel with highly technical skills. Competition for such qualified technical personnel is intense due to the relatively limited number of power supply engineers worldwide, and we believe that this supply will remain constrained because of the limited number of

engineering students concentrating on power conversion. If we cannot attract and retain key technical personnel, our technical expertise may suffer, and our operating results could be adversely affected.

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

We generate a significant percentage of our revenue internationally through sales offices located throughout Europe and Asia, and many of our operations, including those of the recently acquired Power Electronics Group of Magnetek, Inc., are located outside of the United States. For example, manufacturing is performed in our own facilities in the Dominican Republic, China, and Slovakia, and at contract manufacturers in Asia. With the acquisition of the Power Electronics Group, we have recently added manufacturing facilities in Italy, China, and Hungary. We expect to continue to build, acquire or move operations overseas, and there are inherent risks from operating overseas that may impact our business. For example, we face risks that the countries in which we conduct business or in which we have customers, suppliers, or contract manufacturers could:

- Experience financial, economic or political instability;
- Have an undeveloped rule of law or judicial system making the enforcement of our contractual or other legal rights and remedies difficult or uncertain;
- Provide inadequate intellectual property protection for our technology;
- Impose restrictions on the export or import of technology that would affect our ability to obtain supplies from, or sell products into, such countries;
- Impose tariffs, quotas, taxes, other market barriers; or
- Impose other laws, regulations or policies adversely affecting trade, investment or taxes, including those relating to the repatriation of funds.

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

- Currency risk, since we increasingly receive payments and purchase components in foreign currencies, and we have historically not engaged in foreign currency hedging activities;
- Compliance with laws and regulations in various regions in which we operate, including the Electrical and Electronic Equipment Directive (WEEE) and Restriction of Certain Hazardous Substances Directive (RoHS) set forth by the European Union during 2005 and 2006, respectively;
- Greater difficulty and longer delays in collecting accounts receivable from international customers; and
- Increased challenges on management associated with overseeing operations that are geographically dispersed across Europe and Asia, particularly in countries where we have not historically done business and where we therefore may not be familiar with laws, regulations and business practices.

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

We are pursuing customers in new markets, most notably for our digital power management products and in the server/storage industry. While we have secured design wins from significant players in this industry in the past, there can be no assurance that these design wins will turn into revenue in the quantity or timeframe projected. We have made investments in our infrastructure, increased our operating costs and have forgone other business opportunities in order to service these new potentially significant customers. Failure of these design wins to translate into revenue in the quantities or timeline projected could have a materially adverse impact on our revenue and operating results.

Our charter contains provisions that may hinder or prevent a change in control of our company.

Certain provisions of our Certificate of Incorporation could make it difficult for a third party to obtain control of us, even if such a change in control would benefit our stockholders. Stockholders must inform our corporate secretary before a stockholders meeting of any business they wish to discuss and any directors they wish to nominate. Our Certificate of Incorporation also requires approval of 75% of our voting stock to amend certain provisions. Subject to the rules of the NASDAQ Global Market, our Board of Directors may also be able to issue preferred stock without stockholder approval. Stockholder rights could be adversely affected by the rights of holders of preferred stock that we issue in the future. Finally, we have a stockholder rights plan that allows our stockholders to purchase preferred stock at a reduced price if certain parties attempt to acquire a substantial interest in us without the approval of our Board of Directors. Any one of the provisions discussed above could discourage third parties from obtaining control of us. Such provisions may also impede a transaction in which our stockholders could receive a premium over then-current market prices and our stockholders ability to approve transactions that they consider in their best interests.

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

The stock market in general and the market for stocks of power conversion and power management companies in particular have experienced price and volume fluctuations, often unrelated to the operating performance of the affected companies. We believe that, in the past, similar levels of volatility have contributed to the decline in the trading price of our common stock, and such volatility may do so again in the future. Trading volumes of our common stock can increase dramatically, resulting in a volatile trading price for our common stock. In addition, the trading price of our common stock could decline significantly as a result of sales of substantial number of shares of our common stock, or the perception that significant sales could occur. In the past, securities class action litigation has been brought against companies that experienced volatility in the trading price of their securities.

We are subject to internal control evaluations and attestation requirements of Section 404 of the Sarbanes-Oxley Act.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we must include in our Annual Report on Form 10-K a report of management effectiveness of our internal control over financial reporting and an attestation by our independent registered public accounting firm on the adequacy of management s assessment of our internal control over financial reporting. Ongoing compliance with these requirements is complex, costly and time-consuming. We may be subject to regulatory sanctions and our reputation may decline if we fail to maintain effective internal control over financial reporting, if our management does not timely assess the adequacy of such internal control, or if our independent registered public accounting firm does not timely attest to the evaluation.

ITEM 1B UNRESOLVED STAFF COMMENTS

None.

ITEM 2 PROPERTIES

The table below lists our principal facilities currently in operation.

Location	Approximate Size (square feet)	Employees	Primary Activity
Camarillo, California	100,000	120	Administration, R&D, Warehousing, Marketing and Sales
Santo Domingo, Dominican Republic	192,000	1,470	Administration, Manufacturing and Assembly, Warehousing, R&D
Dubnica Nad Vahom, Slovakia	245,000	780	Administration, Manufacturing and Systems Integration, Warehousing, R&D
Valdarno, Italy	170,000	550	Administration, Manufacturing and Assembly, Warehousing, R&D, Marketing and Sales
Baoan, China	245,000	610	Administration, Manufacturing and Assembly, Warehousing, Marketing and Sales
Shenzhen, China	145,000	150	Administration, Manufacturing and Assembly, Warehousing, Marketing and Sales
Hungary	30,000	80	Manufacturing and Assembly, and Warehousing

We believe that the facilities we now use are adequate for our current and anticipated operating needs. We own facilities in Italy, Slovakia and Switzerland. We lease the remainder of our facilities pursuant to lease agreements with expiration dates through 2014 in North America and in Asia, and 2011 in Europe. We believe that we will be able to renew these leases with similar terms upon expiration. If we cannot renew, we believe that we could find other suitable premises without any material adverse impact on our operations.

ITEM 3 LEGAL PROCEEDINGS

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

Power-One, Inc. v. Artesyn Technologies, Inc. United States District Court, Eastern District of Texas, Civil Action No. 2-05-CV-463 (LED). We initiated this action against Artesyn Technologies on September 30, 2005. The complaint alleges that certain products of Artesyn Technologies infringe certain of our patents that focus on technologies relating to digital power management and control. The complaint seeks injunctive relief against and compensatory damages from Artesyn Technologies. Trial proceedings are in the stages of discovery and related procedural matters. A trial by jury is scheduled for August 2007.

We initiated a similar lawsuit against Silicon Laboratories, Inc. in December, 2005 for infringement of certain of our patents. We settled this litigation with Silicon Laboratories as of July 20, 2006, and the lawsuit was dismissed without prejudice on July 21, 2006 in connection with the settlement.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the fourth quarter of the fiscal year ended December 31, 2006.

PART II

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

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

	Year Ended December 31,			
	2006		2005	
	High	Low	High	Low
First Quarter	7.20	5.24	8.65	4.86
Second Quarter	7.98	5.63	6.43	4.18
Third Quarter	7.34	5.35	6.35	4.31
Fourth Quarter	8.00	6.74	7.04	5.30

As of March 5, 2007, there were 16,618 holders of record of our common stock.

We have not paid any cash dividends on our common stock and do not anticipate paying cash dividends in the foreseeable future.

In May 2005, the Company announced that it had received authorization from its Board of Directors to purchase up to $20 million of its outstanding common stock in open-market transactions through December 31, 2006. The Company purchased $5.3 million of its outstanding common stock in open-market transactions through December 31, 2006.

Securities Authorized for Issuance Under Equity Compensation Plans

The information required by this item will be contained under the caption Equity Compensation Plan Information as of December 31, 2006 in our definitive Proxy Statement related to our Annual Meeting of Stockholders for Fiscal Year 2006, to be held on April 24, 2007, and such information is incorporated herein by reference.

Performance Graph

The following performance graph compares the yearly percentage change in the Company s cumulative total shareholder return to the cumulative total return of the NASDAQ Composite, the Russell 2000 Index, the Russell 3000 Index, and the Research Data Group Inc. (RDG) Technology Composite Index for each period from December 31, 2001 through December 31, 2006. The comparison is based on the investment of $100 in each stock or index on December 31, 2001 and includes the reinvestment of dividends. The total return on the common stock is measured by dividing the difference between the common stock or index price at the end and the beginning of the measurement period by the common stock or index price at the beginning of the measurement period.

The Company believes that the peer-group of indices selected for inclusion in the graph are representative for comparison purposes. The Russell 3000 Index is a major index that is used by third party corporate governance rates for evaluating the Company s corporate governance performance. The RDG Index contains companies that are closely aligned with the product markets and industries most comparable to the Company s products and target markets.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

$100 invested on 12/31/01 in stock or index-including reinvestment of dividends.

Fiscal year ended December 31,

Year Ended December 31,	2001	2002	2003	2004	2005	2006
Power-One, Inc.	$ 100.00	$ 54.47	$ 104.03	$ 85.69	$ 57.83	$ 69.93
NASDAQ Composite	$ 100.00	$ 69.66	$ 99.71	$ 113.79	$ 114.47	$ 124.20
Russell 2000	$ 100.00	$ 79.52	$ 117.09	$ 138.55	$ 144.86	$ 171.47
Russell 3000	$ 100.00	$ 78.46	$ 102.83	$ 115.11	$ 122.16	$ 141.35
RDG Technology Composite	$ 100.00	$ 62.44	$ 92.49	$ 95.27	$ 97.49	$ 106.14

ITEM 6 SELECTED FINANCIAL DATA

In the table below, we provide selected consolidated historical financial and operating data. We prepared this information using audited financial statements for the fiscal years ended December 31, 2006, 2005, 2004, 2003 and 2002. When reading this selected historical consolidated financial and operating data, it is important to read it along with Item 7 Management s Discussion and Analysis of Financial Condition and Operating Results included in this Form 10-K. Historical results are not necessarily indicative of future results.

	Fiscal Year Ended December 31,(1)				
	2006(7)	2005(6)	2004(5)	2003(3)(4)	2002(2)
	(In millions, except per share amounts and percentages)				
STATEMENT OF OPERATIONS DATA:					
Net sales	$ 338.0	$ 261.6	$ 280.3	$ 256.3	$ 230.7
Cost of goods sold	245.4	184.9	182.4	161.7	234.7
Gross profit (loss)	92.6	76.7	97.9	94.6	(4.0)
Selling, general and administrative expense	63.9	58.6	67.8	62.4	59.3
Engineering and quality assurance expense	38.6	36.9	42.2	40.8	34.7
Amortization of intangible assets	4.0	3.9	3.9	3.6	5.1
Restructuring charge	0.4	11.1	1.1	3.1	10.7
Impairment of goodwill					67.6
Asset impairment		5.1	2.0		42.6
Total expenses	106.9	115.6	117.0	109.9	220.0
Income (loss) from operations	(14.3)	(38.9)	(19.1)	(15.3)	(224.0)
Interest income	2.1	2.3	1.8	1.6	1.7
Interest expense	(1.4)	(0.2)	(0.6)	(1.0)	(1.1)
Other income (expense), net	(1.7)	0.3	(0.2)	(4.5)	0.2
Loss before provision (benefit) for income taxes.	(15.3)	(36.5)	(18.1)	(19.2)	(223.2)
Provision (benefit) for income taxes	(0.7)	1.8	3.1	(1.0)	(12.2)
Net loss	$ (14.6)	$ (38.3)	$ (21.2)	$ (18.2)	$ (211.0)
Basic and diluted loss per common share	$ (0.17)	$ (0.45)	$ (0.25)	$ (0.22)	$ (2.62)
Basic and diluted weighted average shares outstanding	86.1	85.0	83.8	82.5	80.4
SELECTED OPERATING DATA:					
Gross profit (loss) margin	27.4 %	29.3 %	34.9 %	36.9 %	(1.7)%
Depreciation and amortization	$ 15.0	$ 14.9	$ 16.4	$ 16.0	$ 20.9
Capital expenditures	5.6	6.2	7.3	7.3	7.0
Backlog(8)	98.9	34.7	38.0	39.6	32.8
Cash flows provided by (used in):					
Operating activities	$ (25.9)	$ (5.3)	$ (0.8)	$ (8.6)	$ 31.4
Investing activities	(33.6)	6.9	(57.5)	(3.7)	(8.6)
Financing activities	53.8	2.5	(8.0)	2.4	1.6
BALANCE SHEET DATA:					
Working capital	$ 144.2	$ 102.9	$ 116.7	$ 151.5	$ 150.3
Total assets	449.3	285.7	327.1	349.9	360.9
Total long-term debt(9)	54.3			9.2	9.5
Total debt(10)	80.6			11.2	10.2
Total stockholders equity	223.2	224.5	270.0	275.3	279.1

(1) Our fiscal year is the 52- or 53-week period ending on the Sunday nearest to December 31. For clarity of presentation we described year-ends presented as if the year ended on December 31. As such, the year ended December 31, 2004 represents a 53-week year and the years ended December 31, 2006, 2005, 2003 and 2002 each represent a 52-week year.

(2) The year ended December 31, 2002 includes pre-tax charges that consist of the following: restructuring charge of $10.7 million, goodwill and other asset impairment charge of $110.2 million, inventory charge of $73.0 million, a $39.9 million deferred tax valuation allowance and $6.5 million in stock compensation charges and related payroll taxes primarily related to the employer match of our 2001 Deferred Compensation Plan.

(3) The year ended December 31, 2003 includes a write-down of approximately $5.7 million, included in other expense, to reduce the book value of an investment held in a privately-owned enterprise and a restructuring charge of $3.1 million for a reduction in force and accruals related to an excess facility.

(4) On February 14, 2003, we acquired di/dt Inc. The purchase price for di/dt was approximately $17.5 million, which consisted of the following: a $2.0 million note receivable from, as well as a $3.1 million cost basis investment in, di/dt prior to the acquisition; 1.4 million shares of the Company s common stock valued at $6.3 million at acquisition; $1.0 million in cash and acquisition costs; and 0.5 million shares of the Company s common stock paid as earn-out to the former shareholders of di/dt during 2003 and 2004 valued at $5.1 million. Earn-out payments have been recorded as additional goodwill, and no earn-out provisions extended beyond December 31, 2004. In addition to the purchase price, the Company granted a cash bonus of approximately $1.0 million to the original founders of di/dt upon acquisition, which was recorded as compensation expense in 2003.

(5) During 2004, we performed an impairment test in accordance with Statement of Financial Accounting Standards (SFAS) No. 144. The results of these tests indicated that the manufacturing equipment at one of our European facilities was impaired and we recorded non-cash impairment charges of $0.7 million. In addition, we wrote down our Mexico building to fair value based on current market activity resulting in non-cash impairment charges of $1.3 million. We also recorded a $1.1 million write-off of an investment we own in a privately-held technology company, which was recorded in other expense. The year ended December 31, 2004 also includes pre-tax restructuring charges of $0.7 million related to severance and benefit payments, consolidation of excess facilities, contract termination costs, and other shutdown costs, in accordance with SFAS 146 and $0.4 million of restructuring charges for settlement payments and legal fees related to additional personnel and legal costs resulting from the closure of the Boston, Massachusetts facility during 2001.

(6) During 2005, we announced a restructuring plan which was accounted for in accordance with SFAS 146. We recorded pre-tax charges of $11.1 million for restructuring costs which included a workforce reduction in Europe and North America, and the charges were comprised of severance and related benefits, consolidation of excess facilities and continuing lease obligations thereon, contract termination costs, and other shutdown costs. During 2005, we also performed impairment reviews in accordance with SFAS 144. As a result, we identified certain long-lived assets associated with the 2005 restructuring whose carrying value would not be recoverable from future cash flows, and recorded an impairment charge of $5.1 million for these assets for the year ended December 31, 2005. These assets consisted of an owned building in Norway that was held for use and which was written down to fair market value and then sold in 2005; leasehold improvements for leased facilities whose operations were closed during the year; and miscellaneous other long-lived assets that will no longer be used. We also determined that an investment in a foreign enterprise, recorded in other assets on the balance sheet, was impaired. The impairment charge of $2.0 million was recorded in other expense and primarily resulted from a forecast reduction for the enterprise and the related cash flow.

(7) On October 23, 2006, we acquired the Power Electronics Group of Magnetek Inc. The purchase price was approximately $69.0 million, of which $50.0 million was borrowed, and $19.0 million was paid in cash including $2.9 million of direct acquisition costs, plus the assumption of approximately $27.8 million in debt.

(8) Consists of purchase orders having delivery dates scheduled within the following six months, and does not include turns business that is ordered, produced, and shipped all within the same period.

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

(10) Includes items in footnote (9) above and short-term debt.

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

Forward-Looking Statements

Certain statements contained in this Management s Discussion and Analysis (MD&A), including, without limitation, statements containing the words may, will, can, anticipate, believe, plan, estimate, continue, and similar expressions constitute forward-looking statements. forward-looking statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties. You should not place undue reliance on these forward-looking statements. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including risks described in the Risk Factors sections and elsewhere in this filing. Except for our ongoing obligation to disclose material information as required by federal securities laws, we do not intend to update you concerning any future revisions to any forward-looking statements to reflect events or circumstances occurring after the date of this report. The following discussion should be read in conjunction with the Risk Factors as well as our financial statements and the related notes.

Introduction

We are a worldwide organization and leading designer and manufacturer of hundreds of high-quality brand name AC/DC and DC/DC power supplies and converters and power management products. We sell our products to original equipment manufacturers, distributors and service providers who value quality, reliability, technology and service. We have hundreds of customers in the communications, networking equipment, server/storage, computer, instrumentation, industrial, and other electronic equipment industries.

Our AC/DC power supplies are typically embedded in our customers products and convert alternating current to direct current. Our board-mounted DC/DC products provide precise levels of DC power to sensitive electronic components embedded in our customers equipment. Our power management products also provide precise levels of DC power to sensitive electronic components, but include elements of communications and control. In addition, our power management products are programmable via a graphical user interface and offer our customers significant cost and time savings over traditional DC/DC converters. Our DC power systems, which provide back-up power, are sold primarily to telecommunications and Internet service providers worldwide.

In February 2005, we implemented a restructuring plan wherein we consolidated our division structure. The most significant components of this activity involved the elimination of most DC power systems operations in Norway and their integration into our other existing lower-cost locations, as well as the elimination of certain manufacturing operations in North America and subsequent transfer of the manufacturing to our other existing lower-cost locations or to contract manufacturers. We incurred $16.2 million of restructuring and asset impairment charges during 2005, of which approximately $5.1 million were non-cash in nature and primarily related to asset impairment charges for long-lived assets. The balance of the charges related to severance and continuing lease obligations for closed facilities, the longest of which continues into 2011.

In October 2006 we completed the acquisition of the Power Electronics Group subsidiary of Magnetek, Inc. for approximately $69.0 million plus the assumption of approximately $27.8 million in debt. We financed this acquisition with a $50.0 million term loan and $19.0 million of cash and investments. The term loan matures 18 months from the date it was made and carries an interest rate of 10% through October 2007 at an interest rate of 12% from October 2007 until maturity. The Power Electronics Group is primarily engaged in the design, manufacture and sale of custom AC/DC products to original equipment manufacturers (OEMs) and provides us with enhanced capability in the custom AC/DC power supply market, a talented workforce of design engineers located in Europe, and an established low-cost

manufacturing facility in China, all of which we expect will enable us to reduce our overall component and manufacturing costs and broaden our product line and product capabilities. Due to the mix of custom products produced by the Power Electronics Group for higher volume applications, they tend to generate lower gross margins than we have traditionally seen experienced.

We have two main product lines, referred to as embedded products and power systems. Embedded products include AC/DC power supplies, DC/DC converters (including brick converters and POL converters), alternative energy, and smart motor control products. Power systems products include DC power systems.

Our Silicon Power Systems (SPS) group is strategically significant to the Company and is engaged in the design and production of highly innovative and efficient silicon-based digital power management solutions for next generation DC/DC power conversion products in the Intermediate Bus Architecture (IBA) market. SPS maXyz® product line was introduced in 2003 and was developed specifically for the IBA market. In 2004, we introduced our new Z-One digital power management architecture and our new Z-series product line which included a digital controller. We began full production of these products near the end of the third quarter of 2004. C&D Technologies is a second-source licensing partner for these products. We have continued to strengthen our Z-One Alliance by announcing the addition of Atmel and Micrel to the partnership during 2006 and by establishing a Z-Alliance website at *www.Z-Alliance.org*. During the first quarter of 2005, we introduced the Z-1000 No-Bus family of digital point-of-load converters, which provides customers with digital power conversion without requiring a change in architecture. In 2006, we introduced the second generation of Digital Power Managers, which can control non-Power-One products on the customers printed circuit boards. In response to our new technology, certain of our competitors formed a consortium in an attempt to develop competing technologies. We filed a lawsuit on September 30, 2005 against Artesyn Technologies, Inc. and on December 14, 2005 against Silicon Laboratories, Inc. for infringement of patents held by the Company related to this technology. The lawsuit against Silicon Laboratories, Inc. was settled in 2006 and the settlement included Silicon Laboratories, Inc. joining the Z-One Alliance and allowed for certain technological collaborations. The remaining lawsuit against Artesyn Technologies, Inc. seeks compensatory damages and a permanent injunction to prohibit them from making, using, selling or offering to sell infringing products. We expect to reach the jury trial portion of this lawsuit during the summer of 2007.

We have spent and anticipate spending significant capital on R&D related to this developing area of power management technology, but there can be no assurance that the market will accept the resulting technology or that we will recover our investment in this technology through sales of new products. The costs related to defending our patents and intellectual property may be material to our results of operations.

In May 2005, the Board of Directors authorized the purchase of up to $20 million in shares of our common stock with the intent to retire the shares. This authorization expired on December 31, 2006. As of December 31, 2006, we had repurchased and retired 1.0 million shares of our common stock for an aggregate purchase price of approximately $5.3 million.

We generate a significant percentage of our revenue internationally through sales offices located throughout Europe and Asia. In addition, manufacturing is performed in our own facilities in the Dominican Republic, China, Italy and Slovakia, and at contract manufacturers in Asia. Approximately 30% of our products are manufactured by our contract manufacturers. We are significantly increasing our presence in Asia to take advantage of a lower cost structure and closer proximity to certain major customers. However, we recognize that there are inherent risks to our international operations that may impact our business, which include but are not limited to the following:

- Currency risk, since we will increasingly receive payments and purchase components in foreign currencies and we have historically not engaged in foreign currency hedging activities;

- Risk associated with expanding sales or manufacturing operations into economies and markets that may experience financial or political instability;

- Differing degrees of intellectual property protection outside of the United States;

- Frequent changes in laws and policies affecting trade, investment and taxes, including laws and policies relating to repatriation of funds and to withholding taxes, that are administered under very different judicial systems;

- Reliance on overseas contract manufacturers that may not be able to manufacture and deliver products in the quantity, quality and timeline required; and

- Additional time constraints on management associated with overseeing an increased number of operations that are geographically dispersed across Asia.

We are subject to local laws and regulations in various regions in which we operate, including the European Union (EU). One such law is the Restriction of Certain Hazardous Substances Directive (RoHS), which restricts the distribution of certain substances, including lead, within the EU and became effective on July 1, 2006. In addition to eliminating and/or reducing the level of specified hazardous materials from our products, we are also required to maintain and publish a detailed list of all chemical substances in our products. We believe that we have substantially complied with this directive and do not believe this directive poses a material risk to our business.

We operate in an industry where quantity discounts, price erosion (and corresponding decreases in revenues and margins), and product obsolescence due to technological improvements are normal. While we see price erosion on most of the products we sell, we also see price erosion on many of the components we purchase for inclusion in our products, thereby decreasing our costs. Product obsolescence refers to the tendency of small and less expensive products to replace larger and more expensive products. For example, the functions of a full-size DC/DC brick converter were replaced by a half-brick, which was subsequently replaced by a quarter brick and then a 1/8th-brick, and this will eventually be replaced by a 1/16th-brick or even smaller product. Each successive product is smaller but has retained or expanded the functionality of its predecessor. In addition to the reduction in size, the dollar cost per watt is also reduced, which results in lower prices for the customer as well as lower cost for the manufacturer. Sales of each successor product typically replace sales of the predecessor product, making the predecessor product obsolete. These phenomena are normal in our industry, and we have experienced price erosion and product obsolescence in line with industry trends. Price erosion and product obsolescence may negatively impact gross margins, and price erosion may also mask increases in unit sales (as opposed to revenues) of certain products.

Critical Accounting Policies

Application of our accounting policies requires management to make judgments and estimates about the amounts reflected in the financial statements. Management uses historical experience and all available information to make these estimates and judgments, although differing amounts may be reported if there are changes in the assumptions and estimates. Estimates are used for, but not limited to, the accounting for the allowance for doubtful accounts, inventory allowances, restructuring costs, impairment charges, depreciation and amortization, business combinations, and sales returns. Management has identified the following accounting policies as critical to an understanding of our financial statements and as areas most dependent on management s judgment and estimates.

Revenue Recognition ***We*** recognize revenue when persuasive evidence of an arrangement exists, title transfer has occurred, the price is fixed or readily determinable, and collectibility is probable. We recognize revenue in accordance with Staff Accounting Bulletin No. 104, Revenue Recognition. Sales are recorded net of sales returns and discounts, which are estimated at the time of shipment based upon historical data.

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

We offer our distributors a standard agreement which includes payment terms, description of rights to return or exchange product, and price discounts. Under our standard agreement, payment is due within 30 days of shipment of the product to the distributors. The distributor has a right to return only if we discontinue a product that the distributor has on hand. The distributor has a right to exchange up to 5% of the dollar value of products purchased within the prior six-month period, so long as the distributor is currently purchasing at least the equivalent dollar value in new product. Estimated product exchanges or returns are accrued for at the time of the sale based on historical information in accordance with SFAS No. 48, Revenue Recognition When Right of Return Exists. Finally, we may give price discounts to a distributor at the time a purchase order is received from the distributor for product that they will sell to a specific customer. The price discount is available for one year following issuance of the purchase order for items listed on the purchase order. We accrue for the estimated price discount at the time revenue is recognized.

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

Impairment of Long-Lived Assets and Goodwill *We* review the recoverability of the carrying value of long-lived assets using the methodology prescribed in SFAS No. 144, Accounting for the Impairment and Disposal of Long-Lived Assets. We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Upon such an occurrence, recoverability of these assets is determined by comparing the forecasted undiscounted net cash flows to which the assets relate, to the carrying amount. If the asset is determined to be unable to recover its carrying value, it is written down to fair value. Fair value is determined based on discounted cash flows, appraised values or other information available in the market, depending on the nature of the assets. Methodologies for determining fair value are inherently based on estimates that may change, such as the useful lives of assets and our cash flow forecasts associated with certain assets. A change in these estimates may result in impairment charges, which would impact our operating results.

We review the carrying value of goodwill and non-amortizable intangible assets using the methodology prescribed in SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 142 requires that we not amortize goodwill, but instead subject it to impairment tests on at least an annual basis and whenever circumstances suggest that goodwill may be impaired. These impairment tests are also dependent on management s forecasts, which frequently change. A change in our forecasts may result in impairment charges.

Restructuring Costs *We* record restructuring charges in accordance with SFAS No. 146, Accounting for Costs Associated with Disposal Activities, which requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, in contrast to the date of an entity s commitment to an exit plan. Restructuring costs were related to the downsizing of operations and

primarily consisted of specific charges that had been incurred or were to be incurred with no future economic benefit. These charges included costs related to personnel severance, continuing lease obligations for vacant facilities, and certain contract termination penalties and other shutdown costs. Calculation of the restructuring reserves includes management s judgment regarding closed facilities, which include assumptions about the length of time it will take for facilities to be subleased as well as the likely sublease income amount. Changes in these estimates may impact our operating results.

Deferred Income Tax Asset Valuation Allowance ***We*** record a deferred income tax asset in jurisdictions where the Company generates a loss. We also record a valuation allowance against these deferred income tax assets in accordance with SFAS 109, Accounting for Income Taxes, when, in management s judgment, it is more likely than not that the deferred income tax assets will not be realized in the foreseeable future.

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

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

Business Combinations ***We*** account for our acquisitions utilizing the purchase method of accounting. Under the purchase method of accounting, the total consideration paid is allocated to the underlying assets and liabilities, based on their respective estimated fair values. The excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Determining the fair value of certain acquired assets and liabilities, identifiable intangible assets in particular, is subjective in nature and often involves the use of significant estimates and assumptions including, but not limited to: estimates of revenue growth rates; estimates of rates of return; royalty rates; and determination of appropriate discount rates. These assumptions are generally made based on available historical information. Identifiable intangible assets with finite lives are amortized on a straight-line basis over their useful lives.

Recent Pronouncements and Accounting Changes In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, which permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No 159 also includes an amendment to SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities which applies to all entities with available-for-sale and trading securities. This Statement is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. We are assessing the impact of SFAS No. 159 and have not determined whether it will have a material impact on our results of operations or financial position.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. The Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements, and does not require any new fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements. The Statement is effective for the fiscal years beginning after November 15, 2007. We are assessing the impact of SFAS No. 157 and have not determined whether it will have a material impact on our results of operations or financial position.

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). The interpretation clarifies the accounting for uncertainty in income taxes recognized in a company s financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. Specifically, the pronouncement prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on the related derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition of uncertain tax positions. The interpretation is effective for fiscal years beginning after December 15, 2006. We are assessing FIN 48 and have not determined the impact that the adoption of FIN 48 will have on our consolidated financial statements.

Results of Operations

The years ended December 31, 2006 and 2005 represent 52-week years and the year ended December 31, 2004 represents a 53-week year. The following table represents our consolidated statements of operations as a percentage of net sales for the periods presented:

	Fiscal Year Ended December 31,		
	2006	2005	2004
Net sales	100.0 %	100.0 %	100.0 %
Cost of goods sold	72.6	70.7	65.1
Gross profit	27.4	29.3	34.9
Selling, general and administrative expense	18.9	22.4	24.2
Engineering and quality assurance expense	11.4	14.1	15.0
Amortization of intangibles	1.2	1.5	1.4
Restructuring costs	0.1	4.3	0.4
Asset impairment		1.9	0.7
Loss from operations	(4.2)	(14.9)	(6.8)
Interest income	0.6	0.9	0.6
Interest expense	(0.4)	(0.1)	(0.2)
Other income (expense), net	(0.5)	0.2	(0.1)
Loss before provision (benefit) for income taxes	(4.5)	(13.9)	(6.5)
Provision (benefit) for income taxes	(0.2)	0.7	1.1
Net loss	(4.3)%	(14.6)%	(7.6)%

Comparison of Fiscal Year Ended December 31, 2006 with Fiscal Year Ended December 31, 2005

Net Sales. Net sales increased $76.5 million, or 29%, to $338.0 million for the year ended December 31, 2006 from $261.6 million for the year ended December 31, 2005. The increase in sales was attributable to our acquisition of the Power Electronics Group during the fourth quarter of 2006 as well as organic volume growth in sales across all product lines. Included in the results for the year ended December 31, 2006 is 10 weeks of activity related to the Power Electronics Group, or $43.3 million of net sales. We announced several significant new customers during 2006 in the server/storage industry and saw particular strength in existing customers in the communications, computer/retail, and transportation industries.

Net sales for our two product lines were as follows, in millions:

	Year Ended December 31, 2006		Year Ended December 31, 2005	
Embedded products	$ 247.0	73 %	$ 186.5	71 %
Power systems	91.0	27 %	75.1	29 %
Total	$ 338.0	100 %	$ 261.6	100 %

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

	Year Ended December 31, 2006		Year Ended December 31, 2005	
OEMs	$ 236.4	70 %	$ 170.8	65 %
Distributors	78.3	23 %	70.1	27 %
Service providers	23.3	7 %	20.7	8 %
Total	$ 338.0	100 %	$ 261.6	100 %

Cisco Systems and its contract manufacturers collectively were the only customer to exceed 10% of net sales in either of the years ended December 31, 2006 or 2005 with $41.2 million, or 12% of net sales, and $39.6 million, or 15% of net sales, in each respective year.

Because of the acquisition of the Power Electronics Group during the fourth quarter of 2006, we have redefined our end-markets and reclassified certain customers. Net sales for the years ended December 31, 2006 and 2005 by end-markets under this new classification were as follows:

	Year Ended December 31, 2006		2005	
Communications	59	%	61	%
Instrumentation and Industrial	27	%	30	%
Server, Storage and Computer	7	%	3	%
Other	7	%	6	%
Total	100	%	100	%

Our combined year-end 180-day and 90-day backlog were as follows, in millions :

	Year Ended December 31, 2006	Year Ended December 31, 2005
Combined 180-day backlog	$ 98.9	$ 34.7
Combined 90-day backlog	$ 89.1	$ 31.7

We generally sell our products pursuant to purchase orders rather than long-term contracts. Backlog consists of purchase orders on-hand having delivery dates scheduled within the next six months. Customers may cancel or reschedule most deliveries without penalty. Our backlog may not necessarily be a reliable indicator of future revenue both because we do not maintain long-term contracts with our customers so they are free to cancel or modify their orders and also because a significant portion of our revenues derives from turns business (that is, revenues from orders that are booked and shipped within the same reporting period and that therefore do not appear as backlog at the end of a reporting period). The 180-day and 90-day backlog of the newly acquired entity on December 31, 2006 was $61.2 million and $56.0 million, respectively. The increase in backlog is primarily a result of our acquisition of the Power Electronics Group during the fourth quarter of 2006. Since the Power Electronics Group is primarily engaged in the design, manufacture and sale of AC/DC products that are customized to the particular

customer, lead times are longer and orders are booked earlier than they would be for standard products. As such, the backlog for the products of the Power Electronics Group was, and we expect it to continue to be, higher than for our other products. Our bookings were not significantly impacted by any new Vendor Managed Inventory (VMI) programs during 2006. When customers adopt our VMI program, they no longer place orders with us and instead use an automated forecasting model. We then manufacture products for the customer based on their forecast, and the customer uses the inventory as needed. As a result, under a VMI program, the booking and billing occur simultaneously upon use of the product, and therefore there is always a book-to-bill ratio of 1.0 for these programs. We may bring additional VMI programs on-line in the future, which would result in higher turns business, lower backlog, and higher finished goods inventory. As such, we believe that backlog may not necessarily be a reliable indicator of future results.

Gross Profit. Gross profit for the year ended December 31, 2006 was $92.6 million compared with a gross profit of $76.7 million for the year ended December 31, 2005. Our gross margin decreased to 27.4% for the year ended December 31, 2006 from a gross margin of 29.3% for the same period in 2005. The decrease in gross margin during the year ended December 31, 2006 was primarily because of the write-up of finished goods and work-in-process inventory of the newly acquired business, in accordance with purchase accounting rules, that were subsequently sold at an increased basis, as well as an overall shift in product mix toward higher volume and lower margin products. In addition to the shift toward lower margin products in the embedded product line in 2006, the products of the Power Electronics Group generally carry gross margins lower than Power-One s historical consolidated gross margin. During the year ended December 31, 2006, we incurred additional costs related to quality issues at one of our contract manufacturers. We also recorded $2.7 million in cost of goods sold related to the write off of excess inventory and other inventory adjustments during the year ended December 31, 2006 compared to $6.0 million during the year ended December 31, 2005. The gross margin of the Power Electronics Group was 11.6% for the 10 weeks of activity in the year ended December 31, 2006, which included a $1.9 million fair market value write-up of finished goods and work-in-process inventory.

Selling, General and Administrative Expense. Selling, general and administrative expense increased $5.3 million, or 9%, to $63.9 million for the year ended December 31, 2006 from $58.6 million for the year ended December 31, 2005. As a percentage of net sales, selling, general and administrative expense decreased to 19% for the year ended December 31, 2006 from 22% for the same period in 2005.

Selling expense increased $3.5 million, or 14%, to $27.8 million for the year ended December 31, 2006 from $24.3 million for the year ended December 31, 2005. The Power Electronics Group s selling expense recorded for the 10 weeks of activity in the year ended December 31, 2006 was $1.9 million. The increase in selling expenses during the year ended December 31, 2006 was primarily due to the additional expense incurred by the Power Electronics Group for the 10 weeks they were included as part of the Company, as well as increased commissions and bonus expense due to the increase in product revenue during 2006.

Administrative expense increased $1.8 million, or 5%, to $36.1 million for the year ended December 31, 2006 from $34.3 million for year ended December 31, 2005. The increase of $1.8 million was primarily related to the 10 weeks of activity of the Power Electronics Group in the year ended December 31, 2006 which was $1.7 million.

Engineering and Quality Assurance Expense. Engineering and quality assurance expense increased $1.6 million, or 4% to $38.6 million for the year ended December 31, 2006 from $36.9 million for year ended December 31, 2005. As a percentage of net sales, engineering and quality assurance expense decreased to 11% for the year ended December 31, 2006 from 14% for the same period in 2005. The Power Electronics Group incurred $2.0 million of engineering and quality assurance expenses related to the 10 weeks of activity in the year ended December 31, 2006.

Engineering expense increased $0.8 million, or 3%, to $31.7 million for the year ended December 31, 2006 from $30.9 million for the same period in 2005. Quality assurance expense increased $0.8 million, or 14%, to $6.9 million for the year ended December 31, 2006 from $6.0 million for the same period in 2005. The increases in engineering and quality assurance expense were primarily due to expense incurred by the Power Electronics Group during the fourth quarter of 2006.

Amortization of Intangible Assets. Amortization of intangible assets increased by $0.1 million to $4.0 million for the year ended December 31, 2006 compared to $3.9 million for the year ended December 31, 2005. The increase of $0.1 million was due to $1.0 million of amortization of intangibles resulting from the acquisition of the Power Electronics Group during the fourth quarter of 2006 which was mostly offset by a $0.9 million decrease in amortization expense due to certain intangible assets reaching the end of their amortizable lives.

Restructuring Charge during Fiscal Year Ended December 31, 2006. At December 31, 2006, we evaluated our remaining restructuring reserves and increased our reserves by $0.4 million due to increases in certain continuing lease obligations.

Loss from Operations. As a result of the items above, loss from operations decreased $24.6 million to a loss of $14.3 million for the year ended December 31, 2006 from an operating loss of $38.9 million for the same period in 2005.

Interest Income (Expense), Net. Net interest income was $0.7 million for the year ended December 31, 2006 compared to net interest income of $2.2 million for the same period in 2005. The decrease in net interest income primarily resulted from the use of $19.0 million of our cash to finance a portion of the acquisition of the Power Electronics Group in the fourth quarter of 2006. Additionally, we borrowed $50.0 million in term debt with an initial interest rate of 10% to finance the acquisition. The Power Electronics Group incurred $0.4 million of interest expense during the 10 week period in the year ended December 31, 2006 related to credit facility and long-term debt obligations.

Other Income (Expense), Net. Net other expense was $1.8 million for the year ended December 31, 2006, compared with net other income of $0.3 million for the year ended December 31, 2005. Net other expense during 2006 included $1.3 million in net losses related to foreign currency fluctuations, $0.4 million of realized loss on the sale of held-to-maturity securities that were sold prior to their maturity dates and $0.8 million in impairment losses related to an available-for-sale investment that experienced a decline in value that we deemed to be other-than-temporary in accordance with FASB Staff Position FAS115-1/124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. The impairment loss was equal to the difference between the investment s cost and its fair value as of December 31, 2006.

Provision for Income Taxes. The benefit for income taxes was $0.7 million for the year ended December 31, 2006 compared to a provision for income taxes of $1.8 million for the year ended December 31, 2005. The benefit for income taxes for the year ended December 31, 2006 included approximately $1.6 million related to a foreign tax refund and $1.1 million related to a favorable European tax ruling during the second quarter ended June 30, 2006. We recorded a tax provision in certain European jurisdictions where we generated income during both years ended December 31, 2006 and 2005. The Power Electronics Group recorded a tax provision of $0.2 million for the 10 weeks of activity in the year ended December 31, 2006. In 2006, we recorded a deferred income tax asset valuation allowance of approximately $11.2 million compared to $14.3 million recorded during the same period in 2005.

We record a deferred income tax asset in jurisdictions where we generate a loss. We also record a valuation allowance against these deferred tax assets in accordance with SFAS 109, Accounting for Income Taxes, when, in management s judgment, it is more likely than not that the deferred income tax assets will not be realized in the foreseeable future.

Comparison of Fiscal Year Ended December 31, 2005 with Fiscal Year Ended December 31, 2004

Net Sales. Net sales decreased $18.7 million, or 7%, to $261.6 million for the year ended December 31, 2005 from $280.3 million for the year ended December 31, 2004. Sales decreases for the year ended December 31, 2005 were attributable to volume decreases in sales to certain communications and semiconductor automatic test equipment industry customers. The industry experienced a softening across all market segments during 2005 as compared to the moderate growth seen in the industry during 2004.

Net sales for our two product lines are as follows, in millions:

	Year Ended December 31, 2005		Year Ended December 31, 2004	
Embedded products	$ 186.5	71 %	$ 200.2	71 %
Power systems	75.1	29 %	80.1	29 %
Total	$ 261.6	100 %	$ 280.3	100 %

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

	Year Ended December 31, 2005		Year Ended December 31, 2004	
OEMs	$ 170.8	65 %	$ 196.1	70 %
Distributors	70.1	27 %	61.1	22 %
Service providers	20.7	8 %	23.1	8 %
Total	$ 261.6	100 %	$ 280.3	100 %

Cisco Systems and its contract manufacturers collectively were the only customer to exceed 10% of net sales in either of the years ended December 31, 2005 or 2004 with $39.6 million, or 15% of net sales, and $42.3 million, or 15% of net sales, in each respective year.

Net sales by end-markets, as defined and classified prior to the reclassification that we implemented after our acquisition of the Power Electronics Group of Magnetek, Inc. in October 2006, were as follows:

	Year Ended December 31, 2005	2004
Communications	61 %	59 %
Industrial	17 %	16 %
Transportation	7 %	7 %
ATE/Semiconductor test equipment	4 %	7 %
Computer and Retail	3 %	4 %
Medical	2 %	2 %
Other	6 %	5 %
Total	100 %	100 %

Our combined 180-day and 90-day backlog are summarized were as follows, in millions :

	Year Ended December 31, 2005	Year Ended December 31, 2004
Combined 180-day backlog	$ 34.7	$ 38.0
Combined 90-day backlog	$ 31.7	$ 33.9

Our combined 180-day backlog on December 31, 2005 was $34.7 million, a decrease of 9% compared to backlog of $38.0 million on December 31, 2004. The decrease in backlog primarily reflects the shorter lead times and a temporary build-up of inventory at our customers during the fourth quarter of 2005. Our bookings were not significantly impacted by any new Vendor Managed Inventory (VMI) programs during 2005. When VMI programs are initiated by customers, bookings are canceled (or never placed) and replaced by a forecast. We then supply product to the customer per an agreed-upon electronic signal or an order placed to ship the goods, and the customer uses the inventory as needed. Under a VMI program, the booking and billing occur simultaneously upon use of the product, and therefore there is always a book-to-bill ratio of 1.0 for these programs. We may bring additional VMI programs on-line in the future, which could result in higher turns business and a lower backlog. As such, we believe that backlog may not necessarily be a reliable indicator of future results over time.

Gross Profit. Gross profit for the year ended December 31, 2005 was $76.7 million compared with a gross profit of $97.9 million for 2004. As a percentage of net sales, gross profit percentage decreased to 29.3% for the year ended December 31, 2005 from a gross profit percentage of 34.9% for the same period in 2004. The decrease in gross margin during the year ended December 31, 2005 was primarily due to two factors. First, the decrease of $18.7 million in sales related to the volume sold during 2005 compared to 2004 negatively impacted our margin by approximately 4%. Second, the gross margin was negatively impacted by approximately 1 point by a write-off of excess inventory resulting from a shift in our forecasted product mix as well as from product rationalization in our telecommunications power systems division in Europe. We recorded $6.0 million in cost of goods sold related to the write off of the excess inventory and other inventory adjustments during the year ended December 31, 2005 compared to $3.1 million related to write-offs of excess and obsolete inventory recorded during the year ended December 31, 2004.

Selling, General and Administrative Expense. Selling, general and administrative expense decreased $9.2 million, or 14%, to $58.6 million for the year ended December 31, 2005 from $67.8 million for 2004. As a percentage of net sales, selling, general and administrative expense decreased to 22% for the year ended December 31, 2005 from 24% for the same period in 2004.

Selling expense decreased $5.2 million, or 18%, to $24.3 million for the year ended December 31, 2005 from $29.5 million for 2004. The decrease in selling expenses during the year ended December 31, 2005 was primarily due to the decrease in product revenue during 2005, lower commission expense, reduced bonus expense, and due to personnel reductions as a result of the restructuring plan implemented during 2005.

Administrative expense decreased $4.0 million, or 11%, to $34.3 million for the year ended December 31, 2005 from $38.3 million for 2004. The decrease was primarily due to cost savings resulting from the restructuring of our North American and European operations during 2005.

Engineering and Quality Assurance Expense. Engineering and quality assurance expense decreased $5.3 million, or 12% to $36.9 million for the year ended December 31, 2005 from $42.2 million for 2004. As a percentage of net sales, engineering and quality assurance expense decreased to 14% for the year ended December 31, 2005 from 15% for the same period in 2004.

Engineering expense decreased $5.5 million, or 15%, to $30.9 million for the year ended December 31, 2005 from $36.4 million for the same period in 2004. The decreases in engineering expense were primarily due to cost savings resulting from the restructuring of our North American and European operations during 2005.

Quality assurance expense increased $0.2 million, or 4%, to $6.0 million for the year ended December 31, 2005 from $5.8 million for the same period in 2004. Quality assurance expense for the year ended December 31, 2005 included support costs related to the transfer of production, both internally and

externally to contract manufacturers, which resulted from the restructuring of our operations in Norway and North America, as well as expense related to the RoHS initiative.

Amortization of Intangible Assets. Amortization of intangible assets remained constant at $3.9 million for both years ended December 31, 2005 and 2004.

Restructuring Charge during Fiscal Year Ended December 31, 2005. Effective January 1, 2003, we adopted SFAS 146. During 2005, we recorded pre-tax cash restructuring charges of $11.1 million in accordance with SFAS 146, of which $4.7 million related to severance payments for a reduction in headcount and $6.2 million related to consolidation of excess facilities. The charges were a result of our plan to restructure our organization and to realign and consolidate our telecommunications power systems business, as well as consolidate our domestic facilities. We estimate that overall we will save approximately $30 million annually as a result of the restructuring initiatives implemented and have seen an increasing portion of these savings during the latter half of 2005. A summary of the restructuring activity recorded under SFAS 146 during the year ended December 31, 2005 is as follows, in millions:

	Restructuring Liabilities at January 1, 2005	Restructuring Charges	Applications of Reserve	Restructuring Liabilities at December 31, 2005
Worldwide workforce reduction	$	$ 4.7	$ 4.6	$ 0.1
Facilities closure	1.9	6.2	3.1	5.0
Other	0.4	0.2	0.6	
	$ 2.3	$ 11.1	$ 8.3	$ 5.1

Asset Impairment. As a result of the restructuring, during 2005 we recorded $5.1 million in asset impairment non-cash charges, in accordance with SFAS 144, for our building in Norway that was sold during the fourth quarter of 2005, for leasehold improvements for leased facilities whose operations are being closed, and for other long-lived assets that will no longer be used.

Loss from Operations. As a result of the items above, loss from operations increased $19.8 million to a loss of $38.9 million for the year ended December 31, 2005 from an operating loss of $19.1 million for the same period in 2004.

Interest Income (Expense), Net. Net interest income was $2.2 million for the year ended December 31, 2005 compared to net interest income of $1.2 million for the same period in 2004. The increase in net interest income between periods is largely attributable to changes in our cash management plan as well as to the decrease in interest expense resulting from the repayment of our long-term debt during the quarter ended March 31, 2004.

Other Income (Expense), Net. Net other income was $0.3 million for the year ended December 31, 2005, compared with net other expense of $0.2 million for 2004. Net other income during 2005 included $1.7 million net gains related to foreign currency fluctuations, and $0.6 million of proceeds from the settlement of a lawsuit, offset by $2.0 million related to the impairment of certain foreign investments resulting from a forecast reduction for those enterprises and the related cash flow. Components of other expense during 2004 include the write-down of $1.1 million related to an investment we hold in a privately-held technology company and foreign currency losses, offset by income related to our joint venture and a VAT tax refund in Europe.

Provision for Income Taxes. The provision for income taxes was $1.8 million for the year ended December 31, 2005 at our profitable international locations, compared to the provision for income taxes of $3.1 million for 2004. For the year ended December 31, 2005, we recorded a deferred income tax asset valuation allowance of approximately $14.3 million compared to $10.1 million recorded during the same period in 2004.

We also record a valuation allowance against these deferred tax assets in accordance with SFAS 109, Accounting for Income Taxes, when, in management s judgment, it is more likely than not that the deferred income tax assets will not be realized in the foreseeable future.

Liquidity and Capital Resources

Our cash and cash equivalents balance decreased $2.7 million, or 7%, to $34.4 million at December 31, 2006 from $37.1 million at December 31, 2005. Our primary uses of cash in 2006 consisted of $63.3 million related to the purchase of the Power Electronics Group in October 2006 which was funded with cash on hand as well as proceeds of a $50 million Promissory note issued by the Company, $25.9 million for operating activities, $5.6 million for the acquisition of property and equipment and $1.0 million for the repurchase and retirement of 0.2 million shares of our own common stock. Our primary sources of cash in 2006 consisted of $29.1 million and $5.8 million related to the net proceeds from held to maturity and available for sale investments, respectively, $3.2 million from the issuance of common stock primarily related to stock option exercises and $1.5 million related to the proceeds from borrowings on our credit facilities net of the repayments of borrowing on our credit facilities and long-term debt.

Our total net cash outflow related to the investment in the Power Electronics Group, for the year ended December 31 2006, was $63.3 million which was comprised of the purchase price of $69.0 million, less $7.5 million of cash acquired plus $1.8 million of cash expected to be received from Magnetek, Inc. for adjustments made to the preliminary purchase price based on the closing balance sheet of the Power Electronics Group.

Net proceeds of $29.1 million from held to maturity investments included $37.5 million of proceeds from the sale of debt securities of which $23.7 million was received in the third quarter from the sale of these debt securities before their maturity dates in order to complete the acquisition of the Power Electronics Group, less $8.4 million of such securities that had been purchased earlier in the year. In connection with the sale of the securities, we realized a loss of $0.4 million which has been recorded as other expense in the consolidated statements of operations.

Cash used in operating activities of $25.9 million included an increase in inventories, accounts receivable, net, and accounts payable of $22.6 million, $19.2 million and $18.3 million, respectively, and a decrease in accrued expenses of $2.5 million. The increase in inventories was primarily attributable to realized and expected revenue growth related to high volume programs, additional VMI programs, and buildups of production related to anticipated production transfers between facilities. In addition, cash used in operating activities was net of a $1.6 million tax refund related to a North American facility and included $1.4 million of cash payments related to our restructuring programs.

We maintain credit facilities with various banks in Europe and Asia. These credit facilities were acquired primarily as a result of acquisitions in 1998, 2000 and 2006. The aggregate limit on all credit facilities is approximately $38.6 million. The credit facilities bear interest on amounts outstanding at various intervals based on published market rates. At December 31, 2006, the total outstanding balance on all credit facilities was $25.7 million at a weighted average interest rate of 4.9%, and $2.0 million was committed to back letters of credit. After consideration of these commitments, $10.9 million of additional borrowing capacity was available to us as of December 31, 2006. Some credit agreements require our subsidiaries to maintain certain financial covenants and to provide certain financial reports to the lenders. From time to time a newly acquired subsidiary has not been in compliance with its debt covenants and was not in compliance with a financial covenant requiring a maximum percentage of debt to equity at December 31, 2006. The $6.8 million outstanding balance under this credit agreement, as well as a $0.6 million long-term note payable through 2008 at a 5.6% interest rate issued by the same bank with similar financial covenants, have been classified as current liabilities as we did not seek to obtain a waiver and consider this debt potentially callable by the bank. We do not expect there to be a material adverse impact on our liquidity position related to the potentially callable debt.

At December 31, 2006, we were in compliance with all other debt covenants. At December 31, 2005, we had no outstanding balance on any credit facility and were in compliance with all debt covenants.

We also owe $50 million under a promissory note that we issued in connection with our acquisition of the Power Electronics Group. The note matures 18 months from the date it was made and may be prepaid without penalty or premium at any time. Interest on the outstanding principal balance of the Note will accrue at a rate of 10% per annum until the first anniversary date of the Note, and then will accrue at a rate of 12% thereafter.

Additionally, through our acquisition of the Power Electronics Group we have certain long-term notes payable through fiscal year 2011. Amounts outstanding at December 31, 2006, were $4.3 million and bore interest at various rates ranging from 2% to 8% at a weighted-average interest rate of 3.6%. The long-term notes payable agreements require our subsidiary to provide certain financial reports to the lender but do not require compliance with any financial covenants.

At December 31, 2005, the Company had no outstanding balance on any long-term borrowing arrangement.

We currently anticipate that our total capital expenditures for 2007 will be in the range of $13 to $15 million, primarily for manufacturing equipment and process improvements, 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.

Based on current plans and business conditions, we believe our existing working capital and borrowing capacity, coupled with the funds generated from our operations, will be sufficient to meet our liquidity requirements for the next twelve months. However, if we make another significant acquisition for cash, it may be necessary to raise additional debt or equity to fund all or a portion of the purchase price.

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 where the economic climate is favorable. The liquidity impact of operating leases generally is not material.

Purchase Commitments. We have purchase commitments for materials, supplies, services, and property, plant and equipment as part of the normal course of business. Commitments to purchase inventory at above-market prices have been reserved. 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.

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

Related Parties. SF Holding Corp., an affiliate of both PWER Bridge, LLC and Stephens Inc., is our largest stockholder. From time to time Stephens, Inc. has provided financial advisory services to us, although they provided no financial advisory services to us during the years ended December 31, 2006, 2005 and 2004. We had no payables to Stephens, Inc., at December 31, 2006 and 2005. A former officer of Stephens, Inc. who is a current officer of The Stephens Group, an affiliate of Stephens, Inc., is on our Board of Directors. During the year ended December 31, 2006, we borrowed $50.0 million from PWER Bridge, LLC to finance our acquisition of the Power Electronics Group of Magnetek, Inc. PWER Bridge, LLC is an affiliate of Stephens Inc. Stephens Inc. served as financial advisor to Magnetek, Inc. in connection with our purchase of the Power Electronics Group.

We maintain minority ownership in a joint venture located in China. The joint venture is accounted for and recorded on our balance sheet under the equity-method.

The joint venture may purchase raw components and other goods from us and may sell finished goods to us as well as to other third parties. We record revenue on sales to the joint venture only when the components and goods are for sales to third parties. When the joint venture purchases components that will be assembled and sold back to us, we record no revenue. We also have significant and similar relationships with contract manufacturers. These contract manufacturers may purchase raw components from and sell finished goods back to us. No revenue is recognized for these transactions. Revenue is recognized only when the products are for sale to third parties.

During the year ended December 31, 2005, we recorded $0.6 million in revenue related to the joint venture. No revenue was recognized related to the joint venture or during the years ended December 31, 2006 and 2004. The Company paid $8.7 million, $6.4 million, and $4.9 million for inventory purchased from the joint venture during the years ended December 31, 2006, 2005, and 2004, respectively. At December 31, 2006 and 2005, we owed the joint venture approximately $1.2 million and $0.3 million, respectively.

One of our Board of Directors is the Chief Executive Officer of Benchmark Electronics, a contract manufacturer to whom we sell products. During the years ended December 31, 2006, 2005 and 2004, we recognized revenue on sales to Benchmark Electronics in the amounts of $1.2 million, $1.0 million, and $0.7 million, respectively. At December 31, 2006 and 2005, we were owed $0.2 million by Benchmark Electronics.

We spent approximately $0.2 million, $0.1 million, and less than $0.1 million during the years ended December 31, 2006, 2005 and 2004, respectively, for lodging Company personnel in a Dominican Republic hotel in which our President and Chief Operating Officer, Brad Godfrey, owns a minority interest.

Summary of Contractual Obligations and Commitments. A summary of our future contractual payments related to lease obligations, non-cancelable open purchase orders and long-term debt is as follows (in millions):

Year Ending December 31,	Operating Leases(1)	Non-Cancelable Purchase Orders	Long-Term Debt Obligations	Estimated Interest Obligations(2)	Total
2007	$ 5.0	$ 4.4	$ 1.9	$ 8.9	$ 20.2
2008	3.9		51.8	3.8	59.5
2009	3.0		0.2		3.2
2010	2.6		0.2		2.8
2011	1.6		0.2		1.8
2012 and thereafter	2.9				2.9
Total	$ 19.0	$ 4.4	$ 54.3	$ 12.7	$ 90.4

(1) Approximately $5.2 million of the operating lease commitments above were reserved for in the restructuring charge accrual as of December 31, 2006.

(2) We calculated estimated interest payments for long-term debt as follows: for fixed-rate term debt, we calculated interest based on the applicable rates and payment dates; for variable-rate term debt, we calculated interest based on the most recent applicable interest rates in effect.

For the year ended December 31, 2007, our calculation of estimated interest payments includes $1.4M of interest payments related to a $6.8 million credit agreement, payable through 2013, and $0.6 million term loan, payable through 2008, that were reclassified from long term debt to current liabilities at December 31, 2006 as we did not seek to obtain a waiver for our noncompliance with a financial

covenant requiring a maxiumum percentage of debt to equity and consider the debt potentially callable by the bank.

Estimated interest payments for the year ended December 31, 2007 include $1.0 million of interest related to our $50 million Promissory Note that was accrued for the year ended December 31, 2006 but not paid until January 2007.

ITEM 7A 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. We are exposed to cash flow risk due to changes in market interest rates related to our outstanding debt. For example, in Europe our variable long term debt bears interest on borrowings outstanding at various time intervals and is based on the Euro Interbank Offered Rate (EURIBOR). Our principal risk with respect to our variable long-term debt is to changes in this market rate.

The table below presents principal cash flows and related weighted-average interest rates for our credit facilities and long-term debt obligations at December 31, 2006 by expected maturity dates. The information is presented in U.S. dollar equivalents, our reporting currency, and parenthetically in Eurodollar or Swiss Francs, where applicable. Additionally, the U.S. dollar equivalent carrying value of Eurodollars or Swiss Francs denominated debt is sensitive to foreign currency exchange rates. However, a 10% change in the U.S. dollar exchange rate against these currencies would not be expected have a significant effect on our future earnings.

	Expected Maturity Date							Fair
	2007	2008	2009	2010	2011	Thereafter	Total	Value
	(Amounts in millions, except for percentages)							
Credit Facilities:								
Variable Rate (EUR 18.4)	$ 24.3	$	$	$	$	$	$ 24.3	$ 24.3
Average Interest Rate	5.0 %						5.0 %	
Variable Rate (CHF 1.7)	$ 1.4	$	$	$	$	$	$ 1.4	$ 1.4
Average Interest Rate	3.1 %						3.1 %	
Notes Payable:								
Variable Rate (EUR 0.5)	$ 0.6	$	$	$	$	$	$ 0.6	$ 0.6
Average Interest Rate	5.6 %						5.6 %	
Long-term Debt:								
Fixed Rate (USD)	$	$ 50.0	$	$	$	$	$ 50.0	$ 50.0
Average Interest Rate		10.7 %					10.7 %	
Fixed Rate (EUR 1.7)	$ 0.9	$ 0.7	$ 0.2	$ 0.2	$ 0.2	$	$ 2.2	$ 2.2
Average Interest Rate	3.5 %	2.0 %	2.0 %	2.0 %	2.0 %		2.6 %	
Variable Rate (EUR 1.6)	$ 1.0	$ 1.1	$	$	$	$	$ 2.1	$ 2.1
Average Interest Rate	4.7 %	4.7 %					4.7 %	

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. Historically, we have not actively engaged in

substantial exchange rate hedging activities, and at December 31, 2006, we had not entered into any significant foreign exchange contracts.

ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data listed in Item 15(a)(1) hereof are incorporated herein by reference and are filed as part of this Annual Report on Form 10-K beginning on page F-1.

ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None

ITEM 9A CONTROLS AND PROCEDURES

Evaluation of Disclosure 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 December 31, 2006, 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 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. 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.

Management s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Exchange Act Rules 13a 15(f). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Our internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we conducted an evaluation of the effectiveness of internal control over financial reporting based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2006. Our evaluation of and conclusion on the effectiveness of internal control over financial reporting excludes the Power Electronics Group of Magnetek, Inc., acquired by us on October 23, 2006. The Power Electronics Group of Magnetek, Inc. contributed approximately 13% of our total net sales for the year ended December 31, 2006 and constituted less 1% of our net assets and 33% of our total assets at December 31, 2006. Our management s assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is included herein. Deloitte and Touche, LLP has also issued an audit report on the consolidated financial statements and supplemental schedule included herein.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

Power One, Inc.:

Camarillo, California

We have audited management s assessment, included in the accompanying Management s Report on Internal Control Over Financial Reporting, that Power One, Inc. and subsidiaries (the Company) maintained effective internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management s Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting of the Power Electronics Group, which was acquired on October 23, 2006, and whose financial statements constitute less than 1% of net assets and 33% of total assets, respectively, and 13 percent of total net sales of the consolidated financial statement amounts as of and for the year ended December 31, 2006. Accordingly, our audit did not include the internal control over financial reporting at the Power Electronics Group. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded

as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2006, of the Company and our report dated March 16, 2007 expressed an unqualified opinion on those financial statements and the financial statement schedule.

Deloitte & Touche LLP
Los Angeles, California
March 16, 2007

Changes In Internal Control Over Financial Reporting

There have been no significant changes in our internal control over financial reporting, as defined in Exchange Act Rules 13a-15, during the fourth fiscal quarter of 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B OTHER INFORMATION

Not applicable.

PART III

ITEM 10 DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

The information relating to our directors and nominees required by this item will be contained under the caption Proposal 1: Election of Directors in our definitive Proxy Statements related to our Annual Meeting of Stockholders for Fiscal Year 2006, to be held on April 24, 2007, and such information is incorporated herein by reference.

The information relating to our executive officers required by this item is included herein in Part I, Item 1 under the caption Executive Officers of the Registrants, and such information is incorporated by reference into this section.

The information required pursuant to Item 405 of Regulation S-K will be contained under the caption Section 16(a) Beneficial Ownership Reporting Compliance in our Proxy Statement related to our Annual Meeting of Stockholders for Fiscal Year 2006, to be held on April 24, 2007, and such information is incorporated herein by reference.

The information required pursuant to Item 406 of Regulation S-K is presented below.

We adopted a senior officer code of ethics that specifically applies to our principal executive officer, principal financial officer, and all associated principal corporate and divisional/business unit financial managers. This code of ethics is posted in the Governance section within the Investor Relations pages of our Website. The Internet address for our Website is *www.power-one.com*.

We intend to satisfy the disclosure requirement under Item 10 of Form 8-K regarding any amendment to, or waiver of, a provision of this code of ethics by posting such information on our website, within the Governance section of our website per the address specified above.

ITEM 11 EXECUTIVE COMPENSATION

The information required by this item will be contained under the caption Executive Officer Compensation in our Proxy Statement related to our Annual Meeting of Stockholders for Fiscal Year 2006, to be held on April 24, 2007, and such information is incorporated herein by reference.

ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item will be contained under the caption Security Ownership of Certain Beneficial Owners and Management in our Proxy Statement related to our Annual Meeting of Stockholders for Fiscal Year 2006, to be held on April 24, 2007, and such information is incorporated herein by reference.

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information called for by this item will be contained under the caption Other Information Certain Relationships and Related Transactions in our Proxy Statement related to our Annual Meeting of Stockholders for Fiscal Year 2006, to be held on April 24, 2007, and is incorporated herein by reference.

ITEM 14 PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information called for by this item will be contained under the captions Ratification of Independent Auditors Principal Accountant Fees and Services in our Proxy Statement related to our Annual Meeting of Stockholders for Fiscal Year 2006, to be held on April 24, 2007, and is incorporated herein by reference.

PART IV

ITEM 15 EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) **FINANCIAL STATEMENTS**

The following financial statements are filed as a part of this Annual Report on Form 10-K:

POWER-ONE, INC.	Page
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Consolidated Statements of Operations	F-3
Consolidated Balance Sheets	F-4
Consolidated Statements of Comprehensive Loss	F-5
Consolidated Statements of Stockholders Equity	F-6
Consolidated Statements of Cash Flows	F-7
Notes to Consolidated Financial Statements	F-9
Quarterly Financial Data for the 2006 and 2005 Quarters (Unaudited)	F-38

(a)(2) SCHEDULES

The following financial statement schedule is filed as a part of this Annual Report on Form 10-K and is incorporated herein by reference.

POWER-ONE, INC.	Page
Schedule II: Valuation and Qualifying Accounts	S-1

(c) EXHIBITS

The exhibit index on page S-2 is hereby incorporated by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Act of 1934, as amended, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

POWER-ONE, INC.
By: /s/ WILLIAM T. YEATES
William T. Yeates
Chief Executive Officer

Date: March 16, 2007

POWER OF ATTORNEY

We the undersigned directors and officers of Power-One, Inc. hereby constitute and appoint William T. Yeates and Paul E. Ross, or any of them, our true and lawful attorneys and agents, to do any and all acts and things in our name and behalf in our capacities as directors and officers and to execute any and all instruments for us and in our names in the capacities indicated below, that said attorneys and agents, or either of them, may deem necessary or advisable to enable said corporation to comply with the Securities and Exchange Act of 1934, as amended, any rules, regulations, and requirements of the SEC, in connection with this Annual Report on Form 10-K, including specifically, but not limited to, power and authority to sign for us or any of us in our names and in the capacities indicated below, any and all amendments and supplements to this Annual Report on Form 10-K, and we hereby ratify and confirm all that the said attorneys and agents, or any of them, shall do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1934, as amended, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated below.

Signature	Title	Date
/s/ WILLIAM T. YEATES (William T. Yeates)	Chief Executive Officer (Principal Executive Officer), Director	March 16, 2007
/s/ PAUL E. ROSS (Paul E. Ross)	Vice President Finance, Treasurer and Chief Financial Officer (Principal Financial Officer)	March 16, 2007
/s/ STEVEN J. GOLDMAN (Steven J. Goldman)	Chairman of the Board of Directors	March 16, 2007
/s/ KENDALL R. BISHOP (Kendall R. Bishop)	Director	March 16, 2007
/s/ JON E. M. JACOBY (Jon E. M. Jacoby)	Director	March 16, 2007
/s/ JAY WALTERS (Jay Walters)	Director	March 16, 2007
/s/ MARK MELLIAR-SMITH (Mark Melliar-Smith)	Director	March 16, 2007
/s/ GAYLA J. DELLY (Gayla J. Delly)	Director	March 16, 2007

FINANCIAL STATEMENTS

The following financial statements are filed as a part of this Report:

POWER-ONE, INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Power One, Inc.:
Camarillo, California

We have audited the accompanying consolidated balance sheets of Power One, Inc. and its subsidiaries (the Company) as of December 31, 2006 and 2005, and the related consolidated statements of operations, comprehensive loss, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and the financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on the financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company s internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 16, 2007 expressed an unqualified opinion on management s assessment of the effectiveness of the Company s internal control over financial reporting and an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

Deloitte & Touche LLP
Los Angeles, California
March 16, 2007

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POWER-ONE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Year Ended December 31, 2006	2005	2004
NET SALES	$ 338,048	$ 261,557	$ 280,279
COST OF GOODS SOLD	245,434	184,870	182,375
GROSS PROFIT	92,614	76,687	97,904
EXPENSES:			
Selling, general and administrative	63,903	58,561	67,827
Engineering and quality assurance	38,582	36,936	42,195
Amortization of intangibles	3,999	3,877	3,913
Restructuring costs	385	11,135	1,080
Asset impairment		5,098	1,991
Total expenses	106,869	115,607	117,006
LOSS FROM OPERATIONS	(14,255)	(38,920)	(19,102)
INTEREST AND OTHER INCOME (EXPENSE):			
Interest income	2,085	2,371	1,792
Interest expense	(1,406)	(220)	(615)
Other income (expense), net	(1,779)	307	(165)
Total interest and other income (expense)	(1,100)	2,458	1,012
LOSS BEFORE PROVISION (BENEFIT) FOR INCOME TAXES	(15,355)	(36,462)	(18,090)
PROVISION (BENEFIT) FOR INCOME TAXES	(730)	1,820	3,100
NET LOSS	$ (14,625)	$ (38,282)	$ (21,190)
BASIC AND DILUTED LOSS PER SHARE	$ (0.17)	$ (0.45)	$ (0.25)
BASIC AND DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING	86,144	84,991	83,757

See notes to consolidated financial statements.

POWER-ONE, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	December 31, 2006	2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 34,422	$ 37,101
Available for sale securities	11,365	5,767
Investments held to maturity		9,790
Accounts receivable:		
Trade, less allowance for doubtful accounts of $6,891 in 2006 and $3,733 in 2005	122,533	58,877
Other	7,208	5,252
Inventories	111,893	41,956
Refundable income taxes	482	101
Deferred income taxes	5,657	
Prepaid expenses and other current assets	6,832	4,025
Total current assets	300,392	162,869
INVESTMENTS HELD TO MATURITY		31,048
PROPERTY AND EQUIPMENT, net	66,831	37,715
GOODWILL, net	53,177	31,850
OTHER INTANGIBLE ASSETS, net	26,850	20,658
OTHER ASSETS	2,021	1,533
TOTAL	$ 449,271	$ 285,673
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Bank credit facilities and notes payable	$ 26,349	$
Accounts payable	91,572	32,268
Income taxes payable	2,452	5,150
Restructuring reserve	10,272	5,098
Deferred income taxes		1,270
Long-term debt, current portion	1,925	
Other accrued expenses	23,667	16,154
Total current liabilities	156,237	59,940
DEFERRED INCOME TAXES	7,977	937
INDEBTEDNESS TO RELATED PARTIES	50,000	
LONG-TERM DEBT, less current portion	2,363	
OTHER LONG-TERM LIABILITIES	9,466	301
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY		
Common stock, par value $0.001; 300,000 shares authorized; 86,594 and 85,588 shares issued and outstanding at December 31, 2006 and 2005	87	86
Additional paid-in capital	611,300	606,315
Accumulated other comprehensive income	29,536	21,164
Accumulated deficit	(417,695)	(403,070)
Total stockholders equity	223,228	224,495
TOTAL	$ 449,271	$ 285,673

See notes to consolidated financial statements.

POWER-ONE, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)

	Year Ended December 31,		
	2006	**2005**	**2004**
NET LOSS	$ (14,625)	$ (38,282)	$ (21,190)
OTHER COMPREHENSIVE INCOME (LOSS)			
Unrealized gain (loss) on investments(a)	192	(675)	(317)
Reclassification adjustment for losses included in net income	830		
Foreign currency translation adjustments(a)	7,350	(10,209)	8,318
COMPREHENSIVE LOSS	$ (6,253)	$ (49,166)	$ (13,189)

(a) Accumulated other comprehensive income consists of unrealized loss on available-for-sale investments of $0.1 million and $1.0 million at December 31, 2006 and 2005, respectively, and foreign currency translation gains of $29.5 million and $22.2 million at December 31, 2006 and 2005, respectively.

See notes to consolidated financial statements.

POWER-ONE, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
(In thousands, except share data)

	Common Stock Shares	$.001 Par Value Amount	Additional Paid-in Capital	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
BALANCE, DECEMBER 31, 2003	83,308,554	$ 83	$ 595,449	$ (662)	$ 24,047	$ (343,598)	$ 275,319
Net loss						(21,190)	(21,190)
Other comprehensive loss:							
Cumulative translation adjustment					8,318		8,318
Unrealized gain (loss) on investments					(317)		(317)
Total comprehensive loss							(13,189)
Issuance of common stock under stock option and purchase plans	613,065	1	3,072				3,073
Stock compensation	32,125		999	618			1,617
Issuance of common stock in connection with acquisition	298,383		3,217				3,217
BALANCE, DECEMBER 31, 2004	84,252,127	84	602,737	(44)	32,048	(364,788)	270,037
Net loss						(38,282)	(38,282)
Other comprehensive loss							
Cumulative translation adjustment					(10,209)		(10,209)
Unrealized gain (loss) on investments					(675)		(675)
Total comprehensive loss							(49,166)
Issuance of common stock under stock option and purchase plans	2,089,592	2	6,782				6,784
Stock compensation	32,125		1,063	44			1,107
Purchase and retirement of common stock	(786,010)		(4,267)				(4,267)
BALANCE, DECEMBER 31, 2005	85,587,834	86	606,315		21,164	(403,070)	224,495
Net loss						(14,625)	(14,625)
Other comprehensive loss							
Cumulative translation adjustment					7,350		7,350
Unrealized gain (loss) on investments					192		192
Reclassification adjustments for losses included in net income					830		830
Total comprehensive loss							(6,253)
Issuance of common stock under stock option and purchase plans	960,721	1	3,225				3,226
Stock compensation	220,330		2,764				2,764
Purchase and retirement of common stock	(175,000)		(1,004)				(1,004)
BALANCE, DECEMBER 31, 2006	86,593,885	$ 87	$ 611,300	$	$ 29,536	$ (417,695)	$ 223,228

See notes to consolidated financial statements.

POWER-ONE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2006	**2005**	**2004**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (14,625)	$ (38,282)	$ (21,190)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	15,041	14,949	16,396
Asset impairment (a)		5,098	1,991
Investment write-off (b)	830	2,049	1,118
Stock compensation	2,764	1,107	1,617
Exchange (gain) or loss	(1,858)	(1,075)	148
Net loss on sale of held to maturity investments	392		
Net (gain) loss on disposal of property and equipment	391	(61)	(190)
Deferred income taxes	(2,027)	409	(1,019)
Changes in operating assets and liabilities:			
Accounts receivable, net	(19,238)	(6,466)	8,050
Notes receivable			804
Inventories	(22,638)	10,205	(1,210)
Refundable income taxes	10	(27)	1,088
Prepaid expenses and other current assets	(9)	(141)	(279)
Accounts payable	18,329	4,270	(7,290)
Restructuring reserve	(1,045)	2,843	(3,404)
Accrued expenses	(2,501)	466	2,552
Other liabilities	243	(638)	32
Net cash used in operating activities	(25,941)	(5,294)	(786)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of available-for-sale investments	(129)	(252)	(7,516)
Purchases of held to maturity investments	(8,334)	(7,810)	(44,193)
Proceeds from available-for-sale investments	5,896	2,001	
Proceeds from held to maturity investments	37,450	11,201	
Acquisition of property and equipment	(5,642)	(6,236)	(7,330)
Proceeds from sale of property and equipment	11	7,915	1,933
Other assets	434	123	(399)
Investment in Power Electronics Group, net of cash acquired	(63,323)		
Net cash provided by (used in) investing activities	(33,637)	6,942	(57,505)
CASH FLOWS FROM FINANCING ACTIVITIES:			