

## — PARTICIPANTS

### Corporate Participants

**Joe Shiffler** – Director, Investor Relations & Corporate Communications  
**Balu Balakrishnan** – President and Chief Executive Officer  
**Sandeep Nayyar** – Chief Financial Officer & Vice President

### Other Participants

**Ross C. Seymore** – Analyst, Deutsche Bank Securities, Inc.  
**Tore E. Svanberg** – Analyst, Stifel, Nicolaus & Co., Inc.  
**Vernon P. Essi** – Analyst, Needham & Co. LLC  
**J. Steven Smigie** – Analyst, Raymond James & Associates, Inc.  
**Andrew Huang** – Analyst, Sterne, Agee & Leach, Inc.  
**Christopher J. Longiaru** – Analyst, Sidoti & Co. LLC  
**Sumit Dhanda** – Analyst, International Strategy & Investment Group, Inc.

## — MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen and thank you for standing by. And welcome to the Power Integration's Fourth Quarter Fiscal Year 2012 Financial Results Conference Call. At this time, all participants are in a listen-only mode. Later, we'll conduct a question-and-answer session, and instructions will follow at that time. [Operator Instructions]

It's now my pleasure to turn the call over to Joe Shiffler, Director of Investor Relations. Please go ahead sir.

### Joe Shiffler, Director, Investor Relations & Corporate Communications

Thank you. Good afternoon, and thanks for joining us to discuss Power Integrations' financial results for the fourth quarter of 2012. With me on the call are Balu Balakrishnan, President and CEO of Power Integrations, and Sandeep Nayyar, our Chief Financial Officer.

During today's call, we will refer to financial measures not calculated according to generally accepted accounting principles. Please refer to today's press release available on our website, at [investors.powerint.com](http://investors.powerint.com), for an explanation of our reasons for using such non-GAAP measures as well as tables reconciling these measures to our GAAP results.

Also, our discussion today, including the Q&A session, will include forward-looking statements reflecting management's current forecast of certain aspects of the company's future business.

Forward-looking statements are denoted by such words as "will," "would," "believe," "should," "expect," "outlook," "estimate," "plan," "goal," "anticipate," "project," "potential," "forecast" and similar expressions that look toward future events or performance. Forward-looking statements are based on current information that is, by its nature, dynamic and subject to rapid and even abrupt changes.

Our forward-looking statements are subject to risks and uncertainties, which may cause actual results to differ materially from those projected or implied in our statements. Such risks and uncertainties are discussed in today's press release and under the caption, Item 1A Risk Factors, in

Part 2 of our most recent Form 10-Q filed with the Securities and Exchange Commission on October 31, 2012.

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And, now, I'll turn the call over to Balu.

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**Balu Balakrishnan, President and Chief Executive Officer**

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Thanks, Joe, and good afternoon. We're pleased to report strong fourth quarter results with revenues up 19% from a year ago and above our projected range for the quarter.

Non-GAAP earnings per share increased 62% from a year ago, reflecting the higher revenues and a 5 point improvement in our gross margin, achieved through a combination of manufacturing cost improvements and a more favorable end market mix.

The higher than expected revenues reflect a modest improvement in bookings that began in November and has sustained through the month of January. We saw sequential revenue growth in the fourth quarter in three of the four end market categories led by the communications end market, where we have begun to turn the tide after a couple of challenging years in which handset market share has shifted away from several of our key end customers.

We also saw strong growth in the computer market where our continuing penetration of the PC power supply market contributed to a double-digit sequential increase. Industrial revenues also grew sequentially driven by LED lighting applications and our high power CONCEPT IGBT diver products, each of which grew double-digits sequentially.

While global economic conditions remain uncertain and demand is difficult to forecast, we believe we are well positioned competitively and strategically as we enter 2013. Energy-efficiency continues to provide a tailwind across many of our end markets, as standards proliferate around the world, and as existing standards tighten, the most important example being the European Union's limitation on standby power consumption, which was reduced by 50% last month and now stands at 0.5 watt for a wide range of end products.

We are also gaining traction in emerging growth areas like LED lighting, mid-power and IGBT drivers and we expect each of them to contribute significantly to growth in 2013. After a slow start to the year, LED lighting revenues increased throughout 2012 and we exited the year with a year-over-year rate of better than 50% in the fourth quarter. We won more than 100 new LED designs in Q4 and also introduced our next generation of LED driver chips called the LYTSwitch family. LYTSwitch ICs offer what we believe is the best performance available from a single stage LED driver, with efficiency of better than 90% in typical applications and a tight constant current capability that reduces the need for costly over-engineering. LYTSwitch ICs also offer excellent dimming performance with a wide range of dimmers and are suitable for replacement bulb applications as well as commercial and industrial lighting.

While the trajectory of LED lighting market is a subject of much study and debate, we are encouraged by the level of ongoing design activity and the increased presence of LED products on store shelves. And with the utilities in key states like California, now giving serious consideration to rebate programs, we remain upbeat about the opportunity in LED lighting.

We are equally optimistic about our opportunity in the mid-power market which includes applications from 50 watts to 500 watts. Revenues from that market roughly doubled in 2012, and should grow nicely again in 2013 as we continue to penetrate PC and TV markets, and as

complementary products such as our Qspeed diodes and power saving CapZero chips add to our dollar content in applications like appliances, TVs and computers.

Another key growth driver for the year ahead will be our acquisition of CONCEPT, which closed in May of last year. CONCEPT brings an unmatched level of integration and efficiency to the IGBT driver market and gives us a presence in high-power markets such as industrial motor drives, renewable energy, electric locomotives and DC transmission.

Last month we announced the opening of a state-of-the-art design center in Germany, which will augment our ability to support customers in need of custom and semi-custom driver designs. This is the sort of investment that was difficult for CONCEPT to make as an independent company and should help unlock additional growth potential in the years ahead.

Reflecting our strong strategic and competitive positioning, as well as our sound balance sheet, we have continued our efforts to return cash to stockholders through a mix of share repurchases and dividends. After announcing a \$50 million repurchase authorization last quarter, we took the opportunity presented by a short-term dip in our stock price to buy back more than 2% of our outstanding shares in the fourth quarter at an average price of just over \$30 per share, which translates to a gain of 25% based on today's closing price. Our board has also declared a 60% increase in our dividends for 2013 bringing the quarterly payout to \$0.08 per share.

Finally, I'd like to mention one other noteworthy development that took place in Q4, just before Christmas a Chinese court delivered its decision in a patent lawsuit brought against us by Fairchild Semiconductor. The court ruled decisively in our favor stating that we do not infringe any of the patent claims asserted against us by Fairchild. As many of you know, Fairchild has been found to infringe our U.S. patents on three separate occasions in the past several years, and we're gratified that the Chinese authorities have also now recognized which of these companies is the true innovator.

With that, I will turn the call over to Sandeep for a review of the financials.

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**Sandeep Nayar, Chief Financial Officer & Vice President**

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Thanks, Balu, and good afternoon. From a financial perspective, we closed out 2012 on a high note with better than expected revenues, strong earnings and cash flow and our lowest internal inventory in two-and-a-half years in terms of days on hand. We also achieved a meaningful reduction in our share count in Q4 buying back more than 2% of our outstanding shares at an average price of about \$30 per share. Our results are pretty straightforward, so I will just quickly review some of the key items in the financial and then we will open it up for questions.

Revenues for the quarter were \$79.2 million, up 19% from a year ago including the impact of CONCEPT acquisition, which closed on May 1. On an organic basis, the year-over-year growth rate for Q4 was 8%.

On a sequential basis, quarterly revenues increased 1%, revenues from the communication market were the biggest driver in terms of dollars, increasing mid single- digits sequentially driven by the growth in cell phone chargers, while the computer segment grew in the low-teens sequentially driven by the strength in desktops, including the further penetration of our mid-power products into main power supply applications.

Industrial revenues increased by low single-digit percentage led by LED lighting applications and growth in our high power IGBT driver products. Revenues from the consumer market, our largest end market, were down mid single-digits driven by continued softness in consumer electronics

applications, partially offset by strength in appliances. In terms of sales channels, distributors accounted for 75% of sales during the quarter with direct sales at 25%.

Non-GAAP gross margin was down 10 basis points sequentially to 52.8%. On a year-over-year basis, that's an increase of 500 basis points reflecting the success of our cost reduction initiatives and an end market mix more heavily weighted to industrial and consumer appliance applications. On a GAAP basis, gross margin increased slightly to 49.8%. I would note that we expect the current 3 point delta between GAAP and non-GAAP gross margin to reduce to roughly 1 point next quarter, as we have now worked through the last of the marked up inventory acquired in the CONCEPT transaction last year.

Looking at operating expenses, non-GAAP expenses came in a bit higher than expected at \$25.5 million, driven mainly by higher litigation expenses stemming from the China patent case. Non-GAAP operating margin for the quarter was 20.6%, down slightly from the prior quarter but up 5 points from a year ago reflecting the improvement in our gross margin.

Our non-GAAP tax rate for the quarter was 15.6%, a couple of points higher than expected due to a change in geographic mix of income.

Average diluted shares outstanding were 29.4 million, down about 400,000 sequentially due to the buyback. Earnings on a non-GAAP basis were \$0.47 per share, down \$0.02 sequentially due to the higher tax rate, but up 62% from a year ago on the combination of higher revenues and gross margin. GAAP earnings for the quarter came in at \$0.33 per diluted share.

We generated \$22.2 million of cash flow from operations in the quarter and utilized \$4.2 million for capital expenditures. Other key uses of cash during the quarter were the share buyback, which used just over \$20 million plus \$15 million to satisfy our contingent obligation for the SemiSouth debt following their shutdown last quarter.

All told, we ended the quarter with \$95 million in cash and investments, a decrease of \$15 million during the quarter. Internal inventories remained well within our targeted range at 103 days, down 6 days from the prior quarter. Channel inventory also decreased during the quarter to 5.3 weeks.

Turning to the outlook, we expect revenues to be between \$76 million and \$82 million in the first quarter and we expect gross margins to be in the range of 52% to 52.5% on a non-GAAP basis.

Non-operating expenses should increase reflecting the resumption of payroll taxes for the new year and also the fact that Q4 expenses benefited from our year-end shutdown. Specifically, we expect non-GAAP expenses to be in the range of \$26 million plus or minus \$0.5 million. As we have discussed on the past couple of conference calls, our tax rate should decline substantially in the March quarter following our settlement agreement with the IRS last year, with an added benefit from the renewal of the federal R&D tax credit.

The non-GAAP tax rate for the first quarter should be between 5% and 6%, which is the range I expect for the full year as well. Our GAAP tax rate will benefit from the 2012 portion of the R&D credit, which was renewed retroactively. That should result in a negative GAAP tax rate for Q1 and then I expect the GAAP tax rate for the balance of the year to be in the range of 4% to 5%.

With that, I will turn it back over to Joe.

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**Joe Shiffler, Director Investor Relations & Corporate Communications**

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Thanks, Sandeep. We will open it up for Q&A now. And in the interest of time, I'd like to ask callers to kindly adhere to a limit of one question and a follow-up. And then we'll be happy to come back

around for another round of questions if time permits. Operator, would you please give the instructions for the Q&A session?

## QUESTION AND ANSWER SECTION

Operator: Yes sir. [Operator Instructions] Our first question comes from the line of Ross Seymore with Deutsche Bank. Please go ahead. Your line is now open.

**<Q – Ross Seymore – Deutsche Bank Securities, Inc.>**: Hi, guys. Congrats on a strong quarter and guide. Balu just looking on the top line, going forward from a new product perspective what are some of the biggest drivers that you are excited about driving growth in 2013 for POWI, kind of cycle aside what do you think can be driving upside growth? Thanks.

**<A – Balu Balakrishnan – Power Integrations, Inc.>**: Thanks, Ross. There are really four areas. One of course is our LED lighting that we talked about. All indications are it is continuing to grow. It's hard to tell exactly how much it will grow in terms of the market. But we're very well positioned. We have new products that we've introduced in Q4 called the LYTSwitch family. And we've gotten very good feedback on that. That's number one.

Number two is our continued growth in the mid-power area, that we've talked about, primarily in PCs and TVs. Number three is the CONCEPT IGBT drivers. The industrial market appears to be coming back especially in China, to a lesser extent in Europe and they seem to have had quite a bit of market share growth over the last year or so, which will show up in revenue.

Fourth one is the cell phone area. As we mentioned in the prepared script, the cell phone market finally seems to be turning around for us. The few end customers – the key end customers who are having trouble, they finally seem to have hit the bottom and they're on their way up. We have some new customers. Our expectation is that that will continue to grow in 2013

**<Q – Ross Seymore – Deutsche Bank Securities, Inc.>**: Great. And I guess, this is my follow-up, switching over to Sandeep on the gross margin side of things. If you put together the potential mix implications of what Balu just said from the revenue side, and then, potentially even more importantly the yen, FX impact on your gross margin. How should we think about the gross margin trending throughout the year? Thank you.

**<A – Sandeep Nayar – Power Integrations, Inc.>**: Hi, Ross, so as we had talked about earlier, we expect with the mix shifting towards the cell phone a bit, we expected the margins to come down. But the yen will benefit, but it will really benefit us towards, I would say more in the fourth quarter because of the timing. So what really I would say is that we would see a gradual decline of the gross margin in the three quarters with a slight pop back up in the fourth quarter, and the reason it's going to be a slight pop is with the benefit of the yen, it'll get partially offset by some new product introductions that we're doing in the second half, which will as you know when we come out with new products they tend to have a slightly lower margin than our corporate average.

**<Q – Ross Seymore – Deutsche Bank Securities, Inc.>**: Got you. Thank you.

Operator: Thank you, sir. Our next question comes from Tore Svanberg with Stifel, Nicolaus. Please go ahead. Your line is open.

**<Q – Tore Svanberg – Stifel, Nicolaus & Co., Inc.>**: Yes, thank you. And a great quarter. First question, could you talk a little bit about your backlog coverage and turns, your guidance range is wide as usual but maybe you could talk a little bit about where you stand today on your backlog and how much turns you even did last quarter?

**<A – Sandeep Nayyar – Power Integrations, Inc.>**: Our turns as – because we're on a sell through, generally not as reflective, but the turns needed this quarter is very similar to what we had last quarter, somewhere in the mid-40%s.

**<Q – Tore Svanberg – Stifel, Nicolaus & Co., Inc.>**: Okay. very good. And Balu you talked about the cell phone business coming back and you talked about your customers may be bottoming. I mean, is this some new products coming from them, have you gained some share with your existing customer base, help us understand a bit more the dynamics there?

**<A – Balu Balakrishnan – Power Integrations, Inc.>**: It is a combination, in one of the customer's case it's a new product, in other case we've actually gained some share because the share changes on a regular basis as they give more volume to certain vendors. So, it's really a combination, plus of course, we have grown revenue from new customers in Asia that we talked about earlier.

**<Q – Tore Svanberg – Stifel, Nicolaus & Co., Inc.>**: Just one last question for Sandeep. Sandeep, you mentioned the disk inventory being 5.3 weeks. Can you just put a little bit of historical context on that number please?

**<A – Sandeep Nayyar – Power Integrations, Inc.>**: Yeah, if you look at it over a period of time, we were about a year, year-and-a-half ago as high as about seven weeks and there has been a gradual decline coming down from there. We've been hovering in the last few quarters in the five plus weeks and that seems to be in the range of our lead times of four to six weeks.

**<Q – Tore Svanberg – Stifel, Nicolaus & Co., Inc.>**: Great. Thank you very much.

Operator: Thank you. Our next question comes from Vernon Essi with Needham & Company. Please go ahead your line is open.

**<Q – Vernon Essi – Needham & Co. LLC>**: Thank you very much. A nice guide here guys. I wanted to ask on the competitive front. If you've seen anything change towards the end of last year, and obviously just you were able to flex your IP muscle here against Fairchild again, but have you seen any other competitors cropping up at all or anything change in that dynamic?

**<A – Balu Balakrishnan – Power Integrations, Inc.>**: Not really. There is no change in the competitive environment.

**<Q – Vernon Essi – Needham & Co. LLC>**: Okay. And then you discussed having a little bit of a pickup in the computing space of course, obviously, we are all very skeptical on that I think on that side of things, but is this supposed to be share gains or you're getting into renewed roadmaps of some of the OEM vendors or how should we be thinking about that going forward, is it going to be contingent a lot on the end market or you're going to probably grow even if that turns out to be a tough market in 2013?

**<A – Balu Balakrishnan – Power Integrations, Inc.>**: Well, we have very small share of that market so, we're able to grow through share gains. Share gains in the reason we're growing in spite of that market being a weak market.

**<Q – Vernon Essi – Needham & Co. LLC>**: Okay. And then my last question would be on the LED side, always myself asking this I think in the past, but have you seen anything. I mean, it seems like things obviously you said progressively improved throughout the year. In 2013, do you want to go out on a limb and say you might see an inflection in demand in this market or does this still seem to be not enough of a trend line to really get your arms around yet in terms of what's happening at the end of consumption level?

**<A – Balu Balakrishnan – Power Integrations, Inc.>**: Yeah, it's hard to predict but there are two, I would say, positive developments that would indicate that some time in the near future it could ramp, the growth could be higher than it has been in the past. One of them is the price point of the LED bulbs. If you look at a 60 watt equivalent, there are several manufacturers now offering \$15 price and there is at least two of the – two others offering about a \$10 price point, which I think is a very important price point based on the history with CFLs.

The second thing that is very positive is that the utilities, specifically in California, are seriously considering offering rebates most likely starting beginning of 2014. If you remember they did that with the CFLs, I think in CFLs they gave \$5 rebate to the manufacturer per bulb. And we have also heard that some other states have already started offering rebates, but I think California is usually the most influential state because of the size of the state to start with. So, those two things point to a very positive scenario, but I just don't know when the growth rate is going to change significantly.

**<Q – Vernon Essi – Needham & Co. LLC>**: And just a follow-on on the LED side, in talking to these large sort of branded OEMs, do you have any feel for what they are looking for from a solution? I mean, you obviously have a little bit more of a different approach than I think some of your competitors out there, obviously there is many shapes and sizes of how people are sort of skinning the cat on the LED front. But you have kind of a one size fits all sort of approach to a certain extent. You obviously feel confident about that, but are you hearing anything different from your customers in terms of what they would want or do you think you may become more focused in certain areas of the general lighting market and LEDs?

**<A – Balu Balakrishnan – Power Integrations, Inc.>**: I would say that the LED fixture manufacturers are now focusing on cost more than anything else. In the past they – the cost of the power supply used to be relatively small portion of the fixture cost because LEDs used to dominate the price. But the LED has come down quite a bit in cost, so now they are focusing also on the power supply which actually works well for us because we have a simpler solution that is more cost effective, more efficient and also longer lasting and has very few components. And so, I think that will benefit us and that's the bet we made two, three years ago when we decided to go with a single-stage approach, whereas most of our customer – I'm sorry competitors chose to go with a two-stage approach which is – which takes more than twice the number of components and has lower efficiency.

**<Q – Vernon Essi – Needham & Co. LLC>**: Okay. Thank you very much, Balu.

**<A – Balu Balakrishnan – Power Integrations, Inc.>**: You're welcome.

Operator: Thank you, sir. Our next question comes from the line of Steve Smigie with Raymond James. Please go ahead. Your line is open.

**<Q – Steve Smigie – Raymond James & Associates, Inc.>**: Great. Thanks a lot and I'll add my congratulations on a nice quarter and guide and on raising the dividend.

**<A – Sandeep Nayyar – Power Integrations, Inc.>**: Thanks.

**<Q – Steve Smigie – Raymond James & Associates, Inc.>**: Just to go back on to the gross margin, I think traditionally it's been, you get the benefit of the change in the yen two quarters out which would make me think there might be third quarter and sort of fourth quarter? And also you used to get per 10% change in the yen, I think it was something like 150 basis points, and given that it seems like the magnitude of a benefit might be a little bit sooner and a little bit larger. And could you add into that the transition to the – from the gold to the copper so the plus mix, it seems like we could potentially get a really nice bump in gross margin other than the handset on the mix, but with the higher voltage stuff coming in, it seems like there could be a lot more benefits than you guys are suggesting here?

**<A – Sandeep Nayyar – Power Integrations, Inc.>**: So, let me address the yen. So, yes, at a point of time we had the yen at 10% change was about 150 basis points, but as you know we made quite a bit of progress getting more manufacturers – foundries in which were non-yen based. Added to that, we had also with the foundries that we had yen based, we instead of even though the price was determined in yen, we got our invoicing done in dollars, which used to contribute the change in yen between the time of an order and the payment. So we eliminated that.

So right now, roughly a 10% change is about 80 basis points, 90 basis points benefit. It does take a while to get the benefit, and I think I indicated it would be in the starting in the month of September. The reason is that with our vendors, we don't – the price doesn't change on a daily basis, it goes based on a monthly average. So for instance, this is a month where we have – month of January where we have seen the significant change. And it will start benefiting us in the March purchases that we place which really start coming as receipts in April. And then you know, we have about a four to five month WIP and that's a result of which we will get, start getting the benefit in September.

So added to that, yes, we will get this benefit, but as I mentioned in my earlier remark, we're also ramping new products in the second half, and these new products generally have gross margin less than the corporate average, so that'll be going as a headwind against the yen benefit. Having said that, I think we will have no quarter where our gross margin will be less than 50%, there will be – all quarters will be higher than 50%. And I think it's a little premature to figure out what the full year would be, but on an average if I had to, for modeling purposes I think our annual margin should be similar to – on an non-GAAP basis for 2013 to be similar to 2012.

**<Q – Steve Smigie – Raymond James & Associates, Inc.>**: Okay. And where are you on the gold to copper transition?

**<A – Sandeep Nayyar – Power Integrations, Inc.>**: As we had said earlier, we have made quite a bit of progress, and as we had indicated to you that any further benefits from that would be actually offsetting the normal price reductions that we have.

**<Q – Steve Smigie – Raymond James & Associates, Inc.>**: Okay. What is – can you say and I am sorry if I missed, what is LED as a percentage of revenue at this point?

**<A – Sandeep Nayyar – Power Integrations, Inc.>**: It's around about 8% or so.

**<Q – Steve Smigie – Raymond James & Associates, Inc.>**: 8% or so, okay, great. And the last question was just with regard to, I believe you put out an 8-K saying the Chief Technology Officer is resigning in May, have you found a replacement? And in terms of the replacement is that somebody that would be or what areas would he be focused on, what skill set are you looking to bring in, is it like high voltage, is it LED, what are you hoping to add from that and then just do any patents leave with him or anything like that?

**<A – Balu Balakrishnan – Power Integrations, Inc.>**: Yeah, we will be – we expect to be announcing something in the next few weeks, and that will give you all the details, I would stop at that for now.

**<Q – Steve Smigie – Raymond James & Associates, Inc.>**: Okay. Thank you.

Operator: Thank you, sir. Our next question comes from the line of Andrew Huang with Sterne, Agee. Please go ahead, your line is open.

**<Q – Andrew Huang – Sterne, Agee & Leach, Inc.>**: Thanks. I guess my first question is within the communication segment, I think you've been talking about some new customers in China



ramping, and I was wondering how much contribution there was from those customers in the December quarter? And are those customers using new or kind of older existing products?

**<A – Balu Balakrishnan – Power Integrations, Inc.>:** So, the increase in cell phone business was really a combination of three different factors. One is, of course, the new customers we talked about in Asia. The other one is we had an increase in share with one of our Korean customers. The third one is, two of the three customers who had lost significant share over the last few years, two of them have come back somewhat. So it's the combination of those factors that increased our cell phone revenue. Beyond that, I would prefer not to go into any detail.

**<Q – Andrew Huang – Sterne, Agee & Leach, Inc.>:** Okay. And then within the computer segment, I was wondering about the primary PC power supply business, and maybe how much contribution there was from those programs in the December quarter? And I was wondering if you can name some of the end customers now for those power supplies?

**<A – Balu Balakrishnan – Power Integrations, Inc.>:** I am afraid our customers don't like us naming them. There are three large end customers that are served through three different vendors that we have won designs with. And desktop revenue was the main reason computer segment was up, as I mentioned in my script. So, we are gaining share in both the main power supply and the standby power supply.

**<Q – Andrew Huang – Sterne, Agee & Leach, Inc.>:** Got it. Okay. And then, I guess, the last question is kind of bigger picture. Would you expect your industrial revenue, kind of on an organic basis to be up in 2013 and I meant, I guess, more specifically the CT-Concept business?

**<A – Balu Balakrishnan – Power Integrations, Inc.>:** Yes, the answer is yes. Both the CT-Concept business and the non-CT-Concept business we expect to grow next year, I mean, this year 2013.

**<Q – Andrew Huang – Sterne, Agee & Leach, Inc.>:** Thanks very much.

**<A – Balu Balakrishnan – Power Integrations, Inc.>:** You're welcome.

Operator: Thank you. Our next question comes from Christopher Longiaru with Sidoti & Company. Please go ahead, your line is open.

**<Q – Christopher Longiaru – Sidoti & Co. LLC>:** Great quarter guys.

**<A – Sandeep Nayyar – Power Integrations, Inc.>:** Thanks.

**<Q – Christopher Longiaru – Sidoti & Co. LLC>:** So, I guess, my question has to do with two things that you said kind of are going against what a lot of other people are saying was one, that your industrial business was up significantly, part of that is from LED, but if I do the math here, it looks like your core business outside of that, it was a little stronger than usual, can you comment on that?

**<A – Balu Balakrishnan – Power Integrations, Inc.>:** Sure. In fact our high power business which is primarily IGBT drivers grew nicely in Q4, and that was driven by improved market – industrial market in China primarily, and also to a lesser extent in Europe. So, we are seeing an improvement in the industrial business. I am not quite sure why we are seeing that and other people are not. It may be because we have more exposure to certain types of end markets, like locomotives, DC, high voltage DC transmission and industrial motors, high efficiency industrial motors. And many of them in China are driven by government programs like infrastructure programs, and the government has accelerated their programs which they are holding back for some time in 2012, and it looks like by the second half of 2012, they decided to go forward with

them and we had already won designs in those programs, and now they are going into production. And in case of Europe, new builds have been very slow for some time now, but that is coming back to – somewhat coming back in terms of growth.

**<Q – Christopher Longiaru – Sidoti & Co. LLC>**: Okay. And then you had said that the inventory levels are kind of stabilized. I mean, does that mean that none of this in terms of your quarter or your guide yet is restocking, even though the inventory levels in the channel remain pretty low? Is that demand driven or is there some restocking in what's going on?

**<A – Balu Balakrishnan – Power Integrations, Inc.>**: That's always very difficult to tell whether we are getting this demand, so we had to be cautious until we see sustained bookings. So far, as we mentioned, since January – I'm sorry not January, November, we've seen a modest increase in our bookings and that has continued through January. But February is, when you have the Chinese New Year, so we know that there will be a dip in bookings, so we have to wait to till March to see how sustained it is.

**<Q – Christopher Longiaru – Sidoti & Co. LLC>**: Great. I'll jump back there. Thanks a lot guys. Congrats again.

Operator: Thank you, sir. [Operator Instructions] Our next question comes from Sumit Dhanda with International Strategy & Investment. Please go ahead. Your line is now open.

**<Q – Sumit Dhanda – International Strategy & Investment Group, Inc.>**: Yes, hi guys. First question on the high-power business Balu, so back to the PC business, the bump you saw there by my estimation somewhat between \$1.5 million or \$2 million in the quarter. Do you think all of that is attributable to the ramp of those high-power design wins? And then, how much did that business do last year, was it more or less than \$5 million and your expectations for 2013 for that business?

**<A – Balu Balakrishnan – Power Integrations, Inc.>**: Well, just to clarify, the 50 watt to 500 watt range is what we call mid-power now.

**<Q – Sumit Dhanda – International Strategy & Investment Group, Inc.>**: Okay.

**<A – Balu Balakrishnan – Power Integrations, Inc.>**: We used to call it high-power until we acquired CONCEPT. Now we call it mid-power. And that mid-power roughly doubled in 2012, as I mentioned earlier, and a large portion of that came from the computer segment.

**<Q – Sumit Dhanda – International Strategy & Investment Group, Inc.>**: And your expectations for that business this year?

**<A – Balu Balakrishnan – Power Integrations, Inc.>**: I think it should grow well, but it is hard to project exactly how much it will grow.

**<Q – Sumit Dhanda – International Strategy & Investment Group, Inc.>**: Okay. Sandeep, a question for you on the channel inventory, you said it's down from 5.5 weeks to 5.3 weeks. How do I reconcile that versus your deferred income line, which was actually up a little over \$1 million, was there a different line item within that metric which explains that?

**<A – Sandeep Nayyar – Power Integrations, Inc.>**: Well, I mean, it's – the 5.3 weeks that we have got, I mean, are you trying to correlate that or are you saying couple of weeks?

**<Q – Sumit Dhanda – International Strategy & Investment Group, Inc.>**: Yeah, because your revenues were flat quarter-on-quarter roughly?

**<A – Sandeep Nayyar – Power Integrations, Inc.>**: Yeah, the 5.3 weeks that we got and the deferred – change in deferred revenue, when we were doing it, we found that way back in 2009 that our deferred income was understated, so we went back and fixed that and you will see that in our 10-K. That's why you're probably seeing the difference that has flowed through going forward.

**<Q – Sumit Dhanda – International Strategy & Investment Group, Inc.>**: I see, okay, okay. And then maybe one final question. Balu, you talked about your bookings improving modestly. Could you give us some sense on the level of bookings in January, is there a month you could compare it to either in the summer or fall of last year when bookings were similar?

**<A – Balu Balakrishnan – Power Integrations, Inc.>**: Yeah, let me try that. I don't remember all the months, but October was very weak. Also that was, we had one week of holidays in China in October. November relative to October was quite strong, but relative to September – it was comparable to September. And then, December was slightly stronger and January is slightly stronger than December. But then you have to remember that because of the Chinese New Year in February, we typically get strong bookings in January. So, we don't know – that's not necessarily an indication of a stronger month in January. But, of course, that's all included in our forecast. We are taking all of those things into account in our forecast. Hopefully, that's helpful.

**<Q – Sumit Dhanda – International Strategy & Investment Group, Inc.>**: Yes it is. Thank you.

Operator: Thank you.

**<A – Balu Balakrishnan – Power Integrations, Inc.>**: I have one question I didn't answer that came from Steve. I want to make sure I clarify. Steve, you said that Derek is resigning, that's Derek, he is our VP of Engineering. He is not resigning, he is actually retiring. Number two, I think you had a question on whether any patents leave with our VP of Engineering, Derek Bell, the answer is no, the patents belong to the company, not to any individual in the company.

**<A – Joe Shiffler – Power Integrations, Inc.>**: Okay. Operator, we'll take the next question now. Thanks.

Operator: Yes sir. Our next question comes from Tore Svanberg with Stifel, Nicolaus. Please go ahead. Your line is open.

**<Q – Tore Svanberg – Stifel, Nicolaus & Co., Inc.>**: Yes, thanks. I just had two follow-ups. First of all, Sandeep, you said the GAAP tax rate in Q1 is going to be negative, I mean this is a tax credit. Do you know approximately the amount that credit is going to be?

**<A – Sandeep Nayyar – Power Integrations, Inc.>**: Well, I'll give you in percentage terms in total if you want to compute. It's mainly because of the R&D benefit that we're going to get related to R&D credit. So, I would just use roughly a rate of about 6% to 8%.

**<A – Balu Balakrishnan – Power Integrations, Inc.>**: Minus.

**<A – Sandeep Nayyar – Power Integrations, Inc.>**: Negative.

**<A – Balu Balakrishnan – Power Integrations, Inc.>**: Negative. Yeah, this is because we are taking all of 2012 R&D credit in Q1.

**<Q – Tore Svanberg – Stifel, Nicolaus & Co., Inc.>**: Yeah, no, understood, I just wanted to know the approximate extent of it. The other question is on inventory, inventory days have been coming down steadily. Will you operate at this level going forward sort of 100, 103 days?

**<A – Sandeep Nayyar – Power Integrations, Inc.:** Our model is 110 plus or minus 15 days. So this kind of fits into the model. And I think there was, there's been a little cautiousness as you can see that and what we were expecting at the beginning of the quarter to how the quarter turned out. So, I mean that's part of the reason why you saw the level come down, but our model is about 110 plus or minus.

**<Q – Tore Svanberg – Stifel, Nicolaus & Co., Inc.:** Okay.

**<A – Balu Balakrishnan – Power Integrations, Inc.:** Yeah, we will be producing more going forward. We produced less in Q4 in anticipation of the original forecast number, but then we actually did better and so we'll be producing a little bit more in Q1.

**<Q – Tore Svanberg – Stifel, Nicolaus & Co., Inc.:** Okay. All right, great. Thank you very much.

**<A – Balu Balakrishnan – Power Integrations, Inc.:** You're welcome.

Operator: Thank you, sir. Our next question comes from Steve Smigie with Raymond James. Please go ahead. Your line is now open.

**<Q – Steve Smigie – Raymond James & Associates, Inc.:** Great. Thanks for the follow-up and apologize, obviously, you did say in the 8-K that it was retirement, not resignation, so I'm sorry I misstated that. With regard to, I guess, the patent suits overall with Fairchild, you've won or it was found that you did not infringe on theirs in the Chinese court. I assume that's older stuff at this point in terms of intellectual property at this point, Fairchild will argue that they've sort of, I guess, say new designs are totally different from old ones in any event and that's what's a significant issue here. I was just curious of your thoughts on how different your designs are versus theirs today?

**<A – Balu Balakrishnan – Power Integrations, Inc.:** Well it's – I don't know their latest products. But all I can say is, in the first Fairchild case about 100 plus products were found to infringe and they came under permanent injunction, so they could no longer sell it in the U.S. or sell into the U.S. In the second case, the same two patents were found to be infringed by more than 75 products and they made the same statement that all the new devices do not infringe, but that was not the case. So, at least that is true for those 75 plus products, but I can't comment on any new products they've introduced since then because I have no access to them.

**<Q – Steve Smigie – Raymond James & Associates, Inc.:** Okay. In any event, you guys have obviously been picking up a number of design wins, one of which is on a major Korean or at least you said Korean player. What is it about your new products that have enabled you guys to get adopted in some of the new applications?

**<A – Balu Balakrishnan – Power Integrations, Inc.:** Well, there is nothing specific, we have lot of products that we continue to introduce and some of them introduced to our key customers before we announced it to the public and the cell phone market, as I've always said, is a very dynamic market, the shares change all the time. At this point, we've been able to gain quite a bit of share at two of our largest customers, one of them being in Korea.

**<Q – Steve Smigie – Raymond James & Associates, Inc.:** Okay. And last question was just on operating expense, if I'm looking at the numbers right, I think 2012 OpEx is going to be somewhat higher than maybe a couple of years ago when you had about similar revenue level. Is that just CT-Concept expense coming in or what's the difference with that come back down?

**<A – Sandeep Nayyar – Power Integrations, Inc.:** Well, so from – one of the things is that this year we have eight months of CT-Concept and next year you'll have the full year. If you're comparing our total expenses growing, we've also made a lot of strategic investments in R&D over the years if you look at it and we did couple of acquisitions that have added to it.

**<Q – Steve Smigie – Raymond James & Associates, Inc.>**: Okay, and if I just could sneak in one more. With the design center in Germany how long would you be before you potentially ramp revenue there and for those wins that you're getting like on trains and stuff, is that changing your sort of average order size that you get, for example, a train win seems very much different than a win for a handset? Thanks.

**<A – Balu Balakrishnan – Power Integrations, Inc.>**: Oh, it is very different. The ASPs are much higher; couple of order magnitudes higher. The design center – to answer your first question, the design center is to help very large customers to use CONCEPT products and customize them for their application. And I think that will have an impact long-term. The design cycles for the CONCEPT end customers are much longer than our normal mid- and low-power customers, typically in the three-year timeframe. Whereas, for the rest of our products is in the order of one to one-and-a-half years. However, they have been working with lot of customers for a long period of time, so there is we expect continued penetration of the market. They have a very small penetration at this time. They have about 8% or so of the \$500 million market. So, they have lot of room to grow.

**<Q – Steve Smigie – Raymond James & Associates, Inc.>**: Okay. Thank you.

Operator: Thank you, sir. And presenters, I'm showing no additional phone line questions at this time. I'd like to turn your program back over to Joe Shiffler for any additional remarks.

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**Joe Shiffler, Director, Investor Relations & Corporate Communications**

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Okay. Thank you. We'll leave it there. There will be a replay of this call available on our website, which is [investors.powerint.com](http://investors.powerint.com). And thanks everyone for listening and good afternoon.

Operator: Thank you, presenters. Again ladies and gentlemen, this does conclude today's conference. Thank you for your participation and have a wonderful day.

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