PULSE ELECTRONICS CORP
Form 10-Q
November 07, 2012

UNITED STATES
SECURITIES & EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x The Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 28, 2012, or

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ______________ to ______________.

Commission File No. 1-5375

PULSE ELECTRONICS CORPORATION
(Exact name of registrant as specified in its Charter)

PENNSYLVANIA (State or other jurisdiction of incorporation or organization)	23-1292472 (IRS Employer Identification Number)
12220 World Trade Drive San Diego, CA (Address of principal executive offices)	92128 (Zip Code)

Registrant's telephone number, including area code: 858-674-8100

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 the filing requirements for the past 90 days.
Yes x No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Act).

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

Smaller reporting company o

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

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of November 7, 2012: 42,460,311

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PART I. FINANCIAL INFORMATION

Item 1: Financial Statements

Pulse Electronics Corporation and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)
In thousands

Assets	September 28, 2012	December 30, 2011
Current assets:		
Cash and cash equivalents	$ 22,348	$ 17,606
Accounts receivable, net	55,746	59,507
Inventory, net	31,492	36,968
Prepaid expenses and other current assets	25,293	22,144
Total current assets	134,879	136,225
Long-term assets:		
Property, plant and equipment	98,005	97,448
Less accumulated depreciation	67,803	68,843
Net property, plant and equipment	30,202	28,605
Deferred income taxes	5,041	8,549
Intangible assets, net	3,184	3,535
Other assets	3,195	4,151
	$ 176,501	$ 181,065
Liabilities and Shareholders' Deficit		
Current liabilities:		
Accounts payable	$ 60,549	$ 52,802
Accrued expenses and other current liabilities	41,435	44,935
Current portion of long-term debt	54,950	--
Total current liabilities	156,934	97,737
Long-term liabilities:		
Long-term debt	--	43,950
Convertible senior notes	50,000	50,000
Deferred income taxes	8,764	8,653
Other long-term liabilities	9,531	12,997
Shareholders' deficit:		
Pulse Electronics Corporation shareholders' deficit:		
Common stock and additional paid-in capital	222,457	218,795
Accumulated deficit	(299,961)	(280,498)
Accumulated other comprehensive income	21,581	21,977
Total Pulse Electronics Corporation shareholders' deficit	(55,923)	(39,726)
Non-controlling interest	7,195	7,454
Total shareholders' deficit	(48,728)	(32,272)

	$	176,501	$	181,065

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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Pulse Electronics Corporation and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)
In thousands, except per share data

	Three Months Ended September 28, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 28, 2012	Nine Months Ended September 30, 2011
Net sales	$88,233	$ 96,014	$282,751	$ 278,811
Cost of sales	71,281	73,913	228,198	215,913
Gross profit	16,952	22,101	54,553	62,898
Selling, general and administrative expenses	18,049	19,798	55,834	62,594
Severance, impairment and other associated costs	3,851	2,968	5,901	13,591
Debt restructuring and related costs	814	--	814	--
Cost related to unsolicited takeover attempt	--	--	--	1,916
Operating loss	(5,762)	(665)	(7,996)	(15,203)
Other (expense) income:				
Interest expense, net	(3,754)	(1,917)	(10,099)	(4,368)
Other income (expense), net	948	(1,088)	877	621
Total other expense	(2,806)	(3,005)	(9,222)	(3,747)
Loss from continuing operations before income taxes	(8,568)	(3,670)	(17,218)	(18,950)
Income tax (expense) benefit	(356)	2,682	(2,504)	8,512
Net loss from continuing operations	(8,924)	(988)	(19,722)	(10,438)
Net (loss) earnings from discontinued operations	--	(270)	--	342
Net loss	(8,924)	(1,258)	(19,722)	(10,096)
Less: Net earnings (loss) attributable to non-controlling interest	35	(118)	(259)	(26)
Net loss attributable to Pulse Electronics Corporation	$(8,959)	$ (1,140)	$(19,463)	$ (10,070)
Amounts attributable to Pulse Electronics Corporation common shareholders:				
Net loss from continuing operations	$(8,959)	$ (870)	$(19,463)	$ (10,412)
Net (loss) earnings from discontinued operations	--	(270)	--	342
Net loss attributable to Pulse Electronics Corporation	$(8,959)	$ (1,140)	$(19,463)	$ (10,070)
Per share data:				
Basic (loss) earnings per share:				
Net loss from continuing operations	$(0.21)	$ (0.02)	$(0.47)	$ (0.25)
Net (loss) earnings from discontinued operations	--	(0.01)	--	0.01

Net loss attributable to Pulse Electronics Corporation	$(0.21)	$ (0.03)	$(0.47)	$ (0.24)
Diluted (loss) earnings per share:				
Net loss from continuing operations	$(0.21)	$ (0.02)	$(0.47)	$ (0.25)
Net (loss) earnings from discontinued operations	--	(0.01)	--	0.01
Net loss attributable to Pulse Electronics Corporation	$(0.21)	$ (0.03)	$(0.47)	$ (0.24)

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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Pulse Electronics Corporation and Subsidiaries
Condensed Consolidated Statement of Comprehensive Loss
(Unaudited)
In thousands

	Three Months Ended		Nine Months Ended	
	September 28, 2012	September 30, 2011	September 28, 2012	September 30, 2011
Comprehensive loss:				
Net loss	$(8,924)	$(1,258)	$(19,722)	$(10,096)
Other comprehensive income (loss):				
Currency translation adjustment	(539)	721	(396)	1,554
Total comprehensive loss	(9,463)	(537)	(20,118)	(8,542)
Less: Comprehensive (loss) income attributable to non-controlling interests	35	(118)	(259)	(26)
Comprehensive loss attributable to Pulse Electronics Corporation	$(9,498)	$(419)	$(19,859)	$(8,516)

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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Pulse Electronics Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)
In thousands

	Nine Months Ended September 28, 2012	September 30, 2011
Cash flows from operating activities:		
Net loss	$(19,722)	$ (10,096)
Net earnings from discontinued operations	--	(342)
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	5,923	7,770
Amortization and write-off of deferred loan costs	3,299	1,069
Stock incentive plan expense, net of cash payments	1,324	983
Changes in assets and liabilities, net of the effect of divestitures:		
Accounts receivable	3,871	7,457
Inventory	5,272	(1,229)
Prepaid expenses and other current assets	(2,988)	(609)
Accounts payable and accrued expenses	(34)	(18,559)
Severance, impairment and other associated costs, net of cash payments	(1,368)	7,191
Other, net	(118)	850
Net cash used in operating activities	(4,541)	(5,515)
Cash flows from investing activities:		
Cash received from dispositions, net	--	1,041
Deposits received from pending divestitures, net	6,532	--
Capital expenditures	(6,999)	(8,765)
Proceeds from sale of property, plant and equipment	591	695
Foreign currency impact on intercompany lending	(256)	752
Net cash used in investing activities	(132)	(6,277)
Cash flows from financing activities:		
Credit facility borrowings	11,000	25,000
Principal payments on credit facility	--	(24,200)
Debt issuance costs	(1,584)	(1,007)
Purchases of shares in non-controlling interest	--	(4,134)
Dividends paid	--	(3,119)
Net cash provided by (used in) financing activities	9,416	(7,460)
Effect of exchange rate changes on cash	(1)	21
Cash flows of discontinued operations:		
Net cash used in operating activities	--	(270)

Net decrease in cash and cash equivalents from discontinued operations	--	(270)
Net increase (decrease) in cash and cash equivalents	4,742	(19,501)
Cash and cash equivalents at beginning of period	17,606	35,905
Cash and cash equivalents at end of period	$22,348	$ 16,404
Supplemental cash flows disclosures of non-cash investing activity:		
Net change in non-cash capital expenditures	255	--

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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Pulse Electronics Corporation and Subsidiaries
Condensed Consolidated Statement of Changes in Shareholders' Deficit
Nine Months Ended September 28, 2012
(Unaudited)
In thousands

	Common stock and paid-in capital Shares	Common stock and paid-in capital Amount	Accumulated deficit	Accumulated other comprehensive income	Non-controlling interest	Total deficit
Balance at December 30, 2011	41,980	$218,795	$ (280,498)	$ 21,977	$7,454	$(32,272)
Stock options, awards, and related compensation	408	1,649	--	--	--	1,649
Warrants issued in connection with credit facility	--	2,013	--	--	--	2,013
Warrants exercised in connection with credit facility	72	--	--	--	--	--
Net loss	--	--	(19,463)	--	(259)	(19,722)
Currency translation adjustments	--	--	--	(396)	--	(396)
Balance at September 28, 2012	42,460	$222,457	$ (299,961)	$ 21,581	$7,195	$(48,728)

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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Pulse Electronics Corporation and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements, continued

(1) General

Basis of presentation

The unaudited Condensed Consolidated Financial Statements of Pulse Electronics Corporation (“Pulse Electronics”, “Pulse”, or “the Company”, which may be referred to as “we” or “our”) have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete consolidated financial statements. In the opinion of management, all adjustments, consisting principally of normal recurring adjustments, considered necessary for a fair presentation have been included. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from these estimates. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto in the Company's Annual Report on Form 10-K for the year ended December 30, 2011. Results for the nine month period ended September 28, 2012 are not necessarily indicative of annual results.

Reclassifications

We have reclassified certain items on our Condensed Consolidated Financial Statements to conform to the current year presentation.

Revision of prior period financial statements

In connection with the preparation of our Condensed Consolidated Financial Statements for the third quarter of 2012, we identified a prior period amount that requires a correction to be made to a deferred tax valuation allowance recorded in the fourth quarter of 2011. The prior period amount that requires correction resulted in an overstatement of $5.5 million in income tax expense reported for the fourth quarter and full year of 2011 and the valuation allowance reported on our balance sheet at December 30, 2011 and for each period subsequent to then.

In evaluating whether the Company’s previously issued consolidated financial statements were materially misstated, the Company considered the guidance in Accounting Standard Codification (“ASC”) Topic 250, Accounting Changes and Error Corrections, ASC Topic 250-10-S99-1, Assessing Materiality, and ASC Topic 250-10-S99-2, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements. The Company concluded that correction of the prior period amount was not material individually or in the aggregate to any of the prior reporting periods, and therefore, amendments of previously filed reports were not required. However, if the prior period amount was recorded in the third quarter of 2012, the amount could be material in the year ended December 28, 2012 and could impact comparisons to prior periods. As such, the revisions to correct the prior period amount in the applicable prior periods are reflected in the financial information herein and will be reflected in future filings containing such financial information. The revision had no net impact on the Company’s consolidated statements of cash flows for any prior period.

The following table summarizes the effects of the correction on the revised unaudited Condensed Consolidated Balance Sheet (in thousands):

As of December 30, 2011

	As previously reported	Adjustment	Reclassification	As revised
Prepaid expenses and other current assets	$19,842	$222	$ 2,080	$22,144
Total current assets	133,923	222	2,080	136,225
Deferred income taxes, non-current	3,223	5,326	--	8,549
Total assets	173,437	5,548	2,080	181,065
Accrued expenses and other current liabilities	42,855	--	2,080	44,935
Total current liabilities	95,657	--	2,080	97,737
Accumulated deficit	(286,046)	5,548	--	(280,498)
Total Pulse Electronics Corporation shareholders' deficit	(45,274)	5,548	--	(39,726)
Total shareholders' deficit	(37,820)	5,548	--	(32,272)
Total liabilities and shareholders' deficit	$173,437	$5,548	$ 2,080	$181,065

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Pulse Electronics Corporation and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements, continued

Recently adopted accounting pronouncements

Effective at the beginning of our fiscal year 2012, we retrospectively adopted changes issued by the Financial Accounting Standards Board (“FASB”) to the presentation of comprehensive income. These changes eliminate the option to present components of other comprehensive income as part of the statement of changes in shareholders' deficit and requires that all changes in shareholders' deficit be presented either in a single statement of comprehensive income or in two separate but consecutive statements. The adoption of these changes affected our presentation of other comprehensive income in our Condensed Consolidated Financial Statements, but did not have any impact on our results of operations, financial position, or cash flows.

In July 2012, the FASB issued amendments to the indefinite-lived intangible asset impairment guidance, which provides an option for companies to use a qualitative approach to test indefinite-lived intangible assets for impairment if certain conditions are met. The amendments are effective for annual and interim indefinite-lived intangible asset impairment tests performed for fiscal years beginning after September 15, 2012 (early adoption is permitted). The implementation of the amended accounting guidance is not expected to have a material impact on our Condensed Consolidated Financial Statements.

(2) Assets held for sale

On February 22, 2012 and September 28, 2012, we entered into a series of definitive agreements with an acquirer for the sale of three of our manufacturing plants in China and equipment related to our encapsulated transformer product line. We completed the sale of our encapsulated transformer assets in the first quarter of 2012 and recognized a gain of $0.4 million on the sale. The remaining assets included under these definitive agreements are pending the completion of certain closing conditions. During the first quarter and third quarter of 2012, we received $5.1 million and $1.6 million from the acquirer, respectively, in cash deposits in connection with the pending asset sales under these definitive agreements. As of September 28, 2012, these remaining assets have a net carrying value of $7.3 million, of which $6.0 million are classified as held for sale within other current assets and $1.3 million are included in inventory, net in the Condensed Consolidated Balance Sheets. We expect to complete these sales in the fourth quarter of 2012.

During the fourth quarter of 2011, we reclassified the land and building located in our former operations in Tunisia as held for sale within other current assets in the Condensed Consolidated Balance Sheets. These assets are being actively marketed and remain classified as held for sale at September 28, 2012 and have a net carrying value of approximately $2.4 million.

(3) Inventory

Inventory as of September 28, 2012 and December 30, 2011 consisted of the following (in thousands):

	September 28, 2012	December 30, 2011
Finished goods	$ 16,505	$ 18,768
Work in process	4,528	5,650
Raw materials and supplies	10,459	12,550
	$ 31,492	$ 36,968

(4) Accrued expenses and other current liabilities

Accrued expenses and other current liabilities as of September 28, 2012 and December 30, 2011 consisted of the following (in thousands):

	September 28, 2012	December 30, 2011
Accrued compensation	$ 8,881	$ 10,553
Income taxes payable	2,251	7,047
Accrued restructuring costs	1,611	4,157
Deposit on pending divestitures (Note 2)	6,700	--
Other accrued expenses	21,992	23,178
	$ 41,435	$ 44,935

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Pulse Electronics Corporation and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements, continued

(5) Intangible assets, net

The net carrying amounts of intangible assets as of September 28, 2012 and December 30, 2011 are as follows (in thousands):

	September 28, 2012	December 30, 2011
Intangible assets subject to amortization (definite lives):		
Customer relationships	$ 3,300	$ 3,300
Technology	2,000	2,000
Total	5,300	5,300
Accumulated amortization:		
Customer relationships	(2,716)	(2,365)
Technology	(2,000)	(2,000)
Total	(4,716)	(4,365)
Net intangible assets subject to amortization	584	935
Intangible assets not subject to amortization (indefinite lives):		
Tradename	2,600	2,600
Intangible assets, net	$ 3,184	$ 3,535

As of September 28, 2012, the weighted average useful life of intangible assets with finite lives was approximately 1.25 years. Amortization expense for intangible assets was $0.4 million and $1.1 million for the nine months ended September 28, 2012 and September 30, 2011, respectively.

(6) Income taxes

The income tax benefit for the nine months ended September 28, 2012 and September 30, 2011 was as follows (in thousands):

	September 28, 2012	September 30, 2011
Income tax (expense) benefit	$ (2,504)	$ 8,512
Effective tax rate	(14.5)%	44.9 %

The Company's effective tax rate is a blended rate for different jurisdictions in which the Company operates. We continue to provide a full valuation allowance against losses in the majority of jurisdictions in which we operate. The Company will continue to evaluate the realizability of its net deferred tax assets on an ongoing basis to identify whether any significant changes in circumstances or assumptions have occurred that could materially affect the realizability of deferred tax assets and expect to release the valuation allowance when it has sufficient positive evidence, including, but not limited to, cumulative earnings in successive recent periods, to overcome the negative evidence the Company has encountered with its recent history of cumulative losses. The change in the effective tax rate in the first nine months of 2012 versus the first nine months of 2011 was primarily due to the occurrence of losses in individual jurisdictions, which we are unable to realize as a tax benefit. Additional reserves, relating to a foreign audit, were recorded in the amount of $0.5 million during the third quarter of 2012. Also, there was a net release of tax reserves of approximately $9.1 million during the first nine months of 2012, the majority of which is due to the settlement of an audit in Hong Kong and the expiration of statutes. This reserve activity impacted the effective rate by $0.4 million.

We recognize interest and penalties, if any, related to income tax matters as income tax expense. As of September 28, 2012, we have approximately $0.3 million accrued for interest and penalties related to uncertain income tax positions. The accrual balance for interest and penalties increased by approximately $0.1 million during the nine months ended September 28, 2012.

At September 28, 2012, we had approximately $8.2 million of unrecognized tax benefits, which represents a reduction of $9.1 million for the year ended December 30, 2011. The reduction of $9.1 million was primarily due to settlement of an audit in Hong Kong and expiration of a statute during the nine months ended September 28, 2012. The reduction is not expected to have an impact on the tax rate due to valuation allowances in the related jurisdictions.

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Pulse Electronics Corporation and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements, continued

(7) Defined benefit plans

We maintain defined benefit pension plans for certain U.S. and non-U.S. employees. However, the benefits under our domestic defined benefit plan were frozen as of December 31, 2010. Accrued benefits were based on years of service and average final compensation. We do not provide any post-retirement benefits outside of the U.S. except as may be required by certain foreign jurisdictions. Depending on the investment performance of our plan assets and other contributing factors, funding in a given year may not be required.

Our net periodic benefit income was less than $0.1 million and approximately $0.5 million for the nine months ended September 28, 2012 and September 30, 2011, respectively. In the nine months ended September 28, 2012, we contributed less than $0.1 million to our defined benefit plans.

(8) Commitments and contingencies

We are a party to various legal proceedings, claims, and assessments that arise in the ordinary course of business, and may continue to incur significant costs in defending or settling legal matters. The total amount and timing of the expected future payments related to these matters cannot be estimated due to the uncertainty of the duration of the legal proceedings and the ultimate scope of other claims. However, an unfavorable outcome in a single matter or in multiple legal matters during the same reporting period could have a material adverse effect on our consolidated financial position, results from operations, and cash flows.

We are a defendant in a lawsuit filed in March 2007 by Halo Electronics, Inc. in the United States District Court, District of Nevada. The case is captioned Halo Electronics, Inc. v. Pulse Electronics, Inc. and Pulse Electronics Corp., Case No. 2:07-cv-00331-PMP-PAL. The plaintiff claims that we infringe certain U.S. patents related to an electronic surface mount package, and is seeking injunctive relief and damages. Discovery has ended, and on September 6, 2011, the Court ruled on numerous pending motions for summary judgment. The Court denied the plaintiff's motion for summary judgment of infringement by our products with the exception of one claim relating to one representative product. The Court partially granted one of our summary judgment motions, in effect, excluding any liability for direct infringement for products sold outside of North America on all of the plaintiff's claims.

A trial date has been scheduled for November 7, 2012. The plaintiff has previously produced expert reports asserting infringement and liability in the amount of $34.3 million for sales through July 2010, plus requests for trebling and attorneys fees. However, these reports do not take into account the Court's September 2011 ruling, which excluded foreign sales from direct infringement and therefore may reduce our potential exposure to significantly less than the amount claimed by the plaintiff.

In light of the Court's summary judgment order and its ruling that we are not liable with respect to direct infringement for products sold outside North America, we recorded a charge of approximately $0.2 million as selling, general and administrative expense during the year ended December 30, 2011. We intend to continue presenting a vigorous defense against the remaining claims in the case, to maintain our counterclaim that Pulse owes no liability whatsoever to Halo, to contest the amount of damages asserted by Halo and its expert, and to consider our rights of appeal with respect to any adverse rulings. However, management is currently unable to determine whether any additional loss will occur or to estimate the range of such loss. During the nine months ended September 28, 2012 and September 30, 2011, we incurred approximately $0.6 million and $0.8 million of legal expenses, respectively, related to this matter.

(9) Debt

On December 22, 2009, we issued $50.0 million in convertible senior notes, which will mature on December 15, 2014. The notes bear a coupon rate of 7.0% per annum that is payable semi annually in arrears on June 15 and December 15 of each year.

We have a credit facility that provides for borrowings not to exceed $55.0 million including letters of credit in an aggregate amount not to exceed $3.0 million. Our credit facility was amended on March 9, 2012 and the revised terms reduced the borrowings permitted under the credit facility from $60.8 million to $55.0 million, increased the interest rate on the outstanding borrowings, reduced our permitted capital expenditures and reduced the available cash we are required to maintain to $1.0 million. In addition, under the amended facility, net proceeds that we receive from any dispositions of assets or equity interests in our wholly-owned subsidiaries, issuance of equity and incurrence of additional indebtedness (as permitted) must be used to repay our outstanding borrowings under the credit facility. Outstanding borrowings that are repaid or prepaid may not be reborrowed. The amendment also eliminated the requirement that we comply with the following financial covenants for the remainder of the facility term: (i) total debt (excluding our convertible senior notes) as compared to our rolling four-quarter EBITDA; (ii) fixed charges as compared to our rolling four-quarter EBITDA; and (iii) a minimum rolling six-month EBITDA.

Pulse Electronics Corporation and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements, continued

The amendment was accounted for as a modification to the existing credit facility. We have $55.0 million of outstanding borrowings under the credit facility at September 28, 2012, which have been classified as a current liability in our Condensed Consolidated Balance Sheets.

In connection with the amendment to the credit facility completed in March 2012, we issued to the existing bank group warrants to purchase approximately 2.6 million shares of common stock of our Company at an exercise price of $0.01 per share. The warrants vest over time if we have not repaid the credit facility in full by certain dates. We did not repay the outstanding borrowings under the facility by the first and second warrant vesting dates of June 28, 2012 and September 28, 2012, respectively. Consequently, warrants to purchase approximately 1.2 million shares of common stock became vested. On December 31, 2012, warrants to purchase approximately 1.4 million additional shares of common stock will vest unless the Company has repaid the outstanding borrowings under the credit facility by such date.

If the repayment occurs as of December 31, 2012 then 1.4 million of the warrants will revert to us and be canceled. If the outstanding borrowings are not repaid by December 31, 2012, none of the warrants will revert to us. The warrants are exercisable on a cashless basis from the vesting date through March 9, 2015. During the three months ended September 28, 2012, 0.1 million warrants were exercised.

We recorded the fair value of the equity-classified warrants of $2.0 million as debt issuance costs, which have been capitalized and are being amortized using the effective interest method. The value of the warrants was determined on the date of grant using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 0.46%, volatility of 80.0%, a three-year term, and no dividend yield. The valuation also took into account the probability that warrants will vest and become exercisable at June 28, 2012, September 28, 2012, and December 31, 2012. These vesting probabilities were based on management's estimates regarding the probability of success and timing related to the possible sale of certain non-strategic assets and additional financing opportunities that would enable us to repay the outstanding borrowings under the credit facility by these dates.

We incurred additional debt issuance costs in connection with the March 2012 amendment of $1.3 million. These costs have been capitalized and are being amortized using the effective interest method through the maturity date of the debt. In addition, we recorded a charge of approximately $0.3 million to write off previously capitalized fees and costs that related to the credit facility and its amendments. We incurred additional fees of 0.5% of outstanding borrowings on June 28, 2012 and September 28, 2012, or $0.6 million, and may incur additional fees on December 31, 2012, if outstanding borrowings under the credit facility remain outstanding at this date.

As noted in Note 14, Subsequent Events, the Company entered into an agreement to amend the credit facility, including a change to the maturity date. As of September 28, 2012, there were no changes to the existing credit facility described above.

(10) Per share amounts

Net (loss) earnings per share calculations are as follows (in thousands, except per share amounts):

	Three Months Ended		Nine Months Ended	
	September 28, 2012	September 30, 2011	September 28, 2012	September 30, 2011

Net loss from continuing operations	$ (8,924)	$ (988)	$ (19,722)	$ (10,438)
Net (loss) earnings from discontinued operations	--	(270)	--	342
Less: Net (loss) earnings attributable to non-controlling interest	35	(118)	(259)	(26)
Net loss attributable to Pulse Electronics Corporation	$ (8,959)	$ (1,140)	$ (19,463)	$ (10,070)
Basic (loss) earnings per share:				
Shares	42,430	41,252	41,827	41,211
Continuing operations	$ (0.21)	$ (0.02)	$ (0.47)	$ (0.25)
Discontinued operations	--	(0.01)	--	0.01
Per share amount	$ (0.21)	$ (0.03)	$ (0.47)	$ (0.24)
Diluted (loss) earnings per share:				
Shares	42,430	41,252	41,827	41,211
Continuing operations	$ (0.21)	$ (0.02)	$ (0.47)	$ (0.25)
Discontinued operations	--	(0.01)	--	0.01
Per share amount	$ (0.21)	$ (0.03)	$ (0.47)	$ (0.24)

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Pulse Electronics Corporation and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements, continued

As we had net losses in the three and nine months ended September 28, 2012 and September 30, 2011, we did not include any common stock equivalents related to stock options and restricted shares in our calculation of diluted loss per share. There were approximately 1.2 million and 1.0 million stock options outstanding as of September 28, 2012 and September 30, 2011, respectively, and unvested restricted shares outstanding of approximately 0.8 million and 0.4 million as of September 28, 2012 and September 30, 2011, respectively. We also did not include any common stock equivalents related to the 1.4 million of unvested warrants to purchase our common stock for $0.01 per share in our basic or diluted loss per share since these warrants are unvested as of September 28, 2012. In addition, for the three and nine months ended September 28, 2012 and September 30, 2011, the effect of the convertible notes was antidilutive and excluded from our diluted loss per share calculation.

(11) Severance, impairment and other associated costs

The changes in the accrual related to severance, impairment and other associated costs during the nine months ended September 28, 2012 were as follows (in thousands):

Balance accrued at December 30, 2011	$4,157
Net expense	5,901
Cash payments	(7,269)
Non-cash charges	(1,178)
Balance accrued at September 28, 2012	$1,611

During the first nine months of 2012, the total charges of $5.9 million included $3.7 million for severance, lease termination and other costs associated with our restructuring program initiated in the fourth quarter of 2010 to reduce and reorganize the capacity of our manufacturing plants in China as we shift manufacturing to lower cost facilities. Additionally, $1.1 million related to global workforce reductions, primarily in Europe; $0.2 million related to severance and $0.7 million for the write-down of fixed assets no longer in use as a result of the shutdown of our Korea manufacturing operations and relocation of this manufacturing to facilities in China; and $0.2 million of additional costs associated with our withdrawal from Wireless' audio components business, which we initiated and substantially completed in 2011.

During the first nine months of 2011, the total charges of $13.6 million included $12.6 million of severance and related costs, $0.8 million of write-downs of fixed assets no longer in use, and a $0.2 million write-down of a manufacturing facility to its fair value. Of the $12.6 million of severance costs, approximately $3.1 million related to the transition and reorganization of our corporate headquarters in North America, which was initiated during the first quarter of 2011 and completed in 2011.

As of September 28, 2012, we had $1.6 million accrued for costs associated with our ongoing restructuring actions, of which a majority will be paid within one year.

(12) Fair Value Measurements

During the nine months ended September 28, 2012, there were no changes in the fair value level used in the valuation of our financial assets and liabilities measured at fair value on a recurring basis. We categorize our financial assets and liabilities on our Condensed Consolidated Balance Sheets into a three-level fair value hierarchy based on inputs used for valuation, which are categorized as follows:

Level 1 –	Financial assets and liabilities whose values are based on quoted prices for identical assets or liabilities in an active public market.
Level 2 –	Financial assets and liabilities whose values are based on quoted prices in markets that are not active or a valuation using model inputs that are observable for substantially the full term of the asset or liability.
Level 3 –	Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's assumptions and judgments when pricing the asset or liability.

The majority of our financial instruments and financial assets approximate fair value, as presented on our Condensed Consolidated Balance Sheets. As of September 28, 2012, the estimated fair value of the outstanding borrowings under our senior revolving credit facility was approximately $50 million and the estimated fair value of our convertible senior notes was approximately $36.5 million, as determined through use of Level 2 fair value inputs as defined in the fair value hierarchy of ASC Topic 820, Fair Value Measurements and Disclosures. These liabilities are not measured at their fair value in our Condensed Consolidated Balance Sheets for any period presented.

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Notes to Unaudited Condensed Consolidated Financial Statements, continued

During the nine months ended September 28, 2012, we did not have any non-financial assets or non-financial liabilities that were required to be measured at fair value on a recurring basis. Management believes that there is no material risk of loss from changes in inherent market rates or prices in our financial instruments due to the materiality of our financial instruments in relation to our Condensed Consolidated Balance Sheets.

(13) Business segment information

Our segments' net sales and operating profit (loss) excluding severance, impairment and other associated costs, debt restructuring and related costs, and costs related to an unsolicited takeover attempt for the three and nine months ended September 28, 2012 and September 30, 2011, as applicable, were as follows (in thousands):

	Three months ended		Nine Months ended	
	September 28, 2012	September 30, 2011	September 28, 2012	September 30, 2011
Net sales:				
Network	$ 39,902	$ 43,832	$ 120,355	$ 129,767
Power	28,932	36,580	92,743	107,147
Wireless	19,399	15,602	69,653	41,897
Total net sales	$ 88,233	$ 96,014	$ 282,751	$ 278,811
Operating profit (loss) from continuing operations before severance, impairment and other associated costs, debt restructuring and related costs, and costs related to unsolicited takeover attempt:				
Network	$ 2,487	$ 1,090	$ 2,381	$ 2,777
Power	678	4,012	5,056	7,939
Wireless	(4,262)	(2,799)	(8,718)	(10,412)
Operating profit (loss) excluding severance, impairment and other associated costs, debt restructuring and related costs, and costs related to unsolicited takeover attempt	(1,097)	2,303	(1,281)	304
Severance, impairment and other associated costs	3,851	2,968	5,901	13,591
Debt restructuring and related costs	814	--	814	--
Costs related to unsolicited takeover attempt	--	--	--	1,916
Operating loss	(5,762)	(665)	(7,996)	(15,203)
Interest expense, net	(3,754)	(1,917)	(10,099)	(4,368)
Other (expense) income, net	948	(1,088)	877	621