**MPS September 14, 2020 Transcript**

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Genevieve Cunningham - Moderator

Welcome, everyone, to the Q3 updated financial guidance webinar. Please note that this webinar is being recorded and will be archived for one year on our Investor Relations Page at www.monolithicpower.com My name is Genevieve Cunningham, and I will be the moderator for this webinar.

Joining me today are Michael Hsing, CEO and founder of MPS, and Bernie Blegen VP and CFO. Analysts, you are currently muted. If you wish to ask a question during the Q&A session, please click on the Participants icon on the Menu Bar and then click the Raise Hand button.

In the course of today's webinar, we will make forward looking statements and projections that involve risk and uncertainty, which could cause results to differ materially from management's current views and expectations. Please refer to the Safe Harbor Statement contained in the press release published today. MPS assumes no obligation to update the information provided on today's call.

We will be discussing gross margin, R&D and SGA expense on both a GAAP and non-GAAP basis. These non-GAAP financial measures are not prepared in accordance with GAAP and should not be considered as a substitute for or superior to measures of financial performance prepared in accordance with GAAP. A table that outlines the reconciliation between the non-GAAP financial measures to GAAP financial measures is included in our press release, which we have filed with the SEC.

Now, I'd like to turn the call over to Bernie Blegen.

Bernie Blegen – VP & CFO

Thanks, Gen. And hello from Kirkland, Washington. Earlier today, MPS announced in a press release updated financial guidance for Q3 2020. The purpose of this conference call is to answer questions specific to what was discussed in that press release. We will not be addressing our overall business conditions, nor will we provide additional financial guidance other than what we have announced in the press release issued earlier today.

We will provide more information on the Q3 financial results and our Q4 guidance during our next earnings release and conference call at the end of October. Our updated outlook for the third quarter of 2020 is as follows. We are forecasting Q3 revenue in the range of $257 to $259 million. We also expect the following-- GAAP gross margin in the range of 55.1% to 55.3%. Non-GAAP gross margin in the range of 55.4% to 55.6%.

GAAP R&D and SG&A expenses in the range of $75.0 to $80.5 million. Non-GAAP R&D and SG&A expenses to be in the range of $57.0 $58.0 million. This estimate excludes stock compensation and litigation expenses.

Interest and other income is expected to range from $0.8 to $1.2 million, including known foreign exchange gains or losses. Our overall business during the quarter increased beyond our expectations for two key reasons. First, the majority of the increase was because we were able to fulfill our customers' demand that had been delinquent due to past capacity constraints. Second, several China-based customers requested previously scheduled shipment dates be pulled into Q3 2020, which we believe is related to recent trade policy changes.

These two extraordinary events affecting our Q3 2020 revenue outlook are believed to be nonrecurring in nature. We do not believe these events are indicators of higher or lower overall future demand for our products. I will now open the webinar for questions.

Genevieve Cunningham - Moderator

Thank you, Bernie. I'd now like to begin our Q&A session. As a reminder, if you would like to ask a question, please click on the Participants icon on the Menu Bar and then click the Raise Hand button. Our first question comes from Tore Svanberg from Stifel. Tore, your line is now open.

Tore Svanberg – Analyst from Stifel

Thank you, Michael and Bernie, for hosting this call. First of all, could you maybe elaborate on the two reasons, perhaps-- were they equally contributing to the upside, or was one more than the other?

Bernie Blegen – VP & CFO

Tore, as we said in the comments, the first reason, which was basically customer accommodations primarily related to delinquencies, was the largest reason the overage. So it was sort of an unusual development for us, because we're in a situation where, as you recall, that we had relatively low inventories coming into this year. And we've been playing sort of a production catch up.

And so as a result in the current quarter, we came in to Q3 with a higher level of delinquencies than we've had in our history. And as a result, we actually had some very good fortune as far as being able to accelerate the delivery dates on a number of those, which partially accounted for the overage in the quarter.

Tore Svanberg – Analyst from Stifel

Very good. And my second question-- and you mentioned that these are extraordinary events. So I guess, why did you decide to eventually ship to that delinquent backlog with the anticipation that maybe some of that is inventory build? Or is that just simply not the way you're looking at it?

Bernie Blegen – VP & CFO

No, it's not the way we're looking at it. I'd like to sort of re-characterize. When we create our guidance for the quarter, we're looking at our backlog. And delinquencies have delivery dates that are beyond the current quarter, and so they're not anticipated in that quarter's guidance.

What we had was a very targeted and focused effort on the part of our Operations and Production Group, our fab partners and test and assembly that allowed us to service a wider portion of the delinquencies than we would have normally expected. Having delinquencies is a part of our business. If you'd seen our performance in many quarters past, this has not risen to the level that we saw in Q3. That's why we're calling it out as non-recurring and extraordinary.

Michael Hsing – CEO and Founder

Yeah, mine as well. The reason we couldn't foresee that clearly in the past quarter is because whether the delinquency is still there or not, that was one issue. The second one is whether we can meet those demands when we're expanding our capacities. Everything has to ramp up, and there's no-- we have identified where the bottleneck is, and we resolve all these issues.

And as we said earlier in a prior earnings call, we said we are working day and night to resolve those bottlenecks. And so as a result of our effort and also the delinquency of those products, our customers still need those. And they still want to pull in and pull in the shipping dates and demand we ship as many as we can as fast as we can. So that's the reason.

Tore Svanberg – Analyst from Stifel

Well, congratulations on the billion run rate. I'll go back in line and let others ask questions. Thank you.

Bernie Blegen – VP & CFO

Thank you.

Genevieve Cunningham - Moderator

Our next question comes from David Williams from Loop Capital. David, your line is now open. David, you may unmute yourself if possible.

David Williams – Loop Capital

Hey, guys. Can you hear me?

Yeah.

I'm having technical difficulties here. But congrats on the quarter, or the new updated forecast. I guess, if we're kind of thinking about the delinquency we're able to fill, how much additional delinquency do you have? You talked about it being the highest in your history. So what additional delinquency do you have in the backlog, and then how should we think about that being cleared as we had into into four q given the capacity expansion that you brought up?

Michael Hsing – CEO and Founder

Yeah, we don't have a quite closed quarter yet. And so as you can think about it, on the Q3 growth, there's three components of it. And one is the normal business expansions and the revenue growth, and that, we look back, and we're very similar to the last four or five years. Again, you can see the same kind of patterns.

And delinquencies will be, of course, on top of it. And also as well as the Chinese customers pull-in, all these added together will be-- these are two factors that would be an extraordinary event. So otherwise, the business is pretty normal.

David Williams – Loop Capital

OK, all right. And I guess, it's fair to assume that some of the pull-ins were not those parts that were on allocation, or was some of the pull-ins also related to the increased capacity?

Michael Hsing – CEO and Founder

The pull-ins -- and there will be convoluted numbers. And some of them are-- they're willing to pull in within the delinquencies, and all these are convoluted. We cannot separate those. But we're pretty much clear whether they-- what kind of products that they want to pull in. But we can't just have all the details. Very concrete numbers.

David Williams – Loop Capital

OK, and then, just last one for me, if we're kind of thinking about the gross margin, it looks like some of the excess revenue was maybe a bit dilutive. Should we think about the trajectory as we head in through the next couple of quarters, kind of keeping the same cadence you talked about before? Or should we expect to step down as we kind of go forward, is this a level set?

Bernie Blegen – VP & CFO

No, no. I think your observation is accurate that a lot of the incremental business in the current quarter was at a level that was lower than we had been previously anticipating when we gave our original Q3 guidance. And it is our intent to be able to resume our cadence of improving or expanding gross margin 10 to 20 basis points sequentially.

David Williams – Loop Capital

Great, thanks so much for the help. Certainly appreciate it.

Genevieve Cunningham - Moderator

Our next question comes from Rick Schafer from Oppenheimer. Rick, your line is now open.

Rick Schafer – Oppenheimer

Yeah, hi. And let me echo the congratulations on the quarter and the upside. I guess my first question is, should we assume with this announcement that your largest China customer is now out of the model going forward? And if so, how do you fill that hole? I think it's a relatively significant customer, so it doesn't sound like you're seeing any change to fourth quarter or four q outlook based on the release?

So I don't know if there's any way you could comment on that, or talk maybe about some color, maybe, on where backlog is heading into four q, or just any way to kind of give us some comfort around four q?

Bernie Blegen – VP & CFO

Sure, Rick. I don't necessarily want to try to confirm Q4 outlook, as we haven't commented on that previously except for in the prepared comments that the current events don't either strengthen or weaken our outlook relative to Q4. I think you're very familiar that the strength of MPS's long-term model is really the diversification by customer, by end market, and by application.

So as we look forward, things that we've talked to as recently as Q1 and Q2 is that the growth drivers have really included things like SSD and computing, automotive, ACDC, modules-- and there's so many others that I believe that there's an awful lot to consider as you look beyond the current year. But that as far as our long term model, all those fundamentals remain in place.

Michael Hsing – CEO and Founder

And we don't want to speculate on whether we will have the customers or not, what is the [INAUDIBLE], and how the trade policy affected the MPS revenue. We cannot speculate it. We cannot predict that. But if you're looking and not putting those revenue, then the MPS within this quarter has a significant growth. And it triggered this pre-announcement.

But the growth is still very much intact. And with or without one any particular customers, and our growth trajectory would be very similar to the last few years.

Rick Schafer – Oppenheimer

OK, thanks, Michael. And if I could just add one more-- obviously, you guys are accelerating capacity adds. You're able to, obviously, fill some delinquencies this quarter. But the capacity is ongoing, right? And Chinese foundry plus the new and existing non-Chinese foundries. I guess my big, kind of, I guess, high level question is, what does that mean for spending as we look forward? And I don't know, Bernie, if you can quantify that as sort of a percent of the top line growth, or just any kind of color you can give. But it seems like maybe we're going to be in, for at least the near term, maybe an elevated spend cycle to kind of catch up to the demand here.

Bernie Blegen – VP & CFO

Yeah, I think if you'll recall during the Q2 earnings call, doing the Q&A, historically, we had guided that expenses would grow at a percentage less than revenue growth. And now, we sort of set the bar that as we anticipate and we announced at that time, that we were looking at two new fab relationships outside of China in order to get better geographic distribution that we were going to continue to invest and probably at a level that was more at parity with revenue growth going forward.

So I can't predict necessarily how fast we will be accelerating these efforts, but many of them were already in place before this quarter.

Rick Schafer – Oppenheimer

OK, thanks, Bernie. Thanks, Michael.

Genevieve Cunningham - Moderator

Our next question comes from Quinn Bolton from Needham. Quinn, your line is now open.

Quinn Bolton – Needham

Hey, guys. Hopefully, you can hear me. Just wanted to come back to the second of the two extraordinary factors. The pull-ins-- I guess by definition, if you see demand pulling into the third quarter, it's got to be pulled forward from either Q4 or Q1. Michael, I think you said your longer term outlook to future quarters is unchanged.

And so to the extent that you saw some of the Chinese customers pulling in demand into Q3 because of trade tensions, are you sort of implying that the outlook for either non-Chinese customers or various parts of business is coming in to fill in whatever might have been pulled out of future quarters into the third quarter and hence, that's why your future revenue outlook is unchanged?

Michael Hsing – CEO and Founder

Because yeah, earlier, I said that the reason I said that we see all the other growth and all the other growth as not from the Chinese customers. And our Chinese customers is not large. It is still less than 10%. And so overall growth, of course, that would be impacted. But impact at much smaller members as the overall growth will feel that-- won't be at a 10% of a difference.

Quinn Bolton – Needham

OK, OK. And then, the second question. You guys recognize revenue on ship into distribution-- I think all semiconductor companies do now with AC606-- but wondering, do you guys get point of sales data from your distributors? Can you tell whether that demand is moving through the distribution channel end to end customers, or are these delinquencies really going to fill distribution inventory rather than end user demand? Thanks.

Bernie Blegen – VP & CFO

Yeah, I mean historically and consistent with what we did here in Q4, we're trying to satisfy real demand. Because we've had the shortages as far as being able to meet all demand, we've been very careful not to build either inventory in the channel or on our customers' shelves. We want it to go into production, because we can't afford to have units when other customers are not getting their demand fulfilled.

So there might be a quarter end increase in the channel only as they are part of the throughput. But again, we believe that what we're doing here is responsive to our customers' requirements, and it's not representative of a channel build or a build in our customers' shelves, on inventory in their shelves.

Quinn Bolton – Needham

Thanks for that, Bernie. And the last one, can you give us any sense, was the demand upside pretty broad based across all five of the end markets, or was it more driven by communications, consumer, and computing, and perhaps less so by automotive and industrial? Thanks.

Bernie Blegen – VP & CFO

At this point, I prefer not to make a comment on what the end market distribution is. I am aware that it is broad based. And save that question for Q3.

Quinn Bolton – Needham

Will do. Thanks, Bernie.

Michael Hsing – CEO and Founder

Well, it is a very broad base.

Genevieve Cunningham - Moderator

The next question comes from Matt Ramsay from Cohen. Matt, your line is now open.

Matt Ramsay – Cohen

Yeah, thank you very much. Good afternoon, guys. I guess from-- you guys have been ramping, and you talk about the investments to ramp capacity. And there's going to be some long term investments outside of China. But you were able to fulfill some of these delinquencies by ramping capacity.

I'm wondering if you guys might characterize where you think your capacity is now relative to where it might have been six months ago, or nine months ago to start the year when you were capacity constrained. How much in aggregate have you guys added that will be there on a permanent basis going forward? Thanks.

Bernie Blegen – VP & CFO

Let me take a start at this. And really here, again, I don't want to get bogged down in too many details. I think we can address capacity issues at Q3. What I will say, and I'm just echoing Michael's earlier comment, that we actually have provided input that our production and operations people are working almost 24 hours a day in order to secure additional activity within our existing fab and assembly houses. And the results of those efforts are really what was driving this opportunity.

Michael Hsing – CEO and Founder

Yeah, it's obvious, look at this Q3, we can ship this much as a way above our anticipations in the earliest years. And at the stage that we're facing shortages, and we stated in Q1 and Q2, we're working very hard to explain the production capacities. And we started last year, actually. But whether it's enough or not, I can tell you, we're still dealing with.

Matt Ramsay – Cohen

Got it. Yeah, thank you for that, for the color there. I guess-- we've talked about over the last couple of years that you guys have maybe used some of the consumer business to sort of balance out the gradual expansion of the gross margin. And maybe that was some of the areas of the-- so can you talk a little bit, Bernie, about where you feel like the backlog is right now?

Michael, you just mentioned there are still some delinquencies. If you can quantify any of where the backlog is, or where the delinquency level is right now versus where you're running, that would be really helpful. Thanks, guys.

Bernie Blegen – VP & CFO

Yeah, and again, we've tried to be careful, because we don't want to set expectations for Q4 until we have time to aggregate all information available. So I will say that we have reduced level of delinquencies more to a normalized level, and that's why we're not calling it out as a further or a future exception. But I want to be careful not to provide any expectations around additional momentum or heightened level of demand, because we don't have an opinion, and we don't express one now.

Matt Ramsay – Cohen

Got it. Just really quick, last one from me. I noticed there was a decent amount of upside in opex in the quarter in addition-- I guess, coincided with the revenue. And you mentioned investing for more capacity going forward, et cetera, that's going to continue. Is that sort of one time step up in opex, is that sort of a new baseline? Or was some of that one time in nature as well? Thanks, guys.

Bernie Blegen – VP & CFO

No, the operating expense levels are reflective of our investments, as we said, to secure resources for future growth as well as to expand our capacity. And we would expect-- as we relayed at the Q2 earnings call-- that we'd expect this to continue for as yet an unspecified period of time, that I would probably guess that we're looking at the next eight to 10 quarters minimum.

Michael Hsing – CEO and Founder

Yeah, we will provide more information in our Q3 earnings call.

Genevieve Cunningham - Moderator

Our next question comes from Ross Seymour from Deutsche Bank. Ross, your line is now open.

Ross Seymore – Deutsche Bank

Hi, guys. Lots of good questions have been asked and answered. I guess I just wanted to make sure to confirm two things. One, Bernie and Michael, what you're basically saying is that it's great on the upside. You met delinquencies. You had some pull-ins, but it doesn't change what your views would have been on the fourth quarter at all other than, I guess, there's a minor pull-in from Michael's answer.

So whatever we thought for fourth quarter before, we have no new information to change that view as of tonight. Is that a fair summary of your comments?

Bernie Blegen – VP & CFO

Yes, it is.

Michael Hsing – CEO and Founder

Yes.

Ross Seymore – Deutsche Bank

OK, and then, I guess-- this might go into the category of leaving no good deed unpunished, but it looks like you guys are going to be growing 25% to 30% year over year, depending upon what, of course, the fourth quarter does. And I know you're not guiding to that. In a year where the world is anything but normal, I think that's the strongest growth year you guys have had since 2010.

At a high level, how much of this do you think is sustainable versus some sort of pull-in? Is this just the new MPS doing what you've done for a long time, just kind of on steroids? Or is there some stuff where you've benefited from pull-ins that we really shouldn't expect to continue as we look longer term into 2021?

Michael Hsing – CEO and Founder

No, we don't take any-- we don't dope here. We're not taking steroids. And Ross, you see, last year, we did not grow 25%. We grew 8%. Was the lowest for many, many years. And our customers, that's what we're speculating. And they didn't see the futures at the time, and they withhold all these orders.

And so that's why in a Q3, last year's Q3 and Q4s and the slowdowns. And so the demand is still there. So they released these orders, and in Q4 and the early part of this year. That's why caused all these delinquencies. And the other ones in computings, in the data centers, and that's also a pull-in. That's also an additional part of a growth.

And so sustaining that kind of levels in the over 25%, I don't think so-- we didn't ever did it in that, that higher percentage. I think it's a couple years ago-- correct me if this is wrong-- we got 20%, 22% in the levels. And if you normalize, it's 8% and 25%, so we're pretty much in the range. And our business model is not for year by years. It's for a few years.

OK, I assume I answered your questions.

Bernie Blegen – VP & CFO

I thought it was complete.

Genevieve Cunningham - Moderator

OK.

Our next question comes from Will Stein from Truest. Will, your line is now open. Our next question comes from Ross Seymour from Deutsche Bank. Ross, your line is now open.

Ross Seymore – Deutsche Bank

Hi, guys. Sorry, that was the Zoom error on my side. Can you hear me?

Bernie Blegen – VP & CFO

Yes, just fine.

Michael Hsing – CEO and Founder

Yes.

Ross Seymore – Deutsche Bank

Perfect. So yes, you did answer the first question, so sorry. Don't take my silence as meaning anything other than that.

Michael Hsing – CEO and Founder

I thought you expected more.

Bernie Blegen – VP & CFO

He's trying to draw us out.

Ross Seymore – Deutsche Bank

Just trying to see if I can get you to say more.

Michael Hsing – CEO and Founder

All right, OK.

Ross Seymore – Deutsche Bank

You somewhat answered this question before, Bernie, about the opex side of things. But to the extent the opex has gone from kind of $46 million in the first quarter to now, you're going to be upwards $20, $12 million higher at 57 or 58, how do we think about the growth rate? Because at some point, one of these big quarters isn't going to happen, but the fixed costs are going to happen.

Are any of the opex step-ups temporary? Or if they are temporary, are they temporary in the fashion that they're going to last for eight to 10 quarters before they start to go down, as you answered in an earlier question?

Bernie Blegen – VP & CFO

Yeah, I think what you have to do is keep in mind what we're doing. So the first thing is that there is always a normal level of investment in R&D, and we've demonstrated that's consistent. I mean, if you look at the revenue growth opportunities that we've enjoyed, particularly in the last two or three years, that really is representative of the investments that we made five and six years ago.

So what we're trying to do is lay the groundwork in order to extend our accelerated rate of revenue growth over the next not just three to five years but five to seven years. Then, on top of that, I do believe that there is a portion of the investment that is related to our interpretation of current events, and that we think that being more fully geographically distributed as far as all our resources-- and I mean design and application engineering, assembly and test, and in particular fab-- so that we can formulate a more regional strategy so that if we're in Europe, to European customers, we're a European company. We're in the US, we're a US company.

So that is really what's driving this level of investment. And then, the question is, is some portion of it variable or is it all fixed? And I think that we've demonstrated the ability. And what we've said is that we will grow expenses in parity with revenue growth. So it anticipates that if there is a tightening, that we will make that assessment at that time.

Michael Hsing – CEO and Founder

Let me try this. Ross, OK. Our model is, we will have fluctuations form quarter to quarters. But longer terms remains similar to your models. And so when we have enough profit, we'll take [INAUDIBLE] for more investments, and that's to smooth out the next few quarters.

Ross Seymore – Deutsche Bank

I guess the final one for me-- thanks for all that opex colors-- on the gross margin side-- and apologies if you answered this earlier as I was having my Zoom issues-- the gross margin being a little bit weaker despite the revenues being a little bit stronger, I caught, Bernie, that you said you guys would be back on your 10 to 20 basis points a quarter track soon enough going forward. But what was the reason why it's a little bit light and heading in the opposite direction of what incremental gross margins usually would do with upside to revenues?

Bernie Blegen – VP & CFO

Yeah, we addressed this earlier. But the incremental margin associated with the revenue, the additional revenue, was lower than our corporate average.

Ross Seymore – Deutsche Bank

So in other words, a lot of consumer products.

Bernie Blegen – VP & CFO

Yeah, so it was slightly diluted. We're only talking about 20 basis points, I believe, versus expectations.

Ross Seymore – Deutsche Bank

Got it. And so you would expect that mixed dynamic to normalize going forward, and that's what gets you back on your trajectory?

Bernie Blegen – VP & CFO

Yes.

Ross Seymore – Deutsche Bank

Got it.

OK, I'll go away for real this time. Thanks, guys.

Michael Hsing – CEO and Founder

All right.

Bernie Blegen – VP & CFO

Thank you, Ross.

Genevieve Cunningham - Moderator

Our next question comes from Will Stein from Truest. Will, your line is now open.

Will Stein – Truist

Great, thanks for taking my questions. First, I just want to better understand the capacity a little bit. It was a meaningful upside that you delivered, I think about 25% upside to revenue in the quarter. And unless there was some sort of staging of product in different forms, it suggests to me that you had a significant capacity increase during the quarter. Perhaps I missed this, so I apologize if you're going over stuff that you already discussed.

But I understand that this is not a new level of demand going forward. This is more one time in nature. But can we expect that you can deliver to this level of demand or capacity should it arise, should the demand arise?

Michael Hsing – CEO and Founder

We are not ready to talk about a future demand. But I have to-- but I can tell you, it's still very high. And we're still facing some kind of a delinquency. But it's more manageable than in the Q1 and Q2. And so going forward, other capacities, it's clearly a reduced risk. We want to diversify the production risk outside of China, which we started that process last year.

And so now, we will be able to ship some of the products from outside of China. That's additional capacities from what we have now.

Will Stein – Truist

OK, so maybe-- I just want to make sure I understand. I think what you're saying is that you have new capacity to deliver to this approximately 260 million a quarter run rate should that demand arise next quarter, or the subsequent quarters. In other words, you're-- I'm trying to identify if there was any one-time effect in capacity, like a foundry making a special exception to deliver an outsized result for you in the quarter that would go away in the future. Or is this all part of the ramp that you've been planning for a while?

Michael Hsing – CEO and Founder

Yeah, it's all-- to our foundries, we're always negotiating the capacities every half year also. And so far, that's the process. And it's their demand versus our demand and their capacity versus our demand. So we go through the process every half year. And clearly, we are still talking about next-- well, this process is not even a half year. It's almost every other month we're talking about.

And so now, we have overall, yes, we can beat a $250 million a quarter, or even more for this shipment. And capacity-wise, we need a lot more than that, because the mix of a product. We have some things, I guess a few thousand, 3,000, 4,000 products. And the mix of-- the efficiency of the inventory is not very high. And so that's why we need all these inventories, and we want these as well as the capacities.

Will Stein – Truist

I understand. And one more, if I can, to what degree was there some overlap on a customer basis between the customers that are getting delivered what were products in delinquencies, or let's say products on back order on the one hand, and customers that requested upsides because of anticipated difficulty in getting products because of trade frictions? Was there any overlap in these customers?

Michael Hsing – CEO and Founder

Yes, there is some small overlap. But all the delinquencies that we said earlier, is really across the board. And not only in China, it's everywhere. And the Chinese customers, they will have some delinquency, too. And those products, it's all linked into pull-ins. But the details, we can't really quantify now.

Will Stein – Truist

Thank you.

Genevieve Cunningham - Moderator

Our next question comes from Quinn Bolton from Needham. Quinn, your line is now open.

Quinn Bolton – Needham

Hey, guys. Just wanted to follow up on Ross's points. In response to Ross's question about forward revenue, it sounds like this evening's call gives the analysts no reason to change fourth quarter and beyond revenue levels. There's been no new information beyond the third quarter. And so leaving revenue where it previously was makes sense.

I guess, the question comes back to the opex. It sounds like if forward revenue is unchanged, should we be thinking that the opex on a dollar basis would then likely step down given that the fourth quarter consensus was something in the high $190 million range-- keeping opex at a 57 to 58 million level sounds like that would be well above 100% growth rate. And so I guess my question ultimately is, is the best way to think about opex growth in the model just to take whatever rate of growth we model for revenue, apply that to opex, and so if there's a moderation in revenue, there's likely a moderation in the absolute dollars of opex in that quarter, but that the growth rates of the two line items should be similar over the next eight to 10 quarters? Thanks.

Michael Hsing – CEO and Founder

Yeah, the purpose of-- yeah, you got it. The purpose of this call is, that we don't want you guys to hype up, OK, what is our next year revenues? The same time, we don't want you to say things, like, OK, the pull-in, we don't have a next quarter revenue. So I think that we achieve our purpose, and our business is pretty much stay normal other than these two events.

And so there is up and down, but a very small, very small percentage. And our design-- we always emphasize the design activities, and the customers' engagement is for long term. These are very much normal, and actually, in the early this year, I said a lot better.

And so Bernie can talk about the numbers. I think that this year, this quarter, the expense is a little bit on the high side. Bernie can talk about the details.

Bernie Blegen – VP & CFO

Yeah, I first off would like to affirm the sort of thesis that you put out there is that we're trying to call this out as the exception quarter, but then we have a pretty long history of being very predictable. And that's what we want to transition back to. And inclusive in that is not disrupting the guidance that is in place as we look beyond Q3.

Quinn Bolton – Needham

OK, thank you.

Genevieve Cunningham - Moderator

If there are any follow up questions, please click the Raise Hand button. There appears to be no further questions. I would now like to turn the webinar back over to Bernie.

Bernie Blegen – VP & CFO

Great. Boy, I'd like to thank you all for joining this conference call, or webinar, particularly on such short notice. And I look forward to talking to you again during our third quarter conference call, which will likely be at the end of October.

See you guys.

So with that, thank you, and have a nice day.