FINAL TRANSCRIPT

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PRESENTATION

Operator

Good afternoon. I will be your conference operator today. At this time, I would like to welcome everyone to the International Rectifier fiscal year fourth quarter results conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer session. (Operator Instructions).

I will now turn the call over to our host, Ms. Portia Switzer. Madam, you may begin your conference.

Portia Switzer - *International Rectifier Corporation - IR*

Thank you, operator. Good afternoon, everyone, and welcome to IR's 2009 fiscal year fourth quarter conference call. If you have not already read through our press release issued earlier today it, can be found on our website at Investor.IRS.com in the Investor Relations section. The 2009 annual report on Form 10-K is expected to file with the SEC this Thursday, August 27, 2009 and can be accessed using the same web address, and the link is also listed in our press release. This call is being broadcast over the Internet and can be accessed through IR's web address. A conference call replay will also be available through September 1, 2009.

With me today are Oleg Khaykin, Chief Executive Officer, and and Ilan Daskal, Chief Financial Officer. After our prepared comments, 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-K and 10-Q.

Now, Ilan will discuss our most recent financials. Ilan?

Ilan Daskal - *International Rectifier Corporation - CFO*

Thank you, Portia. Good afternoon, and thank you all for joining us. Before I begin, I would like to briefly provide some information regarding a change in our method of accounting for patent-related costs. During the fourth quarter, the Company changed its method for accounting for legal fees related to patent applications. Previously, the Company has capitalized and amortized such fees to selling, general and administrative expense over the life of the patent. Now such fees will be expensed as incurred. The effect of the change was retroactively applied to prior periods. The change in SG&A expense and net income for each of the past seven quarters is attached in our press release issued earlier today.

In addition, during the first three quarters of fiscal year 2009, the Company's statement of cash flows were misstated in that cash flows used in operating activities were better than previously report. With the offsetting amount being recorded in the effect of exchange rate changes on cash and cash equivalents. The correction to each of those two lines of the prior statements of cash flows are included in our press release issued earlier today.

For the fourth quarter of fiscal 2009, IR reported total revenue of $159.6 million. Our IP segment revenue was $2.7 million and our Transition Services revenue for the quarter was also $2.7 million. Excluding IP and Transition Services segments, our ongoing customer segment revenue was $154.1 million, up approximately 16.2% sequentially from $132.6 million last quarter. We saw an increase across four of our five ongoing business segments, driven mainly by inventory replenishment and also an increase in end demand towards the second half of the quarter.

On a GAAP basis, gross margin was 20.8%. This is down from the prior quarter gross margin of 21.1%. Excluding our IP and Transition Services segments, gross margin in our five ongoing customer segments was 20.9%, down from 21.5% last quarter. Our gross margin in the June quarter was negatively impacted by inventories sold in the quarter that had higher unit costs as it was produced during periods when our manufacturing utilization was very low. Also, during the June quarter, we saw higher mix of lower margin consumer products. These negative impacts to gross margin were partially offset by higher than expected revenue.

We reported net income of $29.1 million, or $0.41 per share compared with a net loss of $82.6 million, or $1.15 per share in the prior quarter. Included in the June quarter net income was a $96.1 million gain on the PCS divestiture related to the settlement with Vishay, a $45 million charge related to the agreement in principal to settle the pending securities class action litigation, a $9.6 million tax benefit, a $9.5 million insurance reimbursement, and a $2 million investment impairment.

For the June quarter, R&D expenses were $26.2 million. We expect R&D to be slightly higher over the next few quarters in view of new products and technology introductions and the higher amount of engineering builds. Selling, general and administrative expenses were $83 million. Excluding a $45 million expense related to the agreement in principal to settle the pending security class action litigation and a $9.5 million insurance reimbursement, our SG&A was approximately $47.5 million, down about $5 million compared with the prior quarter. We expect SG&A expenses to be higher in the September quarter due to severance charges and the year end audit expense. However, we remain on track to reduce our March quarter SG&A levels by 20% by the end of the calendar 2009.

Other expense net was $2.9 million in the June quarter, down $8.7 million from the prior quarter, primarily due to decrease in investment impairments. For the fourth quarter, investment impairments were $2 million. Interest income net was $3.3 million, which is primarily from our investments. Tax was $9.6 million benefit primarily due to a net favorable release of tax contingency reserves. The total cash, cash equivalent and investments at the end of the fourth quarter were $604.4 million, of which $3.9 million was restricted cash. Currently, 83% of cash and cash equivalents and short-term investments are invested in money market funds and US government and agency obligations.

Our cash and cash equivalents were $365.8 million. Our short-term and long-term investments were $113.2 million and $121.5 million, respectively. Our current investments in mortgage-backed and asset-backed securities totaled $40.8 million. Our level two securities now total $52.9 million, down $29.5 million from the March quarter. Inventory was $151.1 million, which was down about $11 million from the prior quarter. That amounts to about 16 weeks, which is down about 4 weeks compared with the last quarter. We used $9.4 million in cash for operating activities in the quarter. Capital expenditures were about $6 million. Depreciation and amortization expenses were $17 million, and stock-based compensation was $2.4 million.

During the quarter, we purchased 579,000 shares of our stock at a cost of about $8.2 million. We had 71.2 million shares outstanding at the end of the quarter.

Moving on to our outlook, at our first fiscal quarter of 2010 we will report five ongoing business segments and IP revenue. Transition services will no longer be reported. We expect our ongoing segments total revenue, which includes IP, for the September quarter to be between $165 million and $175 million. This is a 5% to 12% increase from the comparable June quarter revenue of $156.8 million. With this projected revenue increase, combined with the higher factory utilizations we have been experiencing, we estimate that our gross margin in the September quarter will rise to the mid-20s. Although it is too early to guide, initial indicators show that currently the December backlog is trending higher than the September quarter.

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

Oleg Khaykin - *International Rectifier Corporation - CEO, President*

Thank you, Ilan. In the second half of he quarter, we experienced strong momentum in excess of our forecast, driven by the inventory replenishment and the recovery in computing and consumer end markets. During the quarter, we observed dramatic differences in end market demand across our sales geographies. We saw very strong demand and demand growth in China and Taiwan. North America remained weak, but we saw encouraging signs of stabilization. Europe and Japan were both weak, as a reflection of continued challenges faced by our industrial and automotive customers.

At the business unit level, both Enterprise Power and Power Management devices experienced very strong growth in the June quarter. Enterprise Power growth was driven primarily by the launch of the new Intel server platform. Power Management devices growth was driven by strong demand in computing and consumer products in both China and Taiwan, along with IR's renewed focus on the discrete product markets.

In automotive, we saw some improvement from the March quarter. Demand in North America and Europe remained well below the historical levels. We also saw some weakness in our Energy-Saving Products, driven by seasonal drop in appliance markets and continued soft demand in industrial markets. HiRel stayed relatively flat, despite short-term weakness in commercial aviation. We expect the demand for our HiRel products to remain steady.

In terms of outlook, we expect to see continued strong growth in our Enterprise Power business unit, driven by the server ramp-up and significant design wins in the notebook space. The PMG business unit also continues to see strong demand growth, particularly in Asia. The ESP business unit should return to growth driven by a number of tier one consumer electronic design wins that are ramping this quarter. In automotive, we are starting to see some order recovery in both Europe and North America.

Now an update on inventory. During the June quarter, we have seen a significant reduction in both internal and channel inventories. Our channel sell-through sales have outpaced our sell-in sales. As a result, distribution inventory came down 15%

in the absolute dollar terms and is now at levels below 10 weeks. The lead times for most of our products remain in eight to 12-week range. However, there are several product families where we see lead times expanding due to strong demand. Our internal inventory closed at $151.1 million, down $11 million from last quarter. That also includes about $6 million of safety stock that we have prebuilt in anticipation of the consolidation of two of our fabs.

Operationally, we tried to strike a balance between meeting customer demand and moving forward with our previously announced fab consolidation. In view of strong demand, we have decided to postpone the decommissioning of a portion of our Newport fab location by two to three quarters or when alternative external capacity comes online. As a result of this postponement, we have revised our projected savings for the manufacturing consolidation of the Newport facility from $37.9 million to $3.6 million on an annualized basis. We began realizing the savings already in this past June quarter.

Our plans to close our El Segundo fab remain on track and we expect to complete the closure by the end of calendar 2010. The closure of this facility is expected to save approximately $12.7 million per year upon completion.

Over the course of the past 12 months, we have made significant progress on a number of fronts while facing severe economic downturn. The settlement with Vishay and the agreement in principle to settle the pending securities class action litigation are significant steps towards resolving IR's legacy legal issues. We have also taken significant steps in restructuring our operational and product strategies and continue positioning the Company for success over the long haul.

This concludes our prepared remarks and we will now open the session to your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Our first question comes from the line of Ramesh Misra. Please go ahead with your question.

Ramesh Misra - *Brigantine Advisors LLC - Analyst*

Good afternoon, folks, and congratulations on the solid report. First question related to R&D, obviously it's much higher than the last quarter. What are the key drivers in that, Oleg? Is this related to gallium nitrite products or is it a more broader factor, or more broader aspects causing that?

Oleg Khaykin - *International Rectifier Corporation - CEO, President*

It's a broader aspect. During the last quarter, we've been running a very large number of new products through the engineering build, so it's a lot of mask fabs. A lot of the engineering wafers. So that has pushed the R&D expenditures higher than the $25 million that we are guiding. We did not really increase the R&D expenses in terms of head count or anything like that, but we expect last quarter or probably next one to two quarters running slightly higher expenses due to just a sheer number of new products and new technologies that will be coming up for launch. We embarked on a big portfolio, a refresher strategy about a year ago and now we are starting to see a lot of these products come into fruition.

Ramesh Misra - *Brigantine Advisors LLC - Analyst*

Got it. In regards to the gallium nitride products, do we expect first products and first product revenue sometime middle of 2010 timeframe?

Oleg Khaykin - *International Rectifier Corporation - CEO, President*

That's about right. We are already sampling products with our customers and we probably should see some revenue coming, starting with them maybe first half of next calendar year. But, as I said, a lot of that revenue will be fairly immaterial relative to overall IR revenue. It's the early adopters that will start taking the initial product revenues.

Ramesh Misra - *Brigantine Advisors LLC - Analyst*

Okay, great. Ilan, your long-term investments declined from $153 million to $121 million. Was that mostly because of the L2 assets coming down? And was there a write-down affiliated with that? I missed some of the commentary related to that.

Ilan Daskal - *International Rectifier Corporation - CFO*

So most of it, yes, is the L2 that came down. In Q3, it was about $84 million level and it came down to about $51 million, $52 million. The write-off where the impairments were $2 million of level three, the MBSes and ABSes.

Ramesh Misra - *Brigantine Advisors LLC - Analyst*

So the decline was mostly because it got reclassified as some short-term, is that what happened?

Ilan Daskal - *International Rectifier Corporation - CFO*

Some cash, we used, some cash got reclassified.

Ramesh Misra - *Brigantine Advisors LLC - Analyst*

In terms of gross margins, so the improvement to the mid-20s level next quarter, what are the key driving factors for that?

Oleg Khaykin - *International Rectifier Corporation - CEO, President*

You're talking about the next quarter, September quarter and going forward?

Ilan Daskal - *International Rectifier Corporation - CFO*

So clearly the revenue growth is a big one. As you can imagine, it drives utilization higher, thereby driving the lower manufacturing costs and the unit cost basis. Also as we start seeing some of the kind of higher margin products in the industrial automotive space starting to come back, that will improve the margin mix. As I've pointed out last quarter, a lot of our growth came out in Taiwan and China and it was overwhelmingly focused on the consumer and computing segments, which have fairly aggressive pricing and not very rich margins. So I would say between revenue growth and the revenue mix trending more towards the historical mix, we'll see some of the biggest drivers of gross margin recovery.

And another level here is, remember, some of the inventory that we are selling through today was billed in the days when we had very low utilization, so the result as we sell through more of that higher cost unit basis inventory, that will release some of the margin potential that we have in pipeline.

Portia Switzer - *International Rectifier Corporation - IR*

Operator, we need to move on to the next caller, please.

Operator

All right. Understood. Our next question comes from James Schneider with Goldman Sachs. Please go ahead with your question.

James Schneider - *Goldman Sachs - Analyst*

Good afternoon. Thanks for taking my question. I guess maybe a follow-up on the gross margins, if you could. Could you address utilization levels, where they are today, how sustainable you think the utilization increase will be going forward, and what the split was in terms of your September quarter guidance, in terms of improvement from mix versus utilization?

Ilan Daskal - *International Rectifier Corporation - CFO*

I'm not going to break out for you the mix versus utilization. It's all over the place, until we have the final numbers, it will be hard to tell. But in terms of the utilization, we were about 60% utilization in the June quarter. It was significantly lower, as you can imagine, in the beginning of the quarter and was quite a bit higher at the end of the quarter. And we expect September quarter utilization to be somewhat higher than 60% overall.

James Schneider - *Goldman Sachs - Analyst*

Okay, and then maybe if you could maybe expand on your commentary about better visibility going into December and an increase in bookings. Can you talk about the areas where you are seeing that, is it industrial, automotive, is it continued improvement across all areas, et cetera?

Ilan Daskal - *International Rectifier Corporation - CFO*

It's a continuous improvement across all areas, but clearly where the mix matters is the industrial and automotive and it's mainly North America and European, as well as Japanese phenomena and clearly we are seeing some return of orders in those segments. Although I would be mindful to say they are still running well below the historical levels over, say, a year ago. So it's coming back. Growth is across all segments, but one word of caution I'll say, this is what we are seeing today, given we are already about one month away from the end of the quarter, so December quarter is, we are seeing the bookings. But if you remember last year, the bookings looked very good for December quarter up until about middle of October. So typically you have to expect that customers are going to take a look and assess how much they have shipped and what they need to ship in the December quarter and there may be some adjustments in the first half of October. But at this point in time, the December quarter bookings are trending above the September quarter.

Portia Switzer - *International Rectifier Corporation - IR*

Operator, we'll take our next question, please, next caller.

Operator

All right. Our next question comes from the line of Steve Smigie with Raymond James. Please go ahead with your question, sir.

Steve Smigie - *Raymond James & Associates - Analyst*

Great, thank you. Just to clarify, on the level two cash, the stuff that's not in the 83% in the money market stuff, how much of that is still at risk for getting impaired?

Ilan Daskal - *International Rectifier Corporation - CFO*

Most of the level two are in munis, some high grade corporate debt and agency bond, so there is not a high risk. The high risk stuff is all in the level three. These are the NBSes and ABSes.

Steve Smigie - *Raymond James & Associates - Analyst*

Okay, and just whatever you can speak generally about gross margin progression going forward, assuming revenue to keep moving up steadily, would we expect to see continued gross margin improvement over the coming quarters, one, from utilization and, two, obviously you've got some of the factory costs coming off, so we should generally exactly that to keep moving up here?

Ilan Daskal - *International Rectifier Corporation - CFO*

Clearly we expect our gross margins to continue to expand.

Steve Smigie - *Raymond James & Associates - Analyst*

Okay. And then in terms of the overall SG&A spending, I know you gave some short-term color, but as things recover here, how much of your temporary stuff has to come back yet and what's the SG&A expense going to look like, and finally, as a part of that, how much is left in SG&A that is the temporary stuff, if you will, excuse me, the stuff for helping you out with the accounting and restaffing, the finance, and the consultants?

Ilan Daskal - *International Rectifier Corporation - CFO*

Right, Steve. So first of all, for this quarter, we did call out the $45 million that's in there for the securities litigation and on the upside, the insurance reimbursement, $9.5 million. For the December quarter, we still maintain our goal to reduce the SG&A level by 20% from the March level, meaning it equals about $52 million, $53 million in the March quarter. It will go down to around about 41 to 42. It still will include higher than, let's say, what we would like to have in the long run, costs associated mainly with legal and some assistance. We don't call those out, but still, we will be at 20% lower by December, meaning about $41 million to $42 million. Assuming that, from there on, it may go a bit, settle down, we don't project that portion.

Steve Smigie - *Raymond James & Associates - Analyst*

Okay, and last question, just to clarify, so that $41 million, $42 million takes into account any sort of 401(k) matching coming back, temporary furloughs, all of that stuff's in that $41 million, $42 million, all that stuff coming out?

Ilan Daskal - *International Rectifier Corporation - CFO*

What does it include? Can you repeat it?

Steve Smigie - *Raymond James & Associates - Analyst*

Just any sort of temporary, forced vacations that you've had or bonuses that you've restricted in the past, does any of that stuff come back online that could surprise us, that could make that $41million, $42 million be higher?

Ilan Daskal - *International Rectifier Corporation - CFO*

No, that's a steady state. It does not take into account any forced PTO or any unusual items except for higher than what is our long-term goal in terms of legal expenses and the like.

Steve Smigie - *Raymond James & Associates - Analyst*

Okay. Thank you.

Portia Switzer - *International Rectifier Corporation - IR*

Next caller, please?

Operator

Our next question comes from the line of Craig Berger with FBR Capital Markets.

Craig Berger - *Friedman, Billings, Ramsey Group, Inc. - Analyst*

Hey, guys, thanks for taking my questions. Just on the gross margins, can you help us understand in the June quarter what the period expenses were for depreciation, that you couldn't allocate to product? I think in March it was a $9 million charge and also excess and obsolete inventory, which I think in March is a $6 million charge. Thank you.

Ilan Daskal - *International Rectifier Corporation - CFO*

So Craig, for the comparable $8.8 million number that was in the prior quarter, we had about $2.5 million that was taken to the P&L this quarter, in the June quarter. But bear in mind this is only one portion. This is part of, on top of it, we had the higher than usual per unit cost of inventory that we sold in the June quarter that was manufactured in the prior quarter with a much lower utilization rate. So the $2.5 million is only one component of it. But as we go along forward, utilization rates have started to pick up towards the last half, second half of the quarter and it continues to pick up, that impact probably will start to be lower and lower over time.

Craig Berger - *Friedman, Billings, Ramsey Group, Inc. - Analyst*

And the excess amounts?

Ilan Daskal - *International Rectifier Corporation - CFO*

Craig, I don't have that number with me. It will be filed in the K in two days when we file it.

Craig Berger - *Friedman, Billings, Ramsey Group, Inc. - Analyst*

Okay, and then just looking at your business, if you were intermediately targeting a kind of 40/15 model that implies 25% OpEx. On a $200 million quarter implies about $50 million of quarterly OpEx, which is quite a ways down from here. So, should we think about OpEx continuing to come down over time, or are you scaling the Company around a larger revenue, a larger revenue base?

Oleg Khaykin - *International Rectifier Corporation - CEO, President*

Craig, this is Oleg. I think as Ilan said, we are targeting to take our open down, SG&A to be down somewhere in the $41 million, $42 million range by the end of this calendar year and we are keeping our R&D at about $25 million plus or minus a couple million dollars. So at this point, I'm comfortable as far down as we want to go, so that means really we are looking to scale the revenue up rather than just keep scaling OpEx beyond that. If we keep pushing further than that, you will start, especially on R&D side, jeopardizing future revenue streams.

Craig Berger - *Friedman, Billings, Ramsey Group, Inc. - Analyst*

So a billion dollars of annual revenue. So then just as a follow-up to that, can you update us where you are with the discrete products that you're re-rolling out? I know R&D went up a lot to support some of the stuff. How long does it take to start driving meaningful revenues on that front? Thank you.

Oleg Khaykin - *International Rectifier Corporation - CEO, President*

We already start seeing, we've done some tactical deals on the discrete sector. As you know, there's a big market in there, especially in the computing space, where if you are willing to accept the commodity price, you can get some volumes. So we've taken some of the business just to get the manufacturing assets loaded and as we are now starting to roll out our next generation technologies and the benchmark product, they are coming out with much stronger margins. So as that mix starts shifting towards newer products, we'll see that product line becoming more profitable. But that said, we are already seeing quite a bit of traction in our discrete markets in our share and we've seen that business growing very nicely for us.

Portia Switzer - *International Rectifier Corporation - IR*

Operator, next caller, please?

Operator

Our next question comes from the line of [Brian Pichoni] with BMO Capital Markets.

Brian Pichoni - *BMO Capital Markets - Analyst*

Hi, there. Thank you for taking my question, or my questions. Getting back to the question of gross margin, obviously modeling's a little challenging on account of the inflection point and all the changes you're doing to the business. Can you tell us again what your target gross profit margin range is and when you expect to achieve that?

Oleg Khaykin - *International Rectifier Corporation - CEO, President*

Well, I think, just in the short-term, as Ilan pointed out, we are guiding margins to be in the mid-20s. As the revenue and mix continue to recover, I would imagine we'll get to the margins somewhere in low 30s and from then, it's revenue growth and the product mix adjustment and we are still targeting our longer term model to be in the range, once the revenue gets back to significant enough levels, to be about 40%.

Ilan Daskal - *International Rectifier Corporation - CFO*

So that assumes obviously, the pace of the recovery and the growth of the revenue quarter over quarter, increasing utilization rates, the proper mix that we had in our, historical strategic plan and if it all comes back, that's what we can get.

Brian Pichoni - *BMO Capital Markets - Analyst*

So those are achievable goals, not stretch goals, but not easy goals basically?

Oleg Khaykin - *International Rectifier Corporation - CEO, President*

It's not easy goals and obviously it factors significant inventory recovery back to where we were a year ago and then some.

Brian Pichoni - *BMO Capital Markets - Analyst*

And tax has been all over the map. How would we model that on a go-forward basis?

Ilan Daskal - *International Rectifier Corporation - CFO*

So for an ongoing, at least for this fiscal year, 10% to 15%. Obviously once the administration will come up with their new guidance, we'll have to remodel everything and see what is the outcome there. I can tell you that our tax structure is not subject to the check the box structure, that we are not subject to those offshore limitations that you find with some other companies. So for this fiscal year, probably 10% to 15%.

Brian Pichoni - *BMO Capital Markets - Analyst*

Super, thank you.

Portia Switzer - *International Rectifier Corporation - IR*

Next caller, please?

Operator

Our next question comes from the line of you Uche Orji with UBS.

Stephen Chin - *UBS - Analyst*

This is Stephen Chin calling on behalf of Uche. Another question on gross margins. In terms of your back end packaging services that you outsource, is there any tightness in that, in terms of capacity out in the industry and has that impacted your margins at all?

Oleg Khaykin - *International Rectifier Corporation - CEO, President*

So you're saying the outsource back hand, has it impacted our margins?

Stephen Chin - *UBS - Analyst*

Correct. Is the availability of capacity from your service providers, is that pretty good, or is there some amount of tightness that there may be cost pressures for you guys?

Ilan Daskal - *International Rectifier Corporation - CFO*

On the back end.

Oleg Khaykin - *International Rectifier Corporation - CEO, President*

On the back end. I would not say the cost pressures, but I would say the capacity with certain back end service providers is getting a bit tighter as the demand is coming back. But we have not had any issues with getting capacity and we are not seeing any particular threat to our margins from that part of the supply chain.

Stephen Chin - *UBS - Analyst*

And then a quick question on some of the new products that you alluded to that will be entering production for the next two quarters, are those typically higher margin, higher ASP compared to (inaudible) currently in production, or are these completely new and higher margin ASP compared to everything else?

Oleg Khaykin - *International Rectifier Corporation - CEO, President*

The newer products, for many cases it's the same kind of technology, it's lower costs, so it gives you a better margin. But by and large, it's based on new technology platforms and it's a new product that we are bringing into the market. So as you refresh your portfolio, clearly you're able to get better margins on these products.

Stephen Chin - *UBS - Analyst*

And lastly, will these new products allow you to potentially increase your content in the various products that you sell into, or is this better margins and similar or slightly higher ASP dollars for you guys?

Oleg Khaykin - *International Rectifier Corporation - CEO, President*

It's combination of both. In some cases, we are modularizing some products, so we increase the content. In others, it's just purely discrete, so it's just one for one replacement.

Stephen Chin - *UBS - Analyst*

Thank you.

Portia Switzer - *International Rectifier Corporation - IR*

Next caller, please.

Operator

Our next question comes from the line of Terence Whalen with Citi.

Terence Whalen - *Citigroup - Analyst*

Hi. Thanks for taking my question. This one relates to a comment you made about the channel inventory. I think you said channel inventory came down, it's around 10 weeks and I think you said it declined by about 15%. Can you help us understand what the dollar impact of that on revenue was, given your sell-in recognition? And then also talk a little bit about what expectations for channel inventory is embedded in that revenue guidance that you gave for the September quarter.

Oleg Khaykin - *International Rectifier Corporation - CEO, President*

I don't believe we break out the, what it means in terms of dollar amounts or the details in that. We haven't reported it in the past and we're not going to provide detail on that. However, what I will tell you is I think our channel inventories are probably around the level. I am hesitant to take them further down, given the expanding lead times across the industry, so I think we are going to seek to strike to drive equilibrium between the sell-in and sell-through this quarter. At certain points you got to start getting concerns about the blackout conditions at your distribution. So I think from this point of view, we may keep the same number of weeks, maybe a little bit higher, but as revenue grows, the corresponding amount of product in the channel needs to go up. But one thing we are trying to do is get closer to the equilibrium between what's being sold through and what's being sold in.

Terence Whalen - *Citigroup - Analyst*

Okay, and then as a follow-up, I think that your operating cash flow was a draw of about $9.5 million. What's the expectation for next quarter? Will cash flow from operations be positive? And then I may have missed this, but what's the expectation for CapEx as well? Thanks.

Ilan Daskal - *International Rectifier Corporation - CFO*

In terms of the cash flow, we don't see that will be in the September quarter with the cash flow positive yet. And in terms of the SG&A, it is going to be higher than the level in this quarter, in the June quarter, and the two main reasons is, one is for some severance payments and the other one is the annual audit fees. However, as, you know, we guided for the December quarter, we still maintain our projected 20% decrease from the March quarter.

Oleg Khaykin - *International Rectifier Corporation - CEO, President*

On SG&A. But on operating cash flows, I think it's worth pointing out in that June quarter we had insurance reimbursement that partially offset some of the numbers.

Ilan Daskal - *International Rectifier Corporation - CFO*

Yes. Now, the outlook for the CapEx that we predict would be on an annual basis between $40 million and $50 million.

Terence Whalen - *Citigroup - Analyst*

Great, thank you.

Portia Switzer - *International Rectifier Corporation - IR*

Operator, are there any other questions?

Operator

Yes, there is. (Operator Instructions). Our next question comes from the line of Craig Berger with FBR Capital Markets.

Craig Berger - *Friedman, Billings, Ramsey Group, Inc. - Analyst*

Thanks for taking the follow-up, guys. I actually had a question similar to Terence's. You said just the inventories fell by 15% in dollars sequentially. If so, if they don't burn inventory in Q3, doesn't that mean sales grow 15% on that front and seasonality probably add another 5% to 10%, so you're talking about a 20% to 25% growth, and that's 40% of your business. So that basically accounts for all of the sequential revenue guidance you guys are providing. So is it fair to say that as things continue, that potentially there's upside if some of the other non-distributor pieces of the business seasonally grow and burn less inventory in Q3 than they did in Q2? Can you address that? Then I wanted to ask on the lead times.

Oleg Khaykin - *International Rectifier Corporation - CEO, President*

Well, I think clearly your math is pretty good one. However, there's one more constraint you got to ask yourself, is how many products you can physically ship out. So if you want to deplete your dye bank and whatever you had in the whip, you have to pretty much wait for the wafers to make their way through the fab before. So it does not mean necessarily you'll be able to meet all of your demand because there is a certain amount of lag time that you got to do to take the wafers through the fab. The easy, low-hanging fruit, things like dye bank or you had finished goods inventory or you had some whips you could expedite from the fab, once that thing gets exhausted, then you just have to physically sit and wait until the wafers make their way through the fab and then through the back end assembly and casting. So there's a limiting factor related to the manufacturing, as well, that you have to consider.

Craig Berger - *Friedman, Billings, Ramsey Group, Inc. - Analyst*

I see. And then as a follow-up, on the lead times, you said lead times are expanding for some products. Can you detail potentially what some of those products are, what the implications are for pricing on a go-forward basis, and whether your customers have the chip supplier ability to replenish in the third quarter? And I'm distinguishing that from shipping closer to consumption or not burning inventory. I mean true replenishment, building inventory, or is that likely a fourth quarter and first quarter phenomenon? Thank you.

Oleg Khaykin - *International Rectifier Corporation - CEO, President*

I think, Craig, there's a lot of moving parts here, right? So I think clearly some of the product, our customers do not have alternative source and clearly we give priority to those customers and make sure they don't have a blackout. But what we have seen in the June quarter and it continues into this quarter is the customers are coming in and increasing their forecasts and often that forecast is in fact the lead time. So just because you put in a bigger forecast, it doesn't mean that you'll be able to get your product unless I already have it sitting in the dye bank or in the finished goods inventory. Once those things get exhausted, you just have to wait until your wafers physically make their way through the fab.

The second thing is, we do have some products where there is multiple sources, but we are seeing similar things with some of our competitors as the lead times are starting to expand. Obviously, once supply becomes a little bit tighter, there's definitely no price reductions because nobody is talking about lower price. They want supply. To what extent the pricing will recover, it depends on a particular situation. But I think, looking into December quarter, we're going to see, I expect we will continue to see, even if there is a softening in end market demand, there will be at least some momentum for the supply chain to rebuild some inventory, which in my view have been taken down way too much during the March and December quarters.

Craig Berger - *Friedman, Billings, Ramsey Group, Inc. - Analyst*

Specific lead time expansion, any parts?

Oleg Khaykin - *International Rectifier Corporation - CEO, President*

It's not any particular parts. It's really more depends on the particular production line or site, so as I said, there is a constraint, but what we do is we give first priority to the single-source customers and then followed by the other product. At the same time, we are bringing on some external capacity and as that comes online, that will alleviate some of the shortages.

Craig Berger - *Friedman, Billings, Ramsey Group, Inc. - Analyst*

When does that come on?

Oleg Khaykin - *International Rectifier Corporation - CEO, President*

It's coming on practically on a weekly basis in small increments. It's a function of two things. One is the process qualification and the other one is the specific product qualification.

Craig Berger - *Friedman, Billings, Ramsey Group, Inc. - Analyst*

Thank you so much.

Operator

That appears to be all the time we have for questions today. Are there any closing remarks?

Oleg Khaykin - *International Rectifier Corporation - CEO, President*

We do not have any closing remarks. Thank you, very much, for joining us today and we'll talk to you all again in about six weeks.

Operator

Ladies and gentlemen, this concludes today's International Rectifier fiscal year fourth quarter results conference call. You may now disconnect.
