INTERNATIONAL RECTIFIER CORP /DE/ (IRF)

10-Q

Quarterly report pursuant to sections 13 or 15(d)
Filed on 05/04/2012
Filed Period 03/25/2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 25, 2012

or

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

For the transition period from to

Commission file number 1-7935

International Rectifier Corporation

(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**95-1528961** (I.R.S. Employer Identification No.)
101 N. Sepulveda Blvd El Segundo, California (Address of Principal Executive Offices)	**90245** (Zip Code)

Registrant's Telephone Number, Including Area Code: **(310) 726-8000**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒	Accelerated filer ☐	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

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

There were 69,188,130 shares of the registrant's common stock, par value $1.00 per share, outstanding on April 26, 2012.

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NOTE REGARDING FORWARD-LOOKING STATEMENTS

This document contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to expectations concerning matters that (a) are not historical facts, (b) predict or forecast future events or results, or (c) embody assumptions that may prove to have been inaccurate. These forward-looking statements involve risks, uncertainties and assumptions. When we use words such as "believe," "expect," "anticipate," "will" or similar expressions, we are making forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we cannot give readers any assurance that such expectations will prove correct. The actual results may differ materially from those anticipated in the forward-looking statements as a result of numerous factors, many of which are beyond our control. Important factors that could cause actual results to differ materially from our expectations include, but are not limited to, the factors discussed in the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." All forward-looking statements attributable to us are expressly qualified in their entirety by the factors that may cause actual results to differ materially from anticipated results. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect our opinion only as of the date hereof. We undertake no duty or obligation to revise these forward-looking statements. Readers should carefully review the risk factors described in this document as well as in other documents we file from time to time with the Securities and Exchange Commission ("SEC").

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

INTERNATIONAL RECTIFIER CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	March 25, 2012	March 27, 2011	March 25, 2012	March 27, 2011
Revenues	$ 248,094	$ 296,717	$ 780,913	$ 859,328
Cost of sales	174,132	179,534	510,694	512,310
Gross profit	73,962	117,183	270,219	347,018
Selling, general and administrative expense	49,578	46,680	149,127	141,607
Research and development expense	34,798	30,733	100,053	86,837
Amortization of acquisition-related intangible assets	2,097	1,695	6,651	4,156
Asset impairment, restructuring and other charges (recoveries)	—	(3,489)	—	(3,359)
Gain on disposition of property	(5,410)	—	(5,410)	—
Operating income (loss)	(7,101)	41,564	19,798	117,777
Other expense (income), net	(46)	(1,348)	4,113	1,672
Interest income, net	(47)	(2,694)	(287)	(8,255)
Income (loss) before income taxes	(7,008)	45,606	15,972	124,360
Provision for (benefit from) income taxes	(4,518)	(3,879)	2,836	(2,552)
Net income (loss)	$ (2,490)	$ 49,485	$ 13,136	$ 126,912
Net income (loss) per common share—basic (1)	$ (0.04)	$ 0.70	$ 0.19	$ 1.79
Net income (loss) per common share—diluted (1)	$ (0.04)	$ 0.69	$ 0.19	$ 1.77
Average common shares outstanding—basic	69,104	69,854	69,306	69,869
Average common shares and potentially dilutive shares outstanding—diluted	69,104	70,601	69,811	70,499

(1) Net income per common share is computed using the two-class method. See Note 15, “Net Income Per Common Share”.

The accompanying notes are an integral part of these financial statements.

INTERNATIONAL RECTIFIER CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Three Months Ended		Nine Months Ended	
	March 25, 2012	March 27, 2011	March 25, 2012	March 27, 2011
Net income (loss)	$ (2,490)	$ 49,485	$ 13,136	$ 126,912
Other comprehensive income (loss):				
Foreign currency translation adjustments	4,634	3,959	(3,046)	10,452
Unrealized holding gains (losses) on available-for-sale securities, net of tax effect of $1,579, $(123), $(1,962) and $44, respectively	2,654	203	(3,300)	(76)
Other comprehensive income (loss)	7,288	4,162	(6,346)	10,376
Comprehensive income	$ 4,798	$ 53,647	$ 6,790	$ 137,288

The accompanying notes are an integral part of these financial statements.

INTERNATIONAL RECTIFIER CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	March 25, 2012	June 26 2011 (1)
Assets		
Current assets:		
Cash and cash equivalents	$ 217,500	$ 298,731
Restricted cash	437	439
Short-term investments	126,134	185,541
Trade accounts receivable, net	173,819	196,153
Inventories	307,269	250,174
Current deferred tax assets	1,974	1,950
Prepaid expenses and other receivables	37,388	33,943
Total current assets	864,521	966,931
Restricted cash	942	1,632
Long-term investments	21,144	13,325
Property, plant and equipment, net	469,985	444,759
Goodwill	121,570	121,570
Acquisition-related intangible assets, net	30,294	36,945
Long-term deferred tax assets	26,501	23,403
Other assets	65,870	62,419
Total assets	$ 1,600,827	$ 1,670,984
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 79,053	$ 123,922
Accrued income taxes	2,840	6,850
Accrued salaries, wages and benefits	33,600	49,499
Current deferred tax liabilities	2	2
Other accrued expenses	90,004	93,455
Total current liabilities	205,499	273,728
Long-term deferred tax liabilities	3,857	3,845
Other long-term liabilities	36,720	35,499
Total liabilities	246,076	313,072
Commitments and contingencies		
Stockholders' equity:		
Common shares	74,887	74,527
Capital contributed in excess of par value of shares	1,034,774	1,021,509
Treasury stock, at cost	(104,821)	(81,245)
Retained earnings	358,871	345,735
Accumulated other comprehensive loss	(8,960)	(2,614)
Total stockholders' equity	1,354,751	1,357,912
Total liabilities and stockholders' equity	$ 1,600,827	$ 1,670,984

(1) Amounts derived from audited financial statements at June 26, 2011.

The accompanying notes are an integral part of these financial statements.

INTERNATIONAL RECTIFIER CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Nine Months Ended	
	March 25, 2012	March 27, 2011
Cash flows from operating activities:		
Net income	$ 13,136	$ 126,912
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	62,086	57,562
Amortization of acquisition-related intangible assets	6,651	4,156
Stock compensation expense	12,109	11,378
Loss (gain) on disposal of fixed assets	1,674	(397)
Gain on disposition of property	(5,410)	—
Provision for (recovery of) bad debt	957	(1,303)
Provision for inventory write-downs	11,534	7,047
Deferred income taxes	(8,837)	(6,511)
Other-than-temporary impairment of investments	2,383	951
(Gain) loss on derivatives	(29)	4,617
Tax benefit from stock-based awards	1,674	1,037
Excess tax benefit from stock-based awards	(830)	(2,703)
Gain on sale of investments	(44)	(6,287)
Changes in operating assets and liabilities, net	(119,323)	(92,216)
Other	5,007	(4,616)
Net cash (used in) provided by operating activities	(17,262)	99,627
Cash flow from investing activities:		
Additions to property, plant and equipment	(96,524)	(93,707)
Proceeds from sale of property, plant and equipment	5,524	800
Business acquisitions	—	(75,940)
Acquisition of intellectual property	—	(7,500)
Release from restricted cash	690	689
Sale of investments	27,109	118,903
Maturities of investments	183,623	261,544
Purchase of investments	(160,260)	(244,028)
Purchase of cost-based investments	—	(1,850)
Net cash used in investing activities	(39,838)	(41,089)
Cash flows from financing activities:		
Proceeds from exercise of stock options	2,351	10,239
Excess tax benefit from stock-based awards	830	2,703
Purchase of treasury stock	(23,576)	(32,575)
Net settlement of restricted stock units for tax withholdings	(2,510)	(2,716)
Net cash used in financing activities	(22,905)	(22,349)
Effect of exchange rate changes on cash and cash equivalents	(1,226)	3,176
Net (decrease) increase in cash and cash equivalents	(81,231)	39,365
Cash and cash equivalents, beginning of period	298,731	229,789
Cash and cash equivalents, end of period	$ 217,500	$ 269,154

The accompanying notes are an integral part of these financial statements.

INTERNATIONAL RECTIFIER CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Business, Basis of Presentation and Summary of Significant Accounting Policies

Business

International Rectifier Corporation ("IR" or the "Company") designs, manufactures and markets power management semiconductors. Power management semiconductors address the core challenges of power management, power performance and power conservation, by increasing system efficiency, allowing more compact end-products, improving features on electronic devices and prolonging battery life.

The Company's products include power metal oxide semiconductor field effect transistors ("MOSFETs"), high voltage analog and mixed signal integrated circuits ("HVICs"), low voltage analog and mixed signal integrated circuits ("LVICs"), digital integrated circuits ("ICs"), radiation-resistant ("RAD-Hard") power MOSFETs, insulated gate bipolar transistors ("IGBTs"), high reliability DC-DC converters, digital controllers and automotive products.

Basis of Presentation

The condensed consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"), and therefore do not include all information and notes normally provided in audited financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The condensed consolidated financial statements include the accounts of the Company and its subsidiaries, which are located in North America, Europe, and Asia. Intercompany balances and transactions have been eliminated in consolidation.

In the opinion of management, all adjustments (consisting of normal recurring accruals and other adjustments) considered necessary for a fair presentation of the Company's results of operations, financial position, and cash flows have been included. The results of operations for the interim periods presented are not necessarily comparable to the results of operations for any other interim period or indicative of the results that will be recorded for the full fiscal year ending June 24, 2012. These condensed consolidated financial statements and the accompanying notes should be read in conjunction with the Company's annual consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended June 26, 2011 filed with the SEC on August 22, 2011 (the "2011 Annual Report").

Reclassification

The Company has reclassified accrued employee benefits and severance liability from other accrued expenses to accrued salaries, wages and benefits. The reclassification has been made to the prior period consolidated balance sheet to conform to the current year presentation. As a result, the Company's June 26, 2011 balance sheet herein reflects a $3.9 million reclassification of other accrued expenses to accrued salaries, wages, and benefits.

The Company has reclassified net settlement of restricted stock units from cash flows from operating activities to cash flows from financing activities in the condensed consolidated statement of cash flow for the prior year period to conform to current year presentation.

Fiscal Year and Quarter

The Company operates on a 52-53 week fiscal year with the fiscal year ending on the last Sunday in June. The three months ended March 2012 and 2011 consisted of 13 weeks ending on March 25, 2012 and March 27, 2011, respectively.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported revenues and expenses during the reporting period. Actual results could differ from those estimates.

INTERNATIONAL RECTIFIER CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Business, Basis of Presentation and Summary of Significant Accounting Policies (Continued)

Subsequent Events

The Company evaluates events subsequent to the end of the fiscal quarter through the date the financial statements are filed with the SEC for recognition or disclosure in the consolidated financial statements. Events that provide additional evidence about material conditions that existed at the date of the balance sheet are evaluated for recognition in the consolidated financial statements. Events that provide evidence about conditions that did not exist at the date of the balance sheet but occurred after the balance sheet date are evaluated for disclosure in the notes to the consolidated financial statements.

Financial Assets and Liabilities Measured at Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities measured at fair value are categorized based on whether or not the inputs are observable in the market and the degree that the inputs are observable. The categorization of the financial assets and liabilities within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The hierarchy is broken down into three levels (with Level 3 being the lowest) defined as follows:

- Level 1-Inputs based on quoted market prices for identical assets or liabilities in active markets in the measurement date.
- Level 2-Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly.
- Level 3-Inputs include management’s best estimate of what market participants would use in pricing the asset or liability at the measurement date. The inputs are unobservable in the market and significant to the instruments valuations.

The financial assets and liabilities which are measured and recorded at fair value on a recurring basis are included within the following items on the Company’s condensed consolidated balance sheet as of March 25, 2012 and June 26, 2011 (in thousands):

	March 25, 2012			
Assets and Liabilities:	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash and cash equivalents	$ 36,491	$ —	$ 36,491	$ —
Short-term investments	126,134	53,617	72,517	—
Long-term investments	21,144	9,996	11,148	—
Other assets	29,066	25,979	291	2,796
Other long-term liabilities	(9,337)	(8,342)	(595)	(400)
Total	$203,498	$ 81,250	$ 119,852	$ 2,396
Fair value as a percentage of total	100.0%	39.9%	58.9%	1.2%
Level 3 as a percentage of total assets				0.1%

INTERNATIONAL RECTIFIER CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Business, Basis of Presentation and Summary of Significant Accounting Policies (Continued)

	June 26, 2011			
Assets and Liabilities:	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash and cash equivalents	$ 15,996	$ —	$ 15,996	$ —
Short-term investments	185,541	70,292	115,249	—
Long-term investments	13,325	9,530	3,014	781
Other assets	33,004	30,231	—	2,773
Other accrued expenses	(309)	—	(309)	—
Other long-term liabilities	(8,038)	(7,638)	—	(400)
Total	$239,519	$ 102,415	$ 133,950	$ 3,154
Fair value as a percentage of total	100.0%	42.8%	55.9%	1.3%
Level 3 as a percentage of total assets				0.2%

The fair value of investments, derivatives, and other assets and liabilities are disclosed in Note 2, Note 3, and Note 10, respectively.

During the nine months ended March 25, 2012, the Company had no significant measurements of assets or liabilities at fair value on a nonrecurring basis. During the nine months ended March 27, 2011, the Company measured at fair value the assets and liabilities acquired in the acquisition of CHiL Semiconductor Corporation and the acquisition of tangible personal and intellectual property of a privately held domestic corporation on a nonrecurring basis using significant unobservable inputs or Level 3 inputs. In addition, the Company purchased the intellectual property, including patent and patent rights, as well as 25.0 million shares of preferred stock, from another privately held domestic company and measured the fair value of these assets on a nonrecurring basis using significant unobservable inputs, or Level 3 inputs.

During the nine months ended March 25, 2012, for each class of assets and liabilities, there were no transfers between those valued using quoted prices in active markets for identical assets (Level 1) and those valued using significant other observable inputs (Level 2). The Company determines at the end of the reporting period whether a given financial asset or liability is valued using Level 1, Level 2 or Level 3 inputs.

As of March 25, 2012, the Company's investments fair valued using Level 2 inputs included commercial paper, corporate debt securities, and U.S. government agency obligations. These assets and liabilities were valued primarily using an independent valuation firm based on the market approach using various inputs such as trade data, broker/dealer quotes, observable market prices for similar securities and other available data. The Company also fair values its foreign currency forward contracts using Level 2 inputs based on readily observable market parameters for all substantial terms of derivatives.

INTERNATIONAL RECTIFIER CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Business, Basis of Presentation and Summary of Significant Accounting Policies (Continued)

Level 3 Valuation Techniques

The following table provides a reconciliation of the beginning and ending balances of items measured at fair value on a recurring basis that used significant unobservable inputs (Level 3), for the three months ended March 25, 2012 (in thousands):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	Liabilities	Assets		
	Contingent Consideration	Derivatives	Investments	Total
Beginning balance at December 25, 2011	$ 400	$ 3,028	$ 266	$ 3,294
Total gains or (losses) (realized or unrealized):				
Included in earnings		(232)	(14)	(246)
Included in other comprehensive income				—
Purchases, maturities, and sales:				
Purchases/additions				—
Maturities/prepayments			(31)	(31)
Sales			(221)	(221)
Transfers into Level 3				—
Transfers out of Level 3	—			—
Ending balance at March 25, 2012	$ 400	$ 2,796	$	$ 2,796

The following table provides a reconciliation of the beginning and ending balances of items measured at fair value on a recurring basis that used significant unobservable inputs (Level 3), for the three months ended March 27, 2011 (in thousands):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	Liabilities	Assets		
	Contingent Consideration	Derivatives	Investments	Total
Beginning balance at December 26, 2010	$	$ 1,845	$ 14,232	$ 16,077
Total gains or (losses) (realized or unrealized):				
Included in earnings		320	2,230	2,550
Included in other comprehensive income			(1,534)	(1,534)
Purchases, maturities, and sales:				
Purchases/additions	400		—	—
Maturities/prepayments			(705)	(705)
Sales			(4,875)	(4,875)
Transfers into level 3				—
Transfers out of level 3	—	—	—	—
Ending balance at March 27, 2011	$ 400	$ 2,165	$ 9,348	$ 11,513

1. Business, Basis of Presentation and Summary of Significant Accounting Policies (Continued)

The following table provides a reconciliation of the beginning and ending balances of items measured at fair value on a recurring basis that used significant unobservable inputs (Level 3), for the nine months ended March 25, 2012 (in thousands):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	Liabilities	Assets		
	Contingent Consideration	Derivatives	Investments	Total
Beginning balance at June 26, 2011	$ 400	$ 2,773	$ 781	$ 3,554
Total gains or (losses) (realized or unrealized):				
Included in earnings		23	18	41
Included in other comprehensive income			(190)	(190)
Purchases, maturities, and sales:				
Purchases/additions				—
Maturities/prepayments			(78)	(78)
Sales			(531)	(531)
Transfers into Level 3				—
Transfers out of Level 3	—			—
Ending balance at March 25, 2012	$ 400	$ 2,796	$	$ 2,796

The following table provides a reconciliation of the beginning and ending balances of items measured at fair value on a recurring basis that used significant unobservable inputs (Level 3), for the nine months ended March 27, 2011 (in thousands):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	Liabilities	Assets		
	Contingent Consideration	Derivatives	Investments	Total
Beginning balance at June 27, 2010	$	$ 2,121	$ 23,337	$ 25,458
Total gains or (losses) (realized or unrealized):				
Included in earnings		44	6,251	6,295
Included in other comprehensive income		—	(2,574)	(2,574)
Purchases, maturities, and sales:				
Purchases/additions	400		1,500	1,500
Maturities/prepayments			(3,280)	(3,280)
Sales			(14,382)	(14,382)
Transfers into level 3				—
Transfers out of level 3	—	—	(1,504)	(1,504)
Ending balance at March 27, 2011	$ 400	$ 2,165	$ 9,348	$ 11,513

When at least one significant valuation model assumption or input used to measure the fair value of financial assets or liabilities is unobservable in the market, they are deemed to be measured using Level 3 inputs. These Level 3 inputs may include pricing models, discounted cash flow methodologies or similar techniques where at least one significant model assumption or input is unobservable. The Company uses Level 3 inputs to value financial assets that include a non-transferable put option on a strategic investment (the “Put Option”) and a liability for an acquisition-related contingent consideration arrangement. Level 3 inputs are also used to value investment securities that included certain asset-backed securities for which there was decreased observability of market pricing for these investments.

INTERNATIONAL RECTIFIER CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Business, Basis of Presentation and Summary of Significant Accounting Policies (Continued)

The Company accounts for the Put Option as a derivative instrument not designated as an accounting hedge, and determined the fair value using the Black-Scholes option pricing model based on the income approach. The model uses inputs such as exercise price, fair market value of the underlying common stock, expected life (years), expected volatility, risk-free rate equivalent, and dividend yield. The expected life is the remaining life of the Put Option. Expected volatility is based on historical volatility of the underlying common stock. Additionally, the model relies on the assumption the issuer of the put option will uphold its financial obligation should the Company exercise the Company's right to put the associated number of common shares back to the issuer at a fixed price in local currency. As of March 25, 2012, the Company determined that significant changes in the above assumptions would not materially affect the fair value of the Put Option.

The acquisition-related contingent consideration arrangement requires the Company to pay additional consideration to the shareholders of the seller of that business based on a percentage of cumulative pro forma earnings, net of cumulative losses. The fair value of the contingent consideration was estimated using a probability weighted discounted cash flow model. The key assumptions in applying the income approach were a discount rate of 46 percent and estimated cash flows from operations. As of March 25, 2012, there were no significant changes in the semi-annual payments or in the range of outcomes for the contingent consideration recognized as a result of the acquisition-related contingent consideration arrangement.

Gains and losses attributable to financial assets whose fair value is determined by using Level 3 inputs and included in earnings consist of mark-to-market adjustments for derivatives and other-than-temporary impairments on investments. These gains and losses are included in other expense, net. Realized gains or losses on the sale of securities are included in interest income, net.

Adoption of Recent Accounting Standards

In December 2010, the FASB issued ASC update No. 2010-28, "Intangibles-Goodwill and Other (Topic 350), when to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts, a consensus of the FASB Emerging Issues Task Force." This amendment modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. The qualitative factors that an entity should consider when evaluating whether it is more likely than not that a goodwill impairment exists are consistent with the existing guidance for determining whether an impairment exists between annual tests. The adoption of this update did not have a material impact on the Company's financial statements.

In September 2011, the FASB issued ASC update No. 2011-08, "Intangibles-Goodwill and Other (Topic 350), Testing Goodwill for Impairment". Under the amendments in this update, a company is not required to calculate the fair value of a reporting unit unless the company determines that it is more likely than not that its fair value is less than its carrying amount. The amendments in this update allow an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. If after assessing the qualitative factors, a company determines it does not meet the more-likely-than-not threshold, a company is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. The amendments in this update are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 (early adoption permitted). The Company early adopted this update in the first quarter of fiscal year 2012. The adoption of this update did not have a material impact on the Company's financial statements.

1. Business, Basis of Presentation and Summary of Significant Accounting Policies (Continued)

In May 2011, the FASB issued ASC update No. 2011-04, "Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs". The amendments in this update result in common fair value measurement and disclosure requirements in US generally accepted accounting principles ("U.S. GAAP") and International Financial Reporting Standards ("IFRS"). Consequently, the amendments converge the fair value measurement guidance in U.S. GAAP and IFRS. Some of the amendments clarify the application of existing fair value measurement requirements, while other amendments change a particular principle in ASC 820. The amendments in this update that change a particular principle or requirement for measuring fair value or disclosing information about fair value measurements include the following: 1) measuring the fair value of financial instruments that are managed within a portfolio, 2) application of premiums and discounts in a fair value measurement, and 3) additional disclosures about fair value measurements. The adoption of this update did not have a material impact on the Company's financial statements.

Recent Accounting Standards

In June 2011, the FASB issued ASC update No. 2011-05, "Comprehensive Income (Topic 220), Presentation of Comprehensive Income" ("ASC 2011-05"). The FASB decided to eliminate the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity, among other amendments in this update. The amendments require that all non-owner changes in stockholder's equity be presented in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, a company is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The statement of other comprehensive income should immediately follow the statement of net income and include the components of other comprehensive income and total for other comprehensive income, along with a total for comprehensive income. A company is also required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of comprehensive income are presented. The amendments in this update should be applied retrospectively and will have financial statement presentation changes only, and are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011.

In December 2011, the FASB issued ASC update No. 2011-12, "Comprehensive Income (Topic 220), Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05". This update defers the requirement in ASC 2011-05 that companies' present reclassification adjustments for each component of accumulated other comprehensive income in both net income and other comprehensive income on the face of the financial statements. A company will continue to be required to present amounts reclassified out of accumulated other comprehensive income on the face of the financial statements or disclose those amounts in the notes to the financial statements. During the deferral period, there is no requirement to separately present or disclose the reclassification adjustments into net income. All other requirements in ASC 2011-05 are not affected by this update, including the requirement to report items of net income, other comprehensive income and total comprehensive income in a single continuous or two consecutive statements. The amendments in this update will have financial statement presentation changes only and are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011.

INTERNATIONAL RECTIFIER CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Investments

Available-for-sale investments are carried at fair value, inclusive of unrealized gains and losses, and net of discount accretion and premium amortization computed using the level yield method. Net unrealized gains and losses are included in other comprehensive income (loss) net of applicable income taxes. Gains or losses on sales of available-for-sale investments are recognized on the specific identification basis and are included in other income or interest income depending upon the type of security.

Available-for-sale securities as of March 25, 2012 are summarized as follows (in thousands):

	Amortized Costs	Gross Unrealized Gain	Gross Unrealized Loss	Net Unrealized Gain/(Loss)	Market Value
Short-Term Investments:					
Corporate debt	$ 26,261	$ 24	$ —	$ 24	$ 26,285
U.S. government and agency obligations	99,832	33	(16)	17	99,849
Total short-term investments	$ 126,093	$ 57	$ (16)	$ 41	$ 126,134
Long-Term Investments:					
U.S. government and agency obligations	$ 21,158	$ 5	$ (19)	$ (14)	$ 21,144
Total long-term investments	$ 21,158	$ 5	$ (19)	$ (14)	$ 21,144
Equity securities	$ 12,113	$ 4,893	$ (254)	$ 4,639	$ 16,752

Available-for-sale securities as of June 26, 2011 are summarized as follows (in thousands):

	Amortized Costs	Gross Unrealized Gain	Gross Unrealized Loss	Net Unrealized Gain	Market Value
Short-Term Investments:					
Corporate debt	$ 55,964	$ 51	$ —	$ 51	$ 56,015
U.S. government and agency obligations	129,352	174	—	174	129,526
Total short-term investments	$ 185,316	$ 225	$ —	$ 225	$ 185,541
Long-Term Investments:					
U.S. government and agency obligations	$ 12,501	$ 43	$ —	$ 43	$ 12,544
Asset-backed securities	594	187	—	187	781
Total long-term investments	$ 13,095	$ 230	$ —	$ 230	$ 13,325
Equity securities	$ 12,963	$ 9,473	$ —	$ 9,473	$ 22,436

INTERNATIONAL RECTIFIER CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Investments (Continued)

The Company manages its total portfolio to encompass a diversified pool of investment-grade securities. The investment policy is to manage its total cash and investments balances to preserve principal and maintain liquidity while maximizing the returns on the investment portfolio.

The Company holds as strategic investments the common stock and preferred stock of a privately held domestic company. The common stock and preferred stock of the privately held domestic company has been carried at cost of $1.5 million in other assets. In addition, the Company has a note receivable from another privately held company which it carries at cost of $0.4 million. These investments are carried at cost as the Company has determined that it is not practicable to estimate the fair value of these investments given that the issuers are start-up companies whose securities are not publicly traded.

During the second quarter of fiscal year 2012, the privately held domestic company in which the Company has an equity investment experienced a negative change in financial condition. The Company then evaluated that the investment was permanently impaired and recorded an impairment charge of $1.5 million during the second quarter of fiscal year 2012. As of March 25, 2012, there have been no developments which would indicate the note receivable from the other privately held company has been impaired.

The company also holds as strategic investments the common stock of three publicly traded foreign companies. The common stock of the three companies are shown as "Equity securities" in the table above and are included in other assets on the consolidated balance sheets. The common shares of the publicly traded companies are traded on either the Tokyo Stock Exchange or the Taiwan Stock Exchange. The Company holds an option on one of the strategic investments to put the associated number of common shares back to the issuer at a fixed price in local currency (which is described as the Put Option in Note 1). The Put Option became effective September 1, 2009 and is reported at fair value. As of March 25, 2012, the fair value of the Put Option was $2.8 million, with changes in fair value recorded in other (income)/expense, net (See Note 3, "Derivative Financial Instruments"). The Company received dividend income from these equity investments of $0.1 million during the nine months ended March 25, 2012, and $0.1 million for the three and nine months ended March 27, 2011, respectively. The Company did not receive any dividend income from these equity investments during the three months ended March 25, 2012.

The Company evaluates securities for other-than-temporary impairment on a quarterly basis. Impairment is evaluated considering numerous factors, and their relative significance varies depending on the situation. Factors considered include the length of time and extent to which the market value has been less than cost; the financial condition and near-term prospects of the issuer of the securities; and the intent and ability of the Company to retain the security in order to allow for an anticipated recovery in fair value. If, based upon the analysis, it is determined that the impairment is other-than-temporary, the security is written down to fair value, and a loss is recognized through earnings.

The following table provides the Company's other-than-temporary impairments for equity securities for the three and nine months ended March 25, 2012 and March 27, 2011 (in thousands):

	Three Months Ended		Nine Months Ended	
	March 25, 2012	March 27, 2011	March 25, 2012	March 27, 2011
Privately held domestic company-common and preferred stock	$	$	$ 1,504	$ —
Publicly traded foreign company(s)-common stock		413	850	951
Asset-backed security			29	—
Total other-than-temporary impairments	$	$ 413	$ 2,383	$ 951

2. Investments (Continued)

The following table summarizes the fair value and gross unrealized losses related to available-for-sale investments, aggregated by type of investment and length of time that individual securities have been held. The gross unrealized loss position is measured and determined at each fiscal quarter end (in thousands):

	Securities held in a loss position for less than 12 months at March 25, 2012		Securities held in a loss position for 12 months or more at March 25, 2012		Total in a loss position at March 25, 2012	
	Market Value	Gross Unrealized Losses	Market Value	Gross Unrealized Losses	Market Value	Gross Unrealized Losses
U.S. government and agency obligations	$ 69,421	$ (35)	$ —	$ —	$ 69,421	$ (35)
Equity securities	3,807	(254)	—	—	3,807	(254)
Total	$ 73,228	$ (289)	$ —	$ —	$ 73,228	$ (289)

As of March 25, 2012, the Company evaluated whether the gross unrealized losses of $0.3 million were other-than-temporarily impaired. The Company determined there was no indication of other-than-temporary impairment with regards to gross unrealized losses, which were primarily attributed to one of the Company's equity investments. The determination was based on the fact the Company has evaluated the near-term prospects of the equity investment in relation to the severity and duration of the impairment, and based on that evaluation, it has the ability and intent to hold these investments until a recovery of fair value.

As of June 26, 2011, the Company had no available-for-sale investments that were in a gross unrealized loss position.

The amortized cost and estimated fair value of investments at March 25, 2012, by contractual maturity, are as follows (in thousands):

Contractual Maturity	Amortized Cost	Estimated Market Value
Due in 1 year or less	$ 126,093	$ 126,134
Due in 1-2 years	21,158	21,144
Due in 2-5 years	—	—
Due after 5 years	—	—
Total investments	$ 147,251	$ 147,278

In accordance with the Company's investment policy which limits the length of time that cash may be invested, the expected disposal dates may be prior to the contractual maturity dates indicated in the table above.

During the three and nine months ended March 25, 2012, available-for-sale securities were sold for total proceeds of $12.2 million and $27.1 million, respectively, and for the three and nine months ended March 27, 2011 were sold for total proceeds of $98.8 million and $118.9 million, respectively. Gross realized gains for the three and nine months ended March 25, 2012 were $0.0 million and $0.1 million, respectively, and for the three and nine months ended March 27, 2011 were $2.3 million and $6.3 million, respectively. Gross realized losses for the three and nine months ended March 25, 2012 were $0.1 million. There were no gross realized losses for the comparable prior year fiscal periods. The cost of marketable securities sold was determined using the first-in, first-out method.

As a result of sales of available-for-sale securities and recognition of other-than-temporary impairments on available-for-sale securities, the Company reclassified $(0.0) million and $(0.2) million for the three and nine months ended March 25, 2012, respectively, and $1.5 million and $3.5 million for the three and nine months ended March 27, 2011, respectively, from accumulated other comprehensive income to earnings either as a component of interest income, net, or other expense, net, depending on the nature of the gain (loss).

2. Investments (Continued)

Fair Value of Investments

The following tables present the balances of investments measured at fair value on a recurring basis as of March 25, 2012 and June 26, 2011 (in thousands):

	March 25, 2012			
	Total	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Corporate debt	$ 26,285	$ —	$ 26,285	$ —
U.S. government and agency obligations	120,993	63,615	57,378	—
Equity securities-strategic investments	16,752	16,752	—	—
Total securities at fair value	$164,030	$ 80,367	$ 83,663	$ —

	June 26, 2011			
	Total	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Corporate debt	$ 56,015	$ —	$ 56,015	$ —
U.S. government and agency obligations	142,070	79,822	62,248	—
Asset-backed securities	781	—	—	781
Equity securities-strategic investments	22,436	22,436	—	—
Total securities at fair value	$221,302	$ 102,258	$ 118,263	$ 781

3. Derivative Financial Instruments

The Company is exposed to financial market risks, including fluctuations in interest rates, foreign currency exchange rates and market value risk related to its investments. The Company uses derivative financial instruments primarily to mitigate foreign exchange rate risks, but also as part of its strategic investment program. In the normal course of business, the Company also faces risks that are either non-financial or non-quantifiable. Such risks principally include country risk, credit risk, and legal risk, and are not discussed or quantified in the following analyses. In prior periods, the Company has designated certain derivatives as fair value hedges or cash flow hedges qualifying for hedge accounting treatment. However, as of March 25, 2012, the Company's only derivatives were currency forward contracts which were not designated as accounting hedges, the Put Option (See Note 2, "Investments"), and a call option on the equity of a private domestic company. The private domestic company is a development stage entity, and as such, the Company is unable to determine the fair value of the call option at this time.

Interest Rates

The Company is subject to interest rate risk through its investments. The objectives of the Company's investments in debt securities are to preserve principal and maintain liquidity while maximizing returns. To achieve these objectives, the returns on the Company's investments in short-term debt generally will be compared to yields on money market instruments such as U.S. Commercial Paper programs, LIBOR, or U.S. Treasury Bills. Investments in long-term debt securities will be generally compared to yields on comparable maturity of U.S. Treasury obligations, investment grade corporate instruments with an equivalent credit rating or an aggregate benchmark index.

The Company had no outstanding interest rate derivatives as of March 25, 2012.

INTERNATIONAL RECTIFIER CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Derivative Financial Instruments (Continued)

Foreign Currency Exchange Rates

The Company generally hedges the risks of foreign currency-denominated assets and liabilities with offsetting foreign currency denominated exchange transactions, and currency forward contracts. Transaction gains and losses on these foreign currency-denominated assets and liabilities are generally offset by corresponding gains and losses on the related hedging instruments, usually resulting in reduced net exposure.

A significant amount of the Company's revenues, expense, and capital purchasing transactions are conducted on a global basis in several foreign currencies. At various times, the Company has currency exposure related to the British Pound Sterling, the Euro, and the Japanese Yen. For example, in the United Kingdom the Company has a sales office and a semiconductor wafer fabrication facility with revenues in U.S. Dollars and Euros, and expenses in British Pounds Sterling and U.S. Dollars. The Company does not hedge its revenues and expenses against changes in foreign currency exchange rates as it does not perceive the net risk of changes to translated revenues and expenses from changes in exchange rates as significant enough at this time to justify hedging. To protect against exposure to currency exchange rate fluctuations on non-functional currency payables and receivables, the Company has established a balance sheet transaction risk hedging program. This risk hedging program generally uses spot and currency forward contracts. These contracts are not designated as hedging instruments for accounting purposes. Through this hedging program, the Company seeks to reduce, but does not always entirely eliminate, the impact of currency exchange rate movements.

The Company had approximately $90.3 million in notional amounts of currency forward contracts not designated as accounting hedges at March 25, 2012. The net realized and unrealized foreign currency gains (losses) related to forward contracts not designated as accounting hedges recognized in earnings as a component of other expense were $(0.9) million and $(5.7) million, and $0.0 million and $(0.7) million for the three and nine months ended March 25, 2012 and March 27, 2011, respectively.

In the normal course of business, the Company also faces risks that are either non-financial or non-quantifiable. Such risks principally include country risk, credit risk, and legal risk and are not discussed or quantified in the preceding analysis.

At March 25, 2012 and June 26, 2011, the fair value carrying amount of the Company's derivative instruments were as follows (in thousands):

	March 25, 2012			
	Derivative Assets		Derivative Liabilities	
Derivatives Not Designated as Hedging Instruments	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Put Option	Other assets	$ 2,796		
Currency forward contracts	Other assets	291	Other long-term liabilities	$ 595
Total		$ 3,087		$ 595

	June 26, 2011			
	Derivative Assets		Derivative Liabilities	
Derivatives Not Designated as Hedging Instruments	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Put Option	Other assets	$ 2,773		
Currency forward contracts	Other assets	—	Other accrued expenses	$ 309
Total		$ 2,773		$ 309

INTERNATIONAL RECTIFIER CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Derivative Financial Instruments (Continued)

The gain or (loss) recognized in earnings for derivatives not designated as hedging instruments during the three and nine months ended March 25, 2012 and March 27, 2011 were comprised of the following (in thousands):

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivatives	Three Months Ended March 25, 2012	Three Months Ended March 27, 2011	Nine Months Ended March 25, 2012	Nine Months Ended March 27, 2011
Put Option	Other (income) expense	$ (232)	$ 320	$ 23	$ 44
Currency forward contracts	Other (income) expense	(856)	(5,699)	33	(4,538)
Foreign currency swap contract	Other (income) expense		(86)		(123)
Total		$ (1,088)	$ (5,465)	$ 56	$ (4,617)

Fair Value

The following tables present derivative instruments measured at fair value on a recurring basis as of March 25, 2012 and June 26, 2011 (in thousands):

	March 25, 2012			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Put option	$2,796	$ —	$ —	$ 2,796
Foreign currency derivatives:				
Assets	291	—	291	—
Liabilities	(595)	—	(595)	—
Total derivative instruments at fair value	$2,492	$ —	$ (304)	$ 2,796

	June 26, 2011			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Put option	$2,773	$ —	$ —	$ 2,773
Foreign currency derivatives:				
Liabilities	(309)	—	(309)	—
Total derivative instruments at fair value	$2,464	$ —	$ (309)	$ 2,773

INTERNATIONAL RECTIFIER CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Supplemental Cash Flow Disclosures

Components in the changes of operating assets and liabilities for the nine months ended March 25, 2012 and March 27, 2011 were comprised of the following (in thousands):

	Nine Months Ended	
	March 25, 2012	March 27, 2011
Trade accounts receivable	$ 23,182	$ (28,531)
Inventories	(69,489)	(74,497)
Prepaid expenses and other receivables	(6,130)	(2,423)
Accounts payable	(45,052)	3,575
Accrued salaries, wages and benefits	(16,343)	8,178
Deferred compensation	1,156	997
Accrued income taxes payable	(2,491)	(7,168)
Other accrued expenses	(4,156)	7,653
Changes in operating assets and liabilities	$ (119,323)	$ (92,216)

As of March 25, 2012 and March 27, 2011, supplemental disclosures of cash flow information were (in thousands):

	March 25, 2012	March 27, 2011
Non-cash investing activities:		
Liabilities accrued for property, plant and equipment purchases	$ 18,867	$ 10,920

5. Inventories

Inventories at March 25, 2012 and June 26, 2011 were comprised of the following (in thousands):

	March 25, 2012	June 26, 2011
Raw materials	$ 66,824	$ 63,298
Work-in-process	125,294	110,956
Finished goods	115,151	75,920
Total inventories	$ 307,269	$ 250,174

6. Disposition of Property

On January 4, 2012, the Company completed the sale of the site of a previous manufacturing research and development facility located in Oxted, England. The Company received cash of approximately $5.6 million as purchase price in respect of such transaction. Since the site had a carrying value of $0.1 million previously recorded in property, plant, and equipment, net, almost the entire proceeds, net of $0.1 million of transaction costs, were recorded as a gain of $5.4 million on disposition of property in the condensed consolidated statement of operations for the three and nine months ended March 25, 2012.

INTERNATIONAL RECTIFIER CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Goodwill and Acquisition-Related Intangible Assets

At March 25, 2012 and June 26, 2011, acquisition-related intangible assets included the following (in thousands):

	Amortization Periods (Years)	March 25, 2012 Gross Carrying Amount	Accumulated Amortization	Net
Completed technology	4 - 12	$ 52,045	$ (33,367)	$ 18,678
Customer lists	5 - 12	10,430	(6,251)	4,179
Intellectual property and other	2 - 15	16,763	(9,326)	7,437
Total acquisition-related intangible assets		$ 79,238	$ (48,944)	$ 30,294

	Amortization Periods (Years)	June 26, 2011 Gross Carrying Amount	Accumulated Amortization	Net
Completed technology	4 - 12	$ 52,045	$ (28,560)	$ 23,485
Customer lists	5 - 12	10,430	(5,455)	4,975
Intellectual property and other	2 - 15	16,763	(8,278)	8,485
Total acquisition-related intangible assets		$ 79,238	$ (42,293)	$ 36,945

As of March 25, 2012, the following table represents the total estimated amortization of intangible assets for the remainder of fiscal year 2012 and the five succeeding fiscal years (in thousands):

Fiscal Year	Estimated Amortization Expense
2012	$ 1,718
2013	6,653
2014	6,420
2015	6,220
2016	4,681
2017 and thereafter	4,602
Total	$ 30,294

Goodwill

The Company evaluates the carrying value of goodwill and other intangible assets annually during the fourth quarter of each fiscal year and more frequently if it believes indicators of impairment exist. In evaluating goodwill, a two-step goodwill impairment test is applied to each reporting unit. The Company identifies reporting units and determines the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units. In the first step of the impairment test, the Company estimates the fair value of the reporting unit. If the fair value of the reporting unit is less than the carrying value of the reporting unit, the Company performs the second step which compares the implied fair value of the reporting unit with the carrying amount of the reporting unit and writes down the carrying amount of the goodwill to the implied fair value.

INTERNATIONAL RECTIFIER CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Goodwill and Acquisition-Related Intangible Assets (Continued)

The carrying amount of goodwill by segment as of March 25, 2012 and June 26, 2011 was as follows (in thousands):

Business Segments:	March 25, 2012	June 26, 2011
Power Management Devices	$ —	$ —
Energy Saving Products	33,190	33,190
HiRel	18,959	18,959
Enterprise Power	69,421	69,421
Automotive Products	—	—
Intellectual Property	—	—
Total goodwill	$ 121,570	$ 121,570

8. Bank Letters of Credit

At March 25, 2012, the Company had $0.9 million of outstanding letters of credit. These letters of credit are secured by cash collateral provided by the Company equal to their face amount.

9. Other Accrued Expenses

Other accrued expenses as of March 25, 2012 and June 26, 2011 were comprised of the following (in thousands):

	March 25, 2012	June 26, 2011
Sales returns	$ 34,467	$ 34,112
Accrued accounting and legal costs	12,323	9,943
Deferred revenue	13,827	16,329
Accrued warranty	1,966	3,457
Accrued utilities	2,377	1,840
Accrued repurchase obligation	3,065	3,099
Accrued sales and other taxes	5,441	2,829
Accrued enterprise resource planning system costs	2,215	8,110
Accrued subcontractor costs	2,944	3,037
Accrued rent	3,837	818
Other	7,542	9,881
Total other accrued expenses	$ 90,004	$ 93,455

Warranty

The Company records warranty liabilities at the time of sale for the estimated costs that may be incurred under the terms of its warranty agreements. The specific warranty terms and conditions vary depending upon the product sold and the country in which the Company does business. In general, for standard products the Company will replace defective parts not meeting the Company's published specifications at no cost to the customers. Factors that affect the liability include historical and anticipated failure rates of products sold, and cost per claim to satisfy the warranty obligation. If actual results differ from the estimates, the Company revises its estimated warranty liability to reflect such changes.

The following table details the changes in the Company's warranty reserve for the nine months ended March 25, 2012, which is included in other accrued expenses (in thousands):

Accrued warranty, June 26, 2011	$ 3,457
Accruals for warranties issued during the period	2,871
Changes in estimates related to pre-existing warranties	(1,347)
Warranty claim settlements	(3,015)
Accrued warranty, March 25, 2012	$ 1,966

INTERNATIONAL RECTIFIER CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Other Long-Term Liabilities

Other long-term liabilities as of March 25, 2012 and June 26, 2011 were comprised of the following (in thousands):

	March 25, 2012	June 26, 2011
Income taxes payable	$ 17,992	$ 17,092
Divested entities' tax obligations	3,249	3,985
Deferred compensation	10,158	9,324
Other	5,321	5,098
Total other long-term liabilities	$ 36,720	$ 35,499

Fair Value of Long-term Liabilities

The following tables present the long-term liabilities and the related assets measured at fair value on a recurring basis as of March 25, 2012 and June 26, 2011 (in thousands):

	March 25, 2012			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Employee deferred compensation plan liability	$8,342	$ 8,342	$ —	$ —
Assets of employee deferred compensation plan (reported in other assets)	9,226	9,226	—	—

	June 26, 2011			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Employee deferred compensation plan liability	$7,638	$ 7,638	$ —	$ —
Assets of employee deferred compensation plan (reported in other assets)	7,795	7,795	—	—

11. Stock-Based Compensation

The Company issues new shares to fulfill the obligations under all of its stock-based compensation awards. Such shares are subject to registration under applicable securities laws, including pursuant to the rules and regulations promulgated by the SEC, unless an applicable exemption applies.

Through November 10, 2011, the Company granted stock options and other equity-based incentives (collectively, "Equity Awards") under its Amended and Restated 2000 Incentive Plan (the "2000 Plan"). From and after November 11, 2011, the Company granted Equity Awards under the International Rectifier Corporation 2011 Performance Incentive Plan (the "2011 Plan"), which was adopted by the Board of Directors (the "Board") on August 15, 2011 and approved by the shareholders of the Company on November 11, 2011. Following shareholder approval of the 2011 Plan, no further Equity Awards will be made under the 2000 Plan; however the 2000 Plan remains in effect with respect to pre-existing Equity Awards. Directors, officers and employees of the Company, and certain consultants to the Company, are eligible to receive Equity Awards under the 2011 Plan.

As of March 25, 2012, approximately 10,443,320 shares were available for Equity Award grant purposes under the 2011 Plan. Shares issued in respect of any "full-value award" granted under the 2011 Plan will be counted against the share limit under the 2011 Plan as 1.50 shares for every one share actually issued in connection with the award. For this purpose, a "full-value award" means any award granted under the 2011 Plan other than a stock option or stock appreciation right.

11. Stock-Based Compensation (Continued)

During the nine months ended March 25, 2012, the Company granted an aggregate of 19,000 stock options to Company employees under its 2000 Plan and 5,000 stock options to Company employees under the 2011 Plan. Subject to the terms and conditions of the 2000 and 2011 Plans and applicable award documentation, such awards generally vest and become exercisable in equal installments over each of the first three anniversaries of the date of grant, with a maximum award term of five years.

The following table summarizes the stock option activities for the nine months ended March 25, 2012 (in thousands, except per share price data):

	Stock Option Shares	Weighted Average Option Exercise Price per Share	Weighted Average Grant Date Fair Value per Share	Aggregate Intrinsic Value
Outstanding, June 26, 2011	2,992	$ 21.30	—	$ 22,154
Granted	24	$ 21.57	$ 7.30	—
Exercised	(154)	$ 15.27	—	$ 1,029
Expired or forfeited	(543)	$ 34.40	—	—
Outstanding, March 25, 2012	2,319	$ 18.64	—	$ 11,874

For the nine months ended March 25, 2012 and March 27, 2011, the Company received $2.4 million and $10.2 million, respectively, for stock options exercised. There were no tax benefits realized from the issuance of stock-based awards for the nine months ended March 25, 2012. The tax benefit realized for the tax deductions from stock-based awards exercised was $1.0 million for the nine months ended March 27, 2011.

During the nine months ended March 25, 2012, the Company granted 21,150 restricted stock units (“RSUs”) to employees, and 46,200 RSUs to members of the Board, in each case under the 2000 Plan, and 28,900 RSUs to employees under the 2011 Plan. The RSUs provided for vesting over a period of service, subject to the terms and conditions of their respective plans and applicable award documentation. For the RSU awards made to employees, the vesting of awards generally takes place in equal installments over each of the first three anniversaries of the date of grant. The RSU awards made to members of the Board were made as part of the Board’s annual director compensation program, under which the vesting of RSU awards takes place generally on the first anniversary of the date of grant.

During fiscal year 2011, the Company made RSU awards with performance vesting (non-market-based) criteria to executives and certain key employees pursuant to the 2000 Plan. Any vesting of such awards takes place upon the achievement of certain performance goals, and otherwise subject to the terms and conditions of the 2000 Plan and applicable award documentation. The performance goals for the awards vary depending on the executive officer or key employee, and must be achieved generally on or before the end of the Company’s fiscal year 2012 for the awards to vest, although some of the awards provide for achievement of performance goals on or before earlier dates. For the nine months ended March 25, 2012, the Company recorded a net credit of $1.3 million to stock compensation expense relating to these awards, based on the determination that the achievement of certain of the performance goals that the Company in the prior year had determined were probable within the time established for the awards, were no longer considered probable as of the first, second, and third quarters of fiscal year 2012.

The following table summarizes the RSU activity for the nine months ended March 25, 2012 (in thousands, except per share price data):

	Restricted Stock Units	Weighted Average Grant Date Fair Value per Share	Aggregate Intrinsic Value
Outstanding, June 26, 2011	2,051	$ 21.22	$ 53,501
Granted	96	$ 22.41	—
Vested	(305)	$ 18.81	$ 7,715
Forfeited	(76)	$ 25.77	—
Outstanding, March 25, 2012	1,766	$ 24.20	$ 38,935

11. Stock-Based Compensation (Continued)

The Company's stock based compensation plans and award documentation permits the reduction of a grantee's RSUs for purposes of settling a grantee's income tax obligation. During the nine months ended March 25, 2012, the Company withheld RSUs representing 98,399 underlying shares to fund grantees' income tax obligations.

Additional information relating to the Company's stock based compensation plans, including employee stock options and RSUs (including RSUs with performance-based and market-based vesting criteria) at March 25, 2012 and June 26, 2011 is as follows (in thousands):

	March 25, 2012	June 26, 2011
Outstanding options exercisable	1,713	1,905
Options and RSUs available for grant	10,768	510
Total reserved common stock shares for stock option plans	14,853	5,553

For the three months and nine months ended March 25, 2012 and March 27, 2011, stock-based compensation expense associated with the Company's stock options and RSUs (including RSUs with performance-based vesting criteria) was as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	March 25, 2012	March 27, 2011	March 25, 2012	March 27, 2011
Selling, general and administrative expense	$ 2,166	$ 1,812	$ 7,097	$ 6,810
Research and development expense	1,155	864	3,054	2,393
Cost of sales	819	677	1,958	2,175
Total stock-based compensation expense	$ 4,140	$ 3,353	$ 12,109	$ 11,378

The total unrecognized compensation expense for outstanding Equity Awards was $25.0 million as of March 25, 2012. The unrecognized compensation expense for the outstanding Equity Awards will generally be recognized over three years, except for the performance-based RSUs, and one stock option award and one RSU award made to the Chief Executive Officer (the "CEO") during fiscal year 2008. The compensation expense for the CEO's awards made during fiscal year 2008 is being recognized over 5 years. The unrecognized compensation expense for outstanding performance based RSUs will be recognized when it is determined that it is probable the goals will be achieved or upon achievement of the goals, whichever event occurs first. The weighted average number of years to recognize the total compensation expense (including that of the CEO) for stock options and RSUs are 0.6 years and 1.8 years, respectively.

The fair value of the Company stock options issued during the nine months ended March 25, 2012 and March 27, 2011, was determined at the grant date using the Black-Scholes option pricing model with the following weighted average assumptions:

	March 25, 2012	March 27, 2011
Expected life	3.5 years	3.5 years
Risk free interest rate	0.37%	0.8%
Volatility	46.3%	38.6%
Dividend yield	0.0%	0.0%

12. Asset Impairment, Restructuring and Other Charges

Asset impairment, restructuring and other charges reflect the impact of various cost reduction programs and initiatives implemented by the Company. These programs and initiatives include the closing of facilities, the termination and relocation of employees, and other related activities. Asset impairment, restructuring and other charges include program-specific exit costs, severance benefits pursuant to ongoing benefit arrangements, and special termination benefits.

Asset impairment, restructuring and other charges represent costs related primarily to the following:

- El Segundo Fabrication Facility Closure Initiative
- Research and Development Facility Closure Initiative

The following table summarizes restructuring charges incurred during the three and nine months ended March 25, 2012 and March 27, 2011 related to the restructuring initiatives discussed below. These charges were recorded in asset impairment, restructuring and other charges (in thousands):

	Three Months Ended		Nine Months Ended	
	March 25, 2012	March 27, 2011	March 25, 2012	March 27, 2011
Reported in asset impairment, restructuring and other charges:				
Severance and workforce reduction costs (recoveries)	$ —	$ (3,489)	$ —	$ (3,426)
Other charges	—		—	67
Total asset impairment, restructuring and other charges	$ —	$ (3,489)	$ —	$ (3,359)

In addition to the amounts in the table above, $0.1 million of workforce reduction expenses related to retention bonuses were recorded in cost of sales during the three and nine months ended March 27, 2011, respectively, related to the restructuring initiatives. The Company also incurred approximately $0.2 million of costs to relocate and install equipment for the nine months ended March 27, 2011. These costs were not considered restructuring costs and were recorded in cost of sales.

The following table summarizes changes in the Company's restructuring related accruals for the nine months ended March 25, 2012, which are included in other accrued expenses on the balance sheet (in thousands):

	El Segundo Fabrication Facility Closure Initiative
Accrued severance and workforce reduction costs, June 26, 2011	$ 461
Accrued during the period and charged to asset impairment, restructuring and other charges	—
Accrued during the period and charged to operating expenses	—
Costs paid during the period	(461)
Foreign exchange gains	—
Change in provision	—
Accrued severance and workforce reduction costs, March 25, 2012	$ —

12. Asset Impairment, Restructuring and Other Charges (Continued)

The following tables summarize the total asset impairment, restructuring and other charges by initiative for the three and nine months ended March 27, 2011 (in thousands):

	El Segundo Fabrication Facility Closure	Total
For the three months ended March 27, 2011, reported in asset impairment, restructuring and other charges:		
Severance and workforce reduction costs (recoveries)	$ (3,489)	$ (3,489)
Other charges	—	—
For the three months ended March 27, 2011, total asset impairment, restructuring and other charges	$ (3,489)	$ (3,489)

	El Segundo Fabrication Facility Closure	Research and Development Facility Closure	Total
For the nine months ended March 27, 2011, reported in asset impairment, restructuring and other charges:			
Severance and workforce reduction costs (recoveries)	$ (3,426)	$ —	$(3,426)
Other charges	—	67	67
For the nine months ended March 27, 2011, total asset impairment, restructuring and other charges	$ (3,426)	$ 67	$(3,359)

El Segundo Fabrication Facility Closure Initiative

The Company adopted a plan for the closure of its El Segundo, California fabrication facility during fiscal year 2009. The expectation was that the plan would be carried out through calendar year 2010 with a revised estimated total pre-tax cost of $12.1 million, of which approximately $0.4 million would be non-cash charges. These estimated charges consisted of severance and other workforce reduction costs of $5.9 million and other costs incurred to close or consolidate the facility of $6.2 million. Approximately $1.0 million of the additional costs related to equipment relocation and installation and the reconfiguration of ventilation systems. These costs were charged to operating expense as incurred. The restructuring charges recorded through fiscal year 2010 under this initiative included $4.0 million of severance, $1.7 million of other workforce reduction costs, and $3.9 million of other charges for this initiative. Due to continued higher demand than at the time the plan was adopted, in mid-fiscal year 2011 the Company suspended, for the foreseeable future, the closure of this facility. As a result of suspending this closure initiative, the Company recorded a credit to asset impairment, restructuring and other charges for approximately $3.5 million for previously accrued severance costs in fiscal year 2011. The Company paid the remaining $0.5 million of accrued retention bonuses under this initiative during the nine months ended March 25, 2012.

12. Asset Impairment, Restructuring and Other Charges (Continued)

Research and Development Facility Closure Initiative

In the third quarter of fiscal year 2008, the Company adopted a plan for the closure of its Oxted, England research and development facility and its El Segundo, California research and development fabrication facility. The costs associated with closing and exiting these facilities and severance costs were approximately $7.5 million. Of this amount, approximately $5.4 million represents the cash outlay related to this initiative. The Company has completed the closure of the Oxted, England facility.

The El Segundo, California research and development fabrication facility is no longer used as a research and development fabrication facility. It is now used only as a research and development test and office facility. As previously noted, the initiative to close the adjoining El Segundo, California fabrication facility has been suspended for the foreseeable future, and the final exit from the El Segundo, California research and development fabrication facility will not occur in the foreseeable future. Given the ongoing modified use of the facility, the Company considers the restructuring initiative relating to this facility to be complete.

13. Segment Information

The Company reports in six segments which correspond to the way the Company manages its business and interacts with customers. These reportable segments, which correspond to operating segments include:

Power Management Devices ("PMD") - The PMD segment targets power supply, data processing, and industrial and commercial battery-powered system applications with the Company's Trench HEXFET®MOSFETs, Discrete HEXFET®MOSFETs, Dual HEXFET®MOSFETs, FETKY®s, and DirectFET®s products.

Energy Saving Products ("ESP") -The ESP segment targets solutions in motor control appliances, industrial automation, lighting and display, audio and video with the Company's HVICs and IGBT platforms, digital control ICs and IRAM integrated power modules. These products provide multiple technologies to deliver completely integrated design platforms specific to these customers.

Automotive Products ("AP") - The AP segment products are focused solely on automotive customers and applications that require a high level of reliability, quality and performance and consist of the Company's automotive qualified HVICs, intelligent power switch ICs, power MOSFETs including DirectFET® and IGBTs. The Company's automotive product portfolio provides high performance and energy saving solutions for a broad variety of automotive systems, ranging from typical 12V power net applications up to 1200V hybrid electric vehicle power management solutions.

Enterprise Power ("EP") – The EP segment's primary applications include servers, storage, routers, switches, infrastructure equipment, notebooks, graphic cards, and gaming consoles. The Company offers a broad portfolio of power management system products that deliver benchmark power density, efficiency and performance. These products include DirectFET® discrete products, digital controllers, power monitoring products, XPhase®, SupIRBuckTM and iPOWIR® voltage regulators, Low voltage ICs, and PowIRstagesTM.

HiRel - The HiRel segment includes the Company's RAD-Hard discretes, RAD-Hard ICs, power management modules and DC-DC converters as well as other high-reliability power components that address power management requirements in mission critical applications including satellites and space exploration vehicles, military hardware and other high- reliability applications such as commercial aircraft, undersea telecommunications, and oil drilling in heavy industry and products used in biomedical applications. HiRel's strategy is to apply multiple technologies to deliver highly efficient power delivery in applications that operate in naturally harsh environments like space and undersea as well as applications that require a high level of reliability to address issues of safety, cost of failure or difficulty in replacement, like medical applications.

Intellectual Property ("IP") - The IP segment includes revenues from the sale of the Company's technologies and manufacturing process know-how, in addition to the operating results of the Company's patent licensing and settlements of claims brought against third parties. With the expiration of the Company's broadest MOSFET patents, most of its IP segment revenues ceased during the fourth quarter of fiscal year 2008; however, the Company continues, from time to time, to enter into opportunistic licensing arrangements that it believes are consistent with its business strategy.

INTERNATIONAL RECTIFIER CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Segment Information (Continued)

The Company does not allocate assets, sales and marketing, information systems, finance and administrative costs and asset impairment, restructuring and other charges to the operating segments, as these are not meaningful statistics to the CEO in making resource allocation decisions or in evaluating performance of the operating segments.

Because operating segments are generally defined by the products they design and sell, they do not make sales to each other. The Company does not directly allocate assets to its operating segments, nor does the CEO evaluate operating segments using discrete asset information. However, depreciation and amortization related to the manufacturing of goods is included in gross profit for the segments as part of manufacturing overhead. Due to the Company's methodology for cost build up at the product level, it is impractical to determine the amount of depreciation and amortization included in each segment's gross profit.

The Company's "customer segments" as referred to herein includes its PMD, ESP, AP, EP and HiRel reporting segments.

For the three and nine months ended March 25, 2012 and March 27, 2011, revenues and gross margin by reportable segments were as follows (in thousands, except percentages):

	Three Months Ended					
	March 25, 2012			March 27, 2011		
Business Segment	Revenues	Percentage of Total	Gross Margin	Revenues	Percentage of Total	Gross Margin
Power Management Devices	$ 80,653	32.5%	19.0%	$ 104,133	35.1%	29.7%
Energy-Saving Products	57,362	23.1	29.7	74,337	25.1	44.6
Automotive Products	28,799	11.6	18.2	30,859	10.4	28.7
Enterprise Power	32,194	13.0	31.0	33,098	11.2	41.7
HiRel	48,652	19.6	53.3	52,497	17.7	54.6
Customer segments total	247,660	99.8	29.7	294,924	99.4	39.1
Intellectual Property	434	0.2	100.0	1,793	0.6	100.0
Consolidated total	$ 248,094	100.0%	29.8%	$ 296,717	100.0%	39.5%

	Nine Months Ended					
	March 25, 2012			March 27, 2011		
Business Segment	Revenues	Percentage of Total	Gross Margin	Revenues	Percentage of Total	Gross Margin
Power Management Devices	$ 264,350	33.9%	26.2%	$ 332,209	38.7%	32.1%
Energy-Saving Products	192,357	24.6	36.5	197,408	23.0	44.8
Automotive Products	82,345	10.5	22.7	80,293	9.3	30.9
Enterprise Power	98,690	12.6	36.0	99,927	11.6	46.4
HiRel	141,905	18.2	53.0	143,759	16.7	52.1
Customer segments total	779,647	99.8	34.5	853,596	99.3	40.0
Intellectual Property	1,266	0.2	100.0	5,732	0.7	100.0
Consolidated total	$ 780,913	100.0%	34.6%	$ 859,328	100.0%	40.4%

14. Income Taxes

The Company evaluates its net deferred income tax assets quarterly to determine if valuation allowances are required. Based on the consideration of all available evidence using a “more-likely-than-not” standard, the Company determined that the valuation allowance established against its federal and California deferred tax assets in the United States (“U.S.”) should remain in place through fiscal year 2013. These valuation allowances relate to beginning of the year balances of reserves that were established during fiscal year 2009. The Company also determined that the valuation allowance established against its deferred tax assets in the United Kingdom (“U.K.”) during fiscal year 2009, and which was partially released during fiscal year 2011, should be fully released by the end of fiscal year 2012 based on anticipated sustained cumulative pretax income expected to occur.

During fiscal year 2011, the Company was granted certain incentives by the Singapore Economic Development Board. As a result, the Company operates under a tax holiday in Singapore, effective from December 27, 2010 through December 26, 2020. The tax holiday is conditioned upon the Company meeting certain employment and investment thresholds.

The Company's effective tax rate was a benefit of 64.5 percent and a benefit of 8.5 percent for the three months ended March 25, 2012 and March 27, 2011, respectively, and was an expense of 17.8 percent and a benefit of 2.1 percent for the nine months ended March 25, 2012 and March 27, 2011, respectively. For the three and nine months ended March 25, 2012, the Company's effective tax rate was reduced due to the release of $10.9 million of valuation allowances, and by an overall lower tax rate in certain foreign jurisdictions. These items were partially offset by no tax benefit from the ordinary loss in the U.S. due to its full valuation allowance position, the amortization of deferred charges and unfavorable book to tax differences in certain foreign jurisdictions. The composition of the valuation allowance release was (i) $ 7.8 million related to deferred tax assets in the U.K., and (ii) $3.1 million related to deferred tax assets in the U.S.

For the three months and nine months ended March 27, 2011, the Company's effective tax rate differed from the U.S. federal statutory tax rate of 35 percent mainly as a result of the utilization of deferred tax assets due to pretax and taxable income in the U.S and the U.K., lower tax rates in certain foreign jurisdictions, and the release of contingent liabilities related to foreign uncertain tax positions due to approval of tax accounts by certain local tax authorities and the lapse of certain statutes of limitations. The valuation allowance release was due to (i) current year profitability utilizing $34.3 million of deferred tax assets in the U.S., and (ii) a change in the structure of the Company’s U.K. subsidiary so that it was operating with guaranteed profit. Accordingly with a guaranteed profit, the U.K. subsidiary’s forecasted income became a more reliable source of taxable income and allowed a valuation allowance release of $18.3 million.

During this fiscal quarter, the Company recorded a deferred charge of $16.5 million and valuation allowance of $13.4 million related to certain intercompany transactions which reduced its deferred tax assets and associated valuation allowance in the U.S. by $3.1 million, due to the impact on the expected federal taxable income for fiscal year 2012. During the current fiscal quarter, the Company also revised its estimate of the necessary U.K. valuation allowance which is associated with a deferred charge in connection with certain intercompany transactions and recorded a $6.2 million net credit to the tax provision.

The Company operates in multiple foreign jurisdictions with lower statutory tax rates, and its operation in Singapore has the most significant impact on the effective tax rate for the fiscal year 2012.

During the third quarter of fiscal year 2012, the reserve for uncertain tax positions decreased by $0.3 million to $48 million. This decrease resulted primarily from changes in foreign exchange rates related to prior year uncertain tax positions in certain foreign jurisdictions that were partially offset from reserves for certain federal and state credits during the three months ended March 25, 2012. If recognized, the benefits associated with uncertain tax positions would result in a benefit to income taxes on the consolidated statement of operations of $12.5 million which would reduce the Company's future effective tax rate. The reserve is expected to increase by $0.3 million during the next 12 months.

As of March 25, 2012, the Company had accrued $3 million of interest and penalties related to uncertain tax positions. For the three months ended March 25, 2012, penalties and interest included in the reserves increased by $0.1 million.

14. Income Taxes (Continued)

While it is often difficult to predict the final outcome or the timing of the resolution of any particular uncertain tax position, the Company believes its reserve for income taxes represents the most probable outcome. The Company adjusts this reserve, including the portion related to interest, in light of changing facts and circumstances.

As of June 26, 2011, U.S. income taxes have not been provided on approximately $79.1 million of undistributed earnings of foreign subsidiaries since those earnings are considered to be invested indefinitely. Determination of the amount of unrecognized deferred tax liabilities for temporary differences related to investments in these non-U.S. subsidiaries that are essentially permanent in duration is not practicable. The Company has not recorded a deferred tax liability on any potential gain as the earnings and profits of the subsidiary had been recognized as U.S. income in previous periods.

Pursuant to Sections 382 and 383 of the U.S. Internal Revenue Code, the utilization of net operating losses (“NOLs”) and other tax attributes may be subject to substantial limitations if certain ownership changes occur during a three-year testing period (as defined). The Company does not believe an ownership change has occurred that would limit the Company's utilization of any NOL, credit carry forward or other tax attributes.

15. Net Income (Loss) per Common Share

The Company calculates earnings per share using the two-class method. The two-class method requires allocating the Company’s net income to both common shares and participating securities. Net losses, per the terms of the underlying participating securities, are not allocated. The Company’s participating securities include the unvested, outstanding RSUs to the extent the RSUs provide for the right to receive dividend equivalents.

The following table provides a reconciliation of the numerator and denominator of the basic and diluted per-share computations for the three and nine months ended March 25, 2012 and March 27, 2011 (in thousands, except per share amounts):

	Three Months Ended		Nine Months Ended	
	March 25, 2012	March 27, 2011	March 25, 2012	March 27, 2011
Net income (loss)	$ (2,490)	$ 49,485	$ 13,136	$ 126,912
Less: Income allocated to participating securities	—	733	148	1,994
Income (loss) available to common stockholders	$ (2,490)	$ 48,752	$ 12,988	$ 124,918
Earnings per common share - basic				
Weighted average shares outstanding	69,104	69,854	69,306	69,869
Basic income (loss) per share	$ (0.04)	$ 0.70	$ 0.19	$ 1.79
Earnings per common share - diluted				
Basic weighted average shares outstanding	69,104	69,854	69,306	69,869
Effect of dilutive securities – stock options and RSUs	—	747	505	630
Diluted weighted-average shares	69,104	70,601	69,811	70,499
Diluted income (loss) per share	$ (0.04)	$ 0.69	$ 0.19	$ 1.77

For the three and nine months ended March 25, 2012, 854,137 and 255,174 shares of common stock equivalents were antidilutive, respectively, and were not included in the computation of diluted earnings per share for these periods. Additionally, for the three and nine months ended March 27, 2011, 1,104,918 and 1,108,418 shares of common stock equivalents were antidilutive and were not included in the computation of diluted earnings per share for the prior periods. In addition, for the three and nine months ended March 25, 2012, 366,100 of contingently issuable restricted stock units for which all necessary conditions had not been met were not included in the computation of diluted earnings per share.

16. Environmental Matters

Federal, state, local and foreign laws and regulations impose various restrictions and controls on the storage, use and discharge of certain materials, chemicals and gases used in semiconductor manufacturing processes, and on the operation of the Company's facilities and equipment. The Company believes it uses reasonable efforts to maintain a system of compliance and controls for these laws and regulations. Despite its efforts and controls, from time to time, issues may arise with respect to these matters. Additionally, under some of these laws and regulations, the Company could be held financially responsible for remedial measures if properties are contaminated or if waste is sent to a landfill or recycling facility that becomes contaminated. Also, the Company may be subject to common law claims if released substances damage or harm third parties. The Company cannot make assurances that changes in environmental laws and regulations will not require additional investments in capital equipment and the implementation of additional compliance programs in the future, which could have a material adverse effect on the Company's results of operations, financial position or cash flows, as could any failure by or violation of the Company to comply with any prior, current or future environmental laws and regulations.

In February 2012, the Company notified the California Department of Toxic Substances Control ("DTSC") and local districts that the Company's Temecula California manufacturing facility previously shipped wastes for disposal offsite as non-hazardous wastes which may have contained fluoride levels that are considered to constitute hazardous waste under California regulations. The Company has taken steps to ensure compliance with the applicable waste disposal regulations in this regard. The Company has received a notice of minor administrative violation from one of the local districts requiring updated permit documentation without the assessment of any penalty. The Company has not as yet been contacted by all applicable regulatory authorities, including the DTSC, in respect of this matter and it is too early to assess what, if any, penalties or other actions may be taken in the future in respect of the matter.

In December 2010, the owner by foreclosure of a property in El Segundo, California has notified the Company of its claim that the Company is a potentially responsible party for the remediation of hazardous materials allegedly discovered by that owner at the property. The Company has also been contacted by the California Department of Toxic Substances Control in respect of such notice. The Company intends to vigorously defend against the claims asserted in the notice.

During negotiations for the Company's April 2007 divestiture of the Company's Power Control Systems business to Vishay Intertechnology, Inc., certain chemical compounds were discovered in the groundwater underneath one of the Company's former manufacturing plants in Italy, and that the Company has advised appropriate governmental authorities at about the time of such divestiture. In August 2010, the Company received a letter from the relevant local authority requiring a confirmation of intention to proceed with preparation of a plan of characterization in relation to the site in question. The Company has restated to local authorities its prior position from the period following such divestiture that it had not committed to take further action with respect to the site. The Company has not been assessed any penalties with respect to the site, and it is too early to assess whether any such penalties will be assessed in the future.

In November 2007, the Company was named as one of approximately 100 defendants in *Angeles Chemical Company, Inc. et al. v. Omega Chemical PRP Group, LLC et al*., No. EDCV07-1471 (TJH) (JWJx) (C.D. Cal.) (the "Angeles Case"). Angeles Chemical Company, Inc. and related entities ("Plaintiffs") own or operate a facility (the "Angeles Facility") which is located approximately one and a half miles down gradient of the Omega Chemical Superfund Site (the "Omega Site") in Whittier, California. Numerous parties, including the Company, allegedly disposed of wastes at the Omega Site. Plaintiffs claim that contaminants from the Omega Site migrated in groundwater from the Omega Site to the Angeles Facility, thereby causing damage to the Angeles Facility. In addition, they claim that the EPA considers them to be responsible for the groundwater plume near the Angeles Facility, which Plaintiffs contend was caused by disposal activities at the Omega Site. Plaintiffs filed claims based on CERCLA, nuisance and trespass, and also seek declaratory relief. Plaintiffs seek to require the defendants to investigate and clean-up the contamination and to recover damages. The case has been stayed by the court pending the Environmental Protection Agency's completion of its remedial investigation. The Company previously entered into a settlement with other parties associated with the Omega Site pursuant to which the Company paid those entities money in exchange for an agreement to defend and indemnify the Company with regard to certain environmental claims (the "Omega Indemnification"). In that agreement, it was estimated that the Company's volumetric share of wastes sent to the Omega Site was in the range of 0.08 percent. The Company believes that much, if not all, of the risks associated with the Angeles Case should be covered by the Omega Indemnification. In addition, the Company has tendered the complaint to several of its insurance carriers, one of which has agreed to defend under a reservation of rights. Therefore, the Company does not expect its out-of-pocket defense costs to be significant. In addition, in light of the Omega Indemnification, the potential for insurance coverage and the fact that its volumetric share of Omega Site wastes was less than 0.1 percent, the Company does not believe that an adverse judgment against the Company would be material.

16. Environmental Matters (Continued)

IR and Rachelle Laboratories, Inc. ("Rachelle"), a subsidiary of the Company that discontinued operations in 1986, were each named a potentially responsible party ("PRP") in connection with the investigation by the United States Environmental Protection Agency ("EPA") of the disposal of allegedly hazardous substances at a major superfund site in Monterey Park, California ("OII Site"). Certain PRPs who settled certain claims with the EPA under consent decrees filed suit in Federal Court in May 1992 against a number of other PRPs, including IR, for cost recovery and contribution under the provisions of the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"). The Company has settled all outstanding claims that have arisen against IR relating to the OII Site. No claims against Rachelle have been settled. The Company has taken the position that none of the wastes generated by Rachelle were hazardous.

Counsel for Rachelle received a letter dated August 2001 from the U.S. Department of Justice, directed to all or substantially all PRPs for the OII Site, offering to settle claims against such parties for all work performed through and including the final remedy for the OII Site. The offer required a payment from Rachelle in the amount of approximately $9.3 million in order to take advantage of the settlement. Rachelle did not accept the offer.

It remains the position of Rachelle that its wastes were not hazardous. In addition, Rachelle operated as an independent corporation and the Company did not believe that a complaining party would be successful in reaching the assets of IR even if it could prevail on a claim against Rachelle. Because Rachelle has not been sued, none of the Company’s insurers has accepted liability, although at least one of the Company’s insurers previously reimbursed IR for defense costs for the lawsuit filed against IR.

The Company received a letter in June 2001 from a law firm representing UDT Sensors, Inc. ("UDT") relating to environmental contamination (chlorinated solvents such as trichlorethene) purportedly found in UDT's properties in Hawthorne, California. The letter alleges that the Company operated a manufacturing business at that location in the 1970's and/or 1980's and that it may have liability in connection with the claimed contamination. The Company has made no accrual for any potential losses since there has been no assertion of specific facts on which to form the basis for determination of liability.

17. Litigation

EPC/Lidow Litigation.

In September 2008, the Company filed suit in the U.S. District Court for the Central District of California against Efficient Power Conversion Corp. ("EPC"), certain of EPC's employees and other defendants (including Alex Lidow, a former chief executive officer and director of the Company, and now a principal of EPC) alleging improper and unauthorized use and/or misappropriation of certain Company confidential information, trade secrets and technology related to the Company's Gallium Nitride development program. In March 2009, the Company refiled the suit in the Los Angeles Superior Court, Case No. BC409749, and in March 2009, Alex Lidow and EPC filed suit in the Los Angeles Superior Court, Case No. BC409750, against the Company alleging claims arising out of Lidow's employment with and separation from the Company, for violations of the California Labor Code and California *Business and Professions Code*, and alleging the Company unfairly competed and interfered with EPC. In September 2009, EPC dismissed its claims from the complaint in Case No. BC409750, and refiled its claims as a cross-complaint in case No. BC409749. In January 2012, The Court granted summary adjudication in favor of the Company on the wrongful termination cause of action filed by Lidow. In February 2012, Lidow filed a petition for writ of mandate seeking the reversal of the grant of summary adjudication. On March 22, 2012, the California Court of Appeal issued an alternative writ or order to show cause. On April 19, 2012, the Company filed its return in response to the writ. Oral argument on the petition is set for May 17, 2012 in the Court of Appeal.

Discovery is ongoing for the claims that remain unresolved by the Court’s summary adjudication determination, and the Company intends to vigorously pursue all rights and defenses available to it in these matters.

Angeles. v. Omega. See Note 16, "Environmental Matters."

In addition to the above, the Company is involved in certain legal matters that arise in the ordinary course of business. The Company intends to pursue its rights and defend against any claims brought by third parties vigorously. However, because of the nature and inherent uncertainties of litigation, should the outcome of these actions be unfavorable, the Company's business, financial condition, results of operations or cash flows could be materially and adversely affected.

INTERNATIONAL RECTIFIER CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Commitments and Contingencies

In connection with the divestiture of the Company's Power Control Systems business in fiscal year 2007, the Company recorded a provision of $18.6 million for certain tax obligations with respect to divested entities. The balance of the divested entities tax obligations have decreased over time due to settlement of tax audits, lapsing of applicable statutes of limitations, and the decrease in foreign currency translation on the underlying obligation. As of March 25, 2012, the balance of the divested entities tax obligations was $3.2 million.

19. Stock Repurchase Program

On October 27, 2008, the Company announced that its Board of Directors authorized a stock repurchase program of up to $100.0 million. On July 20, 2010, the Company announced that its Board of Directors had authorized an additional $50.0 million for the stock repurchase program, increasing the total authorized for the plan to $150.0 million. Stock repurchases under this program may be made in the open market or through privately negotiated transactions. The timing and actual number of shares repurchased depend on market conditions and other factors. The stock repurchase program may be suspended at any time without prior notice. The Company has used and plans to continue to use existing cash to fund the repurchases. All of the shares repurchased by the Company through the program were purchased in open market transactions. The Company did not repurchase any shares during the three months ended March 25, 2012.

For the nine months ended March 25, 2012, the Company repurchased approximately 1.1 million shares for approximately $23.6 million, and to date the Company has purchased approximately 5.7 million shares for approximately $104.8 million under the program. As of March 25, 2012, the Company had not cancelled the repurchased shares of common stock, and as such, they are reflected as treasury stock in the March 25, 2012 and June 26, 2011 consolidated condensed balance sheets.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with our audited historical consolidated financial statements which are included in our Form 10-K, filed with the SEC on August 22, 2011 ("2011 Annual Report"). Except for historic information contained herein, the matters addressed in this MD&A constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended ("Securities Act"), and Section 21E of the Exchange Act, as amended. Forward-looking statements may be identified by the use of terms such as "anticipate," "believe," "expect," "intend," "project," "will," and similar expressions. Such forward-looking statements are subject to a variety of risks and uncertainties, including those discussed under the heading "Statement of Caution Under the Private Securities Litigation Reform Act of 1995," in Part II, Item 1A, "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q, that could cause actual results to differ materially from those anticipated by us. We undertake no obligation to update these forward-looking statements to reflect events or circumstances after the date of this Quarterly Report or to reflect actual outcomes.

Introduction

The following discussion and analysis provides information we believe is relevant to an assessment and understanding of our consolidated results of operations and financial condition. This discussion should be read in conjunction with our consolidated financial statements and accompanying notes for the three and nine months ended March 25, 2012. The discussion includes:

- Overview
- Results of Operations
- Liquidity and Capital Resources
- Critical Accounting Policies

Overview

Our revenues were $248.1 million and $296.7 million for the three months ended March 25, 2012 and March 27, 2011, respectively, and $780.9 million and $859.3 million for the nine months ended March 25, 2012 and March 27, 2011, respectively. We experienced strong demand for our products during fiscal year 2011; however during the nine months ended March 25, 2012 we experienced a sharp decline in demand. Our revenues decreased 16.4 percent and 9.1 percent for the three and nine months ended March 25, 2012 compared to the prior year comparable period. Our lower revenues during the nine months ended March 25, 2012 were due to lower demand in China, particularly in the appliance end market, lower demand in Europe from our industrial product component customers, and lower demand from our consumer product component customers. We currently expect revenues to range between $255 million and $270 million for the next fiscal quarter.

Our gross margin percentage declined on a year-over-year basis by 9.7 percentage points to 29.8 percent for the three months ended March 25, 2012 compared to the prior year comparable period, and by 5.8 percentage points to 34.6 percent for the nine months ended March 25, 2012 compared to the prior year comparable period. The decline in gross margin percentage for both the three and nine month periods were a result of an unfavorable mix due to a decline in industrial component sales which generally have higher gross margins than our consumer and computing component product sales, a decrease in factory utilization, and increased inventory reserves.

We expect our gross margin in the fourth quarter ending June 24, 2012 to be about 30 percent. We plan to continue expanding our manufacturing capabilities for key technologies in anticipation of meeting our long term strategic goals.

During the three and nine months ended March 25, 2012, our selling, general and administrative ("SG&A") expenses increased $2.9 million and $7.5 million compared to the prior year comparable periods, and increased as a percentage of revenues by 4.3 and 2.6 percentage points to 20.0 percent and 19.1 percent of revenues, respectively. The year-over-year increase in SG&A expenses was primarily due to costs associated with the implementation of our new Enterprise Resource Planning ("ERP") system, increased professional services costs, and an increase in headcount partially offset by lower incentive bonus. We went live with the ERP system during the second quarter of fiscal year 2012. The depreciation associated with our new ERP system is approximately $2 million per quarter beginning with the second quarter of fiscal year 2012, and is charged to SG&A expense. We expect our quarterly level of SG&A expenses to increase about $2.0 million in the fourth quarter of fiscal year 2012 compared to the third quarter; however, over the following several quarters we expect to gain operational efficiencies from the new ERP system which we anticipate will allow us to operate our business at lower relative SG&A cost levels. We expect our SG&A expenses to be about $50 million per quarter or lower by early fiscal year 2013. Our ERP implementation process has been and continues to be complex, time-consuming, and costly, and potentially exposes us to certain risks, including operational risks (see Part II, Item 1A, "Risk Factors - While our new ERP software platform has become operational, we continue to be subject to operational and other risks" of our quarterly report on Form 10-Q for our fiscal quarter ended September 25, 2011).

During the three and nine months ended March 25, 2012, research and development ("R&D") spending increased by $4.1 million and $13.2 million from the prior year comparable periods. As a percentage of revenues, R&D expense increased from 10.4 percent and 10.1 percent for the three and nine months ended March 27, 2011, respectively, to 14.0 percent and 12.8 percent for the three and nine months ended March 25, 2012, respectively. The year-over-year increase in R&D expense was primarily due to increased material costs associated with developing new products, and increased headcount, including headcount from the CHiL Semiconductor Corporation ("CHiL") acquisition, partially offset by lower incentive bonus. We expect to maintain or increase our investment levels in new product development over the next year in order to meet our longer term revenue goals.

Our cash flows from operating activities used $17.3 million of cash during the nine months of fiscal year 2012 compared to $99.6 million of cash flows provided by operating activities for the prior year comparable period. Our cash, cash equivalents and investments as of March 25, 2012 totaled $364.8 million (excluding restricted cash of $1.4 million), compared to $497.6 million (excluding restricted cash of $2.1 million) as of June 26, 2011. The decrease in our cash and investments was primarily due to capital expenditures of $96.5 million, the repurchase of common stock for $23.6 million, and cash used in operating activities of $17.3 million, which was partially offset by proceeds from the sale of property, plant, and equipment of $5.5 million.

Segment Reporting

What we refer to as our "customer segments" include our PMD, ESP, AP, EP and HiRel reporting segments and does not include our Intellectual Property ("IP") segment. Four of our five customer segments, namely, Power Management Devices ("PMD"), Energy Saving Products ("ESP"), Automotive Products ("AP") and Enterprise Power ("EP"), generally share the same manufacturing base and sales, marketing, and distribution channels. While each segment focuses on different target markets and applications, there are common performance elements arising from that shared manufacturing base and sales, marketing, and distribution channels. As a result, while we manage performance of these segments individually; we also analyze performance of these segments together and separately from our other customer segment, HiRel. For ease of reference, we refer to these four segments collectively as our "commercial segments".

Results of Operations

Selected Operating Results

The following table sets forth certain operating results for the three and nine months ended March 25, 2012 and March 27, 2011 as a percentage of revenues (in millions, except percentages):

	Three Months Ended				Nine Months Ended			
	March 25, 2012		March 27, 2011		March 25, 2012		March 27, 2011	
Revenues	$ 248.1	100.0%	$ 296.7	100.0%	$ 780.9	100.0%	$ 859.3	100.0%
Cost of sales	174.1	70.2	179.5	60.5	510.7	65.4	512.3	59.6
Gross profit	74.0	29.8	117.2	39.5	270.2	34.6	347.0	40.4
Selling, general and administrative expense	49.6	20.0	46.7	15.7	149.1	19.1	141.6	16.5
Research and development expense	34.8	14.0	30.7	10.4	100.1	12.8	86.8	10.1
Amortization of acquisition-related intangible assets	2.1	0.8	1.7	0.6	6.7	0.9	4.2	0.5
Asset impairment, restructuring and other charges	—	—	(3.5)	(1.2)	—	—	(3.4)	(0.4)
Gain on the disposition of property	(5.4)	(2.2)	—	—	(5.4)	(0.7)	—	—
Operating income (loss)	(7.1)	(2.9)	41.6	14.0	19.8	2.5	117.8	13.7
Other expense, net	—	—	(1.3)	(0.5)	4.1	0.5	1.7	0.2
Interest income, net	—	—	(2.7)	(0.9)	(0.3)	—	(8.3)	(1.0)
Income (loss) before income taxes	(7.0)	(2.9)	45.6	15.4	16.0	2.0	124.4	14.5
Provision for (benefit from) income taxes	(4.5)	(1.8)	(3.9)	(1.3)	2.8	0.4	(2.6)	(0.3)
Net income (loss)	$ (2.5)	(1.0)%	$ 49.5	16.7%	$ 13.1	1.7%	$ 126.9	14.8%

Amounts and percentages in the above table may not total due to rounding.

Results of Operations

Revenues and Gross Margin for the Three Months Ended March 25, 2012 Compared to the Three Months Ended March 27, 2011

The following table summarizes revenues and gross margin by reportable segment for the three months ended March 25, 2012 compared to the three months ended March 27, 2011. The amounts in the following table are in thousands:

	Three Months Ended							
	March 25, 2012			March 27, 2011			Change	
	Revenues	Gross Margin	Gross Margin %	Revenues	Gross Margin	Gross Margin %	Revenues	Gross Margin
Power Management Devices (PMD)	$ 80,653	$ 15,344	19.0%	$ 104,133	$ 30,935	29.7%	(22.5)%	(10.7)ppt
Energy Saving Products (ESP)	57,362	17,051	29.7	74,337	33,120	44.6	(22.8)	(14.9)
Automotive Products (AP)	28,799	5,234	18.2	30,859	8,849	28.7	(6.7)	(10.5)
Enterprise Power (EP)	32,194	9,980	31.0	33,098	13,809	41.7	(2.7)	(10.7)
Commercial segments total	199,008	47,609	23.9	242,427	86,713	35.8	(17.9)	(11.9)
HiRel	48,652	25,919	53.3	52,497	28,677	54.6	(7.3)	(1.3)
Customer segments total	247,660	73,528	29.7	294,924	115,390	39.1	(16.0)	(9.4)
Intellectual Property (IP)	434	434	100.0	1,793	1,793	100.0	(75.7)	(0.0)
Consolidated total	$ 248,094	$ 73,962	29.8%	$ 296,717	$ 117,183	39.5%	(16.4)%	(9.7)ppt

Revenues

Revenues from all our segments, taken as a whole, decreased by $48.6 million, or 16.4 percent, while revenues from our customer segments (which exclude the IP segment) decreased by $47.3 million, or 16.0 percent, for the three months ended March 25, 2012 as compared to the three months ended March 27, 2011. Revenues for our commercial segments taken as a whole decreased 17.9 percent from the prior year comparable period which was near the peak of the semiconductor cycle, and as a result, we see lower demand in our industrial related product components, decreased demand for our products used in consumer appliance and air conditioner applications, decreased sales in our products sold in automotive applications, and decreased sales in our products sold in server and storage applications. Revenues for our HiRel segment decreased 7.3 percent from the prior year comparable period.

All of our commercial segments declined in revenue for the three months ended March 25, 2012, as compared to the three months ended March 27, 2011. Revenues from our PMD segment decreased 22.5 percent compared to the prior year comparable period due to a decline in demand for industrial and consumer product components. Revenues for our ESP segment decreased 22.8 percent compared to the prior year comparable period due to lower sales in our industrial and consumer appliance related products. Revenues for our AP segment decreased 6.7 percent compared to the prior year comparable period as our distributors continue to deplete their inventories. Since we recognize revenue upon shipment to our distributors, their decisions to reduce their inventory levels from period to period may reduce their demand for our products and unfavorably impact our revenue. Revenues for our EP segment decreased 2.7 percent compared to the prior year comparable period due to lower demand for server component products and high performance computing products.

For the three months ended March 25, 2012, our HiRel segment revenues decreased 7.3 percent compared to the prior year comparable period. The decline was due to a reduction in space level demand during the quarter compared to the prior year comparable period.

Our IP segment revenues decreased $1.4 million, or 75.7 percent, to $0.4 million. With the expiration of some of our patents, we expect our IP segment revenues will be approximately $0.4 million in each of the next several quarters absent the consummation of additional license agreements.

Gross Margin

Our gross margin decreased by 9.7 percentage points to 29.8 percent for the three months ended March 25, 2012 compared to the prior year comparable period. This decrease in our gross margin was the result of a decrease of 11.9 percentage points in gross margin for our commercial segments taken as a whole. The decrease in gross margin for our commercial segments was primarily due to increased manufacturing costs from unfavorable product mix, lower factory utilization, and increased inventory reserves.

Our ESP segment's gross margin decline was due to lower factory utilization, unfavorable product mix and increased inventory reserves. Our AP segment's gross margin decline was due to unfavorable product mix as we sold fewer IC products, which are higher gross margin products than our MOSFET products, increased manufacturing costs from lower factory utilization and increased inventory reserves. Our PMD segment's gross margin decline was due to a change in product mix toward more consumer component products which have lower gross margins than our industrial component products, and an increase in costs due to lower factory utilization, all of which were partially offset by lower inventory reserves. Our EP segment's gross margin decline was due to an unfavorable change in product mix due to an increase in high performance computing components business which have lower gross margin than our server component business, an increase in inventory reserves, and increased manufacturing costs from lower factory utilization.

Our HiRel segment's gross margin declined by 1.3 percentage points as a percent of revenues for the three months ended March 25, 2012 compared to the prior year comparable period. The decline was due to higher sales of lower margin heavy duty parts, partially offset by improvements in productivity.

Revenues and Gross Margin for the Nine Months Ended March 25, 2012 Compared to the Nine Months Ended March 27, 2011

The following table summarizes revenues and gross margin by reportable segment for the nine months ended March 25, 2012 compared to the nine months ended March 27, 2011. The amounts in the following table are in thousands:

	Nine Months Ended							
	March 25, 2012			**March 27, 2011**			**Change**	
	Revenues	Gross Margin	Gross Margin %	Revenues	Gross Margin	Gross Margin %	Revenues	Gross Margin
Power Management Devices (PMD)	$ 264,350	$ 69,302	26.2%	$ 332,209	$ 106,778	32.1%	(20.4)%	(5.9)ppt
Energy Saving Products (ESP)	192,357	70,152	36.5	197,408	88,431	44.8	(2.6)	(8.3)
Automotive Products (AP)	82,345	18,727	22.7	80,293	24,781	30.9	2.6	(8.2)
Enterprise Power (EP)	98,690	35,498	36.0	99,927	46,410	46.4	(1.2)	(10.4)
Commercial segments total	637,742	193,679	30.4	709,837	266,400	37.5	(10.2)	(7.1)
HiRel	141,905	75,274	53.0	143,759	74,886	52.1	(1.3)	0.9
Customer segments total	779,647	268,953	34.5	853,596	341,286	40.0	(8.7)	(5.5)
Intellectual Property (IP)	1,266	1,266	100.0	5,732	5,732	100.0	(77.9)	—
Consolidated total	$ 780,913	$ 270,219	34.6%	$ 859,328	$ 347,018	40.4%	(9.1)%	(5.8)ppt

Revenues

Revenues from all our segments, taken as a whole, decreased by $78.4 million, or 9.1 percent, while revenues from our customer segments (which exclude the IP segment) decreased by $73.9 million, or 8.7 percent, for the nine months ended March 25, 2012, as compared to the nine months ended March 27, 2011. Revenues for our commercial segments taken as a whole decreased 10.2 percent from the prior year comparable period which was near the peak of the semiconductor cycle, and as a result, we see lower demand among industrial product components, weakness in the consumer end market, and a slight decrease of demand for our products used in consumer appliance and air conditioner applications. These declines were partially offset by increased sales in our products sold in automotive applications. Revenues for our HiRel segment decreased 1.3 percent from the prior year comparable period.

Within our commercial segments, AP revenue increased 2.6 percent for the nine months ended March 25, 2012 as compared to the prior year comparable period. Revenues for our AP segment increased due to an increase in demand as a result of increased production within the automotive industry in both North America and Europe, and an increase of sales for new customer programs. Revenues for our PMD segment decreased 20.4 percent compared to the prior year comparable period due to a decrease in demand for universal power supply components, consumer products components, and our industrial products components. Revenues for our ESP segment decreased due to decreased demand in our industrial and consumer appliance related products. Revenues for our EP segment decreased 1.2 percent compared to the prior year comparable period due to lower demand for server component products, which was partially offset by an increase in new high performance computing.

For the nine months ended March 25, 2012, our HiRel segment revenues declined 1.3 percent compared to the prior year comparable period. HiRel experienced slight changes in product line mix with most market segments either maintaining or experiencing modest demand growth during the nine months ending March 25, 2012.

For the nine months ended March 25, 2012, our IP segment revenues decreased $4.5 million or 77.9 percent, to $1.3 million. The decline in revenue was due to a significant decline in royalty payments from our largest licensee effective as of late fiscal year 2011. Additionally, the licensee requested a refund of an overpayment from fiscal year 2011. With the expiration of some of our patents, we expect our IP segment revenues will be approximately $0.4 million in each of the next several quarters absent the consummation of additional license agreements.

Gross Margin

Our gross margin decreased by 5.8 percentage points to 34.6 percent for the nine months ended March 25, 2012 compared to the prior year comparable period. This decrease in our gross margin was the result of a decrease of 7.1 percentage points in gross margin for our commercial segments taken as a whole and an increase in our HiRel segment of 0.9 percentage points. The decrease in gross margin for all of our commercial segments was primarily due to unfavorable change in product mix, increased cost associated with lower factory utilization, and increased inventory reserves. Our EP segment's unfavorable product mix was due to an increase in computing components business, which has lower gross margin than our server business. Our AP segment's unfavorable product mix was due to a decrease in our IC products demand, which are higher margin products than our MOSFET products. Our ESP's unfavorable product mix was due to a decrease in HVIC demand, which are higher margin products that our IGBT products, and lower factory utilization. Our PMD segment's unfavorable change in product mix was due to reduced sales of our industrial products, which have higher gross margins than our consumer components business, and price erosion.

Our HiRel segment's gross margin improved by 0.9 percentage points as a percentage of revenues for the nine months ended March 25, 2012 compared to the prior year comparable period. The improvement was due to lower manufacturing costs from increased product volumes.

Selling, General and Administrative Expense

(Dollars in thousands)	Selling, General and Administrative Expense				
	March 25, 2012	% of Revenue	March 27, 2011	% of Revenue	Change
Three months ended	$ 49,578	*20.0%*	$ 46,680	*15.7%*	*4.3 ppt*
Nine months ended	$ 149,127	*19.1%*	$ 141,607	*16.5%*	*2.6 ppt*

Selling, general and administrative expense was $49.6 million (20.0 percent of revenues) and $46.7 million (15.7 percent of revenues) for the three months ended March 25, 2012 and March 27, 2011, respectively. Selling, general and administrative expense was $149.1 million (19.1 percent of revenue) and $141.6 million (16.5 percent of revenue) for the nine months ended March 25, 2012 and March 27, 2011, respectively. The year-over-year increase in SG&A expenses was primarily due to costs associated with the implementation of our new ERP system, increased professional services costs, and an increase in headcount, partially offset by lower incentive bonus. The depreciation associated with the new ERP system is approximately $2.0 million per quarter beginning with the second quarter of fiscal year 2012 and is charged to SG&A expense.

Research and Development Expense

(Dollars in thousands)	Research and Development Expense				
	March 25, 2012	% of Revenue	March 27, 2011	% of Revenue	Change
Three months ended	$ 34,798	*14.0%*	$ 30,733	*10.4%*	*3.6 ppt*
Nine months ended	$ 100,053	*12.8%*	$ 86,837	*10.1%*	*2.7 ppt*

Research and development ("R&D") expense was $34.8 million (14.0 percent of revenue) and $30.7 million (10.4 percent of revenue) for the three months ended March 25, 2012 and March 27, 2011, respectively, and $100.1 million (12.8 percent of revenue) and $86.8 million (10.1 percent of revenue) for the nine months ended March 25, 2012 and March 27, 2011, respectively. The increase in R&D expense for the three and nine months ended March 25, 2012, compared to the prior year comparable period, was mainly due to increases in headcount, including headcount from the CHiL acquisition, and material costs associated with developing new products and technologies. We expect to maintain or increase our investment levels in new product development over the next year in order to meet our longer term revenue goals.

Gain on Disposition of Property

On January 4, 2012, we completed the sale of the site of a previous manufacturing and research and development facility located in Oxted, England. Since the site had a carrying value $0.1 million on the consolidated financial statements, almost the entire proceeds of $5.6 million, net of transaction costs of $0.1 million, were recorded as a gain of $5.4 million during the three and nine months ended March 25, 2012.

Asset Impairment, Restructuring and Other Charges

Asset impairment, restructuring and other charges reflect the impact of various cost reduction programs initiated during fiscal years 2009 and 2008. These programs and initiatives include the closing of facilities, the relocation of equipment and employees, the termination of employees, and other related activities.

The following table summarizes restructuring charges incurred during the three and nine months ended March 25, 2012 and March 27, 2011 related to the restructuring initiatives discussed below. These charges were recorded in asset impairment, restructuring and other charges (in thousands):

	Three Months Ended		Nine Months Ended	
	March 25, 2012	March 27, 2011	March 25, 2012	March 27, 2011
Reported in asset impairment, restructuring and other charges:				
Severance and workforce reduction costs (recoveries)	$ —	$ (3,489)	$ —	$ (3,426)
Other charges	—		—	67
Total asset impairment, restructuring and other charges	$ —	$ (3,489)	$ —	$ (3,359)

In addition to the amounts in the table above, $0.1 million of workforce reduction expense related to retention bonuses were recorded in cost of sales during the three and nine months ended March 27, 2011, respectively, related to the restructuring initiatives. We also incurred approximately $0.2 million of costs to relocate and install equipment for the nine months ended March 27, 2011. These costs were not considered restructuring costs and were recorded in cost of sales.

The following table summarizes changes in our restructuring related accruals for the nine months ended March 25, 2012, which are included in other accrued expenses on the balance sheet (in thousands):

	El Segundo Fabrication Facility Closure Initiative
Accrued severance and workforce reduction costs, June 26, 2011	$ 461
Accrued during the period and charged to asset impairment, restructuring and other charges	—
Accrued during the period and charged to operating expenses	—
Costs paid during the period	(461)
Foreign exchange gains	—
Change in provision	—
Accrued severance and workforce reduction costs, March 25, 2012	$ —

The following tables summarize the total asset impairment, restructuring and other charges by initiative for the three and nine months ended March 27, 2011 (in thousands):

	El Segundo Fabrication Facility Closure	Total
For the three months ended March 27, 2011, reported in asset impairment, restructuring and other charges:		
Severance and workforce reduction costs (recoveries)	$ (3,489)	$ (3,489)
Other charges	—	—
For the three months ended March 27, 2011, total asset impairment, restructuring and other charges	$ (3,489)	$ (3,489)

	El Segundo Fabrication Facility Closure	Research and Development Facility Closure	Total
For the nine months ended March 27, 2011, reported in asset impairment, restructuring and other charges:			
Severance and workforce reduction costs (recoveries)	$ (3,426)	$ —	$(3,426)
Other charges	—	67	67
For the nine months ended March 27, 2011, total asset impairment, restructuring and other charges	$ (3,426)	$ 67	$(3,359)

El Segundo Fabrication Facility Closure Initiative

We adopted a plan for the closure of our El Segundo, California fabrication facility during fiscal year 2009. The expectation was that the plan would be carried out through calendar year 2010 with a revised estimated total pre-tax cost of $12.1 million, of which approximately $0.4 million would be non-cash charges. These estimated charges consisted of severance and other workforce reduction costs of $5.9 million and other costs incurred to close or consolidate the facility of $6.2 million. Approximately $1.0 million of the additional costs related to equipment relocation and installation and the reconfiguration of ventilation systems. These costs were charged to operating expense as incurred. The restructuring charges recorded through fiscal year 2010 under this initiative included $4.0 million of severance, $1.7 million of other workforce reduction costs, and $3.9 million of other charges for this initiative. Due to continued higher demand than at the time the plan was adopted, in mid-fiscal 2011 we suspended, for the foreseeable future, the closure of this facility. As a result of suspending this closure initiative, we have recorded a credit to asset impairment, restructuring and other charges for approximately $3.5 million for previously accrued severance costs in fiscal year 2011. We paid the remaining $0.5 million of accrued retention bonuses under this initiative during the nine months ended March 25, 2012.

Research and Development Facility Closure Initiative

In the third quarter of fiscal year 2008, we adopted a plan for the closure of our Oxted, England facility and our El Segundo, California Research and Development (“R&D”) fabrication facility. The costs associated with closing and exiting these facilities and severance costs were approximately $7.5 million. Of this amount, approximately $5.4 million represents the cash outlay related to this initiative. We have completed the closure of the Oxted, England facility.

The El Segundo, California research and development fabrication facility is no longer used as a research and development fabrication facility. It is now used only as an R&D test and office facility. As previously noted, the initiative to close the adjoining El Segundo, California fabrication facility has been suspended for the foreseeable future, and the final exit from the El Segundo, California research and development fabrication facility will not occur for the foreseeable future. Given the ongoing modified use of the facility, we consider the restructuring initiative relating to this facility to be complete.

Other (Income) Expense, Net

Other (income) expense, net includes, primarily, gains and losses related to foreign currency fluctuations and investment impairments. Other (income) expense, net was $0.0 million and $(1.3) million for the three months ended March 25, 2012 and March 27, 2011, respectively. Other (income) expense, net for the three months ended March 25, 2012 primarily includes a foreign currency exchange loss of $0.2 million and a derivative impairment charge of $0.2 million, which were partially offset by a release of tax indemnification reserves. Other (income) expense, net for the prior year comparable period expense consisted primarily of the release of $1.6 million of reserves related to an indemnification for tax liabilities for which the statue of limitations expired which was partially offset by foreign exchange losses.

Other (income) expense, net was $4.1 million and $1.7 million for the nine months ended March 25, 2012 and March 27, 2011, respectively. Other (income) expense, net for the nine months ended March 25, 2012 includes a foreign currency exchange loss of $2.1 million due to significant fluctuations in foreign exchange currencies in the first quarter, and investment impairment charges of $2.4 million, which were partially offset by a release of tax indemnification reserves. The nine months ended March 27, 2011 includes investment impairment charges of $0.9 million and foreign currency exchange losses of $2.0 million which were partially offset by the net release of $1.4 million of reserves related to an indemnification for tax liabilities for which the statue of limitations has expired.

Interest Income and Expense

Interest income was $0.1 million and $0.7 million for the three and nine months ended March 25, 2012, respectively, compared to interest income of $2.8 million and $8.7 million for the prior year comparable periods, respectively. The decline in interest income for the three and nine months ended March 25, 2012 was due primarily to a reduction of realized gains from the disposal of investments of $2.3 million and $6.3 million, respectively, and a combination of lower average balances of interest bearing investments and lower interest rates that reduced interest income by $0.4 million and $1.8 million, respectively. The gains from disposal of investments primarily related to our asset-backed and mortgage-backed securities. These investments have been liquidated by the end of the third quarter of fiscal year 2012. As a result of the liquidation of these securities, combined with low interest rates, we expect interest income for the remainder of fiscal year 2012 to be at minimal levels.

Interest expense was $0.1 million and $0.4 million for the three and nine months ended March 25, 2012, respectively, compared to $0.1 million and $0.4 million for the prior year comparable periods, respectively.

Income Taxes

Our effective tax rate was a benefit of 64.5 percent and a benefit of 8.5 percent for the three months ended March 25, 2012 and March 27, 2011, respectively, and was an expense of 17.8 percent and a benefit of 2.1 percent for the nine months ended March 25, 2012 and March 27, 2011, respectively. For the three and nine months ended March 25, 2012, our effective tax rate was reduced due to the release of $10.9 million of valuation allowances, and by an overall lower tax rate in certain foreign jurisdictions. These items were partially offset by no tax benefit from the ordinary loss in the U.S. due to its full valuation allowance position, the amortization of deferred charges and unfavorable book to tax differences in certain foreign jurisdictions. The composition of the valuation allowance release was (i) $ 7.8 million related to deferred tax assets in the U.K., and (ii) $3.1 million related to deferred tax assets in the U.S.

For the three months and nine months ended March 27, 2011, our effective tax rate differed from the U.S. federal statutory tax rate of 35 percent mainly as a result of the utilization of deferred tax assets due to pretax and taxable income in the U.S and the U.K., lower tax rates in certain foreign jurisdictions, and the release of contingent liabilities related to foreign uncertain tax positions due to approval of tax accounts by certain local tax authorities and the lapse of certain statutes of limitations. The valuation allowance release was due to (i) current year profitability utilizing $34.3 million of deferred tax assets in the U.S.; and (ii) a change in the structure of our U.K. subsidiary so that it was operating with guaranteed profit. Accordingly with a guaranteed profit, the U.K. subsidiary’s forecasted income became a more reliable source of taxable income and allowed a valuation allowance release of $18.3 million.

During this fiscal quarter, we recorded a deferred charge of $16.5 million and valuation allowance of $13.4 million related to certain intercompany transactions which reduced our deferred tax assets and associated valuation allowance in the U.S. by $3.1 million, due to the impact on the expected federal taxable income for fiscal year 2012. During the current fiscal quarter, we also revised our estimate of the necessary U.K. valuation allowance which is associated with a deferred charge in connection with certain intercompany transactions and recorded a $6.2 million net credit to the tax provision.

We operate in multiple foreign jurisdictions with lower statutory tax rates, and our operation in Singapore has the most significant impact on the effective tax rate for the fiscal year 2012. We expect to be subject to an effective tax rate of 17 percent in Singapore for fiscal year 2012.

We expect our subsidiary in the U.K. to record cumulative pre-tax book income for the three fiscal years ending June 2012, and believe that it is reasonably possible that, by the end of this fiscal year, we may release the valuation allowance balance of $33.3 million.

Liquidity and Capital Resources

Cash Requirements

Sources and Uses of Cash

We require cash to fund our operating expense and working capital requirements, capital expenditures, strategic growth initiatives, and funds to repurchase our common stock under our stock repurchase program. Our primary sources for funding these requirements are cash and investments on hand and cash from operating activities. While we currently have no outstanding long-term debt or credit facilities, in the longer term, we may decide to borrow funds to meet our cash requirements. As such, we may evaluate, from time to time, opportunities to sell debt securities or obtain credit facilities to provide additional liquidity.

As of March 25, 2012, we had $364.8 million of cash (excluding $1.4 million of restricted cash), cash equivalents and short-term and long-term investments, consisting of available-for-sale fixed income and investment-grade securities, a decrease of $132.8 million from June 26, 2011. The decrease in our cash and investments was primarily due to capital expenditures of $96.5 million, the repurchase of common stock for $23.6 million, and cash used in operating activities of $17.3 million, which was partially offset by proceeds from the sale of property, plant, and equipment of $5.5 million.

As of March 25, 2012 and March 27, 2011, total cash, cash equivalents, and investments (excluding $1.4 million of restricted cash) were as follows (in thousands):

	March 25, 2012	June 26, 2011
Cash and cash equivalents	$ 217,500	$ 298,731
Investments	147,278	198,866
Total cash, cash equivalents, and investments	$ 364,778	$ 497,597

We believe that our existing cash and cash equivalents will be sufficient to meet operating requirements and satisfy our existing balance sheet liability obligations for at least the next twelve months. Our cash and cash equivalents are available to fund working capital needs, strategic growth initiatives, if any, repurchase of stock for our common stock repurchase program and capital expenditures. During fiscal year 2011 and the first nine months of fiscal year 2012, we have taken actions to meet our longer term revenue growth goals, including ongoing capital investments in our existing manufacturing operations. We plan to continue expanding our manufacturing capabilities for key technologies in anticipation of meeting our long term strategic goals.

Our outlook for the fourth quarter of fiscal year 2012 is that our cash flow from operating activities will be positive. We estimate that cash capital equipment expenditures for the fourth quarter of fiscal year 2012 will be about $28 million as we invest in new manufacturing process technologies and expand internal manufacturing capacity.

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Cash Flows

Our cash flows were as follows (in thousands):

	Nine Months Ended	
	March 25, 2012	March 27, 2011
Cash flows (used in) provided by operating activities	$ (17,262)	$ 99,627
Cash flows used in investing activities	(39,838)	(41,089)
Cash flows used in financing activities	(22,905)	(22,349)
Effect of exchange rate changes on cash and cash equivalents	(1,226)	3,176
Net (decrease) increase in cash and cash equivalents	$ (81,231)	$ 39,365

Non-cash adjustments to cash flow used by operating activities during the nine months ended March 25, 2012 included $62.1 million of depreciation and amortization, $12.1 million of stock compensation expense, and $11.5 million from the net change in the inventory provision. Changes in operating assets and liabilities reduced cash used in operating activities by $119.3 million, primarily attributed to an increase in inventories and decreases in accounts payable and accrued salaries, wages and benefits, partially offset by a decrease in trade accounts receivable.

Cash used in investing activities of $39.8 million during the nine months ended March 25, 2012 was primarily the result of capital expenditures of $96.5 and purchases of investments for $160.3 million, primarily offset from the sale or maturities of investments of $210.7 million, and proceeds from the sale of property, plant and equipment of $5.5 million.

Cash used in financing activities of $22.9 million during the nine months ended March 25, 2012 was primarily the result of cash used for stock repurchases under the stock repurchase program.

Working Capital

Our working capital is dependent on demand for our products and our ability to manage accounts receivable and inventories. Other factors which may result in changes to our working capital levels are our restructuring initiatives, investment impairments, and share repurchases. Our working capital, excluding cash and cash equivalents and restricted cash at March 25, 2012 was $441.1 million.

The changes in working capital for the nine months ended March 25, 2012 were as follows (in thousands):

	March 25, 2012	June 26, 2011	Change
Current Assets			
Cash and cash equivalents	$ 217,500	$ 298,731	$ (81,231)
Restricted cash	437	439	(2)
Short-term investments	126,134	185,541	(59,407)
Trade accounts receivable, net	173,819	196,153	(22,334)
Inventories	307,269	250,174	57,095
Current deferred tax assets	1,974	1,950	24
Prepaid expenses and other receivables	37,388	33,943	3,445
Total current assets	$ 864,521	$ 966,931	$ (102,410)
Current Liabilities			
Accounts payable	79,053	$ 123,922	$ (44,869)
Accrued income taxes	2,840	6,850	(4,010)
Accrued salaries, wages and benefits	33,600	49,499	(15,899)
Current deferred tax liabilities	2	2	—
Other accrued expenses	90,004	93,455	(3,451)
Total current liabilities	205,499	273,728	(68,229)
Net working capital	$ 659,022	$ 693,203	$ (34,181)

For the changes in cash and investments, please see the above discussions under sources and uses of cash and cash flows.

The decrease in net trade accounts receivable of $22.3 million reflects the sequential decrease in revenues of approximately 21.8 percent during the nine months of fiscal year 2012, while our days-sales-outstanding increased by 8 days, primarily due to the timing of revenue recognized and short-term delays related to the implementation of our new ERP system.

Inventories increased $57.1 million including a $39.2 million increase in finished goods, a $14.3 million increase in work-in-process inventory, and a $3.5 million increase in raw materials. As a result of these increases in inventory, inventory weeks increased by 7 weeks to approximately 23 weeks.

Accounts payable decreased by $44.9 million from year end with decreases related to reduced production levels and lower capital expenditures in the most recent quarter as compared to the quarter ended June 26, 2011.

The decrease in accrued salaries, wages and benefits of $15.9 million for the nine months of fiscal year 2012 was due primarily to a decrease in accrued incentive bonuses.

Other

As of our fiscal quarter ended March 25, 2012, if our offshore cash, cash equivalents, and investment amounts were repatriated, approximately $18.9 million would not be available in the United States without incurring U.S. federal and state income taxes. We expect this amount to vary depending on a number of factors, including, but not limited to, general market conditions, the level of economic activity and applicable regulatory or statutory changes. We believe that the amount of offshore cash, cash equivalents and investments will increase over time, consistent with increases in our planned offshore business activity, offset by offshore working capital needs and strategic investments to support the growth and expansion of the Company overall. In light of our overall amount of $364.8 million in cash, cash equivalents and investments (excluding restricted cash of $1.4 million) as of our fiscal quarter ended March 25, 2012, we do not believe that indefinite reinvestment of approximately $18.9 million of earnings off-shore would have a material adverse effect on us as a whole. Consequently, we do not expect there to be a liquidity event that would impact our ability to indefinitely reinvest foreign earnings.

Contractual Obligations

There has been no material change to our contractual obligations as disclosed in our 2011 Annual Report except as follows:

During the second quarter of fiscal year 2012, we renewed the office lease of our headquarters building located in El Segundo, California. The lease term has been extended through June 2019 with an option to renew for up to an additional ten years. The total lease payments for the 8-year lease extension term effective July 1, 2011 will be approximately $28 million.

Off-Balance Sheet Arrangements

In the normal course of business, we enter into various operating leases for buildings and equipment. In addition, we provide standby letters of credit or other guarantees as required for certain transactions. We currently provide cash collateral for outstanding letters of credit as we do not have a revolving credit agreement to provide security or support for these letters of credit.

Apart from the operating lease obligations and purchase commitments discussed in our 2011 Annual Report, we do not have any off-balance sheet arrangements as of March 25, 2012.

Recent Accounting Standards

Information set forth under Note 1, “Business, Basis of Presentation and Summary of Significant Accounting Policies— Recent Accounting Standards” in the Notes to Unaudited Condensed Consolidated Financial Statements is incorporated herein by reference.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The preparation of condensed consolidated financial statements in accordance with GAAP requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities. The U.S. Securities and Exchange Commission has defined critical accounting policies as those that "are both most important to the portrayal of the company's financial condition and results, and they require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain." As such, we have identified the following policies as our critical accounting policies: Revenue recognition and allowances for sales returns and price concessions, fair value of financial instruments, impairment of long-lived assets, intangibles and goodwill, other-than-temporary impairments, inventory valuation, income taxes and loss contingencies.

The judgments and estimates we make in applying the accounting principles generally accepted in the U.S. affect the amounts of assets and liabilities reported, disclosures, and reported amounts of revenues and expenses. As such, we evaluate the judgments and estimates underlying all of our accounting policies, including those noted above, on an ongoing basis. We have based our estimates on the latest available historical information as well as known or foreseen trends; however, we cannot guarantee that we will continue to experience the same patterns in the future. If the historical data and assumptions we used to develop our estimates do not properly reflect future activity, our net sales, gross profit, net income and earnings per share could be materially and adversely impacted. Since the filing of our Annual Report on Form 10-K for the fiscal year ended June 26, 2011 on August 22, 2011, there have been no significant changes to our critical accounting policies and estimates.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rates

Our exposure to interest rate risk is primarily through our investment portfolio as we currently do not have outstanding long-term debt. The objectives of our investments in debt securities are to preserve principal and maintain liquidity while maximizing returns. To achieve these objectives, the returns on our investments in short-term fixed-rate debt securities will be generally compared to yields on money market instruments such as industrial commercial paper, LIBOR, or Treasury Bills. Investments in longer term fixed-rate debt will be generally compared to yields on comparable maturity Government or high grade corporate instruments with an equivalent credit rating. Based on our investment portfolio and interest rates at March 25, 2012, a 100 basis point increase or decrease in interest rates would result in an annualized change of approximately $1.5 million in the fair value of the investment portfolio. Changes in interest rates may affect the fair value of the investment portfolio; however, unrealized gains or losses are not recognized in net income unless the investments are sold or the gains or losses are considered to be other-than-temporary.

Foreign Currency Exchange Rates

We hedge the risks of foreign currency denominated assets and liabilities with offsetting foreign currency denominated exchange transactions and currency forward contracts. Exchange gains and losses on these foreign currency denominated assets and liabilities are generally offset by corresponding gains and losses on the related hedging instruments, usually resulting in limited net exposure compared to an unhedged position.

A significant amount of our revenues, expense, and capital purchasing transactions are conducted on a global basis in several foreign currencies. At various times, we have currency exposure related mainly to the British Pound Sterling, the Euro and the Japanese Yen. For example, in the United Kingdom we have a sales office and a semiconductor wafer fabrication facility with revenues primarily in U.S. Dollars and Euro and expenses in British Pound Sterling and U.S. Dollars. We do not hedge our revenues and expenses against changes in foreign currency exchange rates, as we do not perceive the net risk of changes to translated revenues and expenses from changes in exchange rates as significant enough at this time to justify hedging. To protect against exposure to currency exchange rate fluctuations on non-functional currency payables and receivables, we have established a balance sheet transaction risk hedging program. This risk hedging program generally uses spot and currency forward contracts. These contracts are not designated as hedging instruments for accounting purposes. Through our hedging program we seek to reduce, but do not always entirely eliminate, the impact of currency exchange rate movements.

We had approximately $90.3 million in notional amounts of currency forward contracts not designated as accounting hedges at March 25, 2012. Net realized and unrealized foreign-currency gains (losses) recognized in earnings as a component of other expense were $(0.2) million and $(0.1) million, and $(2.1) million and $(2.0) million for the three and nine months ended March 25, 2012 and March 27, 2011, respectively.

In the normal course of business, we also face risks that are either non-financial or non-quantifiable. Such risks principally include country risk, credit risk, and legal risk and are not discussed or quantified in the preceding analysis.

Market Value Risk

We carry certain assets at fair value. Generally, for assets that are reported at fair value, we use quoted market prices or valuation models that utilize market data inputs to estimate fair value. In certain cases quoted market prices or market data inputs may not be readily available or availability could be diminished due to market conditions. In these cases, our estimate of fair value is based on best available information or other estimates determined by management.

At March 25, 2012, we had $364.8 million of total cash (excluding $1.4 million of restricted cash), cash equivalents, and investments consisting of available-for-sale fixed income securities. We manage our total investment portfolio to encompass a diversified pool of investment-grade securities. The average credit rating of our investment portfolio is AA+/Aa1. Our investment policy is to manage our total cash and investment balances to preserve principal and maintain liquidity while maximizing returns. To the extent that certain investments in our portfolio of investments continue to have strategic value, we generally do not attempt to reduce or eliminate our market exposure. For securities that we no longer consider strategic, we evaluate legal, market, and economic factors in our decision on the timing of disposal. We may or may not enter into transactions to reduce or eliminate the market risks of our investments. During the nine months ended March 25, 2012, the fair values of certain of our market priced investments declined and we recognized $0.8 million in other-than-temporary impairment relating to our market priced available-for-sale securities. During the three months ended March 25, 2012, there was no other-than-temporary impairment to our market priced available-for-sale securities. See Part I, Item 1A, “Risk Factors—Our investments in certain securities expose us to market risks”, set forth in our 2011 Annual Report.

ITEM 4. CONTROLS AND PROCEDURES

This Report includes the certifications of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") required by Rule 13a-14 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). See Exhibits 31.1 and 31.2. This Item 4 includes information concerning the controls and control evaluations referred to in those certifications.

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are designed to ensure that information required to be disclosed in reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including the CEO and CFO, to allow timely decisions regarding required disclosures.

In the second quarter of fiscal year 2012, the Company implemented an Enterprise Resource Planning ("ERP") system. The implementation involved changes to our financial and other systems and accordingly, necessitated changes to our internal controls. Specifically, the Company modified its controls in business processes impacted by the new systems, including user access security, automated workflow, transaction authorization, system reporting, reconciliation procedures, and hardware/data backup. The Company's management has reviewed the controls affected by the ERP implementation and what we believe to be appropriate corresponding changes to internal controls as part of the implementation. The Company believes that the controls, as modified, are appropriate and functioning effectively as of the end of the fiscal period covered by this report.

Our management, under the supervision and with the participation of our CEO and CFO, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of March 25, 2012. Based upon this evaluation, our CEO and CFO concluded that, as of March 25, 2012, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

"Internal control over financial reporting" is a process designed by, or under the supervision of, our CEO and CFO, and effected by our board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets;
(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of management and our directors; and
(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Except as described above in connection with the changes implementing our ERP system, during the fiscal quarter ended March 25, 2012 there were no changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations Over Internal Controls

We do not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must acknowledge the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the deliberate acts of one or more persons. The design of any system of controls is based, in part, upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with associated policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error may occur and not be detected.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Our disclosures regarding the matters set forth in Note 16, "Environmental Matters," and Note 17, "Litigation," to our Notes to the Unaudited Condensed Consolidated Financial Statements set forth in Part I, Item I, herein, are incorporated herein by reference.

ITEM 1A. RISK FACTORS

Statement of Caution Under the Private Securities Litigation Reform Act of 1995

This Quarterly Report on Form 10-Q includes some statements and other information that are not historical facts but are "forward-looking statements" as that term is defined in the Private Securities Litigation Reform Act of 1995. The materials presented can be identified by the use of forward-looking terminology such as “anticipate,” “believe,” “estimate,” “expect,” “may,” “should,” “view,” or “will” or the negative or other variations thereof. We caution that such statements are subject to a number of uncertainties, and actual results may differ materially. Factors that could affect our actual results include those set forth under “Item 1A. Risk Factors” in our 2011 Annual Report, and our fiscal year 2012 first quarterly report on Form 10-Q, as supplemented by other uncertainties disclosed in our reports filed from time to time with the SEC (all of the foregoing of which is incorporated by reference).

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) None

(b) None

(c) Purchase of Equity Securities

The following provides information on a monthly basis for the three months ended March 25, 2012 with respect to the Company's purchases of equity securities:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans Programs (1)	Maximum Number (or approximate Dollar Value) of Shares that May Yet be Purchased under the Plans or Programs
December 26, 2011 to January 22, 2012		$ —	—	$ 45,179,186
January 23, 2012 to February 19, 2012		$ —	—	$ 45,179,186
February 20, 2012 to March 25, 2012		$ —	—	$ 45,179,186

(1) On October 27, 2008, the Company announced that its Board of Directors had authorized a stock repurchase program of up to $100 million. The Company announced on July 20, 2010, that its Board of Directors had authorized an additional $50 million for the stock repurchase program bringing the total authorized for the plan to $150 million. This plan may be suspended at anytime without prior notice.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Index:

3.1	Certificate of Incorporation of the Company, as amended through July 19, 2004 (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on July 19, 2004, Registration No. 333-117489)
3.2	Amendment to Certificate of Incorporation, dated November 13, 2009 (incorporated by reference to Exhibit 3.2 of Quarterly Report on Form 10-Q for the quarterly period ended December 27, 2009, filed with the Securities and Exchange Commission on February 3, 2010)
3.3	Bylaws as Amended and Restated (incorporated by reference to Exhibit 3.1 of Current Report Form 8-K filed March 26, 2012, with the Securities and Exchange Commission)
10.1	Form of Non-Employee Director Stock Option Agreement-2011 Performance Incentive Plan (1, 2)
10.2	Form of Non-Employee Director RSU-Agreement 2011 Performance Incentive Plan (1, 2)
10.3	Description of Executive Officer Cash Incentive Program Performance Goals for Third and Fourth Quarter of Fiscal Year 2012 (incorporated by reference to Item 5.2 (e) of Current Report on Form 8-K, filed February 15, 2012, with the Securities and Exchange Commission) (2)
31.1	Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (1)
31.2	Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (1)
32.1	Certification Pursuant to 18 U.S.C. 1350, Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (1)
32.2	Certification Pursuant to 18 U.S.C. 1350, Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (1)
101.INS	XBRL Instance (3)
101.SCH	XBRL Taxonomy Extension Schema (3)
101.CAL	XBRL Extension Calculation (3)
101.LAB	XBRL Extension Labels (3)
101.PRE	XBRL Taxonomy Extension Presentation (3)
101.DEF	XBRL Taxonomy Extension Definition (3)

(1) Denotes document submitted herewith.

(2) Denotes management contract or compensation arrangement or agreement.

(3) Furnished, not filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INTERNATIONAL RECTIFIER CORPORATION
Registrant

Date: May 3, 2012

/s/ ILAN DASKAL

Ilan Daskal
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 10.1

INTERNATIONAL RECTIFIER CORPORATION
2011 PERFORMANCE INCENTIVE PLAN

NOTICE OF GRANT OF

NON-EMPLOYEE DIRECTOR NONQUALIFIED STOCK OPTION

THIS OPTION AGREEMENT is between **INTERNATIONAL RECTIFIER CORPORATION**, a Delaware corporation (the "Corporation"), and _______________ (the "Director"). Pursuant to the International Rectifier Corporation 2011 Performance Incentive Plan (the "Plan"), the Corporation grants a nonqualified stock option (the "Option") to purchase authorized but unissued or treasury shares of Common Stock, $1.00 par value, of the Corporation. The Option is granted under and governed by the terms and conditions of the Plan and the Terms and Conditions of Non-Employee Director Nonqualified Stock Option (the "Terms"), which are attached and incorporated herein by this reference.

Grant Date: _______________________
Number of Shares: _______________________ [1]
Exercise Price per Share: _______________________ [1]
Vesting Schedule: **[33 1/3% per year on each of the first three anniversary dates of Grant Date]**[2]

Expiration Date: _______________________ [2]

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[1] Subject to adjustment under Section 7.1 of the Plan.

[2] Subject to early termination under Section 7.2 of the Plan and Section 5 of the Terms.

INTERNATIONAL RECTIFIER CORPORATION **DIRECTOR**
(a Delaware Corporation)

By: _______________________________ _________________________

[________]
(Signature)

Its: _________________________

(Address)

____

(City, State, Zip Code)

INTERNATIONAL RECTIFIER CORPORATION

2011 PERFORMANCE INCENTIVE PLAN

TERMS AND CONDITIONS OF

NON-EMPLOYEE DIRECTOR NONQUALIFIED STOCK OPTION

1. **General.**

These Terms and Conditions of Non-Employee Director Nonqualified Stock Option (these "**Terms**") apply to a particular stock option (the "**Option**") if incorporated by reference in the Notice of Grant of Non-Employee Director Nonqualified Stock Option (the "**Grant Notice**") corresponding to that particular grant. The recipient of the Option identified in the Grant Notice is referred to as the "**Director**." The per share exercise price of the Option as set forth in the Grant Notice is referred to as the "**Exercise Price**." The effective date of grant of the Option as set forth in the Grant Notice is referred to as the "**Award Date**." The exercise price and the number of shares covered by the Option are subject to adjustment under Section 7.1 of the Plan.

The Option was granted under and subject to the International Rectifier Corporation 2011 Performance Incentive Plan (the "**Plan**"). Capitalized terms are defined in the Plan if not defined herein. The Option has been granted to the Director in addition to, and not in lieu of, any other form of compensation otherwise payable or to be paid to the Director. The Grant Notice and these Terms are collectively referred to as the "**Option Agreement**" applicable to the Option.

2. **Vesting; Limits on Exercise; Incentive Stock Option Status.**

The Option shall vest and become exercisable in percentage installments of the aggregate number of shares subject to the Option as set forth on the Grant Notice. The Option may be exercised only to the extent the Option is vested and exercisable.

- Cumulative Exercisability. To the extent that the Option is vested and exercisable, the Director has the right to exercise the Option (to the extent not previously exercised), and such right shall continue, until the expiration or earlier termination of the Option.

- No Fractional Shares. Fractional share interests shall be disregarded, but may be cumulated.

- Minimum Exercise. No fewer than 100 shares of Common Stock (subject to adjustment under Section 7.1 of the Plan) may be purchased at any one time, unless the number purchased is the total number at the time exercisable under the Option.

- Nonqualified Stock Option. The Option is a nonqualified stock option and is not, and shall not be, an incentive stock option within the meaning of Section 422 of the Code.

3. **Continuance of Service Required.**

The vesting schedule applicable to the Option requires continued service through each applicable vesting date as a condition to the vesting of the applicable installment of the Option and the rights and benefits under this Option Agreement. Service for only a portion of the vesting period, even if a substantial portion, will not entitle the Director to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of services as provided in Section 5 below or under the Plan.

4. Method of Exercise of Option.

The Option shall be exercisable by the delivery to the Secretary of the Corporation (or such other person as the Administrator may require pursuant to such administrative exercise procedures as the Administrator may implement from time to time) of:

- a written notice stating the number of shares of Common Stock to be purchased pursuant to the Option or by the completion of such other administrative exercise procedures as the Administrator may require from time to time;
- payment in full for the Exercise Price of the shares to be purchased in cash, check or by electronic funds transfer to the Corporation, or (subject to compliance with all applicable laws, rules, regulations and listing requirements and further subject to such rules as the Administrator may adopt as to any non-cash payment) in shares of Common Stock already owned by the Director, valued at their fair market value (as determined under the Plan) on the exercise date;
- any written statements or agreements required pursuant to Section 8.1 of the Plan; and
- satisfaction of the tax withholding provisions of Section 8.5 of the Plan.

The Administrator also may, but is not required to, authorize a non-cash payment alternative by notice and third party payment in such manner as may be authorized by the Administrator, or, subject to such procedures as the Administrator may adopt, authorize a "cashless exercise" with a third party who provides simultaneous financing for the purposes of (or who otherwise facilitates) the exercise of the Option.

5. Early Termination of Option.

5.1 Expiration Date. Subject to earlier termination as provided below in this Section 5, the Option will terminate on the "Expiration Date" set forth in the Grant Notice (the "**Expiration Date**").

5.2 Possible Termination of Option upon Certain Corporate Events. The Option is subject to termination in connection with certain corporate events as provided in Section 7.2 of the Plan.

5.3 Termination of Option upon a Termination of Director's Services. Subject to earlier termination on the Expiration Date of the Option or pursuant to Section 5.2 above, if the Director ceases to serve as a member of the Board, the following rules shall apply (the last day that the Director is a member of the Board is referred to as the Director's "**Severance Date**"):

- Retirement. If the termination of the Director's services is the result of the Director's Retirement (as defined below) and the Option has been held by the Director for at least six months, (a) the Option, to the extent outstanding and not vested on the Severance Date, shall become fully vested and exercisable as of the Severance Date, (b) the Director will have until the date that is three years after the Director's Severance Date to exercise the Option, and (c) the Option, to the extent exercisable for the three-year period following the Severance Date and not exercised during such period, shall terminate at the close of business on the last day of the three-year period.

- Resignation. If the termination of the Director's service is the result of the Director's Resignation (as defined below) and the Option has been held by the Director for at least six months, (a) the Director will have until the date that is three months after the Director's Severance Date to exercise the Option (or portion thereof) to the extent that it was vested on the Severance Date, (b) the Option, to the extent not vested on the Severance Date, shall terminate on the Severance Date, and (c) the Option, to the extent exercisable for the three-month period following the Severance Date and not exercised during such period, shall terminate at the close of business on the last day of the three-month period.

- Death or Total Disability. If the termination of the Director's services is the result of the Director's death or Total Disability (as defined below) and the Option has been held by the Director for at least six months, (a) the Option, to the extent outstanding and not vested on the Severance Date, shall become fully vested and exercisable as of the Severance Date, (b) the Director (or his beneficiary or personal representative, as the case may be) will have until the date that is three years after the Director's Severance Date to exercise the Option, and (c) the Option, to the extent exercisable for the three-year period following the Severance Date and not exercised during such period, shall terminate at the close of business on the last day of the three-year period.

- Other Termination. If the Director's services terminate for any reason other than the Director's Retirement, Resignation, or death or Total Disability and without regard to the period of time for which the Director has held the Option, (a) the Option, to the extent outstanding and not vested on the Severance Date, shall become fully vested and exercisable as of the Severance Date, (b) the Director will have until the date that is three years after the Director's Severance Date to exercise the Option, and (c) the Option, to the extent exercisable for the three-year period following the Severance Date and not exercised during such period, shall terminate at the close of business on the last day of the three-year period.

In the case of a termination of the Director's service due to the Director's Retirement, Resignation, death or Total Disability, subject to the express provisions of this Section 5.3, Section 5.2 above and the Plan, an Option granted less than six months prior to the Director's Severance Date (a "Short-Term Option) shall not immediately vest. However, the Board, in its sole discretion, may accelerate the vesting of up to 20% of the Short-Term Option as of the Severance Date. Such accelerated Short-Term Option shall become exercisable six months after the Grant Date and shall remain exercisable until the expiration of the applicable exercise period set forth above in this Section 5.3 as if the Short-Term Option had been held for six months on the Severance Date.

For purposes of the Option, "**Total Disability**" means a "permanent and total disability" (within the meaning of Section 22(e)(3) of the Code or as otherwise determined by the Administrator).

For purposes of the Option, "**Retirement**" means a Director's voluntary resignation or voluntary decision not to stand for re-election as a director after completing at least five consecutive years of service as a director.

For purposes of the Option, "**Resignation**" means a Director's voluntary resignation or voluntary decision not to stand for re-election as a director before completing at least five consecutive years of service as a director.

In all events the Option is subject to earlier termination on the Expiration Date of the Option or as contemplated by Section 5.2. The Administrator shall be the sole judge of whether the Director continues to render services for purposes of this Option Agreement.

6. Non-Transferability.

The Option and any other rights of the Director under this Option Agreement or the Plan are nontransferable and exercisable only by the Director, except as set forth in Section 5.7 of the Plan.

7. Notices.

Any notice to be given under the terms of this Option Agreement shall be in writing and addressed to the Corporation at its principal office to the attention of the Secretary, and to the Director at the address last reflected on the Corporation's records, or at such other address as either party may hereafter designate in writing to the other. Any such notice shall be delivered in person or shall be enclosed in a properly sealed envelope addressed as aforesaid, registered or certified, and deposited (postage and registry or certification fee prepaid) in a post office or branch post office regularly maintained by the United States Government. Any such notice shall be given only when received, but if the Director is no longer a member of the Board, shall be deemed to have been duly given five business days after the date mailed in accordance with the foregoing provisions of this Section 7.

8. Plan.

The Option and all rights of the Director under this Option Agreement are subject to the terms and conditions of the Plan, incorporated herein by this reference. The Director agrees to be bound by the terms of the Plan and this Option Agreement. The Director acknowledges having read and understanding the Plan, the Prospectus for the Plan, and this Option Agreement. Unless otherwise expressly provided in other sections of this Option Agreement, provisions of the Plan that confer discretionary authority on the Board or the Administrator do not and shall not be deemed to create any rights in the Director unless such rights are expressly set forth herein or are otherwise in the sole discretion of the Board or the Administrator so conferred by appropriate action of the Board or the Administrator under the Plan after the date hereof.

9. Entire Agreement.

This Option Agreement and the Plan together constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. The Plan and this Option Agreement may be amended pursuant to Section 8.6 of the Plan. Such amendment must be in writing and signed by the Corporation. The Corporation may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Director hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.

10. Governing Law.

This Option Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware without regard to conflict of law principles thereunder.

11. Effect of this Agreement.

Subject to the Corporation's right to terminate the Option pursuant to Section 7.2 of the Plan, this Option Agreement shall be assumed by, be binding upon and inure to the benefit of any successor or successors to the Corporation.

12. Counterparts.

This Option Agreement may be executed simultaneously in any number of counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

13. Section Headings.

The section headings of this Option Agreement are for convenience of reference only and shall not be deemed to alter or affect any provision hereof.

14. Clawback Policy.

The Option is subject to the terms of the Corporation's recoupment, clawback or similar policy as it may be in effect from time to time, as well as any similar provisions of applicable law, any of which could in certain circumstances require forfeiture of the Option and repayment or forfeiture of any shares of Common Stock or other cash or property received with respect to the Option (including any value received from a disposition of the shares acquired upon exercise of the Option).

15. No Advice Regarding Grant.

The Director is hereby advised to consult with his or her own tax, legal and/or investment advisors with respect to any advice the Director may determine is needed or appropriate with respect to the Option (including, without limitation, to determine the foreign, state, local, estate and/or gift tax consequences with respect to the Option and any shares that may be acquired upon exercise of the Option). Neither the Corporation nor any of its officers, directors, affiliates or advisors makes any representation (except for the terms and conditions expressly set forth in this Option Agreement) or recommendation with respect to the Option. Except for the withholding rights contemplated by Section 4 above and Section 8.5 of the Plan, the Director is solely responsible for any and all tax liability that may arise with respect to the Option and any shares that may be acquired upon exercise of the Option.

EXHIBIT 10.2

INTERNATIONAL RECTIFIER CORPORATION
2011 PERFORMANCE INCENTIVE PLAN
NON-EMPLOYEE DIRECTOR RESTRICTED STOCK UNIT AWARD AGREEMENT

Participant Name:________________________

Number of Stock Units: _____________ **(**1)

Vesting Schedule: 100% of the Stock Units subject to the Award will vest on the first anniversary of Award Date(1)

Award Date: _________

(1) All share and unit numbers are subject to adjustment under the terms of the Plan. The Stock Units are subject to acceleration and termination prior to vesting as provided herein.

THIS AGREEMENT is among **INTERNATIONAL RECTIFIER CORPORATION**, a Delaware corporation (the "Corporation"), and the non-employee member of the Board of Directors of the Corporation named above (the "Participant"), and is delivered under the International Rectifier Corporation 2011 Performance Incentive Plan (the "Plan").

WITNESSETH

WHEREAS, the Corporation has granted, effective as of the Award Date, to the Participant with reference to services rendered to the Corporation, in the capacity of a member of the Board who is not employed by the Corporation or any of its Subsidiaries (a "Non-Employee Director"), a restricted stock unit award under the Plan (the "Stock Unit Award" or "Award"), upon the terms and conditions set forth herein and in the Plan.

NOW THEREFORE, in consideration of services rendered by the Participant and the mutual promises made herein and the mutual benefits to be derived therefrom, the parties agree as follows:

1. **Defined Terms**. Capitalized terms used herein and not otherwise defined herein shall have the meaning assigned to such terms in the Plan. For purposes of this Agreement, a "Stock Unit" means a non-voting unit of measurement which is deemed for bookkeeping purposes to be equivalent to one outstanding share of Common Stock of the Corporation.

2. **Grant**. Subject to the terms of this Agreement and the Plan, the Corporation grants to the Participant a Stock Unit Award with respect to an aggregate number of Stock Units set forth above. The Corporation acknowledges that the consideration for the shares payable with respect to the Stock Units on the terms set forth in this Agreement shall be the services rendered to the Corporation by the Participant prior to the applicable vesting date, the fair value of which is not less than the par value per share of the Corporation's Common Stock.

3. **Vesting**. The Stock Units subject to the Award shall vest in installments as set forth in the "Vesting Schedule" set forth above, subject to earlier termination or acceleration and subject to adjustment as provided herein.

4. **Continuance of Services as a Non-Employee Director Required**. Except as otherwise provided herein, the vesting schedule applicable to the Stock Units requires continued service as a Non-Employee Director through the applicable vesting date as a condition to the vesting of the award and the rights and benefits under this Agreement. Service for only a portion of the vesting period, even if a substantial portion, will not entitle the Participant to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of service.

5. **Limitations on Rights Associated with Units**. The Participant shall have no rights as a stockholder of the Corporation, no dividend rights and no voting rights with respect to the Stock Units or any shares of Common Stock issuable in respect of such Stock Units, until shares of Common Stock are actually issued to and held of record by the Participant. No adjustments will be made for dividends or other rights of a holder for which the record date is prior to the date of issuance of the stock certificate evidencing the shares.

6. **Restrictions on Transfer.** Prior to the time the Stock Units are vested and paid, neither the Stock Units comprising the Award nor any other rights of the Participant under this Agreement or the Plan may be transferred, except as expressly provided in Section 5.7 of the Plan. No specific exception to the general transfer prohibitions set forth in Section 5.7 of the Plan has been authorized by the Administrator.

7. **Timing and Manner of Payment with Respect to Stock Units**. Stock Units that become vested pursuant to the terms hereof shall be paid on or as soon as administratively practical following (and in all events within sixty (60) days following) the first to occur of (a) the vesting of such Stock Units pursuant to Section 3 above, (b) the Participant's "separation from service" (within the meaning of Section 409A of the Code), (c) the Participant's death or Total Disability, or (d) a Change in Control (as defined below), such vested Stock Units to be paid by delivery by the Corporation to the Participant of one share of Common Stock for each vested Stock Unit. The Participant or other person entitled under the Plan to receive any shares with respect to the vested Stock Units shall deliver to the Corporation any representations or other documents or assurances required pursuant to Section 8.1 of the Plan. The Participant shall have no further rights with respect to any Stock Units that are paid or that terminate pursuant to Section 8.

8. **Effect of Termination of Services as a Non-Employee Director or Change in Control**.

(a) **Forfeiture after Certain Events/Acceleration**. The Participant's Stock Units shall be extinguished to the extent such Stock Units have not become vested upon the date the Participant is no longer providing services to the Corporation as a Non-Employee Director, regardless of the reason for such termination of services, whether with or without cause, voluntarily or involuntarily; provided, however, that if (i) the Participant incurs a Total Disability or dies while providing services as a Non-Employee Director, or (ii) retires from service on the Board at a time when the sum of the Participant's years of service to the Board as a Non-Employee Director and age of the Participant is seventy-five (75) years or more) or, with the consent of the Board, any other retirement from service on the Board (each, a "Retirement Event"), then if the Stock Units subject to the Award are not then otherwise fully vested, such Stock Units shall become vested upon the date of such Total Disability, death or Retirement Event, as the case may be. For purposes of this Agreement, "Total Disability" means that the Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months.

(b) **Termination of Stock Units**. If any Stock Units are extinguished hereunder, such unvested, extinguished Stock Units, without payment of any consideration by the Corporation, shall automatically terminate and be cancelled without any other action by the Participant, or the Participant's beneficiary, as the case may be.

(c) **Acceleration Upon Change in Control**. Upon the occurrence of (or, as the circumstances may require, immediately prior to) a Change in Control (as defined below), then any portion of the Stock Units subject to the Award that has not previously vested or terminated shall thereupon vest. For purposes of this Agreement, "Change in Control" has the meaning ascribed to such term in the Plan; provided, however, that a transaction shall not constitute a Change in Control unless it is a "change in the ownership or effective control" of the Company, or a change "in the ownership of a substantial portion of the assets" of the Company within the meaning of Section 409A of the Code.

9. **Adjustments in Case of Changes in Common Stock**. Upon the occurrence of certain events relating to the Corporation's stock contemplated by Section 7.1 of the Plan (including, without limitation, an ordinary cash dividend on such stock), the Administrator shall make adjustments in accordance with such section in the number of Stock Units then outstanding and the number and kind of securities that may be issued in respect of the Award.

10. **Tax Withholding**. Subject to Section 8.1 of the Plan, upon any distribution of shares of Common Stock in respect of the Stock Units, the Corporation shall automatically reduce the number of shares to be delivered by (or otherwise reacquire) the appropriate number of whole shares, valued at their then fair market value (with the "fair market value" of such shares determined in accordance with the applicable provisions of the Plan), to satisfy any withholding obligations of the Corporation or its Subsidiaries with respect to such distribution of shares at the minimum applicable withholding rates. In the event that the Corporation cannot legally satisfy such withholding obligations by such reduction of shares, or in the event of a cash payment or any other withholding event in respect of the Stock Units, the Corporation (or a Subsidiary) shall be entitled to require a cash payment by or on behalf of the Participant and/or to deduct from other compensation payable to the Participant any sums required by federal, state or local tax law to be withheld with respect to such distribution or payment.

11. **Notices**. Any notice to be given under the terms of this Agreement shall be in writing and addressed to the Corporation at its principal office located at 101 N. Sepulveda Boulevard, El Segundo, California 90245, to the attention of the Secretary and to the Participant at the address given beneath the Participant's signature hereto, or at such other address as either party may hereafter designate in writing to the other.

12. **Plan and Program**. The Award and all rights of the Participant with respect thereto are subject to, and the Participant agrees to be bound by, all of the terms and conditions of the provisions of the Plan, incorporated herein by reference, to the extent such provisions are applicable to Awards granted to persons providing similar services to the Corporation. The Participant acknowledges receipt of a copy of the Plan, which is made a part hereof by this reference, and agrees to be bound by the terms thereof. Unless otherwise expressly provided in other Sections of this Agreement, provisions of the Plan that confer discretionary authority on the Administrator do not (and shall not be deemed to) create any rights in the Participant unless such rights are expressly set forth herein or are otherwise in the sole discretion of the Administrator so conferred by appropriate action of the Administrator under the Plan after the date hereof. The actions of the Administrator taken pursuant to this Agreement shall be subject to the approval or ratification of the Board.

13. **No Service Commitment by Corporation**. Nothing contained in this Agreement or the Plan constitutes a service commitment by the Corporation, affects the Participant's status as a Non-Employee Director, confers upon the Participant any right to continue to be retained by the Corporation in any capacity, or interferes in any way with the rights of the Board or its shareholders to remove Participant from service under the terms and conditions of the Corporation's Bylaws and applicable law.

14. **Entire Agreement**. This Agreement and the Plan together constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. The Plan and this Agreement may be amended pursuant to Section 8.6 of the Plan. Such amendment must be in writing and signed by the Corporation. The Corporation may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Participant hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.

15. **Limitation on Participant's Rights.** Participation in the Plan confers no rights or interests other than as herein provided. This Agreement creates only a contractual obligation on the part of the Corporation as to amounts payable and shall not be construed as creating a trust. The Plan, in and of itself, has no assets. The Participant shall have only the rights of a general unsecured creditor of the Corporation with respect to amounts credited and benefits payable, if any, with respect to the Stock Units, and rights no greater than the right to receive the Common Stock (subject to adjustments) as a general unsecured creditor with respect to Stock Units, as and when payable hereunder.

16. **Section Headings**. The section headings of this Agreement are for convenience of reference only and shall not be deemed to alter or affect any provision hereof.

17. **Governing Law**. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware without regard to conflict of law principles thereunder.

18. **Construction; Section 409A**. It is intended that the terms of the Award will not result in the imposition of any tax liability pursuant to Section 409A of the Code. This Agreement shall be construed and interpreted consistent with that intent. Notwithstanding Section 7 hereof, in the event that the vesting and payment of the Stock Units is triggered by the Participant's "separation from service" (within the meaning of Treasury Regulation Section 1.409A-1(h)) and the Participant is a "specified employee" (within the meaning of Treasury Regulation Section 1.409A-1(i)) on the date of such separation from service, the Participant shall not be entitled to any payment of the Stock Units until the earlier of (i) the date which is six (6) months after the Participant's separation from service with the Corporation for any reason other than death, or (ii) the date of the Participant's death, if and to the extent such delay in payment is required to comply with Section 409A of the Code.

19. **Clawback Policy**. The Stock Units are subject to the terms of the Corporation's recoupment, clawback or similar policy as it may be in effect from time to time, as well as any similar provisions of applicable law, any of which could in certain circumstances require repayment or forfeiture of the Stock Units or any shares of Common Stock or other cash or property received with respect to the Stock Units (including any value received from a disposition of the shares acquired upon payment of the Stock Units).

20. **Electronic Signature or Acknowledgement**. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original as against any party whose signature appears thereon, and all of which together shall constitute one and the same instrument. The provision of photographic or facsimile copies, or electronic signature, confirmation or acknowledgement of or by a party, shall constitute an effective original signature of a party for all purposes under this Agreement, and may be used with the same effect as manually signed originals of this Agreement for any purpose.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written. By the Participant's execution of this Agreement, the Participant agrees to the terms and conditions hereof and of the Plan.

INTERNATIONAL RECTIFIER CORPORATION, a Delaware corporation	**PARTICIPANT**
By: ______________________	______________________ *Signature*
Print Name: ______________________	______________________ *Address*
Its: ______________________	______________________ *City, State, Zip Code*

EXHIBIT 31.1

CERTIFICATION

I, Oleg Khaykin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of International Rectifier Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2012

/s/ OLEG KHAYKIN

Oleg Khaykin
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION

I, Ilan Daskal, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of International Rectifier Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2012

/s/ ILAN DASKAL

Ilan Daskal
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 32.1

CERTIFICATION
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

The undersigned, Oleg Khaykin, the Chief Executive Officer of International Rectifier Corporation (the “Company”), pursuant to 18 U.S.C. §1350, hereby certifies that:

(i) the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended March 25, 2012 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Report.

Date: May 3, 2012

/s/ OLEG KHAYKIN

Oleg Khaykin
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 32.2

**CERTIFICATION
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002**

The undersigned, Ilan Daskal, the Chief Financial Officer of International Rectifier Corporation (the “Company”), pursuant to 18 U.S.C. §1350, hereby certifies that:

(i) the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended March 25, 2012 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Report.

Date: May 3, 2012

/s/ ILAN DASKAL

Ilan Daskal
Chief Financial Officer
(Principal Financial and Accounting Officer)