

Power Integrations  
Second Quarter 2013 Financial Results Conference Call  
Tuesday, July 30, 2013, 4:45 PM ET

JOE SHIFFLER: Good afternoon, thanks for joining us to discuss Power Integrations financial results for the second quarter of 2013. 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 10-Q filed with the SEC on May 3, 2013. This conference call is a property of Power Integrations and any recording or rebroadcast of this conference call is expressly prohibited without the written consent of Power Integrations.

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

BALU  
BALAKRISHNAN:

Thanks, Joe, and good afternoon, everyone. Power Integrations had a very good second quarter with 14% sequential revenue growth, a further expansion of our gross margin and our operating margin, and a 30% sequential increase in non-GAAP earnings per share. We also generated more than \$24 million of cash flow from operations during the quarter and increased our balance of cash and investments by \$26 million. Bookings and backlog both grew sequentially, and we expect healthy revenue growth again in the third quarter.

On the strategic front, we announced an exciting collaboration with Qualcomm Technologies, putting us in a leading position with respect to rapid charging, which is likely to be one of the most important trends in the mobile device market in coming years. I'll return to that important development in a moment after discussing the Q2 results in a bit more detail.

We saw robust sequential revenue growth in Q2 across all foreign market categories, including growth of nearly 10% in both consumer and communications, and mid-teens growth in computing. Leading the way though, was the industrial market with growth of better than 20%. Industrial accounted for 35% of sales in the second quarter, making it our largest end market for the first time ever.

On a year-over-year basis, industrial revenues were up more than 40% in Q2. A portion of the growth is the inorganic benefit of the CT-Concept acquisition, which closed on May 1 last year, and therefore only contributed two months of revenues in the year-ago period. But the majority of the increase is organic, including growth in LED lighting and smart meters, as well as our continued success in penetrating the diverse and highly fragmented market for traditional industrial power supply applications, where factors like ease of use and reliability make our products extremely attractive. The Concept business itself has also grown organically and had record sales in the second quarter, thanks to continuing market share gains and end market growth.

The growth of our industrial revenues, combined with our continuing success in consumer appliance applications, has been good news for our gross margin. 69% of our sales in Q2 came from industrial and consumer applications, a percentage that has increased dramatically in recent years. In just the past two years, our non-GAAP gross margin has expanded by more than 6 percentage points and a substantial portion of that improvement has been the result of end market mix. For Q2, non-GAAP gross margin came in higher than expected at 53.6%, an improvement of 70 basis points from the prior quarter.

Before I turn it over to Sandeep, I would like to focus for a moment on the partnership we announced earlier this month with Qualcomm Technologies, which has chosen Power Integrations as the lead strategic partner for their next-generation rapid-charging protocol known as Quick Charge 2.0.

As I think we are all painfully aware, charging has become a source of frustration for users of mobile devices. As devices have become more feature-rich and power hungry, OEMs have responded by designing in larger and longer-lasting batteries. Unfortunately, because of the voltage limitations of standard USB chargers, larger batteries have led to longer charge times and increased downtime for users.

Qualcomm's Quick Charge initiative helps resolve this bottleneck with an innovative but simple technology that reduces charge times by up to 75%, while maintaining backwards compatibility and interoperability with existing USB charging standards.

The Quick Charge protocol employs an interface between the mobile device and the charger, in which the device signals its ability to receive a higher voltage than standard 5 volts and the charger then adjusts its output to match the capabilities of the device. If the charger does not detect the Quick Charge circuitry in the device, it defaults to a standard 5 volt charge.

Two weeks ago, we announced the launch of CHY100, the industry's first charger interface chip for rapid charging of mobile devices. This product, which is the result of intensive collaboration between Power Integrations and Qualcomm, is designed to be used alongside our highly integrated power conversion chips in chargers for smartphones, tablets and other mobile devices.

We believe the advent of rapid charging, and the Quick Charge platform in particular, has the potential to be a game changing development in the competitive landscape for mobile device chargers. Till now, mobile phone chargers have been viewed by OEMs as little more than a cost to be minimized with virtually no opportunity to add value to the user experience.

Rapid charging introduces a performance element to the charger business, and a new way for device makers to differentiate their products. This is great news for Power Integrations for a couple of reasons. First, the technology requirements for rapid charging are right in our sweet spot: integration, efficiency and system level design expertise. We believe Qualcomm's decision to partner with us is a direct reflection of that. Second, the dollar content available to Power Integrations may be as much as three to four times what we get in a standard 5 volt charger, which makes this an extremely attractive opportunity.

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

**SANDEEP NAYYAR:** Thank you and good afternoon. I will quickly review the highlights of the Q2 financials, touch on the Q3 outlook, and then we will take your questions. As Balu noted, our second quarter revenues came in well above expectations, growing 14% sequentially, led by the industrial market with better than 20% growth. The consumer market was the next largest contributor in terms of dollars, growing nearly 10% sequentially.

Communication revenue also grew just under 10%, while sales in the computer market grew in the mid-teens, coming off a very weak Q1. In terms of revenue mix, industrial accounted for 35% of sales, becoming our largest end market for the first time in our history. Consumer was next at 34% of sales, communications was 21%, and computing was 10%.

Non-GAAP gross margin came in above the high end of our projected range increasing 70 basis points sequentially to 53.6% due mainly to more favorable end-market mix. On a GAAP basis, gross margin was 52.6%, up 90 basis points sequentially. Non-GAAP operating expenses for the second quarter were \$27.7 million, up \$1.4 million sequentially, reflecting a deliberate acceleration of our product development efforts, particularly in the area of rapid charging. That is reflected in the R&D line, as you might expect, but also in the G&A line in the form of expenses related to new patent filings. On a GAAP basis, operating expenses were \$32.9 million, including \$1.1 million of acquisition-related amortization expense and \$4.1 million of stock based compensation expense.

Operating margins expanded nicely in Q2 due in part to the higher gross margin, but also reflecting leverage on the strong revenue growth. Specifically, non-GAAP operating margin expanded by 320 basis points to 22%, while GAAP operating margin rose by a similar amount, coming in at just over 15%. The non-GAAP tax rate for the second quarter was just over 5%, while the GAAP tax rate was approximately 1%. The resulting earnings were \$0.61 per diluted share on a non-GAAP basis, up 30% sequentially and 24% year-over-year. GAAP earnings for the quarter came in at \$0.45 per diluted share.

We had another very strong quarter in terms of cash flow, generating \$24.6 million of cash flow from operations, while utilizing just \$2.9 million for capital expenditures. Cash and investments on the balance sheet rose to \$145.1 million, an increase of \$26 million during the quarter.

Looking further down the balance sheet, internal inventories fell slightly in terms of dollars, but came down substantially in terms of days, coming in at 94 days versus 107 days for the prior quarter. Channel inventory also decreased during the quarter to 5.8 weeks, down from about 6.5 weeks the prior quarter.

Turning to the third-quarter outlook; we expect revenues to be in the range of \$89 million to \$94 million. We expect non-GAAP gross margin to be approximately

54%, while non-GAAP operating expenses should be in the range of \$28 million plus or minus half a million dollars. Please see our press release for an approximate reconciliation of this forecast to the corresponding GAAP numbers.

Lastly, I expect the non-GAAP effective tax rate to be in the mid-single digits, while the GAAP tax rate for Q3 should remain in the low single-digits.

With that, I'll turn it back over to Joe.

JOE SHIFFLER: Thanks, Sandeep. We are ready now to open it up for Q&A. In the interest of time, I would like to ask each caller to adhere to a limit of two questions at a time. And then we will be happy to come back around for a second round of questions, time permitting. Operator, would you please now give the instructions for the Q&A session?

Q&A

OPERATOR: To ask a question, you may press "\*" then "1" on your touchtone phone. If you are using a speakerphone, please pickup your handset before pressing the keys, to withdraw your question, please press "\*" then "2." At this time, we will pause momentarily to assemble our roster.

And the first question comes from Andrew Huang of Sterne Agee. Please go ahead.

ANDREW HUANG: Hello, thanks. Congratulations on the great quarter.

BALU

BALAKRISHNAN: Thank you.

SANDEEP NAYYAR: Thanks Andrew.

ANDREW HUANG: I was wondering if you could give us a little more color on Quick Charge 2.0, and when it could start to hit the revenue line. And then separately, I think there was actually a Quick Charge 1.0, which doesn't seem to have gained much traction, so I am wondering what's different this time around?

BALU

BALAKRISHNAN: Okay. The first question, the answer is, it will be sometime in 2014. We don't know exactly when the revenue will start; it could start in the early part of 2014. I am not familiar with [1.0], the 2.0 is what we worked with Qualcomm on. And so far, the feedback has been quite positive. We have a large number of OEMs evaluating Qualcomm 2.0, and we are optimistic that a number of them will adopt it.

ANDREW HUANG: Okay, great. And does that...just one more follow-up on Quick Charge, if you don't mind? Does that have...does that necessarily have to go with a Snapdragon chipset or can it go independently with phones that don't have a Snapdragon?

BALU

BALAKRISHNAN: It is independent.

ANDREW HUANG: Okay, great. And then if you could give us some color on LED lighting, I was curious kind of midway through the year, how the business has developed so far relative to your expectations, and then maybe some color on the unit growth?

BALU

BALAKRISHNAN: In the first six months, we are roughly about 30% higher compared to the first six months of last year. And all indications are, that will be the same in the second half. So for the whole year, we should be roughly in that kind of a growth range.

ANDREW HUANG: And that's in terms of our revenue growth, correct?

BALU

BALAKRISHNAN: That's correct.

ANDREW HUANG: Thank you very much.

BALU

BALAKRISHNAN: You're welcome.

OPERATOR: The next question comes from Vernon Essi of Needham & Company. Please go ahead.

TONY GRILLO: Hi, this is Tony Grillo calling in for Vernon Essi. Another question on LED; where is LED seeing the most activity? Is it kind of the big brands selling into the big box retailers or is it still the smaller fragmented brand selling directly into Asia?

BALU

BALAKRISHNAN: We are actually seeing a transition away from smaller customers into larger customers. So there is certainly a level of consolidation happening in the marketplace, and we think that will continue as the volumes increase. Especially, in the consumer area, where you are replacing bulbs, I think the consolidation will be just natural and we are prepared for that.

TONY GRILLO: Great, and then moving over and talking about industrial and concept. Where are you seeing the most demand in this area and would it be possible for you to walk through an example of a power transmission install and the kind of dollar content that concept gets for its IGBT driver modules?

BALU

BALAKRISHNAN: Sure, if you look at the growth we have had in Q2, it is very broad-based. We have seen growth in pretty much all of the areas, we broadly categorize as high power which is really IGBT drivers, and then of course, LED we talked about. But the other big areas are motor control, process control, smart meters, UPS power supplies and so on. And it's right across the board we have seen a strong growth in industrial, but I think the highlight is the high power, where we have seen the most growth. And there, the IGBT driver is going into a number of applications, such as the high-voltage DC transmission, motor drivers, what they call medium-voltage motor drivers, wind turbines and solar installations.

In terms of recent activity, I would say there are a couple of design wins in the high-voltage DC transmission. And in that application, you have a large number of IGBT modules, which are stacked to get to the voltage they want. Typically it's in the 100,000 volt range. And so, you sell a large number of drivers, because you need one for each IGBT. I don't know the exact number, but it's quite a large number. And of course, the price of the IGBT driver for that application is quite high. The ASP for an IGBT driver can vary quite widely from say tens of dollars to \$200 to \$300 depending on the application. And average selling price I would say is probably in the mid tens of dollars, so maybe you know, \$50 plus or minus, if that helps.

TONY GRILLO: Great. Thank you so much.

BALU  
BALAKRISHNAN: You're welcome.

OPERATOR: The next question comes from Steve Smigie of Raymond James. Please go ahead.

STEVE SMIGIE: Great, thanks a lot, and Balu and Sandeep; congratulations on some excellent numbers.

BALU  
BALAKRISHNAN: Thank you.

SANDEEP NAYYAR: Thank you.

STEVE SMIGIE: Just quickly on the gross margin guidance here is 54%; it's sort of a pretty big number. Should we think about that as being the new normal, is that steady state or is some of that industrial, IGBT driver business a little bit more lumpy so we got to be careful not to sort of extrapolate that out in the future?

SANDEEP NAYYAR: So, I think as you have said you know, we...over the years...last couple of years, had a lot of cost reductions that helped improve our margin, added to that mix definitely has helped us. And as we had indicated earlier, that the yen would start benefiting us when we had talked about it being more so in the fourth quarter. But the way the inventory has turned, we are seeing much more benefit for it in the third quarter, but as we had indicated earlier that we would be seeing mix that would be offsetting it to your very point. So that, I think will balance out that the yen benefit in the third and fourth quarter would be somewhat offset by the mix going in the opposite direction. And that's why the guide to the 54%.

STEVE SMIGIE: Okay, great. And on the Qualcomm relationship there, is that an exclusive relationship with them? I would assume that other folks are going to try to get in there. Are you the first to sort of get in there, come up with the solution?

BALU  
BALAKRISHNAN: It's not an exclusive arrangement, but because we are the lead partner, we have a significant time advantage. Anybody can build to that spec, and I am sure over time there will be other people doing that. But as you know, in this business...in the mobile business, time advantage is a huge advantage. This is the only rapid charge technology that's available for production today. We are actually in production...I said production release, we are not in production, we are not shipping yet. We have production released the products, so people can immediately design in the product. So that's a huge advantage for us.

STEVE SMIGIE: Okay, great. Thanks and congratulations again.

BALU  
BALAKRISHNAN: Thank you.

SANDEEP NAYYAR: Thank you.

OPERATOR: The next question comes from Tore Svanberg of Stiefel. Please go ahead.

EVAN WANG: Yes, hi. This is Evan calling for Tore. I was wondering if you could talk a little bit about the September quarter, would you think the...and also the second half, what do you think the revenue drivers might be, would it be very similar to the June quarter or could it...are you expecting something different?

BALU

BALAKRISHNAN: Yes, it's a good question, because it's very hard for us to tell where our devices go until we get the POS information from our distributors, who constitute a large portion of our business. But generally speaking, I would say that if you look back in the history, Q3 typically grows around a 4% to 5% range, and it's usually broad based. At the time when we had a lot of exposure to cell phones, we had a large growth contribution from cell phones. And of course, right now, our exposure to cell phones is very small; it's about 10% of our revenue, roughly speaking. So there is not as strong a seasonality there. So I think it is quite broad based, although, I would say that industrial could be slightly down, because, typically, the strongest quarters for industrial is Q1 and Q2, but that will be offset by consumer and potentially communications.

EVAN WANG: That's great color. Thank you. My follow-up question just has to do with a few numbers. One is, I was wondering if you could tell us what the LED sales is as a percentage of sales. I think you have given that number in the past. Just wondering where it is now, and also if you could talk a little bit about the backlog and the coverage to your guidance?

SANDEEP NAYYAR: The LED continues to run in the range that we have told you or you know, it's about 7...it's a high single digits somewhere 7% - 8% of total revenue.

EVAN WANG: Okay, and the backlog coverage?

JOE SHIFFLER: Backlog coverage?

EVAN WANG: Yes.

JOE SHIFFLER: Evan, well, as you know, for us turns is not an exact calculation, because a large percentage of our revenue goes through distribution and almost all that's recognized on sell through, so shipments don't always equal revenues. But if we make the assumption that shipments and revenues will be equal, you could look at a mid 40s number for the turns requirement for the midpoint of Q3 guidance.

EVAN WANG: Okay, thank you very much and congratulations on the numbers.

JOE SHIFFLER: Thanks Evan.

OPERATOR: The next question comes from Sumit Dhanda of ISI group. Please go ahead.

SUMIT DHANDA: Yes, Balu, first question, on the rapid charge partnership that you have with Qualcomm. Can you talk a little bit more about what the potential competitive landscape would look like there and sort of what technology advantage you bring to the table, which caused Qualcomm to choose you as a partner?

BALU

BALAKRISHNAN: Well, in terms of the competitive landscape, as I mentioned, there will be other people offering Quick Charge...assuming Quick Charge becomes widely adopted. And...but the advantage we have is not just the interface chip but also the expertise we have on the AC to DC conversion. If you look at the overall solution, we have a significant advantage in terms of our technology, in terms of

our know-how, and in terms of the integration level we can bring to a high-power adaptable voltage charger. And that's the reason Qualcomm has picked us. They looked at all of the other AC to DC power supply IC vendors, and chose us as the most viable partner to do this. And the level of integration gives us a huge advantage in terms of the ASPs we can get in this marketplace.

SUMIT DHANDA: Okay. So just to be clear, it's the level of integration plus the ability to deliver a variable voltage output, which is sort of the two key differentiating factors, if I had to boil it down?

BALU  
BALAKRISHNAN: Well, I would say that it's our system-level expertise, because we collaborated with them in the standard, so we also contributed to the standards. So that was a positive. But providing a solution that will meet all of their specs and doing it in a very short time, is something that they wanted and we were able to deliver that in a very short time. In fact, they were very surprised, I think, how quickly we delivered the product and how it worked the first time.

SUMIT DHANDA: Got you. I guess for my second question, any color you could offer up on sort of the profile of bookings through the quarter and then what it's looked like thus far in the September quarter?

SANDEEP NAYYAR: So, I mean, you know, if you look at the bookings on an average for the last quarter and what we have looked at what's the booking in the first month, they have kind of been on an average the same. And as Joe had indicated earlier, that, if you take revenue equals shipment the turns requirement for us are in the mid 40s.

SUMIT DHANDA: Got you. And would you say that bookings improved steadily through the quarter or is there a high or low point in the quarter that was noticeable?

SANDEEP NAYYAR: You know, yes, there are variations Sumit, but what happens is the ordering pattern of our people is a little different. I would say that April was stronger, May was a little less, and June came up a little bit. But you know, you can't say much because of the ordering pattern. So I think looking at the average for the quarter, I would say, if you take the average and what is in July, they are very comparable.

SUMIT DHANDA: Okay, thank you.

OPERATOR: Again if you have a question, please press "\*" then "1." Our next question comes from Ross Seymore of Deutsche Bank. Please go ahead.

MIKE CHU: Hi, this is Mike Chu for Ross. Congratulations guys on a great quarter.

BALU  
BALAKRISHNAN: Thanks Mike.

MIKE CHU: Question on the communications side, I know you have some lumpiness usually from some of your customers. But just wondering, if you could, talk a little bit about the trend that you saw in the handset side of communications and whether or not you think you are still gaining share there?

BALU  
BALAKRISHNAN: On the communications side, we saw growth both in handsets and also the non-handset part of the revenue, which is primarily in the networking area, so it was



across the board. We think we are either...we are gaining share in communications as we expected. And we will...we are optimistic that, that will continue to grow as we get into rapid-charge technology.

MIKE CHU: Okay. And as far as the strong growth that you saw in 2Q and continued growth in the 3Q, just wondering if you think that some of that is driven by inventory builds or if you think that's really a reflection of real end demand?

BALU  
BALAKRISHNAN: Yes, it's hard to believe that all of that would be driven by inventory growth. There may be some pockets of it. For example, in case of PC standby, we felt that there was an overreaction in Q1 and people ordered less than the demand. And it appears to be the case, so PC standby came back. But other than that, it really looks like the demand is increasing across the board.

MIKE CHU: That's great. Thanks. Thanks for answering the questions.

BALU  
BALAKRISHNAN: You're welcome.

OPERATOR: The next question comes from Brian Duncan of The Boston Company. Please go ahead.

BRIAN DUNCAN: Hi, can you hear me okay?

BALU  
BALAKRISHNAN: Yes.

BRIAN DUNCAN: Yes, I guess. Can you talk a little bit, I mean, you said that you had a higher potential for units in the Quick Charge. Can you help delineate exactly what that is and how much more content that would be?

BALU  
BALAKRISHNAN: The dollar content in a Quick Charge application would be somewhere in the range of three to four times the dollar content we have on a standard charger.

BRIAN DUNCAN: But, I mean, is that just in the charger itself or are there other chips in there? Help me understand what that content is, is what I am asking.

BALU  
BALAKRISHNAN: It's in the charger itself.

BRIAN DUNCAN: Okay, thank you.

BALU  
BALAKRISHNAN: You're welcome.

OPERATOR: We have a follow-up question from Andrew Huang from Sterne Agee. Please go ahead.

ANDREW HUANG: Thanks. You know, presumably, the CHY100, which ships side-by-side with some of your existing conversion products, so is it reasonable to assume that Quick Charge should be neutral to your gross margin?

BALU

BALAKRISHNAN: Yes and no. If for example, Quick Charge really takes off, then the cell phone revenue...the handset revenue could grow relative to other revenue. And therefore, it'll have somewhat of a negative impact on gross margin. It just depends upon how successful the Quick Charge is going to be. And the other reason for that is, it'll be the brand-new product that will...you know, at least, if it takes off very quickly, it could have a temporary...a short-term impact. And on the long run, it'll be similar to gross margins we have in the communications business. By definition, it's a highly concentrated business, high-volume customers and also a lot of competition.

SANDEEP NAYYAR: And Andrew, even though if we get similar to what we get in the cell phone business today, in margin percentage terms, since the content is much greater, the gross margin dollars you would get would be much higher.

ANDREW HUANG: Got in, okay. And then, I think, towards the end of last year, you talked about getting into the main power supplies for some desktop PCs and flat panel TVs. Can you give us an update on those two product segments?

BALU

BALAKRISHNAN: Sure. We did grow our revenue in the mid-power for PCs. But, of course, mid-power goes beyond PCs. It goes into appliances, it goes into TVs and so on and so forth. In the PC area, we had a number of design wins in Q2 at the customers; we're already designed into, the three large PC power supply customers, who then in turn sell to three large OEMs. So that's continuing to penetrate that market, even though that market is declining at the same time. In the TV area that is...that we had design wins earlier. We had no new design wins in Q2; however, there are a lot of design activity going on. So we are optimistic that our TV revenue in the main power supply of the TV and also in standby power supply, is...will continue to increase, and we will penetrate that market quite nicely in 2014.

ANDREW HUANG: Okay, thanks.

BALU

BALAKRISHNAN: You're welcome.

OPERATOR: The next question comes from Jon Lopez of Vertical Group. Please go ahead.

JON LOPEZ: Hi, thanks so much. I'm sorry to come back to the Qualcomm thing. I just wanted to make sure I understand the cadence. So Qualcomm discussed or put a press release out in February, I think, of this year, discussing the advent of Quick Charge 2.0, which as somebody mentioned before, is an extension of 1.0. And at the time, they referenced in the release that they were working with a range of AC to DC vendor partners. So I'm just trying to understand when you say that you've helped develop this spec, can you just give a little detail about what you meant there? Because it sort of reads in the release as though the spec is proprietary to Qualcomm. And the selection of vendor partners appears to be sort of broad. So I just wanted to understand exactly what the dynamic there is that I'm confused on?

BALU

BALAKRISHNAN: Sure. So Qualcomm chose us, so that they can work with us to figure out the most cost-effective way to implement the 2.0 standard. So there was a lot of going back and forth in terms of what would be easier to implement in terms of the overall system cost. And that's where we were very helpful in influencing

some of the specs, so that the overall cost is minimal. And so we are the lead partner, meaning we work with them early on. They do have other partners they will work with, because they need more than one source. But we have a significant time advantage, because we worked very closely with them in the early stages.

JON LOPEZ: Okay, understood. But in theory, they could be on a...like a parallel path with a range of your competitors, it's just that you were the first to market?

BALU  
BALAKRISHNAN: That's correct.

JON LOPEZ: Okay, understood, got you. The second thing was, did you guys actually give us the CT-Concept's revenue for the quarter?

BALU  
BALAKRISHNAN: No. We won't be providing that information going forward, because it's all part of the same business. In fact, now we have products that we are working on that combines our technology with their technology, so it'll be harder and harder in the future to really separate the two.

JON LOPEZ: Okay. I got you. I just thought, because last year was the step quarter that maybe this would be the last quarter you'll give us the actual number. The last thing...sorry, just to come back to the industrial segment for a second, I guess I'm just curious to hear your thoughts, sort of broadly speaking, if you just look at sort of the indicators that would...one would deem relevant, I guess, broadly to the industrial business, like PMIs, and then within that, specifically, the industrial bid in China, which I think is like 44%, 45% of your revenues on a ship-to basis. It hasn't been particularly overwhelming to the positive. And, in fact, the China data, depending on which data set you look at, appears to have actually deteriorated pretty meaningfully through the course of Q2 and into July. So I guess, the question is, what do you think actually drove the sharp sequential increase that you saw relative to those data series? Or do you just find the data series sort of not relevant as you contemplate the dynamics in your markets?

BALU  
BALAKRISHNAN: I'm not quite sure I understand your question. You are saying that yes, we ship a lot of our products to China, because a lot of manufacturing happens in China. And in terms of the industrial market, there is a portion of the industrial market that has exposure to China. For example, if we you look at the IGBT drivers, which we call the high-power market, the largest market for those drivers is China. It's a little over 50% of the shipments are into China, and they are going to both industrial applications and also infrastructure applications. Industrial meaning, it goes into medium-voltage drive for industrial motors, but it also goes into wind turbine installations and solar installations, locomotives and high-voltage DC transmission. So there is a portion of that business that is directly related to infrastructure spending in China. But the overall industrial business...we have a lot of the industrial business in Europe, a lot of industrial business in U.S. which very, very broad-based. I don't know whether I answered your question.

JON LOPEZ: Yes, you sort of did. I mean, it was sort of a nebulous question. But, I guess, maybe to make it a little bit more pointed, like if you just sort of look at global PMIs as an indicator of industrial activity, it was banging around, plus or minus, expansion versus contraction globally and within China the number was in contraction through the entire course of your Q2. So I take that and I compare it

against your industrial segment, which had...it looks to me like the fastest growth. And I don't have the exact figure, because of the CT-Concepts, but the fastest growth since sort of like 2009. And I'm just trying to get your sense from an industry perspective as to what you think...how those two dynamics kind of coexist.

BALU

BALAKRISHNAN: Well, I don't know the answer to that. All I can say is, what we are seeing in the industrial market is not that different from what other companies have seen. You know, Infineon announced yesterday, and they grew about 20% in the industrial market. And that's somewhat relevant to us, because the CT-Concept drivers go with IGBT modules, and they are the larger suppliers of IGBT modules. So the data we see is consistent. I don't know why the PMI data is not consistent with that, I'm afraid.

JON LOPEZ: Got you. You know, that's hugely helpful. I really appreciate your thoughts. Thanks so much.

BALU

BALAKRISHNAN: You're welcome.

OPERATOR: Once again, if you have a question, please press "\*" then "1." Our next question comes from Vernon Essi of Needham & Company. Please go ahead.

TONY GRILLO: Hi, this is Tony Grillo again, just one more follow-up on Qualcomm. What sort of penetration rate into the mobile phone do you see this product having over the next couple of years? And is this chip incremental to the AC-DC LinkSwitch?

BALU

BALAKRISHNAN: Good question. All indications are that most of the OEMs we have talked to say that they want to go into rapid charge technology. And this is not just with cell phones; it's also for tablets and any other mobile device that requires charging. So that would say that over time, all smartphones and tablets, and possibly even notebooks, will go into a rapid charging technology. So that gives you kind of the overall 10. Then the next question is, how many of these will actually adopt the Quick Charge 2.0? From everything we can tell, the Quick Charge 2.0 is the simplest, and the one that is actually ready for implementation. There are other standards people have been working on, which are more complex, and they are not even close to being ready in the near term. So all that I would say is that we are optimistic that the Quick Charge will become a dominant player, but only time will tell for sure. And so, you can make judgment as to how big this market is going to be depending upon the number of smartphones and tablets, you know, and if you assume that most of them will convert to Quick Charge.

TONY GRILLO: Okay. And then, also, I'm sorry, this chip is incremental to the AC-DC LinkSwitch, correct?

BALU

BALAKRISHNAN: So, when we sell a solution, it'll be the CHY100 in combination with either a TinySwitch or a TOPSwitch, typically. It can also be used with LinkSwitch-HP, but not LinkSwitch-II, because this is usually higher power. It's typically in the 10- to 20-watt range, or even higher in some cases. So it is usually used with a secondary-side control, which could be TinySwitch or TOPSwitch. And in some cases, it could be LinkSwitch-HP, which can go to those power levels.

TONY GRILLO: Great. Thank you so much.

BALU

BALAKRISHNAN: You're welcome.

OPERATOR: This concludes our question-and-answer session. I would like to turn the conference back over to Joe Shiffler for closing remarks.

JOE SHIFFLER: Okay, thanks, everyone, for listening. We will have a replay of this call available on our website at [investors.powerint.com](http://investors.powerint.com). Thanks again for listening, and good afternoon.

OPERATOR: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.