

**INTERNATIONAL RECTIFIER CORPORATION**  
**Moderator: Chris Toth**  
**February 2, 2010**  
**6:15 p.m. ET**

Operator: Good afternoon, ladies and gentlemen and welcome. My name is (Christian) and I will be your conference operator today. At this time, I would like to welcome everyone to the International Rectifier fiscal second quarter 2010 results conference call.

All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press star then the number one on your telephone keypad. If you have already done so, please press the pound sign now, and then press star one again to ensure your question is registered.

To ensure that everyone has a chance to ask their question, we ask that you please limit yourselves to one question and one follow-up. Thank you. It is now my pleasure to turn the conference over to our first speaker, Mr. Chris Toth, Executive Director of Investor Relations. Sir, you may begin your conference.

Chris Toth: Thank you, operator, and good afternoon. If you have not already read through our press release issued earlier today it can be found on our Website at [investor.irf.com](http://investor.irf.com) in the Investor Relations section. The 2010 second quarter report on Form 10-Q is expected to be filed with the SEC on Wednesday, February 3rd, 2010 and can be accessed using the same Web address.

This call is being broadcast over the Internet and can be accessed through IR's Web address. The conference call replay will also be available through

February 9th, 2010. After our prepared remarks, we will open the line for questions.

Our discussion today will include some forward-looking statements made pursuant to the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995. We caution that such statements are subject to a number of uncertainties and actual results may differ materially. Risk factors that could affect the company's actual results are included in our press release issued today and the company's filings with the SEC, including the most recent Forms 10-Q and 10-K.

I would also like to mention that International Rectifier will be presenting at the Goldman Sachs Technology Conference in San Francisco on Thursday, February 25th. Now Ilan Daskal will discuss our most recent financials. Ilan?

Ilan Daskal:

Thank you, Chris. Good afternoon and thank you all for joining us. For the second quarter of fiscal 2010, IR reported revenue of \$210.2 million, which was above our targeted range of \$185 million to \$200 million. This was a 17.2 percent increase from the prior quarter.

Across all five of the business segments, we saw a healthy increase in revenue driven by strong and market demand for our products resulting from new program ramps, strong distribution sell-through and inventory replenishment. Growth margin was 29.nine percent, up 350 basis points from the prior quarter growth margin of 26.four percent due to higher factory utilization and product mix.

We reported net income of \$28.3 million or \$0.39 per fully diluted share, compared with a net loss of \$16.9 million or \$0.24 per share in the prior quarter. The results for the second quarter also included a \$27.8 million stocks benefit due to our release of tax reserves.

For the December quarter, R&D expenses were \$24.2 million. We expect R&D to be around \$25 million per quarter, plus or minus 10 percent in view of upcoming new product and technology introductions and the higher number of engineering bills.

SG&A expenses were \$37.3 million. This was lower than our original expectations as a result of our efforts to reduce cost and \$3.2 million of cost benefits which are not expected to recur in the third quarter. Going forward, we expect SG&A expenses to be approximately \$42 million, plus or minus five percent. This includes project expenses associated with a new ERP system implementation.

Other expense net was \$1 million in the December quarter and interest income net was \$2.5 million, which is primarily from the investments. Income tax for the quarter was a \$26.6 million benefit primarily due to a \$27.8 million release of tax reserves that offset about \$1.2 million in tax accruals in our foreign jurisdictions.

The total cash, cash equivalents, and investments at the end of the second quarter was \$549.5 million, which included \$3.4 million of restricted cash. We have managed to further reduce our level three investments from \$37.2 million to \$32.8 million in the December quarter.

In the March quarter, we expect to receive the cash tax refund approved by the U.S. Joint Committee of approximately \$23.6 million. Inventory was \$158 million, which is up \$5.4 million from the prior quarter. This inventory increase was a support – in support of expected sales growth. Inventory weeks had come down by one week to 14 compared with the last quarter.

We used \$27.4 million in cash for operating activities in the quarter. This includes the previously reported \$45 million related to the litigation settlement that we paid out during the December quarter. Excluding this payment, we generated \$17.6 million in cash from operating activities in the quarter.

Capital expenditures were \$10.6 million. In the coming quarters, we expect to see our CapEx at \$15 million to \$20 million per quarter reflecting incremental investment in our ERP system implementation and facilitation of the GaN manufacturing. Depreciation and amortization expenses were \$17.4 million and stock-based compensation was \$2.6 million.

During the quarter, we purchased about 261,000 shares of our stock at a total cost of \$5 million. We had 71.1 million shares outstanding at the end of the

quarter. We had positively adjusted opened retained earnings by \$13.3 million. During the December quarter, we determined that in prior years, specifically fiscal years 1998 through 2006, net foreign currency gains of \$13.3 million related to intra-company launch with the company's foreign subsidiaries should have been recorded in income.

These gains were recorded in other comprehensive income. For the effect of this adjustment, you can refer to the tables on stockholder's equity included in today's earnings press release.

Moving on to our outlook, we expect revenue for the March quarter to be between \$225 million and \$235 million. This is about to 7 to 12 percent increase from the December quarter. For this projected revenue range, we currently estimate growth margin in the March quarter to be about 34 to 35 percent.

IR continues to maintain a strong balance sheet with no debt. With a return to profitability and generation of cash from operations, we will continue to evaluate the best uses for our cash to deliver shareholder value. We plan to provide greater feasibility into our capital allocation model in the coming months.

Now Oleg will give you the latest, the latest updates on our business. Oleg?

Oleg Khaykin: Thank you, Ilan. Over the course of 2009, IR regained most of its quarterly revenue since the downturn began. We achieved very strong sales in the December quarter with positive operating income and we generated about \$17.6 million of operating cash flow excluding the previously reported \$25 million litigation settlement payment.

We have seen a sharp recovery from the downturn with the revenue of \$210 million in December nearly matching our September 2008 peak ongoing revenue of \$212 million. We believe that our strong revenue growth is more than just a reflection of recovery in market demand and inventory replenishment.

We believe that part of our revenue recovery is attributable to market share gains. With the improvement in overall business conditions over the past couple of quarters, we are starting to see positive impact from our go-to-market strategy, focusing on winning Tier 1 customer designs. Provided economic recovery continues, we believe our strategy will drive strong top-line growth, margin expansion, and positive earnings leverage in calendar of 2010.

During the quarter, we continue to see very strong demand from China, Korea and Taiwan particularly in consumer electronics and computing. We also saw a beginning of a recovery in North America, Europe and Japan with solid growth momentum, particularly in automotive and industrial.

Moving on to our business units, the enterprise power revenue increased 23 percent from the prior quarter to \$33.7 million driven by continued growth in our server products, share gain in notebook computing products with Tier 1 OEMs and seasonal strength from our enterprise communication products. Our power management device business also experienced strong growth, up 14 percent from the prior quarter to \$76 million driven by healthy demand in the computing and power supply markets in China and Taiwan.

The industrial market segment in North America and Europe is also showing positive momentum. We continue to see strong design win activity during this quarter with Tier 1 netbook suppliers and with industrial motor applications. I'm pleased with the success of our PMD business unit growth strategy to date. The success of PMD growth is critical to rebuilding operational deficiencies and economies of scale in our manufacturing operations.

In our energy saving products business unit, revenue grew seven percent over the last quarter to \$40.4 million, driven by increased demand in appliances, industrial, and consumer products. Company's appliance business is gaining momentum with the start of the new model year and government stimulus programs, particularly in China.

These programs incorporate our advanced motion control architecture, the iMotion integrated design platform and accompanying IGBT modules. We are also continuing to see strong traction in consumer applications, particularly flat panel TVs and (quality) audio.

Our automotive products business unit grew 28 percent from the prior quarter to \$16.9 million driven by the inventory replenishment in both North America and Europe. We expect APBU to be one of the strongest long-term growth areas for the company as the need for power management efficiency requirements in the automotive industry continues to grow.

And lastly, our HiRel business unit grew 22 percent compared to the prior quarter to \$39.8 million on returned strength of our orders in commercial aviation, space, military, medical devices and heavy duty industrial. In terms of the outlook, we expect to see continued growth for IR in the March quarter. Our ESP business unit, which includes both industrial and appliance markets, should see particularly strong seasonal growth. As Ilan mentioned earlier, we expect our revenue to be in the \$225 million to \$235 million range.

Now an update on channel inventories. Channel inventory remains lean at below eight percent, eight weeks. Channel selling sales were roughly in equilibrium with the channel sell through sales during the second fiscal quarter.

On the technology front, we remain focused on being a leader in power management technology. Over the next couple of weeks, we will be releasing our first commercial gallium nitride products at the Applied Power Electronics Conference in Palm Springs. We see gallium nitride-based technology being infused into every business unit and product line within IR. GaN offers far superior of value proposition versus the best silicon, dramatically increasing performance and cutting energy consumption in enterprise, industrial and consumer applications. We are excited about GaN and see it as one of the major drivers for our long term revenue growth and market share expansion.

Now I would like to share a few thoughts on our strategy for the calendar year 2010. First, we'll continue with our go-to-market strategy focusing on Tier 1

OEMs, OEM's distributors and contract manufacturers. Second, we'll continue to expand external capacity to increase our manufacturing scale and flexibility. Third, we're developing new products to expand our addressable markets. Lastly, as Ilan mentioned, we are committed to enhancing shareholder value by reviewing our capital allocation model in view of business growth opportunities and industry cyclicality. We plan to provide greater visibility to our shareholders into our capital allocation model in the coming months.

In conclusion, we have made significant progress on a number of fronts over the past 18 months and, to better position IR for future growth. The recent decision by the SEC not to seek any enforcement action against the company largely concludes the legacy regulatory issues associated with the prior restatement and investigation of the company. We'll begin the New Year confident in our strategy of growing our business and improving profitability.

That concludes our prepared remarks. We will now open the lines for your questions. Operator?

Operator: Ladies and gentlemen, I would like to remind you, if you would like to ask a question at this time, please press star followed by the number one on your telephone keypad. Our first question comes from the line of Ramesh Misra with Brigantine Advisors.

Ramesh Misra: Thanks, gentlemen. Thanks for taking my question. Oleg, some of your peers have talked about supply constraints, especially on the back end of the manufacturing line. I wanted to ask you if you are experiencing that and I see your CAPEX is going up, where is that being allocated to?

Oleg Khaykin: Thanks, Ramesh. So obviously, we are no different from our peer group. I mean, we are seeing tightness of supply in both front end, more driven by internal capacity. There are issues on backend as well but we are not – so far, we've been able to manage it successfully.

I wouldn't say we are able to fulfill every demand, but generally, we're – we manage to get enough capacity to meet our minimal customer requirements. So in that respect, you know, we expect the capacity tightness to remain

constrained over the next one or two quarters. We are clearly working, as Ilan mentioned earlier, to bring on some additional external capacity to alleviate the front-end constraints and we are working with our suppliers to plan for greater back end capacity as well.

In terms of capital, as Ilan mentioned, most of our increase for this quarter is driven by our start on implementing the new ERP system. We have signed an agreement where, with one of the leading providers of the ERP solutions and that charge will hit our capital budget this quarter. Also, the same time, we're – as I mentioned, we're announcing the commercial introduction of our first product in GaN, and we are going to be placing some orders this quarter to procure some tools for GaN capacity expansions.

Ilan Daskal: So basically, if we just – to elaborate, you know, on the CapEx, the original CapEx run rate that we have communicated is the same. The incremental CapEx spending that we just now communicated is basically attributed, some of it, to the GaN equipment that Oleg just mentioned. But, mainly, it would be the capitalized of the implementation of the new ERP system.

Ramesh Misra: OK. And if I may just have a quick follow-up, I wanted to get your outlook on the auto market overall and also for IR specifically.

You know, there has been some commentary that the age of automobiles in the U.S. in particular has lengthened too much – to historically longer levels. And I wanted to see what your position in that market is and how do you see that evolving for you through the course of the year.

Thanks so much.

Oleg Khaykin: Well, I think the, you know, kind of to use Mark Twain's phrase, the demise of automotive industry in the U.S. I think has been greatly exaggerated. I mean, clearly, the market is now down but the U.S. has a huge installed base of cars and, eventually, a lot of them will need to be replaced.

So I think it's a matter of timing for the automotive recovery in the U.S. market and, clearly, today, a lot of the growth is taking place in China. Given that we are not really particularly fixed in any one geography, I mean most of

our customers supply the global automotive industry, so from our perspective, you know, we look at the overall market growth rather than any particular region.

And while there is still softness in some parts of the world, if you combine the kind of rebounding demand from the lows of last year together with the inventory replenishment, we actually expect our automotive product segment, business unit segment to continue to see growth in the near future.

Chris Toth: Thanks, Ramesh. Operator, we'll take the next question.

Operator: Our next question comes from Steve Smigie with Raymond James.

Steve Smigie: Great. Thanks, guys. And congratulations on some nice numbers and the nice gross margin guide.

I was hoping you could comment a little bit on the operating expenses. You talked about the 25 million in R&D, I believe, how many quarters further does that go out? I mean, is that a year and a half? And then on the OpEx – even with, even if I add back the numbers, it's still pretty low.

So you know, does that \$42 million level that you guys are looking at, is that something that you'll keep going forward? Will that go forward as well?

Ilan Daskal: So Steve, you know, first, I'll start maybe with our balance sheet. As you know, we have no debts and we started to generate cash from operations. And, you know, we don't need to invest the cash from operation that we generate to recover any debts or to retire debt.

So we took a strategic decision to invest that cash in the growth of the company. And one of the aspect is obviously the R&D spend. The same as we communicated in prior quarters, the strategy there has not changed.

So we took a strategic decision to spend about \$25 million per quarter plus or minus 10 percent as we said, and so far that's the strategy. In terms of the SG&A, you know, we guided for – so far, what we see is the normalized quarterly spend of about \$42 million plus or minus five percent.

Steve Smigie: OK. And then just – if I could look out a little bit. You obviously have a pretty big quarter here, pretty big guidance on the revenue side. Based on that surge in revenue should I – can I expect the rest of the year to continue to sort of be seasonal or have you set the bar higher here so that I shouldn't apply typical, you know, seasonal patterns going forward?

Oleg Khaykin: Well, you know, I think as I mentioned in my previous calls, I really do not like to opine beyond the three months visibility. So I'll just leave it at that. I mean, who knows what the rest of the year holds?

What I see is the – what's currently our customers are communicating to us with their expectations and really, I think if anything, a better proxy to how to think about this industry throughout the rest of the year is what the expectations are for the broader economy. Because clearly, we and our peers are very much dependent on how good is the economy recovery is going to be in North America and Europe, and how strong the, you know, consumer markets remain for the remainder of the year.

Ilan Daskal: And Steve just with what Oleg said, you know, though we guide just for the March quarter and not beyond the March quarter, obviously, if you know the economy will continue to recover, we don't perceive the March revenue guidance as a one time spike. I mean, we believe that if the economy will continue to recover, you know, we will sail along with it.

Steve Smigie: OK. Great. Thanks, guys.

Chris Toth: Thanks, Steve. Next question operator.

Operator: Our next question comes from the line of James Schneider with Goldman Sachs.

James Schneider: Good afternoon, thanks for taking my question. I guess, Oleg, I think last time you – on the last call, you talked about lead times being extended, I think that's very common for most people in the industry. Can you talk about where lead times are today and what you expect they'll do over the next quarter?

Oleg Khaykin: Well, I think the lead times, as you correctly pointed out are extending across the industry. And for IR, lead times range anywhere between 12 to 16 weeks exiting last quarter. And it's a little bit shorter for some product lines where we have more ample capacity and it's a bit longer in – for other product lines, particularly if they want more complex products which require longer cycle time to go through the fab.

I expect that the lead times for the industry to remain at kind of the extended levels for at least the next three months. But I think over time, we should see lead times start coming down as demand is getting fulfilled and additional capacity comes on in March.

James Schneider: Yes, thanks for that. And then as a related question, what do you think in terms of pricing in a market, I mean clearly with lead times extended, sometimes that allows you the opportunity to kind of key prices flat or better the normal, or even in some pieces – in some cases increase them. What do you see with ASPs going in December and then what do you expect from March?

Oleg Khaykin: Well, I think the broader market, I think the pricing remains stable and there are, I think price increases going on at the kind of lower end segments of the market because those are usually the first ones that CODM pricing pressure. So more commoditize, lower end parts of the market is probably where you seeing some ASP increases.

I don't think there is any price increases happening for kind of a direct designing where you have one or two sources and you'll have multi-quarter contracts with the customers.

James Schneider: And if I could sneak one last one in. On the HiRel business, that's recovered pretty nicely, do you think you're pretty much a normalized run rate or do you still have more to recover to get back to kind of where you were before?

Oleg Khaykin: Well, I think, it's more of less the run rate as we see it, but also we are starting to see part of that recovery is driven by some of our newer product segments in medical and heavy duty industrial applications, as well as the return of the commercial aviation spending. So I think – I certainly hope that this

continues to get better. There's, however, probably a risk in there, though for IR it's not like a big, big risk depending what the Congress decides to do with military spending.

We have a fairly small exposure to the military segments but clearly if Congress decides to scale back military spending, that may impact longer term some of the revenue.

James Schneider: Great. Thanks very much.

Operator: Our next question comes from the line of Bill Ong with Merriman.

Bill Ong: Yes, sir, congratulations on the solid quarter. On the emerging gallium-nitrite technology, can you just talk about who are some of your early customers or customer types and how this adoption will permeate into the different end markets? And what type of growth rates can we expect from this segment, let's say three to five years from now?

Oleg Khaykin: All right, well, it's three questions in one, but let me try to tackle it as well. Thanks for that – it's a good question. On GaN, we don't discuss the customer names but, you can imagine given that it's a very unique kind of revolutionary new technology, the type of customers who are the first ones to take notice of it are usually the market leaders in the field.

So if you're a tier one customers and particularly on the lower voltage segment, it's the customers in the computing, kind of enterprise computing storage and communication space and on the mid-voltage it's usually the industrial type customers. So that's kind of the – the kind of first set of customers with whom we have NDAs in place and with whom we share the samples and who are currently, you know, obviously qualifying and experimenting with these products in their designs.

In terms of the growth, as with every new technology, the first thing happens is people need to learn how to design and work with it. So as a result, you know, just because you have the samples, you have the product; it takes some time for a lot of these customers to get comfortable with it. So as a result we don't have any, you know, illusions about the hockey stick growth in this

business, but we do expect it to start showing some revenue within the next 12 months.

And really, I think, the growth in that segment should start picking up within kind of 18 to 30 months horizon. And, you know, I don't know what the particular growth will be, it really will be driven by, you know, how strong is the market adoption, it's kind of hard to predict at this point in time. Since it's taking off from zero, you can argue that growth is infinite.

But, I mean, you probably will be in better position to estimate market penetration and growth once we have at least one year of revenue under our belt.

Bill Ong: Great, thanks. Nice job.

Ilan Daskal: Thank you.

Operator: Our next question comes from Craig Berger with FBR Capital Markets.

Craig Berger: Good afternoon, guys. Thanks for taking my question. I guess the first one is, you know, you're continuing to grow revenues here in the first quarter. It seems like there's some replenishment going on in the first quarter at your customers.

How comfortable do you have – are you or what kind of visibility do you have into your non-distributor customers, your OEMs, that they're not stockpiling excessive amounts of inventory, or – can you just explain what type of visibility you have there?

Oleg Khaykin: Sure, thanks, Craig, it's a good question here. Well, I mean, clearly we are monitoring all our customers as well as distributors. Given the number of the expedite requests we've been getting from all our tier one customers, we do not believe there is any stockpiling of inventory because they are telling us – in many cases, they use contract manufacturers and they get to the point where they actually manage on daily basis, the allocation, how many units should be shipped to which manufacturer depending where they see the tightest need.

And literally, the moment these products hit the dock, for the most of – most of them they go immediately into the finished product. I cannot talk to the – where those product end up, how fast they are sold or do they go into finished with the inventory? But, from our understanding, at this point in time, very little product is actually being put into inventory, for the most part it go straight from the dock into the finished goods.

And in case of distributors, we are monitoring it very closely. And as I mentioned in my script, the sell-in and sell-through were roughly in equilibrium. So we are monitoring the sales that go into the channel and given that they are not historically a lowest point for us at below eight weeks. I'm actually not a very comfortable with the level of inventories we have in the channel, I think it's probably too low.

Craig Berger: And then – thank you for that, that's helpful. And then as a follow-up, I think you guys have talked about potentially getting the power management device business up towards that \$100 million a quarter mark. You've obviously closed the gap somewhat here in December and probably will again in March.

What's your confidence in hitting that number this year? Can you remind us what the major programs are, maybe who you're taking share from, any color there? And, as it relates there, as revenues continue to rise, how do you think about your gross margin profile?

Oleg Khaykin: OK. So let me start of – I don't want to comment on who we're taking share from, you guys are probably much better at analyzing that. However, we do feel very confident in our power management devices business. In fact, you know, given the capacity constraint, you know, we are actually, this is one business unit where some of the capacity is – capacity shortage is being felt more acutely.

But I do feel that we have a very good shot at crossing the \$100 million mark in this business unit this year, and the margins will continue to expand. As you've probably seen over the last few quarters, our margins have grown up quite significantly and one of the elements driving our margin growth projection for next quarter is a significant rebound in this business unit

segment. So we do feel that long term it's going to be over \$100 million per quarter business for us with the margins in the historical range of between 25 to 3five percent in that business unit.

Craig Berger: Last question, can you just remind us about the timing and related cost savings of any fab consolidation actions? Thank you.

Oleg Khaykin: Sure. As you know we have two fabs that we have – that we have planned for consolidation, one in El Segundo, and one in the UK. And our initial plans were to shut them down sometime during this calendar year. We continue to reevaluate this decision on quarterly basis by watching the, how much of the external capacity comes on line and what the demand is doing, and where the shortage of capacity we have. It's still our plan, but we continue to reevaluate on quarterly basis whether to proceed with a shutdown. So once we feel we have sufficient external capacity in place and products are qualified and running we will proceed with a consolidation.

But at this point in time, our capacity remains very tight and actually both of these factories are necessary just to meet the customer demand.

Ilan Daskal: Oleg, just with on that, you know, on the manufacturing, on the closure, we have not changed any decision that we've communicated earlier. So far in terms of the consolidation and the timing and the savings, it's still part of our ongoing plan.

However as Oleg have mentioned, you know, we are revisiting those decisions every quarter. And, you know, if the capacity constraints, the growth in market share gain will continue, we may need – we will may need in the future to change the decisions.

Craig Berger: What was the cost savings you guys had said?

Ilan Daskal: We had – headed for the – for the El Segundo as of calendar year 2011 at about \$12.7 million a year savings. And the remaining savings for the new product it's about another \$3 million to \$4 million savings per year.

Craig Berger: Thank you.

Ilan Daskal: We already realized another four.

Oleg Khaykin: Just to clarify, it's not that we're not – we're going to change the decision to close the fabs, the decision will not change. It's the timing around that is what we are continuously revisiting.

Craig Berger: Understood. Thank you.

Oleg Khaykin: All right.

Operator: Our next question comes from Terrence Leeland with Citi.

Terrence Leeland: Thanks. Good afternoon and thank you for taking the question. The first one relates to I think several times you've said that some of the revenue growth is attributable to market share gains.

Can you perhaps order for us the top three areas you think you're gaining share and then I have a follow-up. Thanks.

Oleg Khaykin: All right. Thanks. Well, I think the – from our perspective, if I look at where we were along different business units during the last cycle and where we are today. So clearly our enterprise power has gained significant share in the server space from the prior cycle and from the prior architecture.

Also, as they now expand into other parts of the enterprise space such as the communication and storage we are – we are going there – growing there from zero percent to obviously some revenue, and as they extend further into the laptop computing space, that's also a new market for us. So net – net, the enterprise power is one segment where we've picked up quite a bit of share.

The second segment is the – our discrete business. When I joined the company a little under two years ago, one of the big focus areas for us to engage was said on Power Management Devices, and we have done significant rejuvenation over the product portfolio in that business, and we're launching in our new book silicon and packaging platforms for that business units. And if I kind of track our broader peer group and growth in that area over the last four, five quarters our revenue has outgrown the larger industry.

And also if I compare where we were at the same point during the last cycle, we are positioned better this time around as well in terms of both design win pipeline and the revenue shipments. And the third area is the industrial and appliances. We are seeing – IR has always been a leader in technology, in the variable speed motors. This technology is finally now coming into its own after kind of being technology for the next year for the past six, seven – eight years.

Given the government regulation and incentives being put in place, we are seeing very sharp inflection in the transition in the appliances, as well as the industrial space towards the variable speed motor technology – and IR is very well-positioned in that segment. And if I look at our pipeline, we are clearly positioned very well to grow in that area.

Terrence Leeland: OK. Thank you. Then, I have a follow up – I think I actually have two ones. The first one is on the intellectual property revenue. It seems like that stepped up a little bit more than I had expected. I, perhaps, I missed the explanation of that, and what your expectations are going forward.

Ilan Daskal: So yes, this quarter, it was higher than we projected. It was a recognition – a one-time recognition of license fees. And we do not expect that to recur in the next quarters. You know, as we communicated in the prior quarters, we believe that it will be at around one million or less per quarter.

Oleg Khaykin: Yes. This incremental amount was triggered by the one of the licensees qualifying the technology, and passing the milestone which enabled us to release, and recognize the royalties.

Terrence Leeland: I understood. And then the last one from me is on inventory. I think you have suggested that you do have some front-end tightness there, obviously, have guided for sequential growth. Are your expectations for on end inventory that you will take them up? Is that correct?

Oleg Khaykin: Well, the set on the front-end tightness, every quarter, we have been provisioning more capacity, and just as we thought we had enough, the demand has gone up even higher. So we continue every quarter to add

capacity, and in the interest of improving customer support, and reducing lead times, you do have to pre-build some (die banks) and some finished goods inventory for certain customers.

So in that respect, we do plan, once the capacity shortage gets alleviated, to provision some additional inventory for our customers. And given that at this time our channel inventories are very low, I'm sure many of our distributor partners would like to see more product in the channel.

Terrence Leeland: OK, great. Nice job. Thank you.

Oleg Khaykin: Thanks.

Ilan Daskal: Thank you.

Operator: Our next question comes from the line of Stephen Chin with UBS.

Stephen Chin: Great. Thank you. My questions revolve mainly on gross margins. Would you first clarify in terms of the automotive power business? Explain why the gross margins were down sequentially despite the strong growth during the quarter.

Oleg Khaykin: Good take up here. So in automotive business unit we launched a new technology platform last quarter. And as you can imagine during the start up phase you do have unusually higher amounts of yield losses in the fab. So that problem has been fixed during the last quarter but the material yield losses that we have incurred last quarter have depressed these margins.

We should see the recovery in these margins during this quarter as part of the driver that will push our margins to 34 to 35 percent range as I outlined earlier.

Stephen Chin: Great. Can you talk about what your capacity utilization rates were in the December quarter?

Oleg Khaykin: Our overall capacity utilization was in the lower 80 percent range.

Stephen Chin: OK. And lastly, as we go forward, at some point in the future when you are able to do and prepare external front-end, back-end capacity to migrate some of your production. Would the gross margins be roughly comparable or that should be above below where it's a current trajectory of your product margins.

Given that, you know, utilization rates are getting higher, and the demand is higher now, but, you know, whatever point in time in the future when you can't outsource production. Would you expect the margins to remain comparable to where they are today?

Oleg Khaykin: We don't break out the difference in cost between internal and external. But, you know, clearly, the margin impact, one way or the other, will depend on the pricing we are receiving. And also, you know, the type of products that we outsource.

Ilan Daskal: And I would like to add also, you know, the mix also will play here. It depends on the mix up here, the generative, revenue that will generate each quarter. But definitely, you know, the higher utilization that we have internally – it does help to the gross margin by reducing the overhead cost.

Stephen Chin: Great. Thank you.

Operator: As a reminder, if you would like to ask a question, please press star one on your telephone keypad. Again, we ask that you please limit yourselves to one question and one follow up.

Our next question comes from the Brian Piccioni with BMO Capital Markets.

Brian Piccioni: Thank you for taking my questions, and congratulations again on the great performance and even better outlook. Of course, most of the questions one would want to ask have already been asked and answered.

You mentioned the variable speed drive opportunity earlier. I was wondering if you have, looking through to your customers, a significant exposure to things like solar, wind power, and that sort of thing.

Oleg Khaykin: OK. Thank you, Brian. Well, I mean, as you know, the solar, wind power, they use essentially and exactly the same products as other industrial segments, so we do have, and we have a quite a few design wins. And we are in production and shipping revenue into these markets.

However, at this point in time, given the current architecture in the solar markets, it really – the only place where products like IR's devices, IC's and discretes go is the inverter box.

So you may have a very large solar panel generating plant but it doesn't have – it only has a few, relatively few inverter boxes. So as interesting as this opportunity is for the solar panel providers, for the semiconductor, it's largely not a very big market.

However, we do see some interest in the migrating solar panel architectures where you would have an inverter on each panel. So clearly from the silicon provider point of view, that will become a more interesting market for us.

With respect to the wind power, that is a much more interesting market because each one as you know, has a generator motor, and they are the traditional industrial products that IR provides and it works very nicely.

And we do see interests in there, and ironically, where we see also some interest is in our HiRel modules for these wind powers, especially the ones that go into the, you know, open sea because the conditions, salt, moisture, and so on, are very adverse to the traditional kind of commercial and industrial modules, and there, our know-how in the HiRel modules which can withstand very harsh conditions appears to be very appealing to many of our customers.

Brian Piccioni: OK. If I can compare the – let's say, the current situation in the solar business where there's large number of panels, small number of inverters, in the VSD business we're going from a situation where the semiconductor content of most electric motors are zero. And if I understand the specifications in the future, there's going to be substantial semiconductor content with each of these motors. Is that correct?

- Oleg Khaykin: That's absolutely correct. What you are placing, you're placing a lot of the mechanical like pulleys, transmissions, and all these other things with the electronic sensing, and you know, and the controllers and the drivers. So in that respect, still overall bill of material goes down. But there's a significant substitution of the mechanical parts with the electronics parts.
- Brian Piccioni: And an improved efficiency.
- Oleg Khaykin: Oh, that's 30 to 40 percent.
- Brian Piccioni: Thank you.
- Oleg Khaykin: Thanks.
- Operator: And once again, ladies and gentlemen. If you would like to ask a question at this time, please, press star one on your telephone keypad. We do have a follow up from the line of Craig Berger with FBR Capital Markets.
- Craig Berger: Hey, guys. I just wanted to circle back on the operating expenses. I think (Steve) kind of asked some questions here but, can you just remind us what you're committed to spending or not spending based on certain revenue levels?
- Ilan Daskal: So Craig, what we had communicated, in the R&D, we plan on \$25 million per quarter plus minus 10 percent. And on the SG&A, \$42 million plus minus five percent.
- Craig Berger: I guess, my question is what – at what revenue level per quarter does that, does that need to go up.
- Oleg Khaykin: Thanks, Craig. This is Oleg. So I mean, I see us at least keeping at that level until about \$250 million a quarter run rate. And then we'll have to revisit our assumptions, and see – you know, what if any we would need to increase but also, you know, as we implement our ERP system over time, I expect our SG&A actually to start coming down.

So to the extent, maybe the two may offset each other. I think, you know, we should be able to scale our revenue without meaningfully increasing our OpEx. That's where part of the operating leverage comes into play.

Craig Berger: And then as a follow-up, do you guys have any plans to reassess your target operating model or gross margin targets? And, I guess, how do you see gross margins ramping as revenues continue to ramp?

Oleg Khaykin: Well, I mean, I think kind of taking one step at a time. You know, we had a one and a half year economic setback. And we have now successfully recovered our top line and bottom line to where it was pre-downturn.

We will continue to focus on growing both our top line, and expanding our margins towards our stated goals. And, you know, if the economic recovery continues, and remains sustainable we will get to our target model sooner, I would imagine. And we'll continue to update you guys as our revenue, both top line and bottom line, grow.

Craig Berger: Thank you so much.

Oleg Khaykin: Sure.

Operator: Our next question comes from Steve Smigie with Raymond James.

Steve Smigie: Great, thanks, guys. Just some housekeeping items, can you give your thoughts on tax rate end of the quarter and as far as you are willing to and similarly share count, is a little bit of buyback, how much more would you do in the buyback and wonder what's your prices start to feel that our partner share effects?

Ilan Daskal: So Steve, on your first question, for the next couple of quarters, we will just have tax on our foreign entities jurisdictions of approximately two or less than \$3 million dollars per quarter.

And to your second question was – what was that?

Oleg Khaykin: Buybacks.

Ilan Daskal: On the buybacks. So we did announce, you know, the 100 million buyback. We have done so far by the third of it. And it is part of, you know, our overall strategy. And, you know, we don't try to time the market. It is just part of our overall, you know, strategy, and we are continuing, you know, to execute on this plan, but again, we are not communicating, you know, at what volume for each quarter, or timing, of pricing.

Steve Smigie: OK. Is there a particular stock price where the – (it's going to be a big part) after this come back in money for you)?

Ilan Daskal: No, we – you know, we don't communicate, you know – I mean, neither the stock price or the volume or the timing as I said, Steve.

Steve Smigie: OK. And just – the final question. Can you just talk about what order patterns look like throughout the quarter and into the new quarter up a month? Thanks.

Oleg Khaykin: Well, I think, we only prepared to give the guidance for this quarter. And, you know, so far, you know, the customer demand remains robust. And I think, you know, depending on what happens after Chinese New Year as people may be reasserting goals, a situation may change. But from – given from where I look at today, the shortages of capacity, and the amount unmet demand out there, I imagine, at least to the next three months are going to be strong, and some of it may carry out into the next quarter.

But it's too early to tell it at this point in time.

Steve Smigie: Well, I guess, it's meant sequentially was, you know, was each month better than the previous month.

Oleg Khaykin: I don't break out typically what they're seeing, and within the quarter, I just kind of like to stick to the quarterly guidance.

Steve Smigie: OK, great. Thanks very much.

Oleg Khaykin: Thanks.

Operator: There are no further questions at this time. I would now like to turn the call over to Oleg Khaykin for any closing remarks.

Oleg Khaykin: Thank you, operator. Well, thank you very much for joining us today. As I mentioned earlier, we feel very confident in our strategy, and we are very pleased to recover most of our lost revenue during these 18 months economic downturn, and recovering – and returning back to profitability.

And we look forward to building a strong business with – and expanding our profitability. Thank you for joining us, and we'll see you next time.

Operator: Ladies and gentlemen, this does conclude today's International Rectifier 2010 fiscal year's second quarter financial results conference call.

You may now disconnect.

END