

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 December 23, 2012

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)  
**101 N. Sepulveda Blvd**  
**El Segundo, California**  
(Address of Principal Executive Offices)

**95-1528961**  
(I.R.S. Employer  
Identification No.)

**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 69,180,059 shares of the registrant's common stock, par value \$1.00 per share, outstanding on January 17, 2013.

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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		Six Months Ended	
	December 23, 2012	December 25, 2011	December 23, 2012	December 25, 2011
Revenues	\$ 223,822	\$ 230,078	\$ 476,314	\$ 532,819
Cost of sales	174,733	148,659	356,684	336,562
Gross profit	49,089	81,419	119,630	196,257
Selling, general and administrative expense	45,083	50,558	92,378	99,549
Research and development expense	32,125	32,227	65,574	65,255
Amortization of acquisition-related intangible assets	1,680	1,939	3,360	4,554
Asset impairment, restructuring and other charges	4,941	—	13,907	—
Operating income (loss)	(34,740)	(3,305)	(55,589)	26,899
Other expense, net	411	1,956	1,419	4,159
Interest income, net	(8)	(31)	(40)	(240)
Income (loss) before income taxes	(35,143)	(5,230)	(56,968)	22,980
Provision for (benefit from) income taxes	(2,421)	1,107	4,529	7,354
Net income (loss)	\$ (32,722)	\$ (6,337)	\$ (61,497)	\$ 15,626
Net income (loss) per common share—basic (1)	\$ (0.47)	\$ (0.09)	\$ (0.89)	\$ 0.22
Net income (loss) per common share—diluted (1)	\$ (0.47)	\$ (0.09)	\$ (0.89)	\$ 0.22
Average common shares outstanding—basic	69,144	69,046	69,213	69,408
Average common shares and potentially dilutive shares outstanding—diluted	69,144	69,046	69,213	69,883

(1) *Net income per common share is computed using the two-class method. See Note 14, "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		Six Months Ended	
	December 23, 2012	December 25, 2011	December 23, 2012	December 25, 2011
Net income (loss)	\$ (32,722)	\$ (6,337)	\$ (61,497)	\$ 15,626
Other comprehensive income (loss):				
Foreign currency translation adjustments	(601)	(1,048)	10,631	(7,680)
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) on available-for-sale securities, net of tax effect of \$0, \$(855), \$0 and \$(3,541), respectively	1,367	(1,438)	(1,837)	(5,954)
Other comprehensive income (loss)	766	(2,486)	8,794	(13,634)
Comprehensive income (loss)	<u>\$ (31,956)</u>	<u>\$ (8,823)</u>	<u>\$ (52,703)</u>	<u>\$ 1,992</u>

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

**INTERNATIONAL RECTIFIER CORPORATION AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands)**

	<b>December 23, 2012</b>	<b>June 24, 2012 (1)</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 366,656	\$ 305,423
Restricted cash	624	595
Short-term investments	10,104	63,872
Trade accounts receivable, net of allowances	134,029	168,499
Inventories	260,717	294,702
Current deferred tax assets	5,181	5,110
Prepaid expenses and other receivables	36,095	29,845
Total current assets	813,406	868,046
Restricted cash	940	940
Long-term investments	5,003	15,054
Property, plant and equipment, net	456,139	461,115
Goodwill	52,149	52,149
Acquisition-related intangible assets, net	25,216	28,576
Long-term deferred tax assets	37,456	40,850
Other assets	60,004	65,093
Total assets	<u>\$ 1,450,313</u>	<u>\$ 1,531,823</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 70,649	\$ 88,726
Accrued income taxes	496	750
Accrued salaries, wages and commissions	40,740	40,403
Other accrued expenses	73,822	83,164
Total current liabilities	185,707	213,043
Long-term deferred tax liabilities	4,928	6,653
Other long-term liabilities	30,186	35,800
Total liabilities	220,821	255,496
Commitments and contingencies		
Stockholders' equity:		
Common shares	75,353	75,125
Capital contributed in excess of par value	1,048,586	1,037,736
Treasury stock, at cost	(113,175)	(107,965)
Retained earnings	229,188	290,685
Accumulated other comprehensive loss	(10,460)	(19,254)
Total stockholders' equity	1,229,492	1,276,327
Total liabilities and stockholders' equity	<u>\$ 1,450,313</u>	<u>\$ 1,531,823</u>

(1) Amounts derived from the audited financial statements at June 24, 2012.

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)

	Six Months Ended	
	December 23, 2012	December 25, 2011
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ (61,497)	\$ 15,626
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	45,775	40,193
Amortization of acquisition-related intangible assets	3,360	4,554
Loss on disposal of fixed assets	4,099	1,123
Impairment of long-lived assets	2,376	—
Stock compensation expense	11,117	7,969
Gain on the sale of investments	(8)	(61)
Other-than-temporary impairment of investments	—	2,379
Provision for bad debt	2	1,198
Provision for inventory write-downs	11,395	7,349
Loss (gain) on derivatives	2,117	(1,486)
Deferred income taxes	5,584	3,556
Excess tax benefit from stock-based awards	—	(673)
Changes in operating assets and liabilities, net	25,608	(87,582)
Other	(1,464)	3,060
<b>Net cash provided by (used in) operating activities</b>	<b>48,464</b>	<b>(2,795)</b>
<b>Cash flow from investing activities:</b>		
Additions to property, plant and equipment	(48,040)	(71,847)
Proceeds from sale of property, plant and equipment	118	—
Sale of investments	52,131	14,863
Maturities of investments	21,500	147,323
Purchase of investments	(9,979)	(89,849)
Addition to restricted cash	(13)	653
<b>Net cash provided by investing activities</b>	<b>15,717</b>	<b>1,143</b>
<b>Cash flows from financing activities:</b>		
Proceeds from exercise of stock options	987	1,763
Excess tax benefit from stock-based awards	—	673
Purchase of treasury stock	(5,210)	(23,576)
Net settlement of restricted stock units for tax withholdings	(1,025)	(1,889)
<b>Net cash used in financing activities</b>	<b>(5,248)</b>	<b>(23,029)</b>
Effect of exchange rate changes on cash and cash equivalents	2,300	(2,561)
Net increase (decrease) in cash and cash equivalents	61,233	(27,242)
<b>Cash and cash equivalents, beginning of period</b>	<b>305,423</b>	<b>298,731</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 366,656</b>	<b>\$ 271,489</b>

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

**INTERNATIONAL RECTIFIER CORPORATION AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**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.

Power semiconductors convert raw power from an electrical outlet, a battery, an alternator running off an internal combustion engine, or a hybrid electric vehicle ("HEV") or electric vehicle ("EV") and renewable energy sources into more efficient and useful power for a wide range of electrical and electronic systems and equipment. The more sophisticated the end product, the greater the need for specially-formatted, finely-regulated power. The importance of power semiconductor technology rises with the increasing complexity of electronic products and the proliferation of electronic features in information technology, industrial, consumer, aerospace and defense and automotive products.

With the demand for energy usage increasing worldwide and energy costs generally rising, governments and consumers alike are striving to conserve energy and demand more efficient uses of power in all types of electronic products including computers, appliances, military aircraft, and hybrid cars. The information technology, industrial, computing, consumer, high reliability and automobile industries use power management semiconductors to promote energy efficiency and improve performance metrics. Power management semiconductors enable energy savings by delivering the power tailored for a particular electrical device, rather than delivering a constant stream of power.

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, integrated power modules, and automotive product packages.

**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 30, 2013. 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 24, 2012 filed with the SEC on August 23, 2012 (the "2012 Annual Report").

**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 December 2012 and 2011 consisted of 13 weeks ending on December 23, 2012 and December 25, 2011, respectively. The current fiscal year will consist of 53 weeks and end on June 30, 2013.

**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.

Fair Value Measurements

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 the inputs are observable in the market and the degree to which the inputs are observable. The categorization of 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 are based on quoted market prices for identical assets or liabilities in active markets at 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 instrument's valuation.

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 consolidated balance sheet as of December 23, 2012 and June 24, 2012 (in thousands):

Assets and Liabilities:	As of December 23, 2012			
	Total	Level 1	Level 2	Level 3
Short-term investments	\$ 10,104	\$ 1,001	\$ 9,103	\$ —
Long-term investments	5,003	5,003	—	—
Other assets	26,004	22,968	—	3,036
Other accrued expenses	(1,451)	—	(1,451)	—
Other long-term liabilities	(8,519)	(8,358)	(161)	—
Total	\$ 31,141	\$ 20,614	\$ 7,491	\$ 3,036
Fair value as a percentage of total	100.0%	66.2%	24.1%	9.7%
Level 3 as a percentage of total assets				0.2%

Assets and Liabilities:	As of June 24, 2012			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 9,997	\$ —	\$ 9,997	\$ —
Short-term investments	63,872	33,058	30,814	—
Prepaid expenses and other receivables	622	—	622	—
Long-term investments	15,054	10,001	5,053	—
Other assets	27,358	24,439	85	2,834
Other long-term liabilities	(8,139)	(8,139)	—	—
Total	\$ 108,764	\$ 59,359	\$ 46,571	\$ 2,834
Fair value as a percentage of total	100.0%	54.6%	42.8%	2.6%
Level 3 as a percentage of total assets				0.2%

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 considers as cash and cash equivalents all investments that are highly liquid with an initial maturity of three months or less from the date of purchase.

The fair value of investments, derivatives, and other assets and liabilities are disclosed in Note 2, Note 3, and Note 9, respectively.

During the six months ended December 23, 2012 and December 25, 2011, 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), those valued using significant other observable inputs (Level 2), and those valued using significant unobservable inputs (Level 3). The Company determines at the end of the reporting period whether a given financial asset or liability is valued using Level 1, 2, or 3 inputs.

As of December 23, 2012, the Company's investments recorded at fair value using Level 2 inputs included corporate debt securities and U.S. government agency obligations. The above assets and liabilities recorded at fair value using Level 2 inputs 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 records its foreign currency forward contracts at fair value using Level 2 inputs based on readily observable market parameters for all substantial terms of derivatives.

*Level 3 Valuation Techniques*

The following tables provide a reconciliation of the beginning and ending balance of items measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended December 23, 2012 and December 25, 2011 (in thousands):

	<u>Level 3</u> <u>Assets</u> <u>Derivatives</u>
Beginning balance at September 23, 2012	\$ 2,920
Total gains or (losses) (realized or unrealized):	
Included in other expense	116
Ending balance at December 23, 2012	<u>\$ 3,036</u>

	<u>Level 3</u>			
	<u>Liabilities</u>	<u>Assets</u>		
	<u>Contingent</u> <u>Consideration</u>	<u>Derivatives</u>	<u>Investments</u>	<u>Total</u>
Beginning balance at September 25, 2011	\$ 400	\$ 2,846	\$ 302	\$ 3,148
Total gains or (losses) (realized or unrealized):				
Included in other expense	—	182	(22)	160
Purchases, maturities, and sales:				
Maturities/prepayments	—	—	(14)	(14)
Ending balance at December 25, 2011	<u>\$ 400</u>	<u>\$ 3,028</u>	<u>\$ 266</u>	<u>\$ 3,294</u>

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 following tables provide a reconciliation of the beginning and ending balance of items measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six months ended December 23, 2012 and December 25, 2011 (in thousands):

	<u>Level 3</u> <u>Assets</u> <u>Derivatives</u>
Beginning balance at June 24, 2012	\$ 2,834
Total gains or (losses) (realized or unrealized):	
Included in other expense	202
Ending balance at December 23, 2012	<u>\$ 3,036</u>

	<u>Level 3</u>			
	<u>Liabilities</u>	<u>Assets</u>		
	<u>Contingent</u> <u>Consideration</u>	<u>Derivatives</u>	<u>Investments</u>	<u>Total</u>
Beginning balance at June 26, 2011	\$ 400	\$ 2,773	\$ 781	\$ 3,554
Total gains or (losses) (realized or unrealized):				
Included in other expense	—	255	32	287
Included in unrealized holding losses on available-for-sale securities in other comprehensive income	—	—	(190)	(190)
Purchases, maturities, and sales:				
Maturities/prepayments	—	—	(47)	(47)
Sales	—	—	(310)	(310)
Ending balance at December 25, 2011	<u>\$ 400</u>	<u>\$ 3,028</u>	<u>\$ 266</u>	<u>\$ 3,294</u>

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 were also used to value investment securities that included a certain asset-backed security for which there was decreased observability of market pricing for these investments.

The Company accounts for the Put Option as a derivative instrument not designated as an accounting hedge. The fair value was determined using the Black-Scholes option pricing model. 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. As of December 23, 2012, the Company determined that significant changes in the above assumptions would not materially affect the fair value of the Put Option. Additionally, the model materially relies on the assumption the issuer of the Put Option will uphold its financial obligation up to its common equity value 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.

For the three months ended December 23, 2012, the Company measured at fair value, on a non-recurring basis, the carrying values of certain of its equipment in its research and development group, as well as its Newport, Wales, and Mexico manufacturing facilities due to the non-use of that equipment. The Company determined that the carrying values of those assets of \$8.7 million exceeded their estimated fair values of \$4.0 million. The fair values were determined using the market approach, which considered the estimated fair value of the equipment using significant unobservable inputs (Level 3) obtained from third party equipment brokerage firms. Consequently, during the three and six months ended December 23, 2012, the Company recorded an impairment charge of \$4.7 million and \$4.7 million, respectively, which represents the excess of the carrying values of the assets over the fair values, less the estimated cost to sell. During the three months and six months ended December 25, 2011, the Company had no significant measurements of assets or liabilities at fair value on a non-recurring basis.

**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)**

**Adoption of 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 alternatives, 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. 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 adoption of this update did not have a material impact on the Company's financial statements, and the statement of comprehensive income was presented as a separate consecutive statement following the unaudited condensed consolidated statements of operations (See Part I, Item 1, Financial Statements- "Unaudited Condensed Consolidated Statements of Comprehensive Income").

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 did not have a material impact on the Company's financial statements.

**Recent Accounting Standards**

In July 2012, the FASB issued ASC update No. 2012-02, "Intangibles-Goodwill and Other (Topic 350), Testing Indefinite-Lived Intangible Assets for Impairment" ("ASC 2012-02"). Under the amendments in this update, a company has the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with 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 quantitative impairment test by calculating the fair value of an indefinite-lived intangible asset and comparing the fair value with the carrying amount of the asset. The amendments in this update are effective for annual and interim impairment test performed for fiscal years beginning after September 15, 2012 (early adoption permitted). The Company does not believe that adoption of this update will have a material impact on its financial statements.

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 using the first-in, first-out method and are included in other income or interest income depending upon the type of security.

Available-for-sale securities as of December 23, 2012 are summarized as follows (in thousands):

	<u>Amortized Costs</u>	<u>Gross Unrealized Gain</u>	<u>Gross Unrealized Loss</u>	<u>Net Unrealized Gain</u>	<u>Market Value</u>
<i>Short-Term Investments:</i>					
Corporate debt	\$ —	\$ 31	\$ —	\$ 31	\$ 31
U.S. government and agency obligations	10,067	6	—	6	10,073
Total short-term investments	<u>\$ 10,067</u>	<u>\$ 37</u>	<u>\$ —</u>	<u>\$ 37</u>	<u>\$ 10,104</u>
<i>Long-Term Investments:</i>					
U.S. government and agency obligations	\$ 4,991	\$ 12	\$ —	\$ 12	\$ 5,003
Total long-term investments	<u>\$ 4,991</u>	<u>\$ 12</u>	<u>\$ —</u>	<u>\$ 12</u>	<u>\$ 5,003</u>
Equity securities	\$ 11,630	\$ 2,259	\$ (263)	\$ 1,996	\$ 13,626

Available-for-sale securities as of June 24, 2012 are summarized as follows (in thousands):

	<u>Amortized Costs</u>	<u>Gross Unrealized Gain</u>	<u>Gross Unrealized Loss</u>	<u>Net Unrealized Gain</u>	<u>Market Value</u>
<i>Short-Term Investments:</i>					
Corporate debt	\$ 6,045	\$ 26	\$ —	\$ 26	\$ 6,071
U.S. government and agency obligations	57,796	10	(5)	5	57,801
Total short-term investments	<u>\$ 63,841</u>	<u>\$ 36</u>	<u>\$ (5)</u>	<u>\$ 31</u>	<u>\$ 63,872</u>
<i>Long-Term Investments:</i>					
U.S. government and agency obligations	\$ 15,053	\$ 7	\$ (6)	\$ 1	\$ 15,054
Total long-term investments	<u>\$ 15,053</u>	<u>\$ 7</u>	<u>\$ (6)</u>	<u>\$ 1</u>	<u>\$ 15,054</u>
Equity securities	\$ 11,631	\$ 3,848	\$ —	\$ 3,848	\$ 15,479

## 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.

In addition, the Company has a note receivable from a privately held company which it carries at cost of \$0.4 million. This investment is carried at cost as the Company has determined that it is not practicable to estimate the fair value of the investment given that the issuer is a start-up company whose securities are not publicly traded. As of December 23, 2012, there have been no developments which would indicate the note receivable from that 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 tables 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 December 23, 2012, the fair value of the Put Option was \$3.0 million, with changes in fair value recorded in other (income)/expense, net (See Note 3, "Derivative Financial Instruments"). Dividend income from these investments was \$0.1 million for the six months ended December 23, 2012, and \$0.1 million and \$0.1 million for the three and six months ended December 25, 2011, respectively. The Company received no dividend income from these equity investments during the three months ended December 23, 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 and mortgage-backed securities for the three and six months ended December 23, 2012 and December 25, 2011 (in thousands):

	Three Months Ended		Six Months Ended	
	December 23, 2012	December 25, 2011	December 23, 2012	December 25, 2011
Privately held domestic company-common and preferred stock	\$ —	\$ 1,500	\$ —	\$ 1,500
Publicly traded foreign company(s)-common stock	—	315	—	850
Mortgage-backed security	—	—	—	29
Total other-than-temporary impairments	<u>\$ —</u>	<u>\$ 1,815</u>	<u>\$ —</u>	<u>\$ 2,379</u>

INTERNATIONAL RECTIFIER CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Investments (Continued)

The unrealized loss position is measured and determined at each fiscal quarter end. The following tables summarize 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 (in thousands):

	Securities held in a loss position for less than 12 months at December 23, 2012		Securities held in a loss position for 12 months or more at December 23, 2012		Total in a loss position at December 23, 2012	
	Market Value	Gross Unrealized Losses	Market Value	Gross Unrealized Losses	Market Value	Gross Unrealized Losses
Equity security	\$ 3,579	\$ (263)	\$ —	\$ —	\$ 3,579	\$ (263)
Total	\$ 3,579	\$ (263)	\$ —	\$ —	\$ 3,579	\$ (263)

	Securities held in a loss position for less than 12 months at June 24, 2012		Securities held in a loss position for 12 months or more at June 24, 2012		Total in a loss position at June 24, 2012	
	Market Value	Gross Unrealized Losses	Market Value	Gross Unrealized Losses	Market Value	Gross Unrealized Losses
U.S government and agency obligations	\$ 46,420	\$ (11)	\$ —	\$ —	\$ 46,420	\$ (11)
Total	\$ 46,420	\$ (11)	\$ —	\$ —	\$ 46,420	\$ (11)

As of December 23, 2012, the Company evaluated whether an equity security with gross unrealized losses of \$0.3 million was other-than-temporarily impaired. The Company determined there was no indication of other-than-temporary impairment with regards to gross unrealized losses. 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, has the ability and intent to hold these investments until a recovery of fair value.

The amortized cost and estimated fair value of investments at December 23, 2012, by contractual maturity, are as follows (in thousands):

Contractual Maturity	Amortized Cost	Estimated Market Value
Due in 1 year or less	\$ 10,067	\$ 10,104
Due in 1-2 years	4,991	5,003
Total investments	\$ 15,058	\$ 15,107

The Company may decide to dispose of securities prior to the contractual maturity date indicated in the table above.

During the three and six months ended December 23, 2012, available-for-sale securities were sold for total proceeds of \$52.1 million and \$52.1 million, respectively, and for the three and six months ended December 25, 2011 were sold for total proceeds of \$9.5 million and \$14.9 million, respectively. Gross realized gains and losses for the three and six months ended December 23, 2012 were de minimis. Gross realized gains for the three and six months ended December 25, 2011 were \$0.0 million and \$0.1 million, respectively. 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, the Company reclassified \$0.0 million and \$0.0 million for the three and six months ended December 23, 2012, respectively, and \$0.0 million and \$0.2 million for the three and six months ended December 25, 2011, respectively, from accumulated other comprehensive income to earnings as a component of interest income.

## INTERNATIONAL RECTIFIER CORPORATION AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**2. Investments (Continued)***Fair Value of Investments*

The following tables present the balances of investments measured at fair value on a recurring basis (in thousands):

	As of December 23, 2012			
	Total	Level 1	Level 2	Level 3
Corporate debt	\$ 31	\$ —	\$ 31	\$ —
U.S. government and agency obligations	15,076	6,004	9,072	—
Equity securities-strategic investments	13,626	13,626	—	—
Total securities at fair value	<u>\$ 28,733</u>	<u>\$ 19,630</u>	<u>\$ 9,103</u>	<u>\$ —</u>

  

	As of June 24, 2012			
	Total	Level 1	Level 2	Level 3
Corporate debt	\$ 6,071	\$ —	\$ 6,071	\$ —
U.S. government and agency obligations	72,855	43,059	29,796	—
Equity securities-strategic investments	15,479	15,479	—	—
Total securities at fair value	<u>\$ 94,405</u>	<u>\$ 58,538</u>	<u>\$ 35,867</u>	<u>\$ —</u>

**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. As of December 23, 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 December 23, 2012.

*Foreign Currency Exchange Rates*

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



INTERNATIONAL RECTIFIER CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Derivative Financial Instruments (Continued)

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. 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.

For its balance sheet transaction risk hedging program, the Company had approximately \$107.9 million in notional amounts of currency forward contracts not designated as accounting hedges at December 23, 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 \$0.3 million and \$(2.1) million for the three and six months ended December 23, 2012, respectively, and \$0.1 million and \$1.7 million for the three and six months ended December 25, 2011, respectively.

At December 23, 2012 and June 24, 2012, the fair value carrying amount of the Company's derivative instruments were as follows (in thousands):

Derivatives Not Designated as Hedging Instruments	December 23, 2012			
	Derivative Assets		Derivative Liabilities	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Put Option	Other assets	\$ 3,036		
Currency forward contracts			Other accrued expenses	\$ 1,451
			Other long-term liabilities	161
Total		<u>\$ 3,036</u>		<u>\$ 1,612</u>

Derivatives Not Designated as Hedging Instruments	June 24, 2012	
	Derivative Assets	
	Balance Sheet Location	Fair Value
Put Option	Other assets	\$ 2,834
Currency forward contracts	Prepaid expenses and other receivables	622
	Other assets	85
Total		<u>\$ 3,541</u>

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 during the three and six months ended December 23, 2012 and December 25, 2011 was 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		Six Months Ended	
		December 23, 2012	December 25, 2011	December 23, 2012	December 25, 2011
Put Option	Other Expense	\$ 116	\$ 182	\$ 202	\$ 255
Currency forward contracts	Other Expense	285	75	(2,144)	888
<b>Total</b>		<b>\$ 401</b>	<b>\$ 257</b>	<b>\$ (1,942)</b>	<b>\$ 1,143</b>

Fair Value

The following tables present derivative instruments measured at fair value on a recurring basis as of December 23, 2012 and June 24, 2012 (in thousands):

	December 23, 2012			
	Total	Level 1	Level 2	Level 3
Put Option	\$ 3,036	\$ —	\$ —	\$ 3,036
Foreign currency derivatives:				
Liabilities	(1,612)	—	(1,612)	—
<b>Total derivative instruments at fair value</b>	<b>\$ 1,424</b>	<b>\$ —</b>	<b>\$ (1,612)</b>	<b>\$ 3,036</b>

	June 24, 2012			
	Total	Level 1	Level 2	Level 3
Put Option	\$ 2,834	\$ —	\$ —	\$ 2,834
Foreign currency derivatives:				
Assets	707	—	707	—
<b>Total derivative instruments at fair value</b>	<b>\$ 3,541</b>	<b>\$ —</b>	<b>\$ 707</b>	<b>\$ 2,834</b>

4. Supplemental Cash Flow Disclosures

Components in the changes of operating assets and liabilities for the six months ended December 23, 2012 and December 25, 2011 were comprised of the following (in thousands):

	Six Months Ended	
	December 23, 2012	December 25, 2011
Trade accounts receivable	\$ 34,979	\$ 28,362
Inventories	24,265	(67,373)
Prepaid expenses and other receivables	(255)	(4,732)
Accounts payable	(10,727)	(28,491)
Accrued salaries, wages and benefits	(175)	(9,901)
Deferred compensation	(465)	2,104
Accrued income taxes payable	(4,441)	(4,195)
Other accrued expenses	(17,573)	(3,356)
<b>Changes in operating assets and liabilities</b>	<b>\$ 25,608</b>	<b>\$ (87,582)</b>

INTERNATIONAL RECTIFIER CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**5. Inventories**

Inventories at December 23, 2012 and June 24, 2012 were comprised of the following (in thousands):

	December 23, 2012	June 24, 2012
Raw materials	\$ 69,114	\$ 64,112
Work-in-process	115,316	121,190
Finished goods	76,287	109,400
Total inventories	<u>\$ 260,717</u>	<u>\$ 294,702</u>

**6. Goodwill and Acquisition-Related Intangible Assets**

At December 23, 2012 and June 24, 2012, acquisition -related intangible assets included the following (in thousands):

	Amortization Periods (Years)	December 23, 2012		
		Gross Carrying Amount	Accumulated Amortization	Net
Completed technology	4-12	\$ 52,045	\$ (36,860)	\$ 15,185
Customer lists	5-12	10,430	(6,888)	3,542
Intellectual property and other	2-15	16,763	(10,274)	6,489
Total acquisition-related intangible assets		<u>\$ 79,238</u>	<u>\$ (54,022)</u>	<u>\$ 25,216</u>

	Amortization Periods (Years)	June 24, 2012		
		Gross Carrying Amount	Accumulated Amortization	Net
Completed technology	4-12	\$ 52,045	\$ (34,556)	\$ 17,489
Customer lists	5-12	10,430	(6,463)	3,967
Intellectual property and other	2-15	16,763	(9,643)	7,120
Total acquisition-related intangible assets		<u>\$ 79,238</u>	<u>\$ (50,662)</u>	<u>\$ 28,576</u>

As of December 23, 2012, the following table represents the total estimated amortization of intangible assets for the remainder of fiscal year 2013 and the five succeeding fiscal years (in thousands):

Fiscal Year	Estimated Amortization Expense
2013	\$ 3,294
2014	6,420
2015	6,220
2016	4,681
2017	1,463
2018 and thereafter	3,138
Total	<u>\$ 25,216</u>

## INTERNATIONAL RECTIFIER CORPORATION AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**6. Goodwill and Acquisition-Related Intangible Assets (Continued)***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.

The carrying amount of goodwill by reportable segment as of December 23, 2012 and June 24, 2012 was as follows (in thousands):

<b>Business Segments:</b>	<b>December 23, 2012</b>	<b>June 24, 2012</b>
Energy Saving Products	\$ 33,190	\$ 33,190
HiRel	18,959	18,959
Total goodwill	<u>\$ 52,149</u>	<u>\$ 52,149</u>

**7. Revolving Credit Facility and Bank Letters of Credit***Revolving Credit Facility*

On October 25, 2012 (the "Closing Date"), the Company entered into a Credit Agreement (the "Credit Agreement"), as borrower, with Wells Fargo Bank, National Association, as Administrative Agent ("Agent"), and certain lenders (the "Lenders"), pursuant to which it established a new senior unsecured revolving credit facility (the "Facility") in an aggregate principal amount of \$100 million with sublimits for swingline loans (of \$25 million) and the issuance of letters of credit (of \$10 million). The Credit Facility matures on October 25, 2016. The proceeds of the Credit Facility may be used by the Company to finance certain capital expenditures and acquisitions permitted thereunder, to provide for the working capital and general corporate needs as well as to pay fees, commissions and expenses associated with the Credit Facility.

The terms of the Credit Agreement require the Company to comply with certain financial tests, and include various affirmative and negative covenants, and customary representations and warranties, conditions and events of default. Additionally, the Credit Facility is subject to a commitment fee on the unused portion at an initial rate equal to 0.25 percent per annum. As of December 23, 2012, the Company was in compliance with the financial tests and covenants, and there were no amounts outstanding under the Credit Facility.

*Bank Letters of Credit*

At December 23, 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.

## INTERNATIONAL RECTIFIER CORPORATION AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**8. Other Accrued Expenses**

Other accrued expenses were comprised of the following as of (in thousands):

	December 23, 2012	June 24, 2012
Sales returns	\$ 30,589	\$ 32,185
Accrued accounting and legal costs	9,239	10,192
Deferred revenue	9,536	13,634
Accrued warranty	1,868	2,190
Accrued utilities	2,292	2,625
Accrued repurchase obligation	2,118	3,240
Accrued sales and other taxes	4,057	1,862
Accrued subcontractor costs	1,639	3,386
Accrued rent	4,890	4,381
Other	7,594	9,469
Total other accrued expenses	<u>\$ 73,822</u>	<u>\$ 83,164</u>

*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 six months ended December 23, 2012, which is included in other accrued expenses (in thousands):

Accrued warranty, June 24, 2012	\$ 2,190
Accruals for warranties issued during the period	892
Changes in estimates related to pre-existing warranties	79
Warranty claim settlements	(1,293)
Accrued warranty, December 23, 2012	<u>\$ 1,868</u>

**9. Other Long-Term Liabilities**

Other long-term liabilities were comprised of the following as of (in thousands):

	December 23, 2012	June 24, 2012
Income taxes payable	\$ 14,871	\$ 19,543
Divested entities' tax obligations	1,990	1,918
Deferred compensation	10,031	10,147
Other	3,294	4,192
Total other long-term liabilities	<u>\$ 30,186</u>	<u>\$ 35,800</u>

INTERNATIONAL RECTIFIER CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Other Long-Term Liabilities (Continued)

*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 December 23, 2012 and June 24, 2012 (in thousands):

	December 23, 2012			
	Total	Level 1	Level 2	Level 3
Employee deferred compensation plan liability	\$ 8,358	\$ 8,358	\$ —	\$ —
Assets of employee deferred compensation plan (reported in other assets)	9,342	9,342	—	—

  

	June 24, 2012			
	Total	Level 1	Level 2	Level 3
Employee deferred compensation plan liability	\$ 8,139	\$ 8,139	\$ —	\$ —
Assets of employee deferred compensation plan (reported in other assets)	8,960	8,960	—	—

10. 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 the rules and regulations promulgated by the Securities and Exchange Commission, unless an applicable exemption applies.

During the six months ended December 23, 2012, the Company granted an aggregate of 10,000 stock options to Company employees under its 2011 Performance Incentive Plan (the "2011 Plan"). Subject to the terms and conditions of the 2011 Plan 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 six months ended December 23, 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 24, 2012	2,044	\$ 16.76	—	\$ 7,031
Granted	10	\$ 17.28	\$ 5.03	—
Exercised	(76)	\$ 17.38	—	332
Expired or forfeited	(32)	\$ 18.72	—	—
Outstanding, December 23, 2012	<u>1,946</u>	\$ 16.88	—	\$ 3,439

For the six months ended December 23, 2012 and December 25, 2011, the Company received \$1.0 million and \$1.8 million, respectively, for stock options exercised. There were no tax benefits realized from issuance of stock-based awards for the three and six months ended December 23, 2012 and December 25, 2011, respectively.

INTERNATIONAL RECTIFIER CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Stock-Based Compensation (Continued)

During the six months ended December 23, 2012, the Company granted 20,100 restricted stock units ("RSUs") to employees, and 61,227 RSUs to members of the Board of Directors, in each case under the 2011 Plan. The awards provided for vesting over a period of service, subject to the terms and conditions of the 2011 Plan and applicable award documentation. For the 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 awards made to members of the Board of Directors were made as part of the Board's annual director compensation program, under which the vesting of awards takes place generally on the first anniversary of the date of grant.

The following table summarizes the RSU activity for the six months ended December 23, 2012 (in thousands, except per share price data):

	Restricted Stock Units	Weighted Average Grant Date Fair Value per Share	Aggregate Intrinsic Value
Outstanding, June 24, 2012	2,905	\$ 21.72	\$ 57,932
Granted	81	\$ 17.57	—
Vested	(207)	\$ 19.85	\$ 3,786
Forfeited	(287)	\$ 20.26	—
Outstanding, December 23, 2012	2,492	\$ 21.90	\$ 44,474

The Company's stock based compensation plans and award documentation permit the reduction of a grantee's RSUs for purposes of settling a grantee's income tax obligation. During the six months ended December 23, 2012, the Company withheld RSUs representing 54,642 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 December 23, 2012 and June 24, 2012 is as follows (in thousands):

	December 23, 2012	June 24, 2012
Outstanding options exercisable	1,707	1,749
Options and RSUs available for grant	8,836	8,505
Total reserved common stock shares for stock option plans	13,274	13,454

For the three and six months ended December 23, 2012 and December 25, 2011, stock -based compensation expense associated with the Company's stock options and RSUs (including RSUs with performance-based vesting and market-based vesting criteria) was as follows (in thousands):

	Three Months Ended		Six Months Ended	
	December 23, 2012	December 25, 2011	December 23, 2012	December 25, 2011
Selling, general and administrative expense	\$ 2,858	\$ 2,276	\$ 6,018	\$ 4,931
Research and development expense	1,397	1,172	2,818	1,899
Cost of sales	1,123	814	2,281	1,139
Total stock-based compensation expense	\$ 5,378	\$ 4,262	\$ 11,117	\$ 7,969

During the six months ended December 25, 2011, the Company recorded a net credit of \$1.3 million to stock compensation expense relating to performance based 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 to be achieved were no longer considered probable.

## INTERNATIONAL RECTIFIER CORPORATION AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**10. Stock-Based Compensation (Continued)**

The total unrecognized compensation expense for outstanding stock options and RSUs was \$32.6 million as of December 23, 2012. The unrecognized compensation expense for the outstanding stock options and RSUs will generally be recognized over three years, except for 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 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 2.0 years, respectively. As of December 23, 2012, the Company had no RSUs with performance (non-market) based vesting conditions outstanding.

The fair value of the Company stock options issued during the six months ended December 23, 2012 and December 25, 2011, was determined at the grant date using the Black-Scholes option pricing model with the following weighted average assumptions:

	Six Months Ended	
	December 23, 2012	December 25, 2011
Expected life	3.5 years	3.5 years
Risk free interest rate	0.36%	0.37%
Volatility	39.3%	48.0%
Dividend yield	0.0%	0.0%

**11. Asset Impairment, Restructuring and Other Charges**

Asset impairment, restructuring and other charges reflect the impact of certain cost reduction programs and initiatives implemented by the Company. These programs and initiatives include the closing of facilities, the termination of employees and other related activities. Asset impairment, restructuring and other charges include program-specific exit costs, severance benefits pursuant to an ongoing benefit arrangement, and special termination benefits. Severance costs unrelated to the Company's restructuring initiatives are recorded as an element of cost of sales, research and development ("R&D") or selling, general and administrative expense ("SG&A"), depending upon the classification and function of the employee terminated. Restructuring costs were expensed during the period in which all requirements of recognition were met.

Asset write-downs are principally related to facilities and equipment that will not be used subsequent to the completion of exit or downsizing activities being implemented, and cannot be sold for amounts in excess of carrying value. In determining the asset groups for the purpose of calculating write-downs, the Company groups assets at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. In determining whether an asset is impaired, the Company evaluates estimated undiscounted future cash flows and other factors such as changes in strategy and technology. An impairment loss exists if the estimated undiscounted future cash flows are less than the carrying amount of the asset group. The Company then determines the fair value of the asset group by discounting the estimated future cash flows, consistent with the cash flows of a market participant, at a discount rate that is used when analyzing potential acquisitions. The Company then compares the fair value of the asset group with the carrying amount of the asset group and writes down the carrying amount of the asset group to its fair value.

During the first quarter of fiscal year 2013, the Company announced a restructuring plan to modify its manufacturing strategy and lower its operating expenses in order to align its cost structure with business conditions. As part of the plan, the Company expects to incur costs recorded in asset impairment, restructuring and other charges related primarily to the following:

- Fiscal Year 2013 El Segundo Fabrication Facility Closure Initiative
- Fiscal Year 2013 Newport Fabrication Facility Resizing Initiative
- Fiscal Year 2013 Other Cost Reduction Activities Initiative



INTERNATIONAL RECTIFIER CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. 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 six months ended December 23, 2012 (in thousands):

*Fiscal Year 2013 Initiatives*

	<b>Three Months Ended</b>			<b>Total</b>
	<b>December 23, 2012</b>			
	<b>El Segundo Fabrication Facility Closure Initiative</b>	<b>Newport Fabrication Facility Resizing Initiative</b>	<b>Other Cost Reduction Activities Initiative</b>	
Reported in asset impairment, restructuring and other charges:				
Asset impairment	\$ 178	\$ 666	\$ 1,062	\$ 1,906
Severance and workforce reduction costs	170	597	1,509	2,276
Decommissioning costs	—	55	—	55
Relocation and re-qualification costs	210	494	—	704
<b>Total asset impairment, restructuring and other charges</b>	<b>\$ 558</b>	<b>\$ 1,812</b>	<b>\$ 2,571</b>	<b>\$ 4,941</b>

*Fiscal Year 2013 Initiatives*

	<b>Six Months Ended</b>			<b>Total</b>
	<b>December 23, 2012</b>			
	<b>El Segundo Fabrication Facility Closure Initiative</b>	<b>Newport Fabrication Facility Resizing Initiative</b>	<b>Other Cost Reduction Activities Initiative</b>	
Reported in asset impairment, restructuring and other charges:				
Asset impairment	\$ 178	\$ 666	\$ 1,062	\$ 1,906
Severance and workforce reduction costs	5,857	597	4,788	11,242
Decommissioning costs	—	55	—	55
Relocation and re-qualification costs	210	494	—	704
<b>Total asset impairment, restructuring and other charges</b>	<b>\$ 6,245</b>	<b>\$ 1,812</b>	<b>\$ 5,850</b>	<b>\$ 13,907</b>

In addition to the amounts in the table above, \$0.4 million and \$1.3 million of other charges related to the restructuring initiatives were recorded in cost of sales during the three and six months ended December 23, 2012, respectively. These charges, which were for accelerated depreciation and inventory write-downs, are not classifiable as restructuring costs, and were therefore recorded in cost of sales.

INTERNATIONAL RECTIFIER CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The following table summarizes changes in the Company's restructuring related accruals related to its fiscal year 2013 initiatives for the six months ended December 23, 2012, which are included in accrued salaries, wages, and benefits on the balance sheet (in thousands):

*Fiscal Year 2013 Initiatives*

	<b>El Segundo Fabrication Facility Closure Initiative</b>	<b>Newport Fabrication Facility Resizing Initiative</b>	<b>Other Cost Reduction Activities Initiative</b>	<b>Total</b>
<b>Accrued severance and workforce reduction costs at June 24, 2012</b>	\$ —	\$ —	\$ —	\$ —
Accrued during the period and charged to asset impairment, restructuring and other charges	5,857	597	4,788	11,242
Costs paid during the period	(2,389)	(597)	(3,777)	(6,763)
<b>Accrued severance and workforce reduction costs December 23, 2012</b>	<u>\$ 3,468</u>	<u>\$ —</u>	<u>\$ 1,011</u>	<u>\$ 4,479</u>

*Fiscal Year 2013 Initiatives*

*Fiscal Year 2013 El Segundo Fabrication Facility Closure Initiative*

During the first quarter of fiscal year 2013, the Company adopted a restructuring plan to close its El Segundo wafer fabrication facility by the third quarter of fiscal year 2013. In connection with the plan, the Company estimates it will incur total pre-tax costs of \$7.2 million. These costs consist of \$5.9 million of severance and workforce reduction costs, \$1.1 million of relocation and re-qualification costs, and \$0.2 million of asset impairment costs. The restructuring charges recorded during the three and six months ended December 23, 2012 included \$0.2 million and \$5.9 million of severance and workforce reduction costs, respectively, \$0.2 million and \$0.2 million of asset impairment costs, respectively, and \$0.2 million and \$0.2 million of relocation and re-qualification costs, respectively. In addition, during the three and six months ended December 23, 2012, the Company recorded \$0.4 million and \$1.3 million of other charges related to the restructuring initiative in cost of sales. These other charges, which were for accelerated depreciation and inventory write-downs, are not classifiable as restructuring costs, and affected the ESP reporting segment.

During the three and six months ended December 23, 2012, cash payments for this initiative were \$1.6 million and \$2.4 million, respectively, and are estimated to be approximately \$4.3 million and \$0.3 million for the remainder of fiscal year 2013 and thereafter, respectively. In addition, the Company estimates it will make cash expenditures of \$3.4 million for the decommissioning of this fabrication facility. These costs were previously considered as part of the asset impairment of the El Segundo Fabrication Facility recorded in the fourth quarter of fiscal year 2012.

*Fiscal Year 2013 Newport, Wales Fabrication Facility Resizing Initiative*

During the first quarter of fiscal year 2013, the Company adopted a restructuring plan to resize its wafer fabrication facility in Newport, Wales in several phases by the middle of calendar year 2015. In connection with the plan, the Company estimates it will incur total pre-tax costs of approximately \$13.3 million. These costs consist of approximately \$0.7 million of asset impairment costs, \$2.5 million of severance and workforce reduction costs, \$4.4 million of decommissioning costs, and \$5.7 million of relocation and re-qualification costs. The restructuring charges recorded during the three and six months ended December 23, 2012 included \$0.7 million and \$0.7 million of asset impairment costs, respectively, \$0.6 million and \$0.6 million of severance and workforce reduction costs, respectively, \$0.5 million and \$0.5 million of relocation and re-qualification costs, respectively, and \$0.1 million and \$0.1 million of decommissioning costs, respectively.

During the three and six months ended December 23, 2012, cash payments for this initiative were \$1.1 million and \$1.1 million, respectively, and are estimated to be approximately \$2.3 million and \$9.2 million for the remainder of fiscal year 2013 and thereafter, respectively.

INTERNATIONAL RECTIFIER CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**11. Asset Impairment, Restructuring and Other Charges (Continued)**

*Fiscal Year 2013 Other Cost Reduction Activities Initiative*

During the first six months of fiscal year 2013, the Company undertook certain actions to reduce (i) capacity at manufacturing facilities in Mexico, California, and Arizona, as well as (ii) administrative and research and development costs around the world. As part of the plan, the Company estimates that it will incur approximately \$5.2 million of severance and workforce reduction costs by the end of fiscal year 2013. In connection with that effort, during the three and six months ended December 23, 2012, the Company incurred approximately \$1.5 million and \$4.8 million of severance and workforce reduction costs, respectively. The severance and workforce reduction costs recorded during the three months ended December 23, 2012 included \$0.6 million for research and development functions, \$0.5 million for manufacturing functions, and \$0.4 for general and administrative functions. During the six months ended December 23, 2012, severance and workforce reduction costs included \$2.6 million related to manufacturing functions, and \$1.1 million for general and administrative functions, and \$1.1 million for research and development functions.

The Company continues to review its manufacturing footprint and identify additional cost reduction opportunities, and the nature, timing and extent of the Company's restructuring activities are not yet complete. As part of those ongoing efforts, during the three and six months ended December 23, 2012, the Company incurred \$1.1 million of asset impairment costs for the planned disposition of certain manufacturing equipment related to its manufacturing facility in Mexico, and may incur additional amounts in the future.

During the three and six months ended December 23, 2012, cash payments for this initiative were \$1.9 million and \$3.8 million, respectively, and are estimated to be approximately \$1.5 million for the remainder of fiscal year 2013.

**12. 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 provides high performance power MOSFETs which include the lowest  $R_{DS(on)}$  and widest range of packages up to 250V within the power management semiconductor industry for a range of applications including power supply, data processing, telecommunications, industrial, and commercial battery-powered systems. Key products sold by the PMD segment include, Trench HEXFET<sup>®</sup>MOSFETs, Discrete HEXFET<sup>®</sup>MOSFETs, Dual HEXFET<sup>®</sup>MOSFETs, FETKY<sup>®</sup>s, and DirectFET<sup>®</sup>s.

**Energy Saving Products ("ESP")** – The ESP segment provides integrated design platforms that enable the Company's customers to add energy-conserving features to help achieve lower operating energy and manufacturing costs. The Company's integrated design platforms incorporate its silicon packaging technology to help improve system performance. The ESP segment's primary market applications include motor control appliances, industrial automation, lighting and display, audio and video. The ESP segment's key products include the Company's analog HVICs and IGBT platforms, digital control ICs and IRAM integrated power modules.

**Automotive Products ("AP")** - The AP segment 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 applications. The Company's automotive expertise includes supplying products for various automotive applications including AC and DC motor drives of all power classes, actuator drivers, automotive lighting (such as high intensity discharge lamps), direct fuel injection for diesel and gasoline engines, hybrid electric vehicle power train and peripheral systems for micro, mid, full and plug-in hybrids for electric vehicles, as well as for body electronic systems like glow plugs, Positive Temperature Coefficient ("PTC") heaters, electric power steering, fuel pumps, Heating Ventilation and Air Conditioning ("HVAC") and rear wipers. The Company's automotive product designs are used in application-specific solutions, application-specific integrated circuits ("ASICs") and application-specific standard parts ("ASSPs") and generic high volume products for multiple original equipment manufacturer ("OEM") platform usage. Key products sold by the AP segment include HVICs, intelligent power switch ICs, power MOSFETs including DirectFET<sup>®</sup> and IGBTs.

**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 the Company's DirectFET<sup>®</sup> discrete products, CHil digital PWM controllers, power monitoring products, XPhase<sup>®</sup>, SupIRBuckTM, iPOWIR<sup>®</sup> voltage regulators, Low voltage ICs, and PowIRstagesTM.

INTERNATIONAL RECTIFIER CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Segment Information (Continued)

**HiRel** - The HiRel segment provides high-reliability power components and sub-assemblies designed to 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. The Company's HiRel segment has a legacy of more than thirty years of experience in many of these market segments, has developed strategic relationships with major system integrators worldwide and has the knowledge, technology and processes required to meet the requirements of customers in the high-reliability markets. Key products of the HiRel segment include RAD-Hard discretes, RAD-Hard ICs, power management modules and DC-DC converters.

**Intellectual Property ("IP")** - The IP segment includes revenues from the sale and/or licensing 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. The Company from time to time enters into opportunistic sale and/or licensing arrangements that it believes are consistent with its business strategy.

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" includes PMD, ESP, AP, EP and HiRel reporting segments.

For the three and six months ended December 23, 2012 and December 25, 2011, revenues and gross margin by reportable segments were as follows (in thousands, except percentages):

Business Segment	Three Months Ended					
	December 23, 2012			December 25, 2011		
	Revenues	Percentage of Total	Gross Margin	Revenues	Percentage of Total	Gross Margin
Power Management Devices	\$ 83,273	37.2%	14.5%	\$ 72,490	31.5%	29.3%
Energy Saving Products	36,174	16.2	14.8	58,938	25.6	36.6
Automotive Products	28,414	12.7	11.1	24,647	10.7	17.9
Enterprise Power	28,649	12.8	25.0	30,530	13.3	36.1
HiRel	47,061	21.0	44.7	44,410	19.3	54.2
Customer Segments total	223,571	99.9	21.8	231,015	100.4	35.6
Intellectual Property	251	0.1	100.0	(937)	(0.4)	(100.0)
Consolidated total	\$ 223,822	100.0%	21.9%	\$ 230,078	100.0%	35.4%

Business Segment	Six Months Ended					
	December 23, 2012			December 25, 2011		
	Revenues	Percentage of Total	Gross Margin	Revenues	Percentage of Total	Gross Margin
Power Management Devices	\$ 174,100	36.6%	17.6%	\$ 183,696	34.5%	29.4%
Energy Saving Products	80,629	16.9	14.4	134,995	25.3	39.3
Automotive Products	57,252	12.0	10.8	53,547	10.0	25.2
Enterprise Power	66,458	14.0	32.4	66,496	12.5	38.4
HiRel	95,477	20.0	50.2	93,253	17.5	52.9
Customer Segments total	473,916	99.5	24.9	531,987	99.8	36.7
Intellectual Property	2,398	0.5	72.5	832	0.2	100.0
Consolidated total	\$ 476,314	100.0%	25.1%	\$ 532,819	100.0%	36.8%

**INTERNATIONAL RECTIFIER CORPORATION AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**13. Income Taxes**

The Company recorded a tax benefit of \$2.4 million or 6.9 percent against a loss of \$35.1 million for the three months ended December 23, 2012. The benefit was mainly due to a reduction in foreign uncertain tax positions arising from lapses in statutes of limitation totaling \$4.3 million. This benefit was partially offset by an expense related to foreign withholding taxes, foreign income taxes and the Company's inability to benefit its losses.

The Company recorded a tax expense of \$4.5 million or 8 percent against a loss of \$57 million for the six months ended December 23, 2012. This was mainly due to a decrease in the United Kingdom ("U.K.") statutory tax rates, which reduced the value of the Company's net deferred tax assets in the U.K. by \$3.2 million, expenses related to foreign income taxes and foreign withholding taxes, and no tax benefit from the ordinary loss in the U.S. due to the Company's valuation allowance position, all of which was partially offset by the second fiscal quarter benefit noted above of the \$4.3 million reduction in uncertain tax positions and by the benefitting of a loss in a foreign jurisdiction.

The Company's effective tax rate was a tax expense of 21.2 percent against a loss of \$5.2 million for the three months ended December 25, 2011 and a tax expense of 32 percent against income of \$23 million for the six months ended December 25, 2011, respectively. For the three months and six months ended December 25, 2011, the Company's effective tax rate differed from the U.S. federal statutory tax rate of 35 percent mainly as a result of no tax benefit arising from the ordinary loss in the U.S. due to its full valuation allowance, an increase in uncertain tax positions which originated in prior fiscal years, unfavorable book to tax differences in certain foreign jurisdictions, and statutory rate changes in the U.K. and Japan. The Company's provision was partially offset by an overall lower tax rate in certain foreign jurisdictions.

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 U.S. should remain in place through fiscal year 2013. These valuation allowances relate to beginning of fiscal year 2013 balances of reserves that were established during fiscal year 2009.

The Company operates in multiple foreign jurisdictions with lower statutory tax rates, and its operations in Singapore generally have the most significant impact on the Company's effective tax rate. 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 which have been met to date. The Company has not realized a benefit for this reporting period.

During the three months ended December 23, 2012, the reserve for uncertain tax positions decreased by \$6.3 million to \$43.4 million. This decrease resulted primarily from an expiration of statute of limitations of \$4.4 million and \$1.0 million from changes in currency exchange rates related to prior year uncertain tax positions in certain foreign jurisdictions. For fiscal year 2013, the benefits associated with uncertain tax positions would result in a benefit to income taxes on the consolidated statement of operations of \$14.9 million, and if recognized, would reduce the Company's future effective tax rate. The reserve is expected to decrease by \$10.2 million during the next 12 months primarily due to a lapse in the statute of limitations in certain foreign jurisdictions.

As of September 23, 2012, the Company had accrued \$4.6 million of interest and penalties related to uncertain tax positions. For the three months ended December 23, 2012, penalties and interest included in the reserves decreased by \$0.3 million.

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 24, 2012, U.S. income taxes have not been provided on approximately \$95.3 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.

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.

INTERNATIONAL RECTIFIER CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**14. Net Income 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. 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 six months ended December 23, 2012 and December 25, 2011 (in thousands, except per share amounts):

	Three Months Ended		Six Months Ended	
	December 23, 2012	December 25, 2011	December 23, 2012	December 25, 2011
Net income (loss)	\$ (32,722)	\$ (6,337)	\$ (61,497)	\$ 15,626
Less: Income allocated to participating securities	—	—	—	181
Income (loss) available to common stockholders	<u>\$ (32,722)</u>	<u>\$ (6,337)</u>	<u>\$ (61,497)</u>	<u>\$ 15,445</u>
<b>Net income (loss) per common share - basic</b>				
Weighted average common shares outstanding	69,144	69,046	69,213	69,408
Net income (loss) per common share-basic	<u>\$ (0.47)</u>	<u>\$ (0.09)</u>	<u>\$ (0.89)</u>	<u>\$ 0.22</u>
<b>Net income (loss) per common share - diluted</b>				
Basic weighted average common shares outstanding	69,144	69,046	69,213	69,408
Effect of dilutive securities – stock options and RSUs	—	—	—	475
Weighted-average common shares and potentially dilutive securities outstanding-dilutive	<u>69,144</u>	<u>69,046</u>	<u>69,213</u>	<u>69,883</u>
Net income (loss) per common share-dilutive	<u>\$ (0.47)</u>	<u>\$ (0.09)</u>	<u>\$ (0.89)</u>	<u>\$ 0.22</u>

For the three and six months ended December 23, 2012, 2.4 million shares and 2.4 million shares of common stock equivalents, respectively, were antidilutive and were not included in the computation of diluted earnings per share for these periods. Additionally, for the three and six months ended December 25, 2011, 0.9 million shares and 0.9 million shares of common stock equivalents, respectively, were antidilutive and were not included in the computation of diluted earnings per share for these periods. In addition, for the three and six months ended December 23, 2012, 0.8 million shares and 0.8 million shares, respectively, 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.

**INTERNATIONAL RECTIFIER CORPORATION AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**15. 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 formerly owned and leased by the Company 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 had also been contacted by the California Department of Toxic Substances Control in connection with that 2010 notice. Separately, in July 2012, the Company received notice from a subsequent owner of that property seeking reimbursement of investigation costs and increased construction costs allegedly resulting from the presence of hazardous materials at the property. The Company intends to vigorously defend against all of the claims asserted by the various parties in respect of the property.

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 the Company 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. In October 2012, local authorities contacted the current site owner suggesting that additional groundwater testing should take place and testing was initiated prior to the close of calendar year 2012. 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 or other regulatory actions may be taken in the future.



**INTERNATIONAL RECTIFIER CORPORATION AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**15. Environmental Matters (Continued)**

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 the Comprehensive Environmental Response, Compensation and Liability Act ("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.

IR and Rachele Laboratories, Inc. ("Rachele"), 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 CERCLA. The Company has settled all outstanding claims that have arisen against IR relating to the OII Site. No claims against Rachele have been settled. The Company has taken the position that none of the wastes generated by Rachele were hazardous.

Counsel for Rachele 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 Rachele in the amount of approximately \$9.3 million in order to take advantage of the settlement. Rachele did not accept the offer.

It remains the position of Rachele that its wastes were not hazardous. In addition, Rachele 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 Rachele. Because Rachele 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 trichloroethene) 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.



INTERNATIONAL RECTIFIER CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**16. 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 2009, the Company refiled the suit in the Los Angeles Superior Court, Case No. BC409749. Alex Lidow and EPC asserted claims against the Company 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. Those claims have been consolidated with and in the Company's action.

In January 2012, the trial court granted summary adjudication in favor of the Company on the wrongful termination cause of action filed by Lidow; however, on June 23, 2012, the Court of Appeal filed a writ of mandate directing that the trial court's order be vacated and that a new order denying summary adjudication be entered. The Company subsequently filed a petition for review in the California Supreme Court, which was denied.

Discovery is ongoing, and the Company intends to vigorously pursue all rights and defenses available to it in these matters.

*Angeles. v. Omega.* See Note 15, "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.

**17. 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 December 23, 2012, the balance of the divested entities tax obligations was \$2.0 million.

**18. Stock Repurchase Program**

The Company's stock repurchase program authorizes it to repurchase up 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. For the six months ended December 23, 2012, the Company repurchased approximately 0.3 million shares for approximately \$5.2 million, and to date the Company has purchased approximately 6.2 million shares for approximately \$113.2 million under the program. As of December 23, 2012, the Company had not cancelled the repurchased shares of common stock, and as such, they are reflected as treasury stock in the December 23, 2012 and June 24, 2012 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 23, 2012 ("2012 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 condensed consolidated financial statements and accompanying notes for the three and six months ended December 23, 2012. The discussion includes:

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

### **Overview**

Our revenues were \$223.8 million and \$230.1 million for the three months ended December 23, 2012 and December 25, 2011, respectively, and \$476.3 million and \$532.8 million for the six months ended December 23, 2012 and December 25, 2011, respectively. We continued to experience a sharp decline in revenues for our products during fiscal year 2013, and we have not seen a recovery for the three months ended December 23, 2012, with a sequential decrease in revenue of 11.4 percent compared to the three months ended September 23, 2012. We currently expect revenues for the third quarter of fiscal year 2013 to be between \$220 million and \$235 million.

Our gross margin percentage declined on a year-over-year basis by 13.5 percentage points to 21.9 percent for the three months ended December 23, 2012 compared to the three months ended December 25, 2011 and by 11.7 percentage points to 25.1 percent for the six months ended December 23, 2012 compared to the six months ended December 25, 2011. The decrease in gross margin percentage for both the three months and six months ended December 23, 2012 was mainly a result of a decrease in factory utilization and an unfavorable product mix due to a decline in industrial component sales which generally have higher gross margins than our consumer and computing component product sales. We currently expect our gross margin percentage for the third quarter of fiscal year 2013 to be between 22 percent and 23 percent.

During the six months ended December 23, 2012, we continued to implement a number of actions to respond to a decrease in customer demand, including initiatives to adjust our internal manufacturing footprint and reduce costs. We also continued our existing efforts to increase our manufacturing flexibility by qualifying new technologies and higher value-added products and programs with our contract wafer fabrication and assembly and test suppliers. We will continue to monitor the demand environment and we may seek to further adjust our operational footprint and take other actions to reflect changes in demand.

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In August 2012, we adopted a restructuring plan to modify our manufacturing strategy and lower our operating expenses in order to align our cost structure with current business conditions. As part of the plan, we intend to close our El Segundo wafer fabrication facility, resize our Newport, Wales wafer fabrication facility and take other cost reduction actions. We plan to complete the closure of our El Segundo wafer fabrication facility by the end of March 2013 with estimated annual cost savings of approximately \$10 million following completion. The resizing of our Newport, Wales fabrication facility is expected to continue in several phases through the middle of calendar year 2015 with estimated annual cost savings of approximately \$16 million following completion.

Also as part of our restructuring plan, during the six months ended December 23, 2012, we reduced our cost of goods sold, selling, general and administrative ("SG&A") costs and research and development ("R&D") costs mainly through headcount reductions, and there are additional reductions planned for the third quarter. In the fourth quarter of fiscal year 2013, when compared to our run rate exiting the three months ended June 24, 2012, we expect annualized cost savings of approximately \$40 million attributed to the combination of headcount reductions from the restructuring and other reductions in spending in our SG&A and R&D expenses. In conjunction with our ongoing operational restructuring plans, we incurred approximately \$11.2 million of severance and workforce reduction costs, \$1.9 million of asset impairment costs, \$0.7 million of equipment relocation and re-qualification costs, and \$0.1 million of decommissioning costs during the six months ended December 23, 2012. Additionally, we anticipate that we will incur restructuring charges during the remainder of fiscal year 2013 of approximately \$3.3 million (See Part I, Item 1, Notes to Consolidated Financial Statements-Note 11, "Asset Impairment, Restructuring and Other Charges").

During the three and six months ended December 23, 2012, our SG&A expenses decreased \$5.5 million and \$7.2 million compared to the three and six months ended December 25, 2011, respectively. As a percentage of revenues, SG&A expense was 20.1 and 19.4 percent of revenue for the three and six months ended December 23, 2012, respectively, down 1.9 and up 0.7 percentage points compared to the three and six months ended December 25, 2011, respectively. The year-over-year decrease in SG&A expenses was primarily due to a decrease in headcount related expenses, including incentive bonus, and professional services offset by increased depreciation related to our Enterprise Resource Planning ("ERP") system, higher legal costs, and increased stock compensation expense. We expect our SG&A expenses to remain flat at approximately \$45 million in the third quarter of fiscal year 2013.

During the three and six months ended December 23, 2012, R&D expenses decreased \$0.1 million and increased \$0.3 million compared to the three and six months ended December 25, 2011, respectively. As a percentage of revenues, R&D expense was 14.4 and 13.8 percent of revenue for the three and six months ended December 23, 2012, respectively, up 0.4 and 1.5 percentage points compared to the three and six months ended December 25, 2011, respectively. While the year-over-year amounts are relatively flat, spending was driven down by decreased headcount related expenses, including incentive bonus, and lower material costs, but these spending reductions were offset by an asset impairment expense in the current quarter and the exhaustion of certain reimbursable grant funding at the end of fiscal year 2012. We expect our R&D expenses to be about \$31 million in the third quarter of fiscal year 2013.

Our cash flows from operating activities provided \$48.5 million of cash during the first six months of fiscal year 2013 compared to a use of cash of \$2.8 million for prior year comparable period. Our cash, cash equivalents and investments as of December 23, 2012 totaled \$381.8 million (excluding restricted cash of \$1.6 million), compared to \$384.3 million (excluding restricted cash of \$1.5 million) as of June 24, 2012. The slight decrease in our cash and investments was primarily due to our operating loss during the six months ended December 23, 2012, offset by a decrease in trade accounts receivable and inventories.

### *Segment Reporting*

For the description of our reportable segments, see Note 12, "Segment Information," to our Consolidated Financial Statements set forth in Part I, Item 1.

Four of our five Customer Segments (as identified below), namely, PMD, ESP, AP and 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, separately from our other customer segment, HiRel. For ease of reference, we refer to these four segments collectively as our "Commercial Segments." What we refer to as our "Customer Segments" include our PMD, ESP, AP, EP and HiRel reporting segments.

### *Fiscal Calendar*

When operating under a 52/53 week fiscal calendar, it becomes necessary to have a longer fiscal period approximately every 5-6 years. In fiscal year 2013, our year will be 53 weeks long and end on Sunday June 30, 2013. In order to accomplish this, our fourth fiscal quarter will be 14 weeks long, instead of 13 weeks. As a result, we expect that revenues and most costs (but not all) will be increased in that quarter to approximately 108 percent of what they otherwise would have been for the typical 13-week quarter.

## Results of Operations

### Selected Operating Results

The following table sets forth certain operating results for the three and six months ended December 23, 2012 and December 25, 2011 as a percentage of revenues (in millions, except percentages):

	Three Months Ended				Six Months Ended			
	December 23, 2012		December 25, 2011		December 23, 2012		December 25, 2011	
Revenues	\$ 223.8	100.0%	\$ 230.1	100.0%	\$ 476.3	100.0%	\$ 532.8	100.0%
Cost of sales	174.7	78.1	148.7	64.6	356.7	74.9	336.6	63.2
Gross profit	49.1	21.9	81.4	35.4	119.6	25.1	196.3	36.8
Selling, general and administrative expense	45.1	20.1	50.6	22.0	92.4	19.4	99.5	18.7
Research and development expense	32.1	14.4	32.2	14.0	65.6	13.8	65.3	12.3
Amortization of acquisition-related intangible assets	1.7	0.8	1.9	0.8	3.4	0.7	4.6	0.9
Asset impairment, restructuring and other charges	4.9	2.2	—	—	13.9	2.9	—	—
Operating income (loss)	(34.7)	(15.5)	(3.3)	(1.4)	(55.6)	(11.7)	26.9	5.0
Other expense, net	0.4	0.2	2.0	0.9	1.4	0.3	4.2	0.8
Interest income, net	—	—	—	—	—	—	(0.2)	—
Income (loss) before income taxes	(35.1)	(15.7)	(5.2)	(2.3)	(57.0)	(12.0)	23.0	4.3
Provision for (benefit from) income taxes	(2.4)	(1.1)	1.1	0.5	4.5	0.9	7.4	1.4
Net income (loss)	\$ (32.7)	(14.6)%	\$ (6.3)	(2.8)%	\$ (61.5)	(12.9)%	\$ 15.6	2.9%

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

### Revenues and Gross Margin – Three Months Ended

The following table summarizes revenues and gross margin by reportable segment for the three months ended December 23, 2012 compared to the three months ended December 25, 2011. The amounts in the following table are in thousands:

	Three Months Ended						Change	
	December 23, 2012			December 25, 2011			Revenues	Gross Margin
	Revenues	Gross Margin	Gross Margin %	Revenues	Gross Margin	Gross Margin %		
Power Management Devices (PMD)	\$ 83,273	\$ 12,084	14.5%	\$ 72,490	\$ 21,268	29.3%	14.9%	(14.8)ppt
Energy Saving Products (ESP)	36,174	5,369	14.8	58,938	21,583	36.6	(38.6)	(21.8)
Automotive Products (AP)	28,414	3,164	11.1	24,647	4,400	17.9	15.3	(6.8)
Enterprise Power (EP)	28,649	7,164	25.0	30,530	11,034	36.1	(6.2)	(11.1)
Commercial Segments total	176,510	27,781	15.7	186,605	58,285	31.2	(5.4)	(15.5)
HiRel	47,061	21,057	44.7	44,410	24,071	54.2	6.0	(9.5)
Customer Segments total	223,571	48,838	21.8	231,015	82,356	35.6	(3.2)	(13.8)
Intellectual Property (IP)	251	251	100.0	(937)	(937)	100.0	(126.8)	—
Consolidated total	\$ 223,822	\$ 49,089	21.9%	\$ 230,078	\$ 81,419	35.4%	(2.7)%	(13.5)ppt

### *Revenues*

Revenues from all our segments, taken as a whole, decreased by \$6.3 million, or 2.7 percent, while revenues from our Customer Segments (which excludes the IP segment) decreased by \$7.4 million, or 3.2 percent, for the three months ended December 23, 2012 as compared to three months ended December 25, 2011. Revenues for our Commercial Segments taken as a whole decreased 5.4 percent from the three months ended December 25, 2011. Revenues for our HiRel segment increased 6.0 percent from the three months ended December 25, 2011.

Within our Commercial Segments, revenue from our AP segment increased 15.3 percent for the three months ended December 23, 2012 as compared to the three months ended December 25, 2011. Revenues for our AP segment increased due to increased demand for new IGBT and MOSFET products. Revenues for our PMD segment increased 14.9 percent compared to the three months ended December 25, 2011 due to increased demand for our universal power supply and consumer products components. Revenues for our EP segment decreased 6.2 percent due to a decrease in demand for high performance computing and prior generation server components. Revenues for our ESP segment decreased 38.6 percent due to decreased demand in our industrial and consumer appliance related products resulting from a significant market slowdown in Asia and inventory adjustments at our customers and distribution.

For the three months ended December 23, 2012, our HiRel segment revenues increased 6.0 percent compared to the three months ended December 25, 2011. HiRel experienced a slight increase in sales to space and medical customers while other market areas maintained demand similar to that of the prior year comparable period.

For the three months ended December 23, 2012, our IP segment revenues increased \$1.2 million, to \$0.3 million compared to the three months ended December 25, 2011. The increase in revenue arose from negative revenue during the three months ended December 25, 2011 due to the over reporting and partial overpayment of royalties to us by our largest licensee. Excluding this impact, IP revenues decreased \$0.2 million. We expect our IP segment revenues will continue to be approximately \$0.3 million per quarter in each of the next several quarters. However, we do intend to continue to seek opportunistic sale and/or licensing opportunities consistent with our business strategy.

### *Gross Margin*

Our gross margin percentage decreased by 13.5 percentage points to 21.9 percent for the three months ended December 23, 2012 compared to the three months ended December 25, 2011. This decrease in our gross margin percentage was the result of a decrease of 15.5 percentage points in gross margin for our Commercial Segments taken as a whole, and a decrease of 9.5 percentage points in gross margin for our HiRel segment. The decrease in gross margin for all of our Commercial Segments was primarily due to unfavorable change in product mix, increased costs associated with lower factory utilization, and increased inventory reserves. Our EP segment's unfavorable product mix was primarily due to an increase in computing components business, which has lower gross margins than our server business. Our PMD segment's unfavorable change in product mix was primarily due to reduced sales of our industrial products, which have higher gross margins than our consumer components business, as well as price erosion. Our AP segment's unfavorable product mix was primarily due to a decrease in our IC product demand, which are higher margin products than our MOSFET products. Our ESP segment's unfavorable product mix was primarily due to a decrease in HVIC product demand, which are generally higher margin products than our IGBT products.

For the three months ended December 23, 2012, our HiRel segment gross margin percentage decreased by 9.5 percentage points compared to the three months ended December 25, 2011 due to increased costs associated with scrap and inventory reserves.

### Revenues and Gross Margin – Six Months Ended

The following table summarizes revenues and gross margin by reportable segment for the six months ended December 23, 2012 compared to the six months ended December 25, 2011. The amounts in the following table are in thousands:

	Six Months Ended						Change	
	December 23, 2012			December 25, 2011			Revenues	Gross Margin
	Revenues	Gross Margin	Gross Margin %	Revenues	Gross Margin	Gross Margin %		
Power Management Devices (PMD)	\$ 174,100	\$ 30,628	17.6%	\$ 183,696	\$ 53,958	29.4%	(5.2)%	(11.8) ppt
Energy Saving Products (ESP)	80,629	11,625	14.4	134,995	53,100	39.3	(40.3)	(24.9)
Automotive Products (AP)	57,252	6,164	10.8	53,547	13,493	25.2	6.9	(14.4)
Enterprise Power (EP)	66,458	21,526	32.4	66,496	25,518	38.4	(0.1)	(6.0)
Commercial Segments total	378,439	69,943	18.5	438,734	146,069	33.3	(13.7)	(14.8)
HiRel	95,477	47,949	50.2	93,253	49,355	52.9	2.4	(2.7)
Customer Segments total	473,916	117,892	24.9	531,987	195,424	36.7	(10.9)	(11.8)
Intellectual Property (IP)	2,398	1,738	72.5	832	832	100.0	188.2	(27.5)
Consolidated total	\$ 476,314	\$ 119,630	25.1%	\$ 532,819	\$ 196,256	36.8%	(10.6)%	(11.7) ppt

### Revenues

Revenues from all our segments, taken as a whole, decreased by \$56.5 million, or 10.6 percent, while revenues from our Customer Segments (which excludes the IP segment) decreased by \$58.1 million, or 10.9 percent, for the six months ended December 23, 2012 as compared to six months ended December 25, 2011. Revenues for our Commercial Segments taken as a whole decreased 13.7 percent compared to the six months ended December 25, 2011 which was near the peak of semiconductor cycle. Revenues for our HiRel segment increased 2.4 percent compared to the six months ended December 25, 2011.

Within our Commercial Segments, AP revenue increased 6.9 percent for the six months ended December 23, 2012 compared to the six months ended December 25, 2011. Revenues for our AP segment increased due to increased demand for new IGBT and MOSFET products. Revenues for our ESP segment decreased 40.3 percent due to decreased demand in our industrial and consumer appliance related products resulting from a significant market slowdown in Asia and inventory adjustments at our customers and distribution. Revenues for our PMD segment decreased 5.2 percent due to a decrease in demand for our universal power supply, consumer products, and industrial products components. Revenues for our EP segment remained relatively flat with a slight decrease of 0.1 percent compared to the six months ended December 25, 2011.

For the six months ended December 23, 2012, our HiRel segment revenues increased 2.4 percent compared to the six months ended December 25, 2011. HiRel experienced a slight increase in sales to space and medical customers with other markets maintaining demand similar to that of the prior year comparable period.

For the six months ended December 23, 2012, our IP segment revenues increased \$1.6 million or 188.2 percent, to \$2.4 million. The increase in revenue arose from a one-time \$1.7 million sale of patents. We expect our IP segment revenues will return to approximately \$0.3 million per quarter in each of the next several quarters. However, we do intend to continue to seek opportunistic sale and/or licensing opportunities consistent with our business strategy.

*Gross Margin*

Our gross margin percentage decreased by 11.7 percentage points to 25.1 percent for the six months ended December 23, 2012 compared to 36.8 percent for the six months ended December 25, 2011. This decrease in our gross margin percentage was the result of a decrease of 14.8 percentage points in gross margin for our Commercial Segments taken as a whole, and a decrease of 2.7 percentage points in gross margin for our HiRel segment. The decrease in gross margin for all of our Commercial Segments was primarily due to increased costs associated with lower factory utilization, unfavorable change in product mix and increased inventory reserves. Our ESP segment's unfavorable product mix was due to a decrease in HVIC product demand, which generally are higher margin products than our IGBT products. Our AP segment's unfavorable product mix was due to a decrease in our IC product demand, which are higher margin products than our MOSFET products. 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, as well as price erosion. Our EP segment's unfavorable product mix was due to an increase in computing components business, which has lower gross margins than our server business.

HiRel segment's gross margin percentage declined by 2.7 percentage points for the six months ended December 23, 2012 compared to the six months ended December 25, 2011 due to increased costs associated with scrap and inventory reserves.

IP segment's gross margin percentage declined by 27.5 percentage points for the six months ended December 23, 2012 compared to the six months ended December 25, 2011 due to costs associated with the sale of patents.

***Selling, General and Administrative Expense***

(Dollars in thousands)	Selling, General and Administrative Expense				
	December 23, 2012	% of Revenues	December 25, 2011	% of Revenues	Change
<i>Three months ended</i>	\$ 45,083	20.1%	\$ 50,558	22.0%	(1.9)ppt
<i>Six months ended</i>	\$ 92,378	19.4%	\$ 99,549	18.7%	0.7ppt

SG&A expense decreased \$5.5 million and \$7.2 million for the three and six months ended December 23, 2012, respectively, compared to the prior year comparable period. The decrease in SG&A expense was primarily due to a decrease in headcount related expenses, including incentive bonus, and professional services offset by higher legal cost, and increased stock compensation expense. Additionally, depreciation increased by \$2 million for the six months ended December 23, 2012 due to the implementation of our Enterprise Resource Planning ("ERP") system at the beginning of the second quarter of fiscal year 2012. We expect our SG&A expenses to remain flat at approximately \$45 million in the third quarter of fiscal year 2013.

***Research and Development Expense***

(Dollars in thousands)	Research and Development Expense				
	December 23, 2012	% of Revenues	December 25, 2011	% of Revenues	Change
<i>Three months ended</i>	\$ 32,125	14.4%	\$ 32,227	14.0%	0.4ppt
<i>Six months ended</i>	\$ 65,574	13.8%	\$ 65,255	12.3%	1.5ppt

R&D expense decreased \$0.1 million and increased \$0.3 million for the three and six months ended December 23, 2012, respectively, compared to the prior year comparable period. While the year-over-year amounts are relatively flat, spending was driven down by decreased headcount related expenses, including incentive bonus, and lower material costs, but these spending reductions were offset by an asset impairment expense in the current quarter and the exhaustion of certain reimbursable grant funding at the end of fiscal year 2012. We expect our R&D expenses to be about \$31 million in the third quarter of fiscal year 2013.



**Amortization of Acquisition-Related Intangible Assets**

(Dollars in thousands)

	Amortization of Acquisition-Related Intangible Assets				
	December 23, 2012	% of Revenues	December 25, 2011	% of Revenues	Change
Three months ended	\$ 1,680	0.8%	\$ 1,939	0.8%	—
Six months ended	\$ 3,360	0.7%	\$ 4,554	0.9%	(0.2)ppt

Amortization of acquisition-related intangible assets decreased \$0.3 million and \$1.2 million for the three and six months ended December 23, 2012, respectively, compared to the prior year period, primarily a result of the full amortization of various intangible assets during the second half of fiscal year 2012.

**Asset Impairment, Restructuring and Other Charges**

Asset impairment, restructuring and other charges reflect the impact of certain cost reduction programs and initiatives implemented by us. These programs and initiatives include the closing of facilities, the termination of employees and other related activities. Asset impairment, restructuring and other charges include program-specific exit costs, severance benefits pursuant to an ongoing benefit arrangement, and special termination benefits. Severance costs unrelated to our restructuring initiatives are recorded as an element of cost of sales, research and development ("R&D") or selling, general and administrative expense ("SG&A"), depending upon the classification and function of the employee terminated. Restructuring costs were expensed during the period in which all requirements of recognition were met.

During the first quarter of fiscal year 2013, we announced a restructuring plan to modify our manufacturing strategy and lower operating expenses in order to align our cost structure with business conditions. As part of the plan, we expect to incur costs recorded in asset impairment, restructuring and other charges related primarily to the following:

- Fiscal Year 2013 El Segundo Fabrication Facility Closure Initiative
- Fiscal Year 2013 Newport Fabrication Facility Resizing Initiative
- Fiscal Year 2013 Other Cost Reduction Activities Initiative

The following tables summarize the total asset impairment, restructuring and other charges by initiative for the three and six months ended December 23, 2012 (in thousands):

*Fiscal Year 2013 Initiatives*

	Three Months Ended			
	December 23, 2012			
	El Segundo Fabrication Facility Closure Initiative	Newport Fabrication Facility Resizing Initiative	Other Cost Reduction Activities Initiative	Total
Reported in asset impairment, restructuring and other charges:				
Asset impairment	\$ 178	\$ 666	\$ 1,062	\$ 1,906
Severance and workforce reduction costs	170	597	1,509	2,276
Decommissioning costs	—	55	—	55
Relocation and re-qualification costs	210	494	—	704
<b>Total asset impairment, restructuring and other charges</b>	<b>\$ 558</b>	<b>\$ 1,812</b>	<b>\$ 2,571</b>	<b>\$ 4,941</b>



*Fiscal Year 2013 Initiatives*

	<b>Six Months Ended</b>			
	<b>December 23, 2012</b>			
	<b>El Segundo Fabrication Facility Closure Initiative</b>	<b>Newport Fabrication Facility Resizing Initiative</b>	<b>Other Cost Reduction Activities Initiative</b>	<b>Total</b>
Reported in asset impairment, restructuring and other charges:				
Asset impairment	\$ 178	\$ 666	\$ 1,062	\$ 1,906
Severance and workforce reduction costs	5,857	597	4,788	11,242
Decommissioning costs	—	55	—	55
Relocation and re-qualification costs	210	494	—	704
<b>Total asset impairment, restructuring and other charges</b>	<b>\$ 6,245</b>	<b>\$ 1,812</b>	<b>\$ 5,850</b>	<b>\$ 13,907</b>

In addition to the amounts in the table above, \$0.4 million and \$1.3 million of other charges related to the restructuring initiatives were recorded in cost of sales during the three and six months ended December 23, 2012, respectively. These charges, which were for accelerated depreciation and inventory write-downs, are not classifiable as restructuring costs, and were therefore recorded in cost of sales.

The following table summarizes changes in the Company's restructuring related accruals related to its fiscal year 2013 initiatives for the six months ended December 23, 2012, which are included in accrued salaries, wages, and benefits on the balance sheet (in thousands):

*Fiscal Year 2013 Initiatives*

	<b>El Segundo Fabrication Facility Closure Initiative</b>	<b>Newport Fabrication Facility Resizing Initiative</b>	<b>Other Cost Reduction Activities Initiative</b>	<b>Total</b>
<b>Accrued severance and workforce reduction costs at June 24, 2012</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>
Accrued during the period and charged to asset impairment, restructuring and other charges	5,857	597	4,788	11,242
Costs paid during the period	(2,389)	(597)	(3,777)	(6,763)
<b>Accrued severance and workforce reduction costs December 23, 2012</b>	<b>\$ 3,468</b>	<b>\$ —</b>	<b>\$ 1,011</b>	<b>\$ 4,479</b>

*Fiscal Year 2013 Initiatives*

*Fiscal Year 2013 El Segundo Fabrication Facility Closure Initiative*

During the first quarter of fiscal year 2013, we adopted a restructuring plan to close our El Segundo wafer fabrication facility by the third quarter of fiscal year 2013. In connection with the plan, we estimate to incur total pre-tax costs of \$7.2 million. These consist of \$5.9 million of severance and workforce reduction costs, \$1.1 million of relocation and re-qualification costs, and \$0.2 million of asset impairment costs. The restructuring charges recorded during the three and six months ended December 23, 2012 included \$0.2 million and \$5.9 million of severance and workforce reduction costs, respectively, \$0.2 million and \$0.2 million of asset impairment costs, respectively, and \$0.2 and \$0.2 million of relocation and re-qualification costs, respectively. In addition, during the three and six months ended December 23, 2012, we recorded \$0.4 million and \$1.3 million of other charges related to the restructuring initiative in cost of sales. These other charges, which were for accelerated depreciation and inventory write-downs are not classifiable as restructuring costs, and affected the ESP reporting segment.

During the three and six months ended of December 23, 2012, cash payments for this initiative were \$1.6 million and \$2.4 million, respectively, and are estimated to be approximately \$4.3 million and \$0.3 million for the remainder of fiscal year 2013 and thereafter, respectively. After the completion of this initiative, we estimate annual cost savings of approximately \$10 million. These cost savings are the result of reduced manufacturing overhead costs, which will impact cost of sales. We do not anticipate these overhead cost savings to be offset by additional costs incurred in other locations.

In addition, we estimate we will make cash expenditures of \$3.4 million for the decommissioning of this fabrication facility. These costs were previously considered as part of the asset impairment of the El Segundo Fabrication Facility recorded in the fourth quarter of fiscal year 2012.

*Fiscal Year 2013 Newport, Wales Fabrication Facility Resizing Initiative*

During the first quarter of fiscal year 2013, we adopted a restructuring plan to resize our wafer fabrication facility in Newport, Wales in several phases by the middle of calendar year 2015. In connection with the plan, we estimate to incur total pre-tax costs of approximately \$13.3 million. These consist of approximately \$0.7 million of asset impairment costs, \$2.5 million of severance and workforce reduction costs, \$4.4 million of decommissioning costs, and \$5.7 million of relocation and re-qualification costs. The restructuring charges recorded during the three and six months ended December 23, 2012 included \$0.7 million and \$0.7 million of asset impairment costs, \$0.6 million and \$0.6 million of severance and workforce reduction costs, \$0.5 million and \$0.5 million of relocation and re-qualification costs, and \$0.1 million and \$0.1 million of decommissioning costs.

During the three and six months ended December 23, 2012, cash payments for this initiative were \$1.1 million and \$1.1 million, respectively, and are estimated to be approximately \$2.3 million and \$9.2 million for the remainder of fiscal year 2013 and thereafter, respectively. After the completion of this initiative, we estimate annual cost savings of approximately \$16 million. These cost savings are the result of reduced manufacturing overhead costs, which will impact cost of sales. We do not anticipate these cost savings to be offset by additional costs incurred in other locations.

*Fiscal Year 2013 Other Cost Reduction Activities Initiative*

During the first six months of fiscal year 2013, we undertook certain actions to reduce (i) capacity at manufacturing facilities in Mexico, California, and Arizona, as well as (ii) administrative and research and development costs around the world. As part of the plan, we estimate that we will incur approximately \$5.2 million of severance and workforce reduction costs by the end of fiscal year 2013. In connection with that effort, during the three and six months ended December 23, 2012, we incurred approximately \$1.5 million and \$4.8 million of severance and workforce reduction costs, respectively. The severance and workforce reduction costs recorded during the three months ended December 23, 2012 included \$0.6 million for research and development functions, \$0.5 million for manufacturing functions, and \$0.4 for general and administrative functions. During the six months ended December 23, 2012, severance and workforce reduction costs included \$2.6 million related to manufacturing functions, \$1.1 million for general and administrative functions, and \$1.1 million for research and development functions.

We continue to review our manufacturing footprint and identify additional cost reduction opportunities, and the nature, timing and extent of our restructuring activities are not yet complete. As part of those ongoing efforts, during the three and six months ended December 23, 2012, we incurred \$1.1 million of asset impairment costs for the planned disposition of certain manufacturing equipment related to our manufacturing facility in Mexico, and may incur additional amounts in the future.

During the three and six months ended December 23, 2012, cash payments for this initiative were \$1.9 million and \$3.8 million, respectively, and are estimated to be approximately \$1.5 million for the remainder of fiscal year 2013. After the completion of this initiative, we estimate annual cost savings of approximately \$14 million. These cost cuts will result in reduced cost of sales, as well as lower SG&A and R&D expenses. We do not anticipate these cost savings to be offset by additional costs incurred in other locations.

### ***Other Expense, Net***

Other expense, net includes, primarily, gains and losses related to foreign currency fluctuations and investment impairments. Other expense, net was \$0.4 million and \$2.0 million for the three months ended December 23, 2012 and December 25, 2011, respectively. Other expense, net for the three months ended December 23, 2012 includes a foreign currency exchange loss of \$0.5 million due to fluctuations in foreign exchange currencies during the quarter. The prior year comparable period included a foreign exchange loss of \$0.2 million due to fluctuations in foreign exchange currencies and an investment impairment charge of \$1.8 million.

Other expense, net was \$1.4 million and \$4.2 million for the six months ended December 23, 2012 and December 25, 2011, respectively. Other expense, net for the six months ended December 23, 2012 includes a foreign currency exchange loss of \$1.5 million due to fluctuations in foreign exchange currencies. The prior year comparable period included a foreign exchange loss of \$2.0 million due to fluctuations in foreign exchange currencies and an investment impairment charge of \$2.3 million.

### ***Interest Income, Net***

Interest income, net, was \$0.0 million and \$0.0 million for the three and six months ended December 23, 2012, respectively, compared to interest income, net, of \$0.0 million and \$0.2 million for the prior year comparable periods, respectively.

### ***Income Taxes***

We recorded a tax benefit of \$2.4 million or 6.9 percent against a loss of \$35.1 million for the three months ended December 23, 2012. The benefit was mainly due to a reduction in foreign uncertain tax positions arising from lapses in the statutes of limitation totaling \$4.3 million. This benefit was partially offset by expenses related to foreign withholding taxes and foreign income taxes and our inability to benefit our losses.

We recorded a tax expense of \$4.5 million or 8 percent against a loss of \$57 million for the six months ended December 23, 2012. This was mainly due to a decrease in the United Kingdom ("U.K.") statutory tax rates, which reduced the value of our net deferred tax assets in the U.K. by \$3.2 million, expenses related to foreign income taxes and foreign withholding taxes, and no tax benefit from the ordinary loss in the U.S. due to our valuation allowance position, all of which was partially offset by the second fiscal quarter benefit noted above of the \$4.3 million reduction in uncertain tax positions and by the benefitting of a loss in a foreign jurisdiction.

Our effective tax rate was a tax expense of 21.2 percent against a loss of \$5.2 million for the three months ended December 25, 2011 and a tax expense of 32 percent against income of \$23 million for the six months ended December 25, 2011, respectively. For the three months and six months ended December 25, 2011, our effective tax rate differed from the U.S. federal statutory tax rate of 35 percent mainly as a result of no tax benefit arising from the ordinary loss in the U.S. due to our full valuation allowance, an increase in uncertain tax positions which originated in prior fiscal years, unfavorable book to tax differences in certain foreign jurisdictions, and statutory rate changes in the U.K. and Japan. Our provision was partially offset by an overall lower tax rate in certain foreign jurisdictions.

We operate in multiple foreign jurisdictions with lower statutory tax rates, and our operations in Singapore have the most significant impact on the effective tax rate. We expect to be subject to an effective tax rate of 17 percent in Singapore for fiscal year 2013.

## 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. On October 25, 2012 we entered into a \$100 million unsecured revolving credit facility as discussed below. To maintain the availability of the facility, we have to comply with a number of covenants and satisfy a number of conditions, including a minimum available liquidity requirement. We are currently in compliance with the financial covenants contained in the revolving credit agreement.

Total cash, cash equivalents, and investments at December 23, 2012 and June 24, 2012 were as follows (in thousands):

	December 23, 2012	June 24, 2012
Cash and cash equivalents	\$ 366,656	\$ 305,423
Investments	15,107	78,926
Total cash, cash equivalents, and investments	<u>\$ 381,763</u>	<u>\$ 384,349</u>

As of December 23, 2012, we had \$381.8 million of cash (excluding \$1.6 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 \$2.5 million from June 24, 2012. The slight decrease in our cash and investments was primarily due to our operating loss during the six months ended December 23, 2012, offset by a decrease in trade accounts receivable and inventories. As of December 23, 2012, we had an increase of \$61.2 million in cash and cash equivalents, and a decrease in investments of \$63.8 million from June 24, 2012. We reduced our investments and increased our cash and cash equivalents in the short-term in an effort to align our long-term investment strategy to preserve principal and maintain liquidity while maximizing the returns on the investment portfolio.

We believe that our existing cash and cash equivalents will be sufficient to meet operating requirements and satisfy our existing balance sheet liabilities and other cash obligations for at least the next twelve months. Our cash and cash equivalents are available to fund working capital needs, strategic growth initiatives, business acquisitions if any, repurchase of stock for our common stock repurchase program and capital expenditures. During the six months of fiscal year 2013, we have taken actions to meet our longer term revenue growth goals, including making capital investments in our 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 remainder of fiscal year 2013 is that our cash flow from operating activities may vary considerably depending on market conditions. We estimate that cash capital equipment expenditures for the fiscal year 2013 will be about \$90 million as we invest in new manufacturing process technologies.

### Cash Flows

Our cash flows were as follows (in thousands):

	Six Months Ended	
	December 23, 2012	December 25, 2011
Cash flows provided by (used in) operating activities	\$ 48,464	\$ (2,795)
Cash flows provided by investing activities	15,717	1,143
Cash flows used in financing activities	(5,248)	(23,029)
Effect of exchange rate changes on cash and cash equivalents	2,300	(2,561)
Net increase (decrease) in cash and cash equivalents	<u>\$ 61,233</u>	<u>\$ (27,242)</u>

Non-cash adjustments to cash flow generated by operating activities during the six months ended December 23, 2012 included \$45.8 million of depreciation and amortization, \$11.1 million of stock compensation expense, and \$11.4 million from the provision for inventory write-downs. Changes in operating assets and liabilities increased cash provided by operating activities by \$25.6 million, primarily attributed to decreases in trade accounts receivable and inventories, partially offset by decreases in accounts payable, accrued salaries, wages and benefits, accrued income taxes payable, and other accrued expenses. These sources of cash flows from operations were partially offset by the net loss incurred during the period.

Cash provided by investing activities during the six months ended December 23, 2012 was primarily the result of proceeds from the sale and maturities of investments of \$73.6 million, partially offset by capital expenditures of \$48.0 million and purchases of investments of \$10.0 million.

Cash used in financing activities during the six months ended December 23, 2012 of \$5.2 million was primarily the result of cash used for stock repurchases under the stock repurchase program.

#### *Revolving Credit Facility*

On October 25, 2012 (the "Closing Date"), we entered into a Credit Agreement (the "Credit Agreement"), as borrower, with Wells Fargo Bank, National Association, as Administrative Agent ("Agent"), and certain lenders (the "Lenders"), pursuant to which we established a new senior unsecured revolving credit facility (the "Facility") in an aggregate principal amount of \$100 million with sublimits for swingline loans (of \$25 million) and the issuance of letters of credit (of \$10 million). The Credit Facility matures on October 25, 2016.

The proceeds of the Credit Facility may be used by us to finance certain capital expenditures and acquisitions permitted thereunder, to provide for the working capital and general corporate needs as well as to pay fees, commissions and expenses associated with the Credit Facility.

Outstanding amounts under the Credit Facility will initially bear interest at a rate per annum equal to, at our option, either (a) LIBOR plus 1.25 percent or (b) a "Base Rate" (equal to the greatest of (i) the Agent's prime rate; (ii) the federal funds rate plus 0.50 percent; and (iii) LIBOR plus 1.00 percent) plus 0.25 percent. From and after our fiscal quarter ending on March 24, 2013, the margin over LIBOR and the Base Rate may be adjusted periodically based on our ratio of total funded debt to consolidated EBITDA as defined under the Credit Facility, with 1.75 percent per annum being the maximum LIBOR margin and 0.75 percent per annum being the maximum Base Rate margin established by such adjustment mechanism. We are required to pay a commitment fee on the unused commitments under the Credit Facility at an initial rate equal to 0.25 percent per annum (subject to a similar leverage-based adjustment up to a maximum of 0.35 percent per annum).

The terms of the Credit Agreement require us (subject to certain limited exceptions and conditions) to comply with the following financial tests: (i) maintenance of maximum total funded debt to consolidated EBITDA of not more than 2.50 to 1.0; (ii) maintenance of minimum consolidated EBITDA to consolidated interest charges of 4.00 to 1.0; and (iii) maintenance of minimum available liquidity of at least \$200 million. Liquidity is generally defined as cash and cash equivalents, short-term investments and long-term investments (not to exceed \$50 million), and the undrawn amount of the Credit Facility. As a result of the requirement to comply with the financial tests, we will not be able to access the Credit Facility during periods where the financial tests, including the minimum liquidity threshold, are not met, thereby limiting our ability to draw on the line during a period of illiquidity or at any other time where the minimum liquidity threshold is not met.

In addition, the Credit Agreement contains certain covenants that, among other things, restrict additional indebtedness, liens and encumbrances, investments, acquisitions, loans and advances, mergers, consolidations and asset dispositions, dividends and other restricted payments, transactions with affiliates, capital expenditures (limited to between \$175 million and \$200 million per annum during the term of the Credit Facility) and other matters customarily restricted in such agreements, in each case, subject to certain customary exceptions.

The Credit Agreement also contains customary provisions related to: (i) events of default, including payment defaults, (ii) breaches of representations and warranties, (iii) covenant defaults, (iv) cross-defaults to certain material indebtedness in excess of specified amounts, (v) certain events of bankruptcy and insolvency, (vi) judgments in excess of specified amounts, (vii) certain impairments to the guarantees or collateral documents, and (viii) change in control defaults.

As of December 23, 2012, we were in compliance with the financial tests and covenants, and there were no amounts outstanding under the Credit Facility.

### 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.

The changes in working capital for the six months ended December 23, 2012 were as follows (in thousands):

	<b>December 23, 2012</b>	<b>June 24, 2012</b>	<b>Change</b>
<b>Current Assets</b>			
Cash and cash equivalents	\$ 366,656	\$ 305,423	\$ 61,233
Restricted cash	624	595	29
Short-term investments	10,104	63,872	(53,768)
Trade accounts receivable, net	134,029	168,499	(34,470)
Inventories	260,717	294,702	(33,985)
Current deferred tax assets	5,181	5,110	71
Prepaid expenses and other receivables	36,095	29,845	6,250
Total current assets	<u>\$ 813,406</u>	<u>\$ 868,046</u>	<u>\$ (54,640)</u>
<b>Current Liabilities</b>			
Accounts payable	\$ 70,649	\$ 88,726	\$ (18,077)
Accrued income taxes	496	750	(254)
Accrued salaries, wages and commissions	40,740	40,403	337
Other accrued expenses	73,822	83,164	(9,342)
Total current liabilities	<u>185,707</u>	<u>213,043</u>	<u>(27,336)</u>
<b>Net working capital</b>	<u>\$ 627,699</u>	<u>\$ 655,003</u>	<u>\$ (27,304)</u>

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

The decrease in net trade accounts receivable of \$34.5 million reflects the decrease in quarterly revenues of approximately 17 percent from the three months ended June 24, 2012 while our days-sales-outstanding decreased by approximately 2 days.

Inventories decreased \$34.0 million including a \$33.1 million decrease in finished goods and a \$5.9 million decrease in work-in-process, partially offset by a \$5.0 million increase in raw materials. Despite this decrease in inventory, inventory weeks remained flat at approximately 19 weeks.

Accounts payable decreased by \$18.1 million due to reduced manufacturing activity, lower capital expenditures, and the timing of payments.

### Other

In connection with certain tax matters described in Note 13, "Income Taxes," in the Notes to Unaudited Condensed Consolidated Financial Statements, we are pursuing refunds for income taxes we believe to have overpaid in certain jurisdictions. In these jurisdictions, we cannot determine that the realization of the tax refunds of \$3.1 million is more likely than not and as such, we have not recognized them as income tax benefits in our consolidated financial statements.

### *Contractual Obligations*

There has been no material change to our contractual obligations as disclosed in our 2012 Annual Report except as follows:

During the second quarter of fiscal year 2013, we entered into an operating lease agreement for a facility in Southeast Asia. The total lease payments for the 10 year lease term effective March 1, 2013 will be approximately \$14 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 have historically provided cash collateral for any outstanding letters of credit.

Apart from the operating lease obligations and purchase commitments discussed in our 2012 Annual Report, we do not have any off-balance sheet arrangements as of December 23, 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 24, 2012 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 securities 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 December 23, 2012, a 100 basis point increase or decrease in interest rates would result in an annualized change of approximately \$0.3 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 working capital positions with offsetting foreign currency denominated exchange transactions and currency forward contracts. Exchange gains and losses on these foreign currency denominated working capital positions are generally offset by corresponding gains and losses on the related hedging instruments, usually resulting in negligible net exposure. 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.

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. 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.

For its balance sheet transaction risk hedging program, we had approximately \$107.9 million in notional amounts of currency forward contracts not designated as accounting hedges at December 23, 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 \$0.3 million and \$(2.1) million for the three and six months ended December 23, 2012, respectively, and \$0.1 million and \$1.7 million for the three and six months ended December 25, 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 December 23, 2012, we had \$381.8 million of total cash (excluding \$1.6 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 AAA/Aaa. 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 three and six months ended December 23, 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 2012 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.

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 December 23, 2012. Based upon this evaluation, our CEO and CFO concluded that, as of December 23, 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.

During the fiscal quarter ended December 23, 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 15, "Environmental Matters," and Note 16, "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 2012 Annual Report on Form 10-K, and our fiscal year 2013 first quarterly report on Form 10-Q filed on November 2, 2012 with the SEC, 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 December 23, 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
September 24, 2012 to October 21, 2012	—	\$ —	—	\$ 36,824,598
October 22, 2012 to November 18, 2012	—	\$ —	—	\$ 36,824,598
November 19, 2012 to December 23, 2012	—	\$ —	—	\$ 36,824,598

(1) The Company's stock repurchase program authorizes it to repurchase up to \$150.0 million.

**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	Credit Agreement, dated as of October 25, 2012, among International Rectifier Corporation, the Lenders named therein, and Wells Fargo Bank, National Association, as Administrative Agent, Swing Line Lender and L/C Issuer, and Wells Fargo Securities, LLC, as Lead Arranger and Sale Bookrunner (incorporated by reference to Exhibit 10.1 of Current Report on Form 8-K, filed with the Securities and Exchange Commission on October 31, 2012).
10.2	Letter Agreement dated December 7, 2012, between International Rectifier Corporation and Gary Tanner (incorporated by reference to Exhibit 10.1 of Current Report on Form 8-K, filed with the Securities and Exchange Commission on December 11, 2012). (2)
10.3	Change-in-Control Severance Agreement dated December 7, 2012 between International Rectifier Corporation and Gary Tanner (incorporated by reference to Exhibit 10.2 of Current Report on Form 8-K, filed with the Securities and Exchange Commission on December 11, 2012). (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**

Date: January 28, 2013

/s/ ILAN DASKAL

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



## 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: January 28, 2013

/s/ ILAN DASKAL

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

**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 December 23, 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: January 28, 2013

/s/ OLEG KHAYKIN

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Oleg Khaykin  
*Chief Executive Officer*  
*(Principal Executive Officer)*

**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 December 23, 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: January 28, 2013

/s/ ILAN DASKAL

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



