POWER ONE INC
Form 10-Q
May 14, 2003

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2003

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 number 0-29454

POWER-ONE, INC.

(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	**77-0420182** (IRS Employer Identification No.)
740 CALLE PLANO, CAMARILLO, CA (Address of principal executive offices)	**93012** (zip code)

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

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant is considered an accelerated filer as defined in Rule 12b-2 of the Exchange Act. Yes ý No o

As of May 9, 2003, 82,764,767 shares of the Registrant's $0.001 par value common stock were outstanding.

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PART I FINANCIAL INFORMATION

ITEM 1 Consolidated Financial Statements

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

	Three Months Ended March 31,	
	2003	**2002**
NET SALES	$ 56,321	$ 48,399
COST OF GOODS SOLD	34,942	35,793
GROSS PROFIT	21,379	12,606
EXPENSES:		
Selling, general and administrative	14,994	13,899
Engineering and quality assurance	9,088	8,300
Amortization of intangible assets	777	1,513
Restructuring costs		182
Total expenses	24,859	23,894

	Three Months Ended March 31,	
LOSS FROM OPERATIONS	(3,480)	(11,288)
INTEREST AND OTHER INCOME (EXPENSE):		
Interest income	542	595
Interest expense	(238)	(312)
Other income (expense), net	1,049	(212)
Total interest and other income (expense)	1,353	71
LOSS BEFORE INCOME TAXES	(2,127)	(11,217)
PROVISION (BENEFIT) FOR INCOME TAXES	995	(3,970)
NET LOSS	$ (3,122)	$ (7,247)
BASIC LOSS PER SHARE	$ (0.04)	$ (0.09)
DILUTED LOSS PER SHARE	$ (0.04)	$ (0.09)
BASIC WEIGHTED AVERAGE SHARES OUTSTANDING	81,771	79,407
DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING	81,771	79,407

See notes to consolidated financial statements.

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

	March 31, 2003	December 31, 2002
	(Unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 103,382	$ 107,109
Accounts receivable:		
Trade, less allowance for doubtful accounts: $6,678 at March 31, 2003; $6,559 at December 31, 2002	45,380	49,395
Other	6,320	7,379
Notes Receivable	3,000	3,000
Inventories	51,504	48,751
Refundable income taxes	106	122
Prepaid expenses and other current assets	4,210	6,526
Total current assets	213,902	222,282
PROPERTY & EQUIPMENT, net of accumulated depreciation and amortization: $46,553 at March 31, 2003; $43,029 at December 31, 2002	60,831	59,436
PROPERTY & EQUIPMENT HELD FOR SALE	4,752	7,573

	March 31, 2003		December 31, 2002	
GOODWILL, net		26,883		23,990
OTHER INTANGIBLE ASSETS, net		30,155		26,948
NOTES RECEIVABLE		2,972		4,485
OTHER ASSETS		11,186		16,149
TOTAL	$	350,681	$	360,863
LIABILITIES & STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Bank credit facilities	$	729	$	717
Current portion of long-term debt		546		572
Accounts payable		28,468		27,015
Restructuring reserve		5,876		8,252
Deferred income taxes		1,756		1,773
Other accrued expenses		23,620		33,630
Total current liabilities		60,995		71,959
LONG-TERM DEBT, less current portion		8,379		8,908
DEFERRED INCOME TAXES		68		61
OTHER LIABILITIES		525		797
STOCKHOLDERS' EQUITY				
Common stock, par value $0.001; 300,000 shares authorized; 82,522 and 79,999 shares issued and outstanding March 31, 2003 and December 31, 2002, respectively, net of 100 treasury shares		83		80
Additional paid-in-capital		591,632		586,038
Deferred stock compensation		(1,017)		
Accumulated other comprehensive income		18,532		18,414
Accumulated deficit		(328,516)		(325,394)
Total stockholders' equity		280,714		279,138
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	$	350,681	$	360,863

See notes to consolidated financial statements.

POWER-ONE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands except share data, unaudited)

	Three Months Ended March 31,			
	2003		2002	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	$	(3,122)	$	(7,247)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				
Depreciation and amortization		3,867		5,484

	Three Months Ended March 31,	
Tax obligation associated with the deferred compensation plan	(2,588)	
Stock compensation	642	2,808
Net gain on disposal of property and equipment	(190)	(12)
Deferred income taxes	(43)	(126)
Exchange gain	(4)	(43)
Changes in operating assets and liabilities:		
Accounts receivable, net	5,717	3,437
Notes receivable	1,513	
Inventories	(1,394)	5,705
Refundable income taxes	18	1,773
Prepaid expenses and other current assets	2,395	433
Accounts payable	1,019	(1,364)
Accrued expenses	(10,345)	(994)
Restructuring reserve	(2,376)	(957)
Other liabilities	(265)	148
Net cash provided by (used in) operating activities	(5,156)	9,045
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in di/dt, net of cash acquired	(1,131)	
Acquisition of property and equipment	(1,456)	(1,023)
Proceeds from sale of property and equipment	4,694	59
Other assets	(38)	(478)
Net cash provided by (used in) investing activities	2,069	(1,442)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of borrowings on bank credit facilities		(1,404)
Bank overdraft	(11)	(712)
Repayments of long-term debt	(263)	(226)
Principal payments under long-term capital lease obligations	(18)	(133)
Issuance of common stock-net	189	602
Net cash used in financing activities	(103)	(1,873)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(537)	218
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,727)	5,948
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	107,109	79,671
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 103,382	$ 85,619
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid (received) for		
Interest	$ 221	$ 361
Income taxes	$ 116	$ (7,253)

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES

On February 14, 2003, the Company acquired all the capital stock of di/dt, Inc. for approximately 1.4 million shares of the Company's common stock, $1.4 million in cash, plus $0.1 million in acquisition costs.

In conjunction with the acquisition, liabilities were assumed as follows (in thousands):

Fair value of tangible assets acquired	$	7,516
Fair value of goodwill and product technology		6,542
Cash paid for di/dt's capital stock		(1,507)
Prior investment in di/dt		(5,074)
Fair value of stock issued for di/dt's capital stock		(6,337)
Liabilities assumed	$	1,140

See notes to consolidated financial statements.

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

	Three Months Ended March 31,			
	2003		**2002**	
NET LOSS	$	(3,122)	$	(7,247)
OTHER COMPREHENSIVE INCOME				
Foreign currency translation adjustment		118		1,840
COMPREHENSIVE LOSS	$	(3,004)	$	(5,407)

See notes to consolidated financial statements.

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POWER-ONE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Operating results for the period ended March 31, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. For further information, refer to the consolidated financial statements and notes thereto for the year ended December 31, 2002 on Form 10-K.

Power-One, Inc.'s ("the Company") reporting period coincides with the 52- to 53-week period ending on the Sunday closest to December 31 and its fiscal quarters are the 13- to 14-week periods ending on the Sunday nearest to March 31, June 30, September 30 and December 31. For simplicity of presentation, the Company has described the quarter ended March 30, 2003 as March 31, 2003. The Sunday nearest to March 31, 2002 coincided with March 31, 2002.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

Principles of Consolidation The accompanying consolidated financial statements include the consolidated accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated. The Company includes in its statement of operations its pro rata share of the financial results of investments accounted for under the equity method.

Use of Estimates in the Preparation of the Financial Statements The preparation of the financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. Estimates are used for, but not limited to, the accounting for the allowance for doubtful accounts, inventory allowances, restructuring costs, impairment costs, depreciation and amortization, sales returns, warranty costs, taxes, and contingencies. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may differ from those estimates.

Revenue Recognition The Company generally recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or readily determinable, and collectibility is probable. Sales are recorded net of sales returns and discounts. The Company recognizes revenue in accordance with Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements," (SAB 101).

Cash and Cash Equivalents The Company considers all highly liquid instruments with a maturity of three months or less at purchase date to be cash equivalents.

Accounts Receivable and Allowance for Doubtful Accounts The Allowance for Doubtful Accounts is generally established by analyzing each account that has a balance over 90 days past due. Each account is individually assigned a probability of collection. The total amount determined to be uncollectible in the 90-days-past-due category is then reserved fully. The percentage of this reserve to the total accounts receivable balance is then established as a guideline and applied to the rest of the non-current accounts receivable balance. When other circumstances suggest that a receivable may not be collectible, it is immediately reserved for, even if the receivable is not yet in the 90-days-past-due category. This

methodology may be modified or tailored to customary local practice, especially in the Company's overseas locations.

Inventories The Company's inventories are stated at the lower of cost (first-in, first-out method) or market. Slow moving and obsolete inventory are written off quarterly. To calculate the write-off amount, the Company generally compares the current on-hand quantities with the projected usages looking forward between 12 and 24 months. The methodology for forecasting usage may be modified depending on product lifecycles and circumstances in local markets. On-hand quantities greater than projected usages are put on the initial list of slow-moving and obsolete items. The engineering and purchasing departments review the initial list of slow-moving and obsolete items to identify items that have alternative uses in new or existing products. These items are then excluded from the analysis. The remaining amount of slow-moving and obsolete inventory is then written off. Additionally, reserves for non-cancelable open purchase orders for parts the Company is obligated to purchase where demand has been reduced, 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.

Investments The Company has minority equity investments in non-publicly traded companies. These investments are included in other assets on the Company's balance sheet and are accounted for under the cost or equity method depending on the nature and circumstances surrounding the investment. The Company monitors these investments for impairment and makes appropriate reductions in carrying value when necessary.

Intangible Assets Intangible assets include cost in excess of net assets acquired in connection with the acquisition of the Company in 1995, of Melcher Holding AG in 1998, of IPD in 1999, and of di/dt, Inc. in 2003, which have been allocated among certain intangible items determined by management to have value, such as the Company's name, distribution network and product technology. Provision for amortization has been made based upon the estimated useful lives of the intangible asset categories, which range from three to 20 years, using the straight-line method.

Impairment of Long-Lived Assets and Goodwill The Company reviews the recoverability of the carrying value of long-lived assets using the methodology prescribed in Statement of Financial Accounting Standards (SFAS) 144, "Accounting for the Impairment and Disposal of Long-Lived Assets." SFAS 144 superceded SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The Company reviews 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 management's estimates, depending on the nature of the assets.

The Company reviews the carrying value of goodwill using the methodology prescribed in SFAS 142, "Goodwill and Other Intangible Assets." SFAS 142 requires that the Company 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.

Property and Equipment Property and equipment are recorded at cost. Provision for depreciation has been made based upon the estimated useful lives of the assets, which range from three to 30 years, using principally the double declining balance and straight-line methods. Provision for amortization of leasehold improvements is made based upon the estimated lives of the assets or terms of the leases, whichever is shorter. Property and equipment held for sale has been classified in accordance with the provisions of SFAS 144.

Restructuring Costs Through December 31, 2002, the Company recorded restructuring charges in accordance with Emerging Issues Task Force (EITF) Issue 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." Restructuring costs related to the downsizing of the Company's operations and primarily consisted of specific charges that had been incurred and were to be incurred with no future economic benefit. These charges included costs related to personnel severance, continuing lease obligations for vacant facilities and write-off of leasehold improvements and equipment therein, and certain contract termination penalties and other shutdown costs. Effective, January 1, 2003, the Company began recording restructuring charges, if any, in accordance with SFAS 146, "Accounting for Costs Associated with Disposal Activities."

Income Taxes Income taxes are provided for taxes currently payable or refundable, and for deferred income taxes arising from future tax consequences of events that have been recognized in the Company's financial statements or tax returns. The effects of income taxes are measured based on enacted tax laws and rates.

Additionally, the Company's subsidiary Power-Electronics ("P-E") operates in the Dominican Republic in a tax-free enterprise zone and, accordingly, pays no income taxes in connection with its operations in that country. The Company has not provided for the U.S. federal and state income tax that would be paid on unremitted earnings from P-E or any of its other overseas subsidiaries, as there is no intent to remit any future earnings.

The Company's operations in Mexico, which were closed at the end of 2002, have been subject to various income and corporate taxes on earnings generated in Mexico under the Maquiladora Program.

Deferred Income Tax Asset Valuation Allowance The Company records a deferred income tax asset in jurisdictions where it generates a loss for income tax purposes. The Company also records a valuation allowance against these deferred income tax assets in accordance with SFAS 109, "Accounting for Income Taxes," when, in management's judgment, the deferred income tax assets may not be realized in the foreseeable future.

Stock Compensation The Company uses the intrinsic-value method of accounting prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees," in accounting for stock options granted to employees. Accordingly, the Company does not recognize compensation expense for stock option grants to employees in the Consolidated Statement of Operations that have been made at fair market value.

SFAS 123, "Accounting for Stock-Based Compensation," encourages, but does not require, the recognition of compensation expense for employee stock-based compensation arrangements using the fair value method of accounting. The Company has elected the "disclosure only" alternative and has disclosed the pro forma net loss per share amounts using the fair value method. In accordance with SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of FASB Statement No. 123," the pro forma disclosure required is shown below.

	Three Months Ended March 31,	
	2003	2002
	(In millions, except per share data)	
Net loss, as reported	$ (3.1)	$ (7.2)
Add: Stock-based employee compensation expense included in reported net loss	0.1	
Deduct: Total stock-based employee compensation expense determined under fair value based method	(5.9)	(6.0)
Pro forma net loss	$ (8.9)	$ (13.2)
Loss per share:		
Basic and Diluted-as reported	$ (0.04)	$ (0.09)
Basic and Diluted-pro forma	$ (0.11)	$ (0.17)

The pro forma amounts for the three-month periods ended March 31, 2003 and 2002 do not include a tax benefit on the stock compensation due to the deferred income tax valuation allowance recorded by the Company in each respective period. The fair value of each option grant is estimated on the date of grant using the Black-Scholes model, with the following assumptions used in the three-month periods ended March 31, 2003 and 2002: risk-free interest rate of 3.5% and 4.9% respectively; expected volatility of 84.5% and 66.3% respectively; an expected option life of 5.8 and 6.5 years, respectively; and no expected dividends for each of the three-month periods. The aggregate fair value of stock options granted were $10.7 million and $0.2 million in the three-month periods ended March 31, 2003 and 2002, respectively.

Earnings Per Share The Company presents both basic and diluted earnings (loss) per share ("EPS") amounts. Basic EPS is calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted EPS amounts are based upon the weighted average number of common and common equivalent shares outstanding during the period. Common equivalent shares are excluded from the computation in periods in which they have an anti-dilutive effect. The difference between basic and diluted EPS is solely attributable to stock options. The Company uses the treasury stock method to calculate the impact of outstanding stock options. Stock options for which the exercise price exceeds the average market price over the period have an anti-dilutive effect on EPS and, accordingly, are excluded from the calculation.

Engineering Engineering costs include existing product engineering, custom product development and research and development costs. Research and development costs are expensed in the period incurred.

Warranties The Company generally offers its customers a two-year warranty on all products sold, although warranty periods may vary by product type and application. Based on warranty repair costs and the estimated rate of return, the Company periodically reviews and adjusts its warranty accrual. Actual repair costs are offset against the reserve balance as incurred. The Company has adopted the disclosure requirements of Financial Accounting Standards Board ("FASB") Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees on Indebtedness of Others," regarding warranties.

Derivative Instruments The Company accounts for derivative instruments in accordance with SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," as subsequently amended by SFAS 137 and SFAS 138, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. In addition, this statement requires hedge accounting when certain conditions are met. The Company did not hold any derivative financial instruments during the 2003 and 2002. As a result, adoption of SFAS 133 and subsequent amendments did not have a significant effect on the

Company's financial position, results of operations, or cash flows.

Fair Value of Financial Instruments The recorded values of the Company's accounts receivable, notes receivable, accounts payable and accrued expenses approximate their fair values based on their short-term nature. The recorded values of the Company's notes receivable, notes payable to banks, long-term debt and other liabilities approximate fair value, as interest is tied to or approximates market rates.

Concentration of Risk Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents placed with high credit quality institutions and trade receivables. The Company sells products and extends credit to customers, primarily in the United States, Europe and Asia; periodically monitors its exposure to credit losses; and maintains allowances for anticipated losses. Cisco Systems was the only customer to exceed 10% of net sales in the quarter ended March 31, 2003.

Conversion of Foreign Currencies The reporting currency for the consolidated financial statements of the Company is the U.S. dollar. The assets and liabilities of companies whose functional currency is other than the U.S. dollar are included in the consolidation by translating the assets and liabilities at the exchange rates applicable at the end of the reporting period. The statements of operations and cash flows of such companies are translated at the average exchange rates during the applicable period. Translation gains or losses are accumulated as a separate component of stockholders' equity. The Company has not tax-affected the cumulative translation adjustment as there is no intention to remit the earnings.

Reclassifications Certain prior year amounts have been reclassified to conform to the current year presentation.

Segment Reporting The Company operates as one segment in accordance with SFAS 131, "Disclosures About Segments of an Enterprise and Related Information". The Company's chief

operating decision maker and management personnel view the Company's performance and make resource allocation decisions by looking at the Company as a whole. Although there are different divisions within the Company, they are economically similar and are also similar in terms of the five criteria set forth in SFAS 131 that must be met to combine segments. The Company's products are all power conversion products primarily geared toward the communication industry, and the sales force sells products from all divisions. The nature of the production process is similar across divisions, and manufacturing for the different divisions occurs in common facilities. Generally, the same engineers with the same qualifications design and manufacture products across divisions. The types and class of customers are similar across the divisions and product lines, and our products are distributed through common channels and distributor networks.

Recent Pronouncements and Accounting Changes In June 2002, the FASB issued SFAS 146, which nullifies EITF Issue No. 94-3. SFAS 146 is effective for exit and disposal activities that are initiated after December 31, 2002 and 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, as required by EITF Issue 94-3. The Company adopted SFAS 146 effective January 1, 2003.

The Company believes that the adoption of SFAS 146 may be material to the financial statements should any restructuring initiatives be implemented subsequent to adoption. Currently, the Company does not anticipate any new restructuring initiatives that would be subject to SFAS 146. Had SFAS 146 been adopted and applied to 2002, the Company's restructuring charge would have been smaller, as SFAS 146 delays recognition of certain restructuring liabilities until they are incurred rather than committed to, such as severance obligations, and requires fair value recognition of continuing lease obligations.

NOTE 3 ACQUISITION

On February 14, 2003, the Company completed its acquisition of di/dt Inc., a Delaware corporation based in Carlsbad, California and a technology innovator in the design and manufacture of high-density DC/DC converters used mainly in communications systems and networking environments. The Company acquired di/dt primarily for its innovative technology in the DC/DC space.

The purchase price for di/dt was approximately $12.9 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; and $1.5 million in cash acquisition costs and bridge funding to di/dt. The Company may pay up to an additional 1.0 million shares of Company's common stock as earn-out to former di/dt shareholders, of which 0.2 million shares were distributed in May 2003. The earn-out is payable in varying installments thru December 31, 2004, and is contingent upon the attainment of defined operational performance and new product introduction during 2003 and 2004. All earn-out payments made will be recorded as additional goodwill. In addition, the Company has granted a cash bonus of approximately $1.0 million to the original founders of di/dt, half of which was paid upon close of the acquisition in

February 2003 and accounted for in the purchase price; the other half will be paid in August 2003 contingent upon their continued employment with the Company, and will be recorded as compensation expense.

The acquisition was accounted for using the purchase method of accounting, and the purchase price allocation is preliminary and subject to audit. The net purchase price, plus acquisition costs, was allocated to tangible assets and intangible assets. The excess of the aggregate purchase price over the estimated fair values of the net tangible assets acquired was recognized as goodwill and product technology. Product technology is being amortized over five years. The fair value of di/dt's assets and liabilities has been included in the Company's balance sheet as of March 31, 2003. The consolidated statements of operations, comprehensive income (loss) and cash flows for the quarter ended March 31, 2003, include one month of di/dt's operations. No pro forma information is included herein, as di/dt does not meet the definition of a significant subsidiary.

Prior to the acquisition, the Company held an exclusive license from di/dt for certain current, as well as prospective new products of di/dt, under which license the Company was making royalty payments to di/dt relating to sales of licensed products. Stephens, Inc., a significant shareholder of the Company, was also a significant shareholder in di/dt.

NOTE 4 INVENTORIES

Inventories consist of the following (in millions):

	March 31, 2003	December 31, 2002
Raw materials	$ 29.5	$ 33.4
Subassemblies-in-process	7.1	5.9
Finished goods	14.9	9.5
	$ 51.5	$ 48.8

NOTE 5 LOSS PER SHARE

Basic loss per share is computed by dividing net loss by the weighted average common shares outstanding for the period, while diluted earnings per share also include the dilutive effect of stock options.

Basic and diluted loss per share are calculated as follows (in millions, except per share data):

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Basic and diluted loss per share:		
Net loss	$ (3.1)	$ (7.2)
Basic and diluted weighted average shares outstanding	81.8	79.4
Basic and diluted loss per share	$ (0.04)	$ (0.09)

The dilutive effect of stock options outstanding at March 31, 2003 and 2002 was not included in the calculation of diluted loss per share for the three-month periods ended March 31, 2003 and 2002 because to do so would have had an anti-dilutive effect as the Company had a net loss for each of these periods. The weighted average number of shares excluded from the diluted loss per share

computation was approximately 1.2 million and 2.6 million for the three-month periods ended March 31, 2003 and 2002, respectively.

NOTE 6 INTANGIBLE ASSETS

Intangible assets consist of the following (in millions):

	March 31, 2003			
	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets	Weighted Average Life (In years)
Non-amortizable intangibles				
Goodwill	$ 32.0	$ 5.1	$ 26.9	
Trade name	16.6	5.2	11.4	
Subtotal	48.6	10.3	38.3	
Amortizable intangibles				
Product technology	24.0	11.6	12.4	9
Other	10.3	4.0	6.3	15
Subtotal	34.3	15.6	18.7	
Total	$ 82.9	$ 25.9	$ 57.0	

	December 31, 2002			
	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets	Weighted Average Life (In years)
Non-amortizable intangibles				
Goodwill	$ 29.1	$ 5.1	$ 24.0	
Trade name				