INTERNATIONAL RECTIFIER CORPORATION
Goldman Sachs 2010 Technology and Internet Conference
February 25, 2010
10:55 p.m. PT

Jim Schneider: Good morning, everybody. Thanks for coming. Welcome to the International Rectifier presentation at the Goldman Sachs Technology and Internet Conference. My name is Jim Schneider. I'm the analyst covering the analog communications and storage names here at Goldman on the semis team. And it's my pleasure today to have International Rectifier with us. They're a broad line analog supplier into the computing, industrial, consumer, automotive, and communications markets. With us from the company today is CEO, Oleg Khaykin, and CFO, Ilan Daskal. Welcome, guys.

Oleg Khaykin: Thank you.

Jim Schneider: Maybe we can just start big picture on the kind of near term, because I'm kind of a tactical guy, not very strategic. So we'll get to the strategic stuff later, but give us an update on how you see current business. I think there's been a lot of controversy since everybody reported such strong September quarter results. You guys were no exception to that. Clearly, very, very robust upturn and along with that some investor concerns about, hey, lead times are extended what does that mean for the industry? What does it mean for IR in particular? And if you can give us specifically any kind of update on the first tidbits of what you've seen in terms of customer behavior post-Chinese New Year, that would be very helpful.

Oleg Khaykin: Okay, very good. So I'll start it, Ilan. You can chime in. So I think the near term picture that we are looking at remains very strong. And in fact, if I look at the--usually the Chinese New Year a lot of the Taiwanese and Chinese factories shut down. It's our--from our visibility, a lot of them were working. I mean, they actually forced people to stay because, as you know, I mean, the reason you have the extended lead times is because the extended lead times are not only for semiconductors, they are also for all the way up the supply chain to the finished goods. And a lot of companies are being forced to work by their customers, because they are running way behind in their deliveries.

So when one looks at a near term picture, like three months, from that perspective we still see very strong demand. It's all hand to mouth. We cannot see any accumulation of product in the channel at least within one or two degrees of separation from our storage and distribution contract manufacturers. Everything that gets shipped gets pretty much immediately consumed and there is very much a balance between the sell in and the sell through at this point in time.

Jim Schneider: Fair enough. And then, I think you mentioned no buildup in the distributor section. But what about your OEM customers? Do you think they are building any kind of bumper stock or are they not even able to build any bumper stock at this point?

Oleg Khaykin: So the--a lot of contract manufacturers are operating through distributions and distribution is really giving demand fulfillment. There are some of the bigger OEMs that have their own manufacturing facilities and there we see very much the same story for Q1 - people chasing parts left and right. And I mean, every time I get a phone call from them, they say, well, which company are you and what am I calling you about, because they are going down the list of all the products they are chasing. So it is--it's our view that they're not really accumulating any inventory. They are all running behind on the layer of demand as well. So in some cases you would ship--some of the customers may really be one week asking for more upside, then all of a sudden they go quiet and you call them, what happened? Well, we couldn't get the other one out of three suppliers to deliver their part, so we cannot build the product.

So it's this kind of situation and that's what's causing obviously some of the lead times to go up because when they see that there's not enough supply and they see the lead times are extending, so what they do is instead of placing a quarterly demand order they place a two quarter demand order and that would be a problem if people had new capacity coming online real time while they are not.

So really, the discussion goes something like that. Well, they just placed a two quarter order and they say, well, we cannot meet it. And then, it very quickly goes down to what do you need next week? And that's taking from there is where you actually start realizing, even though that on the books you would see their order very big, the reality of what you're going to deliver and what you're going to build is really what is a must have versus nice to have.

Jim Schneider: In other words, similarly to what I've heard at some other presentations the past couple of days, the problem is maybe not double ordering, so much as it's you can't--their problem would be double shipping, if there were double shipping, but there's no double shipping.

Oleg Khaykin: There is no double shipping. There may be double--the order actually goes in as the order--it's a function of lead time. Right? If you need X number of units in one quarter and the lead times are now two quarters, you order 2x. But you are being told, well, we cannot ship to you 2x within this, so we're only going to ship you what you actually need and very quickly it gets down to well, I need at least X this quarter. So as a result, everybody plans their production capacity accordingly on that basis.

Jim Schneider: And.

Ilan Daskal: Jim, just to chime in here. The inventory levels were so low and we communicated already in the last two or three quarters that we believe that the reset of these inventory levels throughout the value chain will take several quarters. And we believe it will go throughout 2010. I mean, demand is a factor, but still, inventory levels went down so much whether it's in the end market, whether it's in the OEMs, distribution. And it will take a few quarters to reset the value chain.

Oleg Khaykin: And the problem is not just from [us to them] to the finished goods. It goes back to our supplier who will supply you with lead frames, people who supply you with molding compounds, and all the other things that you need to make semiconductor devices, they are running way behind. So the whole problem starts with raw materials and works it's way all the up.

Jim Schneider: One thing I've heard from investors a lot is, well, lead times are extended for the whole industry right now. When lead times--when you start to catch up on some of this, if you're able to kind of bridge the capacity gap a little bit, then lead times start to come down and then orders collapse, and then you have a problem. Do you have a sense--give us a sense of--we've seen this before in the industry multiple times--how things will be different this time?

Oleg Khaykin: Well, I mean, it really comes down to individual companies, right? I think you pointed out a very good observation earlier. If you are shipping to the orders, then you're going to have a problem, right? If you are not shipping to the orders and you're actually saying, what is the true demand and you're taking longer and say, hey, what is the real demand versus the order adjusted for lead times, and if you plan your capacity to the actual demand rather than the order, you'll be fine. However, if you go ahead and ship everything that's coming down the order pipeline to you, then obviously you'll have a problem. From what I see today, taking the--just listening to a lot of my peers and just talking to them privately, there is a difference between what is being said and what is being done. So of course, everybody is trying to meet the demand, but people are still very careful about expanding the physical capacity.

And also--and even if you wanted to expand capacity, it's impossible because lead times on equipment are now nine months, so your prime cycle--your time [constant] to expand capacity is probably--even if you want to do it, you won't be--have it online until the end of this calendar year.

Jim Schneider: And maybe that leads me very well into the next question, which is how are you responding to all of these demands placed on you by customers with respect to your internal factories and your subcontractors? Because I know you have a great deal of experience in this area. So give us a sense of how you're managing the factory situation.

Oleg Khaykin: So, I mean, clearly, I mean, the first thing you start is like what is the must-have. You've got to determine what is the must-have demand versus nice-to-have, right? And then, you plan your capacity to must-have because you have exactly the same discussion with your subcontractors as you have with your customers. You can come in and ask them for more and they say, well, I can't give you more. What do you actually need? And I think clearly, being a bigger player gets you more capacity. If you're a smaller player, you get less capacity. And also, the subcontractors have long memory. They all remember what happened to them in the last downturn. If you pulled all your business in-house, you can ask all you want. You're not going to get it. It's a payback time, right? And if you treat them fairly, I mean, you get all the capacity you want.

And my philosophy dealing with our subcontractors, you treat them just like you treat your internal factories. When times are tough, you share pain I would not say evenly, but equitably. And when times are good, you make sure that everybody is happy. And when you treat them well, I mean, they respond appropriately. I mean, at this point in time, we have not had a problem getting capacity.

Jim Schneider: Okay. And that's very helpful. Maybe just switching gears a little bit to the kind of longer term, more strategic stuff. You've been CEO for not quite two years now, I think March of 2008.

Oleg Khaykin: Next week it is two years.

Jim Schneider: Yes. So I wanted to--and during that time it's been (a) a very challenging time for the industry overall.

Oleg Khaykin: Right.

Jim Schneider: And (b), a very challenging and transformative time for IR. Can you give us a sense of what the difference is in terms of the management and the company from when you took over till today, how you've tried to kind of change things with the company, and kind of how far we are in the kind of transformative process at IR?

Oleg Khaykin: Okay. Well, I think one of the most distinguishing features of IR, and I don't know if many of you here know, IR is--I think it's probably the oldest semiconductor company in the United States. And one of the things that always distinguished it, it was always seen as a technology leader. So one of the things that has not changed, we are still very much committed to be the best core technology when it comes to power management. Just over this weekend, we announced a release of our first product family to the market of gallium nitrite based products, which really we believe will drive evolution in power management over the next 10 to 15 years.

What did change is a lot of it was rethinking how we run--which customer base we go after, which product mix we run, and how we run our operations. So that's really where a lot of the changes have taken place, I would say probably in the first six to seven months after I came onboard. And today, I'm feeling pretty relieved because the strategy is appearing to work. And all our business units and all our efforts are actually firing on all cylinders. And one of the areas I approached is there is this dogma in this industry that often I think is misguided. Everybody says we've got to be an over 50% gross margin company, which is total nonsense.

You really--the margin is just a representation of what you can get for your product. It comes down to how much R&D you need to invest in a product, how much SG&A support. If you have a product that is relatively simple and takes single digit margins to support R&D and SG&A, you do not--cannot expect that you're going to make 50% margin. On the other hand, if you have a very custom product where you put a lot of R&D and a lot of SG&A to support, you should expect a very high margin product. [And in that] what we look at is like what is the amount of resources we invest and what do we get back in the cash. So you look at the businesses in ROI.

And this is what we've done. We've actually [de-leveraged] the company and said, look, we have five different product lines, product businesses where we are competing and each one has their own benchmark on the basis of what kind of R&D and SG&A this business requires to support to be successful. So clearly, if you ask your--you demand that your business units [will say] a certain margin contribution, then you add back the R&D and SG&A marketing support it requires, that's the margin profile that it needs to achieve. And that's their ultimate long-term goal.

Now, the higher the investment you need to make, the bigger the margin is to maintain. So clearly, kind of space type products - aerospace, military, medical. A very high level of investment, very small customer base, relatively small volume. It better be a very high margin business. On the other hand, if on the other extreme you have discrete devices, very low level of investment, minimum amount of support, very large market, very diversified customer base, you take a lower margin business. But net-net the both of them contribute the same ROI. So from that perspective, I look at this business as more or less as portfolio manager and say, okay, where am I getting the best return on my investment and accordingly allocate my R&D and SG&A dollars to those areas.

Jim Schneider: Fair enough.

Oleg Khaykin: So that's a big difference in the management style.

Jim Schneider: Right. So the ROI analysis and the portfolio management, that's very helpful. Can you give us a sense of how the kind of sales and marketing organization is different, and specifically customer supply chain management, because I think that was one of the big issues--.

Oleg Khaykin: Right.

Jim Schneider: The Company had before and you've spent a long time kind of working down inventory. How is that piece different? And can you talk to the subject of sell in versus sell through model?

Oleg Khaykin: Right.

Jim Schneider: And whether you think any confirmation there would make a difference or not.

Oleg Khaykin: So one of the big changes we implemented is the go to market model. So one of the things that I was pursuing under prior management was the idea was, hey, we're going to go up to a very high margin business. We're going to become just like [Lanier]. And which--the idea was, hey, if you go after tier two customers, smaller customers, you can charge much higher margins on them. Well, there's a difference with their margin percentage and the margin pool. And ultimately, all your expenses are paid out of the margin pool. So it doesn't do any good if you win a million dollar business at 90% margin and you spent $3 million developing the product, it's a heck of a lot better winning a $50 million business at 40% margin and spending a couple million dollars, right? So we all hear and understand it. Unfortunately, in this industry is not exactly a conventional wisdom.

So one of the specific things we've changed is I said, look, I don't really care about tier two customers. My view is the best validation that our roadmap, products, and technology is competitive is you win tier one customers. And in most of our end markets they're fairly highly concentrated. So if you don't win tier ones, you don't win the 80 to 90% of the market. And the big kind of 180 degree turn was really refocusing on winning all the major customers and that obviously drove correspondingly where you focus and what products you develop and you launch. And now, it's been about a year and a half since we implemented the strategy and a lot of these elements are now kind of falling into place. And that's why we've seen a very nice growth. Clearly, some of the recovery is what drove a lot of it. But if I compare ourselves where IR was before the downturn began, kind of September quarter of '08, and where we are today, as of December quarter we are now at the same level we were before the downturn. So we've pretty much bounced back 100% to where we were before.

Most of our peer group still fits into 20% below their last peak level. So in that respect, I feel that our strategy is working right and we've gained a lot of share back in various segments. But also what it's doing is gives you significant operational leverage in terms of SG&A and R&D when you win this big high volume relatively low mix, high volume business because it drives a lot of efficiencies in your supply chain and your manufacturing and so on.

The other thing is as you all know in this industry is endemic, stuffing channels is like motherhood and apple pie. I mean, it's like addiction to crack cocaine in this industry. One of the things I did when I came in and I was (inaudible) IR had gone through significant financial restatement, my second day on the job I asked them for the classical [grow] chart. Well, I asked--nobody knew what I was talking about so I told the finance, I want to see minus 12 weeks to plus 12 weeks what's the bookings doing, the classical build. And what you notice is every quarter at the end of the quarter there's like 10 to 15% spike in the last 20 days. So I told the head of sales, the next time I see that you're fired, because this is the stupidest thing you can do - (a) you destroy your pricing, you destroy your leverage with the channel, and you absolutely destroy your manufacturing efficiency. Because if you're going to be doing these kind of things at the end of every quarter, all it means is you have to effectively carry 20% excess manufacturing capacity to be able to build a product at the end and shove it through the channel.

So one of the biggest changes we've implemented is fundamentally you don't ship the product unless the customer wants it. We had a lot of our distributors tested us for the first two quarters, because basically we hold orders to the end of the quarter. And they didn't see anybody running to them with their tongue out. And guess what? It's reset itself. We now run complete equilibrium and we monitor very closely our channels and clearly today a lot of distributors would like to have more product because they can make a very good profit.

But our point is, look, we want to make sure that none of our customers go lying down. And as a result, we tell them, look, if you have beyond a certain level of inventory, given the allocation time, we're not going to go beyond that level. And I think we are managing it very carefully right now and trying to maintain the equilibrium between what actually gets sold through and what gets shipped through. And it drives a lot of positives. First of all, on your pricing strategy, and secondly on your manufacturing operations strategy because you are more evenly able to load your assets and drive better operating margin.

Ilan Daskal: There was another change in the culture in the company. 50% of the revenue still goes through the channel. And nowadays, we definitely have way more visibility through the channel and see what is the demand, who sells, what is the end demand there. And it makes it easier to monitor it and manage it.

Oleg Khaykin: Well, I mean, Ilan’s got a good point. So what we demand now, we actually demand to--for all the distributors and suppliers with the sell through information who is the end customer, how many units. So we make sure nobody violates their territory. And one of the things we did is we've terminated--I know--I think within 12 to 17 distributors who were purely brokers. And those are the people who would take your product at the end of the quarter to do you a favor, but all they do is they would just go and cannibalize your pricing all over the world. So you see the product from Asia popping all over Europe and South America cannibalizing your pricing and margins.

Jim Schneider: That’s very clear. Thanks. But just on the sell through, so the sell in versus sell through, any contemplation of a change there?

Oleg Khaykin: So our accounting is--we mentioned I think in our previous call that we are considering a switchover. Higher--you have to put a lot of systems in place once you start recognizing on the sell in versus sell through basis there's a lot of things in (inaudible) you can leverage.

Ilan Daskal: Yes. I mean, we are right now assessing what would be the impact and testing for several quarters to see what would be the impact of changing the revenue recognition into sell through. And obviously, we need to ensure that we have full visibility into the channel. And if everything will be successful, we may announce that we will ship into a sell through methodology.

Jim Schneider: Great. Thanks. Switching gears again, maybe talk about some of your new products. I think earlier this week you just announced, as you mentioned, gallium nitride as a new product line. Give us a sense--I mean, I think there are many people in the room who are not familiar with what that even is. So give us a sense of what gallium nitride is as a material technology and how it really helps you in your products and what kind of differentiation there is versus the competitors.

Oleg Khaykin: So I mean, we believe gallium nitride is a game changer. I mean, it is kind of the next step in the evolution of power electronics. Just to kind of make people understand it better, if you go back to the 1940, '50s, and before, we had vacuum tubes, right? Then came bipolar transistors. So over a period of 10 to 20 years, all the tubes got replaced by (inaudible) electronics. In the late '70s, IR drove the next level of innovation and introduced MOSFET. And over the last 20 years, MOSFET has pretty much displaced all the bipolar. So today, bipolar is probably what, under 5%? I mean, you can look at iSuppli, they have a better visibility on it. But it's now the minority of the technology. We believe that gallium nitride has the potential to displace a significant amount of silicon over the next 10 to 15, 20 years. So pretty much due to silicon what silicon did to bipolar. So that's how big of a deal we see it.

And what it is, what it fundamentally starts with is the gallium nitride technology has much higher electron--I mean, the current density than silicon. So from that perspective it's much more efficient. You have less losses. You have less [dispersion] to heat. And what's also more importantly, you can run at a much higher frequency--switching frequency, which reduces the [build of material] and shrinks the area required by the power supply. And it's still in the very early stages. The technology has a long way to maturation. And usually with these types of technologies, usually your early adopters are the tier one players, people who are on the leading edge of technology. And they have to go through the learning cycles to learn how to design these new products. But we believe longer term it's going to be a game changer for this industry.

Jim Schneider: And who else has it today and what's your?

Oleg Khaykin: I mean, clearly, I think there's two instances--three types of gallium nitride. There's a gallium nitride used for LEDs, a gallium nitride used for RF devices, and again for power. The LEDs and the RF devices are usually built on very expensive substrates like [subfire] or silicon carbide. The difference between IR's approach versus those other segments is we're doing it on generic silicon substrate. So we start with a very cheap material, something that's enabled us $20 for substrate versus $1,500. Right? And from there, we grew a thin layer of gallium nitride, but the rest of the supply chain is just generic semiconductor manufacturing.

So you have all this massive experience and scale--curve and the economies of scale supply chain that exists for you to run the business. And so, what IR has done, there's other people doing the same thing - mainly Japanese. There is--you see companies like (inaudible) and Fuji. And the number of people working, it's not a very broad field. And there's a number of startups that are doing the same thing.

Jim Schneider: Okay, great.

Oleg Khaykin: We believe we are further ahead than all of them.

Jim Schneider: Okay. On the financial side for a second, gross margins. I think that's an area where people wonder what the gross margin potential for IR can be over time and I think your factories are running pretty hot right now, I mean, given what's happening--everything we talked about in near term business. How should we think about where your gross margins can go from here? How much would--what's the upside in gross margins for the company at some kind of steady state--not peak, but steady state? How much would be due to mix, how much would be due to better utilization or fixed costs coming out of the model?

Oleg Khaykin: So I think probably in the near term still a lot of our--I mean, our facilities are full, but they are [not that] full. So we still have some room to go. So I think last quarter we had 30%. We got it 34, 35% margins this quarter. There's a lot--there is more room for growth. From our perspective, we're kind of taking it in two stages. First, get to kind of a $1 billion run rate. And then, depending on the mix between our discrete business and non-discrete business, depending how that revenue is going to mix, you could be anywhere between mid-30s to high 30s, maybe as high as 40%. And then, we have a kind of next stage of strategy to go beyond a billion and obviously also expand the margins.

But really, a lot of it will depend what--where the growth is going to take and what the mix is. One of the things I'm not going to do is artificially manage one business to grow faster versus the other, because in the end ultimately what I want to see is how much flows to the bottom line. And my measure of success is at the end of the day what is my earnings per share, and see that number growing. And obviously, with the relative--see this number grow as a function of the capital (technical difficulty). And that's kind of how we measure it.

Ilan Daskal: So for the short term and the near term, it’s the aspect of higher (inaudible), the factor of having additional external capacity. And in terms of the mix, it's two different mixes here. One is across business units and one is within the business units. Even within each business unit, the mix does have a substantial impact on the gross margin.

Oleg Khaykin: Right. It’s a good point. I mean, if you look at our discrete business unit, clearly you have a lot of kind of consumer product at a lower margin. It's business you want to have when the demand is weak and you load your factories. As demand gets tighter, you either raise the prices or just decline to take the order so you can optimize the mix to higher margin within that portfolio. And obviously, across different business units there are fundamental different profiles, so the extent the higher margins business grow faster (inaudible). So I think in the near term kind of targeting $1 billion run rate, we believe we have plenty of room to grow, and depending on the mix, get up to 40%.

Jim Schneider: Great. But over kind of the longer term, 18 months to two years, nothing structurally to keep you away from low 40s?

Oleg Khaykin: There is nothing structurally. I think clearly volume I believe is still the biggest driver of our margins. Because we have quite a bit of fixed costs and--that we are going to--going to get--we have significant I would say operating leverage as the revenue goes up to drive better gross margins and definitely much better operating margins.

Jim Schneider: A perfect lead to the next question I had, which was really on the operating leverage. You talked about up to that sort of $50 million run rate, that $25 million of R&D and 42 in SG&A a quarter.

Oleg Khaykin: Right.

Jim Schneider: That’s pretty clear. Above that $250 million run rate, how should we think about the kind of incremental growth, if any, in that--in OpEx? I mean, clearly, your variable cost of sales will go up. But how should we think about the other two buckets?

Oleg Khaykin: I guess the other thing that [goes up] is like the commissions you pay to reps and sales, but it's not a very big percentage because a lot of our--even though 50% of our sales goes through distribution, the--a big chunk of it is demand fulfillment rather than demand creation. So that means, if you have somebody, a major customer like HP, their contract manufacturers want to take the product through distribution. So you pay the much lower margin than you would pay to somebody who actually creates demand.

So I think on OpEx--I mean, on R&D, if we see opportunities we may increase it slightly. On SG&A, our goal is to keep it flat for as long as we can. In fact, actually, we expect our SG&A to get better, but we're also doing SAP implementation as well. That why we've got--it's $42 million plus/minus 5%. As we reduce our SG&A we continue to implement SAP and that's going to--it will take us probably the next several years. So we believe we can drive efficiency even as revenue grows and kind of maintain ourselves in the kind of--in that range.

Ilan Daskal: So strategically, in the R&D we decided really a few quarters ago to maintain it at the 25 million level. And that we believe can support for the longer run. Probably again it would require additional investment there in the future. On the SG&A, there will be a tradeoff. Yes, there is a small portion on the sales portion that will grow with revenue. However, on the G&A, the goal at the end of the day is to have a balance in between the investment in the ERP versus reduction in headcount. The resulting efficiency is out--is an outcome of the ERP implementation. So for the long run, or for the short and mid-term, you will see a little bit maybe an increase, but then it will go down once the ERP will be fully implemented.

Ilan Daskal: And you have to bear in mind, I mean, like 30 years the company decided for almost not invest any money into systems--IT systems. So it's not an upgrade of a system. It's--.

Oleg Khaykin: It’s self-driven.

Ilan Daskal: Yes. So right now it's absolutely an implementation almost from scratch and it's a huge investment for us. But definitely, we believe it's important and we will benefit out of it.

Oleg Khaykin: Let me just add, Ilan, we said even though our SG&A is going to continue to decline and we've got to maintain it at 42 because whatever the decline goes down we're going to put towards the IT implementation. And ultimately, it may go up a little bit, but ultimately we see our SG&A going down.

Ilan Daskal: Or really the short term.

Oleg Khaykin: Percentage of revenue.

Ilan Daskal: Yes. Really the short term 42 million that we guided for includes a portion for the implementation itself. So it’s already there.

Oleg Khaykin: And IR did not during--a lot of our peers have taken 10, 20% pay cuts in SG&A. So it's kind of made SG&A look better, but a lot of them are bouncing back now. We never did that, so actually our run rate is fairly organic. There is no artificial pent up demand or anything like that.

Jim Schneider: Got it. Just briefly, enterprise power is one area which you seem to have done very, very well in the past couple of years. I think it is now already up to, at, or above the kind pre-downturn levels of 2008 in that segment. What's enabled you to kind of bounce back faster or--I think it's faster or very, very fast in that area relative to competitors?

Oleg Khaykin: Sure. I mean, it’s actually--enterprise power has been a big success for IR. I mean, about six or seven years ago, IR had nothing in that space. And we initially entered server products with just MOSFET. Over the time, we have rounded off our portfolio to include controllers, drivers, and a various level of performance of that. And our big win was when the industry went from the prior generation of servers based on the DR11 to DR11.1 [block form]. And that transition kind of started April of last year. We have a significantly greater share in that business. So if you look back like six, seven, eight years ago, there were a lot of players playing in the space, Volterra being one of them. Today, it's really between IR and Volterra and I think we have probably--we estimate we probably have about 40% of the market and they have about the same, and then there's everybody else.

And if you look at the--kind of if you just trace Volterra revenue growth from September of '08 and IR, I mean, IR actually has grown a lot faster. And really a lot of it is driven by our greater penetration of the server market. And today, it's really I would say a playing field between two parties with some additional minor players out there.

Jim Schneider: Great. I think I would be remiss if I didn't ask maybe as my last question, which is you have a ton of cash. And.

Oleg Khaykin: Not as much.

Jim Schneider: And so, I mean, clearly that raises the question as it has previously. And clearly, you can make a case for in the downturn you want to have a big cash cushion and that's certainly benefited you. But going forward, how do you think about the priorities for you say doing M&A--acquiring--doing acquisition in the power area versus buybacks and dividends essentially?

Oleg Khaykin: Taking care of cash. But what can I say. It's a very good question. I mean, when I came in we had a lot of cash, but we also had a lot of problems. And one of the things you do as the fiduciary responsibility at the board level, like, well, we had a lot of unknowns. We had lawsuits from the shareholders, we had lawsuits from peers in the industry, we had SEC, the Department of Justice. So we really--plus we had to finish the restatement and a lot of other things. It is my pleasure that as of the end of--actually it's just been in the last month or so, the last of these [legacies] were put to rest. We did settle the shareholder lawsuit. We actually had to pay some of the--beyond what insurance has paid. And we were lucky that the SEC decided not to pursue after us. So we don't have any fees. So now, a lot of these uncertainties have gone away, we closed the year with about $550 million. And now, we actually have the luxury to step back and do the good old fashioned capital allocation strategy. And we mentioned it on our earnings call in January.

So when we think about it, we are now in the process of going through the steps. I mean, deciding how much we need--cash we need to run our business. What is the amount of cash we need to set aside to drive the growth in our (inaudible) technology? And even after you go through all these things you have a chunk of cash saying what do you do with it. What's the best way to do it? And that's where we've got to look at is like what are the opportunities for us to do with this cash? To the extent--I mean, I don't believe in M&A as a strategy for the company. I mean, you've got to have a strategy and M&A is one of the tools. And one of the things you've got to do in there, you never overpay and it's got to be accretive. So as a result, there's very few targets that we can see that will work in that respect.

So the other thing left is how do you return it back to the shareholders? And there's many different ways and we work with a number of our advisors. There are pros and cons and clearly stock buyback is one of the good elements. And we currently have a $100 million buyback plan in place and we are doing it and we are actually getting--and the question becomes really there's going to be discussion we're going to be doing over the next couple of months - what other means of either increasing stock buyback or finding other strategies to improve the returns for our shareholders, either through internal additional pursuit of opportunity--clearly, M&A is only an option if you have--if it sits in your strategy. But then, there are other things like stock buyback and dividends and what have you.

Ilan Daskal: Also, just to add on that, in the last few quarters, I mean, I was working to liquidate the investments that we inherited from the prior management. A big chunk of that amount was invested in very high risk investments, like [MBS] and [ABS], some low grade bonds, et cetera. And it took like three quarters to liquidate at least most of it. The portion that is left is pretty small. So right now, we communicated that we are going to work on the strategy and we are going to communicate it in the next few months.

Jim Schneider: Great. Well, thanks very much. I think that now we're out of time. Gentlemen, thank you very much for being with us.

Oleg Khaykin: Thank you.

Ilan Daskal: Thank you.

Jim Schneider: And the breakout will be in the Olympic Room down the hall and to your left.

Oleg Khaykin: Great. Thank you.