

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, DC 20549

**FORM 10-Q**

(Mark One)

**Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**For the quarterly period ended March 31, 2020**

or

**Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

Commission File Number 000-23441

**POWER INTEGRATIONS, INC.**

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

94-3065014

(I.R.S. Employer Identification No.)

5245 Hellyer Avenue

San Jose, California

(Address of Principal Executive Offices)

95138

(Zip Code)

(408) 414-9200

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

**Title of each class**

**Trading Symbol(s)**

**Name of each exchange on which registered**

Common Stock

POWI

The Nasdaq Global Select Market

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

Indicate by check mark whether the registrant submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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

Large Accelerated Filer  Accelerated Filer

Non-accelerated Filer  Smaller Reporting Company

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| <u>Class</u>                    | <u>Shares Outstanding at May 4, 2020</u> |
|---------------------------------|--|
| Common Stock, \$0.001 par value | 29,840,080                               |

**POWER INTEGRATIONS, INC.**

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### **Cautionary Note Regarding Forward-Looking Statements**

This Quarterly Report on Form 10-Q includes a number of forward-looking statements that involve many risks and uncertainties. Forward-looking statements are identified by the use of the words “would,” “could,” “will,” “may,” “expect,” “believe,” “should,” “anticipate,” “if,” “future,” “intend,” “plan,” “estimate,” “potential,” “target,” “seek,” or “continue” and similar words and phrases, including the negatives of these terms, or other variations of these terms, that denote future events. These statements reflect our current views with respect to future events and our potential financial performance and are subject to risks and uncertainties that could cause our actual results and financial position to differ materially and/ or adversely from what is projected or implied in any forward-looking statements included in this Form 10-Q. These factors include, but are not limited to: the novel coronavirus pandemic (COVID-19), which could significantly disrupt our operations, including our manufacturing, research and development, and sales and marketing activities, which could have a material adverse impact on our business and has or could exacerbate the risks discussed below; if demand for our products declines in our major end markets, our net revenues will decrease; our products are sold through distributors, which limits our direct interaction with our end customers, therefore reducing our ability to forecast sales and increasing the complexity of our business; we depend on third-party suppliers to provide us with wafers for our products, and if they fail to provide us sufficient quantities of wafers, our business may suffer; intense competition may lead to a decrease in our average selling price and reduced sales volume of our products; if our products do not penetrate additional markets, our business will not grow as we expect; we do not have long-term contracts with any of our customers and if they fail to place, or if they cancel or reschedule orders for our products, our operating results and our business may suffer; if we are unable to adequately protect or enforce our intellectual property rights, we could lose market share, incur costly litigation expenses, suffer incremental price erosion or lose valuable assets, any of which could harm our operations and negatively impact our profitability; and the other risk factors described under the caption “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2019, and in Part II, Item 1A - “Risk Factors” and Part I, Item 2 - “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Quarterly Report on Form 10-Q. We make these forward-looking statements based upon information available on the date of this Form 10-Q, and we expressly disclaim any obligation to update or alter any forward-looking statements, whether as a result of new information or otherwise, except as required by laws.

**PART I. FINANCIAL INFORMATION**  
**ITEM 1. FINANCIAL STATEMENTS**

**POWER INTEGRATIONS, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(Unaudited)**

| (In thousands)   | March 31, 2020 | December 31, 2019 |
|--|----------------|-------------------|
| <b>ASSETS</b>  |                |                   |
| <b>CURRENT ASSETS:</b>                                     |                |                   |
| Cash and cash equivalents                                  | \$ 190,459     | \$ 178,690        |
| Short-term marketable securities                           | 232,183        | 232,398           |
| Accounts receivable, net                                   | 20,597         | 24,274            |
| Inventories  | 96,633         | 90,380            |
| Prepaid expenses and other current assets                  | 20,570         | 15,597            |
| Total current assets                                       | 560,442        | 541,339           |
| PROPERTY AND EQUIPMENT, net                                | 123,430        | 116,619           |
| INTANGIBLE ASSETS, net                                     | 15,748         | 16,865            |
| GOODWILL   | 91,849         | 91,849            |
| DEFERRED TAX ASSETS  | 1,739          | 2,836             |
| OTHER ASSETS   | 34,231         | 34,388            |
| Total assets   | \$ 827,439     | \$ 803,896        |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                |                |                   |
| <b>CURRENT LIABILITIES:</b>                                |                |                   |
| Accounts payable   | \$ 37,156      | \$ 27,433         |
| Accrued payroll and related expenses                       | 10,921         | 13,408            |
| Taxes payable  | 567            | 584               |
| Other accrued liabilities                                  | 5,826          | 9,051             |
| Total current liabilities                                  | 54,470         | 50,476            |
| LONG-TERM INCOME TAXES PAYABLE                             | 14,840         | 14,617            |
| DEFERRED TAX LIABILITIES                                   | 162            | 164               |
| OTHER LIABILITIES  | 14,137         | 14,093            |
| Total liabilities  | 83,609         | 79,350            |
| <b>COMMITMENTS AND CONTINGENCIES (Notes 11, 12 and 13)</b> |                |                   |
| <b>STOCKHOLDERS' EQUITY:</b>                               |                |                   |
| Common stock   | 28             | 28                |
| Additional paid-in capital                                 | 162,343        | 152,117           |
| Accumulated other comprehensive loss                       | (4,314)        | (3,130)           |
| Retained earnings  | 585,773        | 575,531           |
| Total stockholders' equity                                 | 743,830        | 724,546           |
| Total liabilities and stockholders' equity                 | \$ 827,439     | \$ 803,896        |

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

**POWER INTEGRATIONS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
**(Unaudited)**

| <b>(In thousands, except per share amounts)</b> | <b>Three Months Ended</b> |             |
|---|---------------------------|-------------|
|   | <b>March 31,</b>          |             |
|   | <b>2020</b>               | <b>2019</b> |
| NET REVENUES                                    | \$ 109,664                | \$ 89,188   |
| COST OF REVENUES                                | 53,184                    | 43,714      |
| GROSS PROFIT                                    | 56,480                    | 45,474      |
| OPERATING EXPENSES:                             |                           |             |
| Research and development                        | 19,152                    | 17,946      |
| Sales and marketing                             | 13,473                    | 13,017      |
| General and administrative                      | 8,761                     | 8,390       |
| Total operating expenses                        | 41,386                    | 39,353      |
| INCOME FROM OPERATIONS                          | 15,094                    | 6,121       |
| OTHER INCOME                                    | 1,777                     | 1,152       |
| INCOME BEFORE INCOME TAXES                      | 16,871                    | 7,273       |
| PROVISION FOR INCOME TAXES                      | 985                       | 40          |
| NET INCOME                                      | \$ 15,886                 | \$ 7,233    |
| EARNINGS PER SHARE:                             |                           |             |
| Basic   | \$ 0.54                   | \$ 0.25     |
| Diluted   | \$ 0.53                   | \$ 0.25     |
| SHARES USED IN PER SHARE CALCULATION:           |                           |             |
| Basic   | 29,602                    | 28,951      |
| Diluted   | 30,134                    | 29,446      |

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

**POWER INTEGRATIONS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(Unaudited)**

| <b>(In thousands)</b>  | <b>Three Months Ended</b> |             |
|--|---------------------------|-------------|
|  | <b>March 31,</b>          |             |
|  | <b>2020</b>               | <b>2019</b> |
| NET INCOME   | \$ 15,886                 | \$ 7,233    |
| Other comprehensive income (loss), net of tax:   |                           |             |
| Foreign currency translation adjustments, net of \$0 tax in each of the three months ended March 31, 2020 and 2019                         | (283)                     | (22)        |
| Unrealized gain (loss) on marketable securities, net of \$0 tax in each of the three months ended March 31, 2020 and 2019                  | (952)                     | 334         |
| Amortization of defined benefit pension items, net of tax of \$31 and \$5 in the three months ended March 31, 2020, and 2019, respectively | 51                        | 16          |
| Total other comprehensive income (loss)  | (1,184)                   | 328         |
| TOTAL COMPREHENSIVE INCOME   | \$ 14,702                 | \$ 7,561    |

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

**POWER INTEGRATIONS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(Unaudited)

| (In thousands)                                 | Three Months Ended<br>March 31, |            |
|--|---------------------------------|------------|
|  | 2020                            | 2019       |
| <b>Common stock</b>                            |                                 |            |
| Beginning balance                              | \$ 28                           | \$ 28      |
| Common stock issued under employee stock plans | —                               | —          |
| Repurchase of common stock                     | —                               | —          |
| Ending balance                                 | 28                              | 28         |
| <b>Additional paid-in capital</b>              |                                 |            |
| Beginning balance                              | 152,117                         | 126,164    |
| Common stock issued under employee stock plans | 5,529                           | 4,500      |
| Repurchase of common stock                     | (2,013)                         | (7,302)    |
| Stock-based compensation                       | 6,710                           | 4,407      |
| Ending balance                                 | 162,343                         | 127,769    |
| <b>Accumulated other comprehensive loss</b>    |                                 |            |
| Beginning balance                              | (3,130)                         | (1,689)    |
| Other comprehensive income (loss)              | (1,184)                         | 328        |
| Ending balance                                 | (4,314)                         | (1,361)    |
| <b>Retained earnings</b>                       |                                 |            |
| Beginning balance                              | 575,531                         | 402,569    |
| Net income                                     | 15,886                          | 7,233      |
| Payment of dividends to stockholders           | (5,644)                         | (4,937)    |
| Ending balance                                 | 585,773                         | 404,865    |
| <b>Total stockholders' equity</b>              | \$ 743,830                      | \$ 531,301 |

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

**POWER INTEGRATIONS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

| (In thousands)  | Three Months Ended<br>March 31, |                   |
|---|---------------------------------|-------------------|
|   | 2020                            | 2019              |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                                 |                   |
| Net income  | \$ 15,886                       | \$ 7,233          |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |                   |
| Depreciation  | 5,488                           | 4,610             |
| Amortization of intangibles   | 1,117                           | 1,255             |
| Loss on disposal of property and equipment  | 30                              | 96                |
| Stock-based compensation expense  | 6,710                           | 4,407             |
| Amortization of premium (accretion of discount) on marketable securities          | 154                             | (110)             |
| Deferred income taxes   | 1,095                           | 1,161             |
| Decrease in accounts receivable allowance for credit losses                       | (154)                           | (180)             |
| Change in operating assets and liabilities:                                       |                                 |                   |
| Accounts receivable   | 3,831                           | (9,293)           |
| Inventories   | (6,253)                         | (4,223)           |
| Prepaid expenses and other assets   | (3,992)                         | (4,229)           |
| Accounts payable  | 8,828                           | 1,220             |
| Taxes payable and accrued liabilities   | (6,349)                         | (871)             |
| Net cash provided by operating activities   | 26,391                          | 1,076             |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                                 |                   |
| Purchases of property and equipment   | (11,603)                        | (3,459)           |
| Acquisition of technology licenses  | —                               | (214)             |
| Purchases of marketable securities  | (16,838)                        | (4,793)           |
| Proceeds from sales and maturities of marketable securities                       | 15,947                          | 6,787             |
| Net cash used in investing activities   | (12,494)                        | (1,679)           |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                                 |                   |
| Issuance of common stock under employee stock plans                               | 5,529                           | 4,500             |
| Repurchase of common stock  | (2,013)                         | (7,302)           |
| Payments of dividends to stockholders   | (5,644)                         | (4,937)           |
| Net cash used in financing activities   | (2,128)                         | (7,739)           |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                       | <b>11,769</b>                   | <b>(8,342)</b>    |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>                           | <b>178,690</b>                  | <b>134,137</b>    |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>                                 | <b>\$ 190,459</b>               | <b>\$ 125,795</b> |
| <b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>    |                                 |                   |
| Unpaid property and equipment   | \$ 5,250                        | \$ 2,533          |
| Unpaid technology licenses  | \$ —                            | \$ 100            |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>                          |                                 |                   |
| Cash paid for income taxes, net   | \$ 305                          | \$ 378            |

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



**POWER INTEGRATIONS, INC.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. BASIS OF PRESENTATION:**

The condensed consolidated financial statements include the accounts of Power Integrations, Inc., a Delaware corporation (the “Company”), and its wholly owned subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation.

While the financial information furnished is unaudited, the condensed consolidated financial statements included in this report reflect all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for the fair presentation of the results of operations for the interim periods covered and the financial condition of the Company at the date of the interim balance sheet in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The results for interim periods are not necessarily indicative of the results for the entire year. The condensed consolidated financial statements should be read in conjunction with the Power Integrations, Inc. consolidated financial statements and the notes thereto for the year ended December 31, 2019, included in its Form 10-K filed on February 7, 2020, with the Securities and Exchange Commission.

**2. SIGNIFICANT ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS:**

*Significant Accounting Policies and Estimates*

No material changes have been made to the Company’s significant accounting policies disclosed in Note 2, *Significant Accounting Policies and Recent Accounting Pronouncements*, in its Annual Report on Form 10-K, filed on February 7, 2020, for the year ended December 31, 2019.

*Adoption of New Accounting Standards*

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326), which modifies the measurement of expected credit losses on certain financial instruments. In addition, for available-for-sale debt securities, the standard eliminates the concept of other-than-temporary impairment and requires the recognition of an allowance for credit losses rather than reductions in the amortized cost of the securities. The Company adopted the new standard in the first quarter of 2020, effective January 1, 2020, using the modified-retrospective approach. For available-for-sale debt securities, the Company has made a policy election to present separately accrued interest receivable within prepaid expenses and other current assets on the condensed consolidated balance sheet. Upon adoption, there was no impact on the Company’s condensed consolidated financial statements.

**3. COMPONENTS OF THE COMPANY’S CONDENSED CONSOLIDATED BALANCE SHEETS:**

*Accounts Receivable*

| (In thousands)                          | March 31, 2020   | December 31, 2019 |
|---|------------------|-------------------|
| Accounts receivable trade               | \$ 64,232        | \$ 61,036         |
| Allowance for ship and debit            | (40,332)         | (33,475)          |
| Allowance for stock rotation and rebate | (2,694)          | (2,524)           |
| Allowance for credit losses             | (609)            | (763)             |
| Total                                   | <u>\$ 20,597</u> | <u>\$ 24,274</u>  |

The Company maintains an allowance for estimated credit losses resulting from the inability of customers to make required payments. This allowance is established using estimates formulated by the Company’s management based upon factors such as the composition of the accounts receivable aging, historical losses, changes in payments patterns, customer creditworthiness, and current economic trends. Receivables determined to be uncollectible are written off and deducted from the allowance.

| (In thousands)                    | Allowance for Credit Losses |              |
|-----------------------------------|-----------------------------|--------------|
|                                   | Three Months Ended          |              |
|                                   | March 31, 2020              |              |
| Beginning balance                 | \$                          | (763)        |
| Provision for credit loss expense |                             | —            |
| Receivables written off           |                             | 154          |
| Recoveries collected              |                             | —            |
| Ending balance                    | <u>\$</u>                   | <u>(609)</u> |

**POWER INTEGRATIONS, INC.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Inventories**

| (In thousands)  | March 31, 2020   | December 31, 2019 |
|-----------------|------------------|-------------------|
| Raw materials   | \$ 41,413        | \$ 39,058         |
| Work-in-process | 33,809           | 25,982            |
| Finished goods  | 21,411           | 25,340            |
| Total           | <u>\$ 96,633</u> | <u>\$ 90,380</u>  |

**Prepaid Expenses and Other Current Assets**

| (In thousands)                 | March 31, 2020   | December 31, 2019 |
|--------------------------------|------------------|-------------------|
| Prepaid legal fees             | \$ 157           | \$ 16             |
| Prepaid income tax             | 6,230            | 5,615             |
| Prepaid maintenance agreements | 1,318            | 819               |
| Interest receivable            | 1,712            | 1,279             |
| Advance to suppliers           | 4,204            | 3,579             |
| Other                          | 6,949            | 4,289             |
| Total                          | <u>\$ 20,570</u> | <u>\$ 15,597</u>  |

**Intangible Assets**

| (In thousands)         | March 31, 2020   |                             |                  | December 31, 2019 |                             |                  |
|------------------------|------------------|-----------------------------|------------------|-------------------|-----------------------------|------------------|
|                        | Gross            | Accumulated<br>Amortization | Net              | Gross             | Accumulated<br>Amortization | Net              |
| Domain name            | \$ 1,261         | \$ —                        | \$ 1,261         | \$ 1,261          | \$ —                        | \$ 1,261         |
| Developed technology   | 37,960           | (26,730)                    | 11,230           | 37,960            | (25,933)                    | 12,027           |
| Customer relationships | 16,700           | (15,025)                    | 1,675            | 20,030            | (18,098)                    | 1,932            |
| Technology licenses    | 1,926            | (344)                       | 1,582            | 1,926             | (281)                       | 1,645            |
| Total                  | <u>\$ 57,847</u> | <u>\$ (42,099)</u>          | <u>\$ 15,748</u> | <u>\$ 61,177</u>  | <u>\$ (44,312)</u>          | <u>\$ 16,865</u> |

The estimated future amortization expense related to finite-lived intangible assets at March 31, 2020, is as follows:

| <b>Fiscal Year</b>           | <b>Estimated<br/>Amortization<br/>(In thousands)</b> |
|------------------------------|--|
| 2020 (remaining nine months) | \$ 3,242   |
| 2021                         | 3,494  |
| 2022                         | 2,415  |
| 2023                         | 2,173  |
| 2024                         | 1,279  |
| Thereafter                   | 1,884  |
| Total                        | <u>\$ 14,487</u>                                     |

**POWER INTEGRATIONS, INC.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
**Accumulated Other Comprehensive Loss**

Changes in accumulated other comprehensive loss for three months ended March 31, 2020 and 2019, were as follows:

| (In thousands)   | Unrealized Gains and Losses on Marketable Securities |          | Defined Benefit Pension Items |          | Foreign Currency Items |          | Total              |            |
|--|--|----------|-------------------------------|----------|------------------------|----------|--------------------|------------|
|  | Three Months Ended                                   |          | Three Months Ended            |          | Three Months Ended     |          | Three Months Ended |            |
|  | March 31,  |          | March 31,                     |          | March 31,              |          | March 31,          |            |
|  | 2020   | 2019     | 2020                          | 2019     | 2020                   | 2019     | 2020               | 2019       |
| Beginning balance  | \$ 583   | \$ (266) | \$ (2,484)                    | \$ (712) | \$ (1,229)             | \$ (711) | \$ (3,130)         | \$ (1,689) |
| Other comprehensive income (loss) before reclassifications     | (952)  | 334      | —                             | —        | (283)                  | (22)     | (1,235)            | 312        |
| Amounts reclassified from accumulated other comprehensive loss | —  | —        | 51                            | (1)      | 16                     | (1)      | 51                 | 16         |
| Net-current period other comprehensive income (loss)           | (952)  | 334      | 51                            | 16       | (283)                  | (22)     | (1,184)            | 328        |
| Ending balance   | \$ (369)   | \$ 68    | \$ (2,433)                    | \$ (696) | \$ (1,512)             | \$ (733) | \$ (4,314)         | \$ (1,361) |

(1) This component of accumulated other comprehensive income (loss) is included in the computation of net periodic pension cost for the three months ended March 31, 2020 and 2019.

**4. FAIR VALUE MEASUREMENTS:**

The FASB established a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows: (Level 1) observable inputs such as quoted prices for identical assets in active markets; (Level 2) inputs other than the quoted prices in active markets that are observable either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data, which requires the Company to develop its own assumptions. This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value.

The Company's cash equivalents and short-term marketable securities are classified within Level 1 or Level 2 of the fair-value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency.

The fair-value hierarchy of the Company's cash equivalents and marketable securities at March 31, 2020, and December 31, 2019, was as follows:

| (In thousands)       | Fair Value Measurement at |  |   |
|----------------------|---------------------------|--|---|
|                      | March 31, 2020            |  |   |
|                      | Total Fair Value          | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) |
| Corporate securities | \$ 217,314                | \$ —   | \$ 217,314                                    |
| Commercial paper     | 161,858                   | —  | 161,858                                       |
| Money market funds   | 1,707                     | 1,707  | —   |
| Total                | \$ 380,879                | \$ 1,707   | \$ 379,172                                    |

  

| (In thousands)       | Fair Value Measurement at |  |   |
|----------------------|---------------------------|--|---|
|                      | December 31, 2019         |  |   |
|                      | Total Fair Value          | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) |
| Corporate securities | \$ 232,398                | \$ —   | \$ 232,398                                    |
| Commercial paper     | 146,955                   | —  | 146,955                                       |
| Money market funds   | 2,983                     | 2,983  | —   |
| Total                | \$ 382,336                | \$ 2,983   | \$ 379,353                                    |

## POWER INTEGRATIONS, INC.

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

The Company did not transfer any investments between Level 1 and Level 2 of the fair-value hierarchy in the three months ended March 31, 2020, and the twelve months ended December 31, 2019.

**5. MARKETABLE SECURITIES:**

Amortized cost and estimated fair market value of marketable securities classified as available-for-sale (excluding cash equivalents) at March 31, 2020, were as follows:

| (In thousands)                                  | Amortized Cost    | Gross Unrealized |                 | Estimated Fair Market Value |
|---|-------------------|------------------|-----------------|-----------------------------|
|   |                   | Gains            | Losses          |                             |
| <b>Investments due in 3 months or less:</b>     |                   |                  |                 |                             |
| Commercial paper                                | \$ 14,869         | \$ —             | \$ —            | \$ 14,869                   |
| Corporate securities                            | 28,104            | 1                | (21)            | 28,084                      |
| Total   | 42,973            | 1                | (21)            | 42,953                      |
| <b>Investments due in 4-12 months:</b>          |                   |                  |                 |                             |
| Corporate securities                            | 63,204            | 61               | (159)           | 63,106                      |
| Total   | 63,204            | 61               | (159)           | 63,106                      |
| <b>Investments due in 12 months or greater:</b> |                   |                  |                 |                             |
| Corporate securities                            | 126,375           | 145              | (396)           | 126,124                     |
| Total   | 126,375           | 145              | (396)           | 126,124                     |
| <b>Total marketable securities</b>              | <b>\$ 232,552</b> | <b>\$ 207</b>    | <b>\$ (576)</b> | <b>\$ 232,183</b>           |

Accrued interest receivable was \$1.7 million at March 31, 2020 and was recorded within prepaid expenses and other current assets on the condensed consolidated balance sheet.

Amortized cost and estimated fair market value of marketable securities classified as available-for-sale (excluding cash equivalents) at December 31, 2019, were as follows:

| (In thousands)                                  | Amortized Cost    | Gross Unrealized |               | Estimated Fair Market Value |
|---|-------------------|------------------|---------------|-----------------------------|
|   |                   | Gains            | Losses        |                             |
| <b>Investments due in 3 months or less:</b>     |                   |                  |               |                             |
| Corporate securities                            | \$ 15,934         | \$ 18            | \$ —          | \$ 15,952                   |
| Total   | 15,934            | 18               | —             | 15,952                      |
| <b>Investments due in 4-12 months:</b>          |                   |                  |               |                             |
| Corporate securities                            | 71,223            | 269              | —             | 71,492                      |
| Total   | 71,223            | 269              | —             | 71,492                      |
| <b>Investments due in 12 months or greater:</b> |                   |                  |               |                             |
| Corporate securities                            | 144,658           | 302              | —             | 144,954                     |
| Total   | 144,658           | 302              | (6)           | 144,954                     |
| <b>Total marketable securities</b>              | <b>\$ 231,815</b> | <b>\$ 589</b>    | <b>\$ (6)</b> | <b>\$ 232,398</b>           |

Accrued interest receivable was \$1.3 million at December 31, 2019 and was recorded within prepaid expenses and other current assets on the condensed consolidated balance sheet.

## POWER INTEGRATIONS, INC.

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

The following table summarizes marketable securities classified as available-for-sale (excluding cash equivalents) in a continuous unrealized loss position for which an allowance for credit losses has not been recorded at March 31, 2020 and December 31, 2019:

| (In thousands)              | Less Than 12 Months         |                         | 12 Months or Longer         |                         | Total                       |                         |
|-----------------------------|-----------------------------|-------------------------|-----------------------------|-------------------------|-----------------------------|-------------------------|
|                             | Estimated Fair Market Value | Gross Unrealized Losses | Estimated Fair Market Value | Gross Unrealized Losses | Estimated Fair Market Value | Gross Unrealized Losses |
| <b>March 31, 2020</b>       |                             |                         |                             |                         |                             |                         |
| Corporate securities        | \$ 138,527                  | \$ (576)                | \$ —                        | \$ —                    | \$ 138,527                  | \$ (576)                |
| Total marketable securities | \$ 138,527                  | \$ (576)                | \$ —                        | \$ —                    | \$ 138,527                  | \$ (576)                |
| <b>December 31, 2019</b>    |                             |                         |                             |                         |                             |                         |
| Corporate securities        | \$ 13,069                   | \$ (6)                  | \$ —                        | \$ —                    | \$ 13,069                   | \$ (6)                  |
| Total marketable securities | \$ 13,069                   | \$ (6)                  | \$ —                        | \$ —                    | \$ 13,069                   | \$ (6)                  |

In the three months ended March 31, 2020, no unrealized losses on marketable securities were recognized in income. The Company does not intend to sell and it is unlikely that it will be required to sell the securities prior to their anticipated recovery. The issuers are high quality (investment grade) and the decline in fair value is largely due to changes in interest rates and other market conditions. Additionally, the issuers continue to make timely interest payments on the marketable securities with the fair value expected to recover as they reach maturity.

**6. STOCK-BASED COMPENSATION:**

The following table summarizes the stock-based compensation expense recognized in accordance with ASC 718-10 for the three months ended March 31, 2020, and March 31, 2019:

| (In thousands)                         | Three Months Ended |                |
|--|--------------------|----------------|
|  | March 31, 2020     | March 31, 2019 |
| Cost of revenues                       | \$ 396             | \$ 271         |
| Research and development               | 2,109              | 1,632          |
| Sales and marketing                    | 1,392              | 1,061          |
| General and administrative             | 2,813              | 1,443          |
| Total stock-based compensation expense | \$ 6,710           | \$ 4,407       |

Stock-based compensation expense in the three months ended March 31, 2020, was approximately \$6.7 million, comprising approximately \$5.0 million related to restricted stock unit (RSU) awards, \$1.3 million related to performance-based (PSU) awards and long-term performance-based (PRSU) awards and \$0.4 million related to the Company's employee stock purchase plan. Stock-based compensation expense in the three months ended March 31, 2019, was approximately \$4.4 million, comprising approximately \$4.6 million related to RSUs, a reduction to expense of \$0.6 million related to PSUs and PRSUs and \$0.4 million related to the Company's employee stock purchase plan.

**POWER INTEGRATIONS, INC.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
**Stock Options**

A summary of stock options outstanding as of March 31, 2020, and activity during the three months then ended, is presented below:

|  | Shares<br>(In thousands) | Weighted-<br>Average<br>Exercise<br>Price | Weighted-Average<br>Remaining<br>Contractual<br>Term<br>(In years) | Aggregate<br>Intrinsic Value<br>(In thousands) |
|--|--------------------------|---|--|--|
| Outstanding at January 1, 2020           | 167                      | \$ 38.88                                  |  |  |
| Granted                                  | —                        | —   |  |  |
| Exercised                                | (67)                     | \$ 38.07                                  |  |  |
| Forfeited or expired                     | —                        | —   |  |  |
| Outstanding at March 31, 2020            | 100                      | \$ 39.42                                  | 1.50   | \$ 4,893                                       |
| Vested and exercisable at March 31, 2020 | 100                      |   | 1.50   | \$ 4,893                                       |

**PSU Awards**

Under the performance-based awards program, the Company grants awards in the performance year in an amount equal to twice the target number of shares to be issued if the maximum performance metrics are met. The number of shares that are released at the end of the performance year can range from zero to 200% of the target number depending on the Company's performance. The performance metrics of this program are annual targets consisting of a combination of net revenue, non-GAAP operating income and strategic goals.

As the net revenue, non-GAAP operating income and strategic goals are considered performance conditions, expense associated with these awards, net of estimated forfeitures, is recognized over the service period based on an assessment of the achievement of the performance targets. The fair value of these PSUs is determined using the fair value of the Company's common stock on the date of the grant, reduced by the discounted present value of dividends expected to be declared before the awards vest. If the performance conditions are not achieved, no compensation cost is recognized and any previously recognized compensation is reversed.

In January 2020, it was determined that approximately 61,000 shares subject to the PSUs granted in 2019 vested in aggregate; the shares were released to the Company's employees and executives in the first quarter of 2020.

A summary of PSUs outstanding as of March 31, 2020, and activity during the three months then ended, is presented below:

|  | Shares<br>(In thousands) | Weighted- Average<br>Grant Date Fair<br>Value Per Share | Weighted-Average<br>Remaining Contractual<br>Term<br>(In years) | Aggregate Intrinsic<br>Value<br>(In thousands) |
|--|--------------------------|---|---|--|
| Outstanding at January 1, 2020                     | 61                       | \$ 70.11  |   |  |
| Granted  | 42                       | \$ 100.23   |   |  |
| Vested   | (61)                     | \$ 70.11  |   |  |
| Forfeited  | —                        | —   |   |  |
| Outstanding at March 31, 2020                      | 42                       | \$ 100.23   | 0.75  | \$ 3,728                                       |
| Outstanding and expected to vest at March 31, 2020 | 42                       |   | 0.75  | \$ 3,728                                       |

**PRSU Awards**

The Company's PRSU program provides for the issuance of PRSUs which will vest based on the Company's performance measured against the PRSU program's established performance targets. PRSUs are granted in an amount equal to twice the target number of shares to be issued if the maximum performance metrics are met. The actual number of shares the recipient receives is determined at the end of a three-year performance period based on results achieved versus the Company's performance goals, and may range from zero to 200% of the target number. The performance goals for PRSUs granted in fiscal 2018, 2019 and 2020 were based on the Company's annual revenue growth over the respective three-year performance period.

Expense associated with these awards, net of estimated forfeitures, is recorded throughout the year depending on the number of shares expected to vest based on progress toward the performance target. If the performance conditions are not achieved, no compensation cost is recognized and any previously recognized compensation is reversed.

**POWER INTEGRATIONS, INC.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In January 2020 it was determined that no shares subject to the PRSUs granted in 2017 vested in aggregate; thus no shares were released to the Company's executives in the first quarter of 2020.

A summary of PRSUs outstanding as of March 31, 2020, and activity during the three months then ended, is presented below:

|  | Shares<br>(In thousands) | Weighted- Average<br>Grant Date Fair<br>Value Per Share | Weighted-Average<br>Remaining Contractual<br>Term<br>(In years) | Aggregate Intrinsic<br>Value<br>(In thousands) |
|--|--------------------------|---|---|--|
| Outstanding at January 1, 2020                     | 144                      | \$ 64.05  |   |  |
| Granted  | 73                       | \$ 98.75  |   |  |
| Vested   | —                        | —   |   |  |
| Forfeited  | —                        | —   |   |  |
| Outstanding at March 31, 2020                      | 217                      | \$ 75.70  | 1.75  | \$ 19,097                                      |
| Outstanding and expected to vest at March 31, 2020 | 131                      |   | 2.30  | \$ 11,564                                      |

**RSU Awards**

A summary of RSUs outstanding as of March 31, 2020, and activity during the three months then ended, is presented below:

|  | Shares<br>(In thousands) | Weighted- Average<br>Grant Date Fair<br>Value Per Share | Weighted-Average<br>Remaining Contractual<br>Term<br>(In years) | Aggregate Intrinsic<br>Value<br>(In thousands) |
|--|--------------------------|---|---|--|
| Outstanding at January 1, 2020                     | 860                      | \$ 62.66  |   |  |
| Granted  | 70                       | \$ 97.97  |   |  |
| Vested   | (117)                    | \$ 58.12  |   |  |
| Forfeited  | (3)                      | \$ 64.40  |   |  |
| Outstanding at March 31, 2020                      | 810                      | \$ 66.39  | 2.02  | \$ 71,528                                      |
| Outstanding and expected to vest at March 31, 2020 | 752                      |   | 1.55  | \$ 66,443                                      |

**7. SIGNIFICANT CUSTOMERS AND GEOGRAPHIC NET REVENUES:**
**Segment Reporting**

The Company is organized and operates as one reportable segment, the design, development, manufacture and marketing of integrated circuits and related components for use primarily in the high-voltage power-conversion market. The Company's chief operating decision maker, the Chief Executive Officer, reviews financial information presented on a consolidated basis for purposes of making operating decisions and assessing financial performance.

**Customer Concentration**

The Company's top ten customers accounted for approximately 55% of net revenues for the three months ended March 31, 2020, and approximately 52% of net revenues in the corresponding period of the previous year. A significant portion of these revenues are attributable to sales of the Company's products to distributors of electronic components. These distributors sell the Company's products to a broad, diverse range of end users, including original equipment manufacturers, or OEMs, and merchant power supply manufacturers. Sales to distributors were \$83.5 million and \$69.8 million in the three months ended March 31, 2020 and 2019, respectively. Direct sales to OEMs and power-supply manufacturers accounted for the remainder.

In the three months ended March 31, 2020, two customers, distributors of the Company's products, accounted for more than 10% of the Company's net revenues. In the three months ended March 31, 2019, one of the two customers accounted for more than 10% of the Company's net revenues.

The following table discloses the customers' percentage of revenues for the respective periods:

| <u>Customer</u>             | <u>Three Months Ended</u> |                       |
|-----------------------------|---------------------------|-----------------------|
|                             | <u>March 31, 2020</u>     | <u>March 31, 2019</u> |
| Avnet                       | 11%                       | 13%                   |
| Powertech Distribution Ltd. | 11%                       | *                     |

\*Total customer revenue was less than 10% of net revenues.

## POWER INTEGRATIONS, INC.

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

No other customers accounted for 10% or more of the Company's net revenues in the periods presented.

**Concentration of Credit Risk**

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash investments and trade receivables. The Company does not have any off-balance-sheet credit exposure related to its customers. As of March 31, 2020, and December 31, 2019, 69% and 63%, respectively, of accounts receivable were concentrated with the Company's top ten customers.

The following customers represented 10% or more of accounts receivable:

| <b>Customer</b>             | <b>March 31, 2020</b> | <b>December 31, 2019</b> |
|-----------------------------|-----------------------|--------------------------|
| Powertech Distribution Ltd. | 16%                   | 10%                      |
| Avnet                       | 13%                   | *                        |
| Burnon International Ltd.   | 10%                   | *                        |

\*Total customer accounts receivable was less than 10% of accounts receivable.

No other customers accounted for 10% or more of the Company's accounts receivable in the periods presented.

**Geographic Net Revenues**

The Company markets its products globally through its sales personnel and a worldwide network of independent sales representatives and distributors. Geographic net revenues, based on "bill to" customer locations, for the three months ended March 31, 2020, and March 31, 2019, were as follows:

| <b>(In thousands)</b>              | <b>Three Months Ended</b> |                       |
|------------------------------------|---------------------------|-----------------------|
|                                    | <b>March 31, 2020</b>     | <b>March 31, 2019</b> |
| United States of America           | \$ 2,713                  | \$ 2,672              |
| Hong Kong/China                    | 60,413                    | 47,229                |
| Taiwan                             | 6,479                     | 6,672                 |
| Korea                              | 10,357                    | 8,542                 |
| Western Europe (excluding Germany) | 10,035                    | 10,901                |
| Japan                              | 3,905                     | 3,650                 |
| Germany                            | 5,567                     | 4,927                 |
| Other                              | 10,195                    | 4,595                 |
| Total net revenues                 | \$ 109,664                | \$ 89,188             |

**8. STOCKHOLDERS' EQUITY:****Common Stock Shares Outstanding**

| <b>(In thousands)</b>                          | <b>Three Months Ended</b> |                       |
|--|---------------------------|-----------------------|
|  | <b>March 31, 2020</b>     | <b>March 31, 2019</b> |
| Beginning balance                              | 29,431                    | 28,889                |
| Common stock issued under employee stock plans | 284                       | 342                   |
| Repurchased                                    | (24)                      | (121)                 |
| Ending balance                                 | 29,691                    | 29,110                |

**Common Stock Repurchases**

As of December 31, 2019, the Company had approximately \$43.9 million remaining under its stock-repurchase program. In the three months ended March 31, 2020, the Company repurchased approximately 24,000 shares of its common stock for approximately \$2.0 million. As of March 31, 2020, the Company had approximately \$41.9 million remaining under its current repurchase program, which has no expiration date. Authorization of future repurchase programs is at the discretion of the board of directors and will depend on the Company's financial condition, results of operations, capital requirements, business conditions and other factors.

**Cash Dividends**

In January 2019, the Company's board of directors declared four quarterly cash dividends in the amount of \$0.17 per share to be paid to stockholders of record at the end of each quarter in 2019. In October 2019, the Company's board of directors raised the cash dividends per share with the declaration of five cash dividends, consisting of (a) a dividend in the amount of \$0.02 per share to be paid to stockholders of record at the end of the fourth quarter in 2019, which is in addition to the dividend in the amount of \$0.17 per share to be paid to stockholders of record at the end of the fourth quarter in 2019 previously declared by the board in January 2019, and (b) a dividend in the amount of \$0.19 per share to be paid to stockholders of record at the end of each quarter in 2020.

In April 2020, the Company's board of directors raised the cash dividends further with the declaration of three cash dividends in the amount of \$0.21 per share (in lieu of the \$0.19 per share previously announced) to be paid to stockholders of record at the end of each of the second, third and fourth quarter in 2020.





## POWER INTEGRATIONS, INC.

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

For the three months ended March 31, 2020, and 2019, cash dividends declared and paid were as follows:

| (In thousands, except per share amounts) | Three Months Ended |                |
|--|--------------------|----------------|
|  | March 31, 2020     | March 31, 2019 |
| Dividends declared and paid              | \$ 5,644           | \$ 4,937       |
| Dividends declared per common share      | \$ 0.19            | \$ 0.17        |

**9. EARNINGS PER SHARE:**

Basic earnings per share are calculated by dividing net income by the weighted-average shares of common stock outstanding during the period. Diluted earnings per share are calculated by dividing net income by the weighted-average shares of common stock and dilutive common equivalent shares outstanding during the period. Dilutive common equivalent shares included in this calculation consist of dilutive shares issuable upon the assumed exercise of outstanding common stock options, the assumed vesting of outstanding restricted stock units, the assumed issuance of awards under the stock purchase plan and contingently issuable performance-based awards, as computed using the treasury stock method.

A summary of the earnings per share calculation is as follows:

| (In thousands, except per share amounts)   | Three Months Ended |                |
|--|--------------------|----------------|
|  | March 31, 2020     | March 31, 2019 |
| Basic earnings per share:                  |                    |                |
| Net income                                 | \$ 15,886          | \$ 7,233       |
| Weighted-average common shares             | 29,602             | 28,951         |
| Basic earnings per share                   | \$ 0.54            | \$ 0.25        |
| Diluted earnings per share: <sup>(1)</sup> |                    |                |
| Net income                                 | \$ 15,886          | \$ 7,233       |
| Weighted-average common shares             | 29,602             | 28,951         |
| Effect of dilutive awards:                 |                    |                |
| Employee stock plans                       | 532                | 495            |
| Diluted weighted-average common shares     | 30,134             | 29,446         |
| Diluted earnings per share                 | \$ 0.53            | \$ 0.25        |

- (1) The Company includes the shares underlying performance-based awards in the calculation of diluted earnings per share if the performance conditions have been satisfied as of the end of the reporting period and excludes such shares when the necessary conditions have not been met. The Company has excluded the shares underlying the outstanding performance-based awards in the 2020 and 2019 calculations as the shares were not contingently issuable as of the end of the reporting periods.

In the three months ended March 31, 2020 and 2019, no outstanding stock awards were determined to be anti-dilutive and therefore excluded from the computation of diluted earnings per share.

**10. PROVISION FOR INCOME TAXES:**

Income-tax expense includes a provision for federal, state and foreign taxes based on the annual estimated effective tax rate applicable to the Company and its subsidiaries, adjusted for certain discrete items which are fully recognized in the period they occur. Accordingly, the interim effective tax rate may not be reflective of the annual estimated effective tax rate.

The Company's effective tax rates for the three months ended March 31, 2020 and 2019, were 5.8% and 0.5%, respectively. In the three months ended March 31, 2020 and 2019, the effective tax rate was lower than the statutory federal income-tax rate of 21% due to the geographic distribution of the Company's world-wide earnings in lower-tax jurisdictions, federal research tax credits and the recognition of excess tax benefits related to share-based payments. These benefits were partially offset by foreign income subject to U.S. tax, known as global intangible low-taxed income. The Company's primary jurisdiction where foreign earnings are derived is the Cayman Islands, which is a non-taxing jurisdiction. Income earned in other foreign jurisdictions was not material. The Company has not been granted any incentivized tax rates and does not operate under any tax holidays in any jurisdiction.

As of March 31, 2020, the Company maintained a valuation allowance on its California deferred tax assets, New Jersey deferred tax assets, and capital losses for federal purposes, and a valuation allowance with respect to its deferred tax assets relating to tax credits in Canada.

Determining the consolidated provision for income-tax expense, income-tax liabilities and deferred tax assets and liabilities involves judgment. The Company calculates and provides for income taxes in each of the tax jurisdictions in which it operates, which

**POWER INTEGRATIONS, INC.**

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

involves estimating current tax exposures as well as making judgments regarding the recoverability of deferred tax assets in each jurisdiction. The estimates used could differ from actual results, which may have a significant impact on operating results in future periods.

**11. COMMITMENTS:**

***Supplier Agreements***

Under the terms of the Company's wafer-supply agreements with Seiko Epson Corporation ("Epson"), and ROHM Lapis Semiconductor Co., Ltd. ("Lapis") the wafers purchased from these suppliers are priced in U.S. dollars, with mutual sharing of the impact of fluctuations in the exchange rate between the Japanese yen and the U.S. dollar on future purchases. Each year, the Company's management and these two suppliers review and negotiate future pricing; the negotiated pricing is denominated in U.S. dollars but is subject to contractual exchange rate provisions. The fluctuation in the exchange rate is shared equally between the Company and each of these suppliers on future purchases.

**12. LEGAL PROCEEDINGS AND CONTINGENCIES:**

From time to time in the ordinary course of business, the Company becomes involved in lawsuits, or customers and distributors may make claims against the Company. In accordance with ASC 450-10, *Contingencies*, the Company makes a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

On April 1, 2016, Opticurrent, LLC filed a complaint against the Company in the United States District Court for the Eastern District of Texas. In its complaint, Opticurrent alleges that the Company has infringed and is infringing one patent pertaining to transistor switch devices. The Company filed a motion to transfer the case to California, which the Court granted, and the case was assigned to a new judge in San Francisco following the transfer. On December 21, 2018, the Court granted the Company's challenge to Opticurrent's damages expert but denied the Company's motion for summary judgment. Following a trial in February 2019, a jury issued a finding of direct infringement by the Company but found that the Company did not induce infringement, and awarded Opticurrent damages of \$6.7 million. The Company challenged those findings in post-trial proceedings, and the Court granted one of the Company's post-trial motions, reducing the damages award to \$1.2 million. The Company believes it has strong defenses, and intends to vigorously defend itself against Opticurrent's claims through appeals, which are currently under way, with briefing completed and oral argument to follow in the coming months.

On June 19, 2019, Opticurrent, LLC filed a follow-on lawsuit accusing more of the Company's products of infringing the same claim of the same patent asserted in the parties' prior litigation, as described above. The Company believes it has strong defenses, and intends to vigorously defend itself against Opticurrent's claims, with appeals to follow if necessary.

On January 6, 2020, the Company filed a complaint against CogniPower LLC for infringement of two of the Company's patents and seeking a declaration of non-infringement with respect to three patents that CogniPower had charged the Company's customers with infringing. The case is in its preliminary stages, and no schedule has been set for the case at this time, but the Company believes it has strong claims and defenses, and intends to vigorously defend itself against CogniPower's infringement claims, with appeals to follow if necessary.

The Company is unable to predict the outcome of legal proceedings with certainty, and there can be no assurance that Power Integrations will prevail in the above-mentioned unsettled litigations. These litigations, whether or not determined in Power Integrations' favor or settled, will be costly and will divert the efforts and attention of the Company's management and technical personnel from normal business operations, potentially causing a material adverse effect on the business, financial condition and operating results. Currently, the Company is not able to estimate a loss or a range of loss for the ongoing litigation disclosed above, however adverse determinations in litigation could result in monetary losses, the loss of proprietary rights, subject the Company to significant liabilities, require Power Integrations to seek licenses from third parties or prevent the Company from licensing the technology, any of which could have a material adverse effect on the Company's business, financial condition and operating results.

**13. INDEMNIFICATIONS:**

The Company sells products to its distributors under contracts, collectively referred to as Distributor Sales Agreements ("DSA"). Each DSA contains the relevant terms of the contractual arrangement with the distributor, and generally includes certain provisions for indemnifying the distributor against losses, expenses, and liabilities from damages that may be awarded against the distributor in the event the Company's products are found to infringe upon a patent, copyright, trademark, or other proprietary right of a third party ("Customer Indemnification"). The DSA generally limits the scope of and remedies for the Customer Indemnification obligations in a variety of industry-standard respects, including, but not limited to, limitations based on time and geography, and a

**POWER INTEGRATIONS, INC.**

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

right to replace an infringing product. The Company also, from time to time, has granted a specific indemnification right to individual customers.

The Company believes its internal development processes and other policies and practices limit its exposure related to such indemnifications. In addition, the Company requires its employees to sign a proprietary information and inventions agreement, which assigns the rights to its employees' development work to the Company. To date, the Company has not had to reimburse any of its distributors or customers for any losses related to these indemnifications and no material claims were outstanding as of March 31, 2020. For several reasons, including the lack of prior indemnification claims and the lack of a monetary liability limit for certain infringement cases, the Company cannot determine the maximum amount of potential future payments, if any, related to such indemnifications.

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

*The following discussion and analysis of our financial condition and our results of operations should be read in conjunction with the condensed consolidated financial statements and the notes to those statements included elsewhere in this Quarterly Report on Form 10-Q, and with the consolidated financial statements and management's discussion and analysis of our financial condition and results of operations in our Annual Report on Form 10-K for the year ended December 31, 2019, filed with the SEC on February 7, 2020. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those contained in these forward-looking statements due to a number of factors, including those discussed under the caption "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2019, and in Part II, Item 1A - "Risk Factors" and elsewhere in this report. See also "Cautionary Note Regarding Forward-Looking Statements" at the beginning of this report.*

### Overview

We design, develop and market analog and mixed-signal integrated circuits (ICs) and other electronic components and circuitry used in high-voltage power conversion. Our products are used in power converters that convert electricity from a high-voltage source to the type of power required for a specified downstream use. In most cases, this conversion entails, among other functions, converting alternating current (AC) to direct current (DC) or vice versa, reducing or increasing the voltage, and regulating the output voltage and/or current according to the customer's specifications.

A large percentage of our products are ICs used in AC-DC power supplies, which convert the high-voltage AC from a wall outlet to the low-voltage DC required by most electronic devices. Power supplies incorporating our products are used with all manner of electronic products including mobile phones, computing and networking equipment, appliances, electronic utility meters, battery-powered tools, industrial controls, and "home-automation," or "internet of things" applications such as networked thermostats, power strips and security devices. We also supply high-voltage LED drivers, which are AC-DC ICs specifically designed for lighting applications that utilize light-emitting diodes, and motor-driver ICs addressing brushless DC (BLDC) motors used in refrigerators, HVAC systems, ceiling fans and other consumer-appliance and light commercial applications.

We also offer high-voltage gate drivers - either standalone ICs or circuit boards containing ICs, electrical isolation components and other circuitry - used to operate high-voltage switches such as insulated-gate bipolar transistors (IGBTs) and silicon-carbide (SiC) MOSFETs. These combinations of switches and drivers are used for power conversion in high-power applications (i.e., power levels ranging from a few kilowatts up to one gigawatt) such as industrial motors, solar- and wind-power systems, electric vehicles and high-voltage DC transmission systems.

Our products bring a number of important benefits to the power-conversion market compared with less advanced alternatives, including reduced component count and design complexity, smaller size, higher reliability and reduced time-to-market. Our products also improve the energy efficiency of power converters, helping our customers meet the increasingly stringent efficiency standards that have been adopted around the world for many electronic products, and improving the efficacy of renewable-energy systems, electric vehicles and other high-power applications.

While the size of our addressable market fluctuates with changes in macroeconomic and industry conditions, the market has generally exhibited a modest growth rate over time as growth in the unit volume of power converters has been offset to a large degree by reductions in the average selling price of components in this market. Therefore, the growth of our business depends largely on increasing our penetration of the markets that we serve and on further expanding our addressable market. Our growth strategy includes the following elements:

- *Increase our penetration of the markets we serve.* We currently address AC-DC applications with power outputs up to approximately 500 watts, gate-driver applications of approximately ten kilowatts and higher, and motor-drive applications up to approximately 400 watts. Through our research and development efforts, we seek to introduce more advanced products for these markets offering higher levels of integration and performance compared to earlier products. We also continue to expand our sales and application-engineering staff and our network of distributors, as well as our offerings of technical documentation and design-support tools and services to help customers use our products. These tools and services include our PI Expert™ design software, which we offer free of charge, and our transformer-sample service.

Our market-penetration strategy also includes capitalizing on the importance of energy efficiency and renewable energy in the power conversion market. For example, our EcoSmart™ technology drastically reduces the amount of energy consumed by electronic products when they are not in use, helping our customers comply with regulations that seek to curb this so-called "standby" energy consumption. Also, our gate-driver products are critical components in energy-efficient DC motor drives, high-voltage DC transmission systems, solar and wind energy systems and electric transportation applications.

- *Increase the size of our addressable market.* Prior to 2010 our addressable market consisted of AC-DC applications with up to about 50 watts of output, a served available market (SAM) opportunity of approximately \$1.5 billion. Since that time we have expanded our SAM to more than \$4 billion through a variety of means. These include the introduction of products that enable us to address higher-power AC-DC applications (such as our Hiper™ product families), the introduction of LED-driver products, and our entry into the gate-driver market through the acquisition of CT-Concept Technologie AG in 2012. In 2016 we introduced the SCALE-iDriver™ family of gate-driver ICs, broadening the range of gate-driver applications we can address, and in 2018 we introduced our BridgeSwitch™ motor-driver ICs, addressing BLDC motors, as described above.

Also contributing to our SAM expansion has been the emergence of new applications within the power ranges that our products can address. For example, applications such as “smart” utility meters, battery-powered lawn equipment and bicycles, and USB power receptacles (often installed alongside traditional AC wall outlets) can incorporate our products. The increased use of electronic intelligence and connectivity in consumer appliances has also enhanced our SAM. Finally, we have enhanced our SAM through the development of new technologies that increase the value (and therefore the average selling prices) of our products. For example, our InnoSwitch™ ICs integrate circuitry from the secondary, or low-voltage, side of AC-DC power supplies, whereas earlier product families integrated circuitry only on the primary, or high-voltage side. In 2019 we introduced new members of our InnoSwitch™ family incorporating gallium-nitride (GaN) transistors, which enable a higher level of energy efficiency than ICs with traditional silicon transistors.

We intend to continue expanding our SAM in the years ahead through all of the means described above.

Our quarterly operating results are difficult to predict and subject to significant fluctuations. We plan our production and inventory levels based on internal forecasts of projected customer demand, which are highly unpredictable and can fluctuate substantially. Customers typically may cancel or reschedule orders on short notice without significant penalty and, conversely, often place orders with very short lead times to delivery. Also, external factors such as global economic conditions and supply-chain dynamics can cause our operating results to be volatile. In particular, the severe economic disruption caused by the global novel coronavirus pandemic (COVID-19) may affect the demand for our products and make our results more difficult to forecast. Furthermore, because our industry is intensely price-sensitive, our gross margin (gross profit divided by net revenues) is subject to change based on the relative pricing of solutions that compete with ours. Variations in product mix, end-market mix and customer mix can also cause our gross margin to fluctuate. Because we purchase a large percentage of our silicon wafers from foundries located in Japan, our gross margin is influenced by fluctuations in the exchange rate between the U.S. dollar and the Japanese yen. Changes in the prices of raw materials used in our products, such as copper and gold, can also affect our gross margin. Although our wafer-fabrication and assembly operations are outsourced, as are most of our test operations, a portion of our production costs are fixed in nature. As a result, our unit costs and gross margin are impacted by the volume of units we produce.

#### *Recent Results*

Our net revenues were \$109.7 million and \$89.2 million in the three months ended March 31, 2020 and 2019, respectively. The increase in revenues was primarily due to growth in the consumer end market, particularly increased sales into comfort-appliances such as air conditioners, as well as the communications end market, reflecting increased adoption of higher-power chargers for mobile phones.

Our top ten customers, including distributors that resell to original equipment manufacturers, or OEMs, and merchant power supply manufacturers, accounted for 55% and 52% of our net revenues in the three months ended March 31, 2020 and 2019, respectively. In the three months ended March 31, 2020, two customers, both distributors of our products, each accounted for approximately 11% of our net revenues. In the three months ended March 31, 2019, one customer accounted for approximately 13% of our net revenues. International sales accounted for 98% and 97% of our net revenues in the three months ended March 31, 2020 and 2019, respectively.

Our gross margin for the three months ended March 31, 2020 and 2019 was 51.5%, and 51.0%, respectively. The increase in gross margin was due to a favorable change in end-market mix with a greater amount of revenues coming from higher-margin end markets.

Total operating expenses were \$41.4 million and \$39.4 million in the three months ended March 31, 2020 and 2019, respectively. The increase was due primarily to higher salary and related expenses driven by the expansion of our workforce, as well as higher stock-based compensation expense related to performance-based awards. These expenses were partially offset by lower patent-litigation expense reflecting the recent conclusion of our litigation with ON Semiconductor, as well as lower travel expenses due to restrictions associated with the COVID-19 pandemic.

#### *COVID-19 Pandemic*

The COVID-19 pandemic has disrupted everyday life and markets worldwide, and governments around the world have imposed restrictions aimed at controlling the spread of the virus, including shelter-in-place orders, travel restrictions, business

shutdowns and border closures. Since March 16, 2020 our San Jose headquarters location has been subject to a shelter-in-place order, under which most of our employees have been required to work from home; other locations around the world have also been subject to such restrictions. We have implemented a variety of measures to protect the health and safety of those employees whose responsibilities require them to go to our office locations, including the provision of masks and sanitizers, and regular deep cleaning of our facilities. While it is uncertain when we will be able to return to normal working conditions, we believe that we are able to conduct our day-to-day operations effectively in spite of the restrictions.

While we do not believe our recent results have been impacted materially by the pandemic, we believe our results in future periods are likely to be affected as the economic downturn stemming from the pandemic reduces demand for end products that incorporate our products. Also, the pandemic may impact our ability to supply products to our customers if our suppliers are unable to obtain necessary raw materials or other inputs, if our manufacturing partners are unable to staff their manufacturing facilities, or if key logistical elements of our supply chain such as warehousing or shipping services are disrupted. We have taken steps to reduce the effects of such supply disruptions, including higher-than-normal levels of inventory of wafers and finished goods, safety stocks of certain key inputs, and multiple sources for most of our products. The supply of wafers from our foundry partners has not been interrupted; however, government-mandated closures in China, Malaysia, Sri Lanka and Philippines have caused temporary shutdowns at our assembly and test sub-contractors in those countries. All of the affected sub-contractors have either fully or partially resumed operations. While these disruptions have resulted in delayed shipments to some customers, we believe our mitigation efforts have been effective at preventing a material impact to our results.

In anticipation of reduced demand for our products in future periods, we have adjusted our near-term operating-expense and capital-spending plans, such as slowing the pace of hiring, and will continue to make adjustments as business conditions change. However, we believe our business is fundamentally sound with strong, long-term growth prospects and ample cash resources. We have not reduced headcount and intend to continue investing in research and development and other functions necessary to support our future growth. We also intend to continue our cash dividend and stock repurchase programs; however, if the economy deteriorates more than we expect or our business outlook changes, our board of directors may choose to suspend or alter these programs at its discretion. For additional discussion regarding COVID-19 business risks refer to Part II, Item 1A “Risk Factors” in this Quarterly Report on Form 10-Q.

### ***Critical Accounting Policies and Estimates***

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates, including those listed below. We base our estimates on historical facts and various other assumptions that we believe to be reasonable at the time the estimates are made. Actual results could differ from those estimates.

Our critical accounting policies are as follows:

- revenue recognition;
- stock-based compensation;
- estimating write-downs for excess and obsolete inventory;
- income taxes;
- business combinations; and
- goodwill and intangible assets.

Our critical accounting policies are important to the portrayal of our financial condition and results of operations, and require us to make judgments and estimates about matters that are inherently uncertain. There have been no material changes to our critical accounting policies and estimates disclosed in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates” and Note 2, *Significant Accounting Policies and Recent Accounting Pronouncements*, in each case in our Annual Report on Form 10-K for the year ended December 31, 2019, filed with the SEC on February 7, 2020.

## Results of Operations

The following table sets forth certain operating data as a percentage of net revenues for the periods indicated.

|                            | Three Months Ended<br>March 31, |        |
|----------------------------|---------------------------------|--------|
|                            | 2020                            | 2019   |
| Net revenues               | 100.0%                          | 100.0% |
| Cost of revenues           | 48.5                            | 49.0   |
| Gross profit               | 51.5                            | 51.0   |
| Operating expenses:        |                                 |        |
| Research and development   | 17.4                            | 20.1   |
| Sales and marketing        | 12.3                            | 14.6   |
| General and administrative | 8.0                             | 9.4    |
| Total operating expenses   | 37.7                            | 44.1   |
| Income from operations     | 13.8                            | 6.9    |
| Other income               | 1.6                             | 1.3    |
| Income before income taxes | 15.4                            | 8.2    |
| Provision for income taxes | 0.9                             | —      |
| Net income                 | 14.5%                           | 8.2%   |

### Comparison of the Three Months Ended March 31, 2020 and 2019

*Net revenues.* Net revenues consist of revenues from product sales, which are calculated net of returns and allowances. Net revenues for the three months ended March 31, 2020 and 2019 were \$109.7 million and \$89.2 million, respectively. The increase in revenues was due to growth in the consumer end market, particularly the comfort-appliances such as air conditioners, as well as the communications end market, reflecting increased adoption of faster higher-power chargers for mobile phones.

Our revenue mix by end market for the three months ended March 31, 2020 and 2019 was as follows:

| End Market     | Three Months Ended<br>March 31, |      |
|----------------|---------------------------------|------|
|                | 2020                            | 2019 |
| Communications | 22%                             | 18%  |
| Computer       | 4%                              | 5%   |
| Consumer       | 41%                             | 39%  |
| Industrial     | 33%                             | 38%  |

International sales, consisting of sales outside of the United States of America based on “bill to” customer locations, were \$107.0 million and \$86.5 million in the three months ended March 31, 2020 and 2019, respectively. Although power converters using our products are distributed to end markets worldwide, most are manufactured in Asia. As a result, sales to this region represented 75% of our net revenues in the three months ended March 31, 2020 and 2019. We expect international sales, and sales to the Asia region in particular, to continue to account for a large portion of our net revenues in the future.

Sales to distributors accounted for 76% and 78% of net revenues in the three months ended March 31, 2020 and 2019, respectively. Direct sales to OEMs and power-supply manufacturers accounted for the remainder.

In the three months ended March 31, 2020, two customers, both distributors of our products, each accounted for more than 10% of our net revenues. In the three months ended March 31, 2019, one of these two distributors accounted for more than 10% of our net revenues.

The following table discloses the customers’ percentage of revenues for the respective periods:

| Customer                    | Three Months Ended<br>March 31, |      |
|-----------------------------|---------------------------------|------|
|                             | 2020                            | 2019 |
| Avnet                       | 11%                             | 13%  |
| Powertech Distribution Ltd. | 11%                             | *    |

\*Total customer revenue was less than 10% of net revenues.

No other customers accounted for 10% or more of our net revenues in these periods.



*Gross profit.* Gross profit is net revenues less cost of revenues. Our cost of revenues consists primarily of costs associated with the purchase of wafers from our contracted foundries, the assembly, packaging and testing of our products by sub-contractors, product testing performed in our own facilities, amortization of acquired intangible assets, and overhead associated with the management of our supply chain. Gross margin is gross profit divided by net revenues. The table below compares gross profit and gross margin for the three months ended March 31, 2020 and 2019:

| (dollars in millions) | Three Months Ended<br>March 31, |         |
|-----------------------|---------------------------------|---------|
|                       | 2020                            | 2019    |
| Net revenues          | \$ 109.7                        | \$ 89.2 |
| Gross profit          | \$ 56.5                         | \$ 45.5 |
| Gross margin          | 51.5%                           | 51.0%   |

Gross margin increased in the three months ended March 31, 2020, compared with the same period in 2019, due primarily to a favorable change in end-market mix with more revenues coming from higher-margin end markets.

*Research and development expenses.* Research and development (“R&D”) expenses consist primarily of employee-related expenses, including stock-based compensation, and expensed material and facility costs associated with the development of new technologies and new products. We also record R&D expenses for prototype wafers related to new products until such products are released to production. The table below compares R&D expenses for the three months ended March 31, 2020 and 2019:

| (dollars in millions)              | Three Months Ended<br>March 31, |         |
|------------------------------------|---------------------------------|---------|
|                                    | 2020                            | 2019    |
| Net revenues                       | \$ 109.7                        | \$ 89.2 |
| R&D expenses                       | \$ 19.2                         | \$ 17.9 |
| R&D expenses as a % of net revenue | 17.4%                           | 20.1%   |

R&D expenses increased in the three months ended March 31, 2020 as compared to the same period in 2019, due primarily to higher salary and related expenses driven by increased headcount, increased equipment related expenses, as well as higher stock-based compensation expense related to performance-based awards.

*Sales and marketing expenses.* Sales and marketing (“S&M”) expenses consist primarily of employee-related expenses, including stock-based compensation, commissions to sales representatives, amortization of intangible assets and facilities expenses, including expenses associated with our regional sales and support offices. The table below compares S&M expenses for the three months ended March 31, 2020 and 2019:

| (dollars in millions)              | Three Months Ended<br>March 31, |         |
|------------------------------------|---------------------------------|---------|
|                                    | 2020                            | 2019    |
| Net revenues                       | \$ 109.7                        | \$ 89.2 |
| S&M expenses                       | \$ 13.5                         | \$ 13.0 |
| S&M expenses as a % of net revenue | 12.3%                           | 14.6%   |

S&M expenses increased in the three months ended March 31, 2020 as compared to the same period in 2019, due primarily to higher salary and related expenses driven by the expansion of our sales force, as well as higher stock-based compensation expense related to performance-based awards. These expenses were partially offset by lower travel expenses as a result of restrictions associated with the COVID-19 pandemic.

*General and administrative expenses.* General and administrative (“G&A”) expenses consist primarily of employee-related expenses, including stock-based compensation expenses, for administration, finance, human resources and general management, as well as consulting, professional services, legal and audit expenses. The table below compares G&A expenses for the three months ended March 31, 2020 and 2019:

| (dollars in millions)              | Three Months Ended<br>March 31, |         |
|------------------------------------|---------------------------------|---------|
|                                    | 2020                            | 2019    |
| Net revenues                       | \$ 109.7                        | \$ 89.2 |
| G&A expenses                       | \$ 8.8                          | \$ 8.4  |
| G&A expenses as a % of net revenue | 8.0%                            | 9.4%    |

G&A expenses increased in the three ended March 31, 2020 as compared to the same period in 2019 as a result of higher salary and related expenses driven by the expansion of our workforce, as well as higher stock-based compensation expense related

to performance-based awards. These expenses were partially offset by lower patent-litigation expense following our settlement with ON Semiconductor in October 2019.

*Other income.* Other income consists primarily of interest income earned on cash and cash equivalents, marketable securities and other investments, and the impact of foreign exchange gains or losses. The table below compares other income for the three months ended March 31, 2020 and 2019:

| (dollars in millions)              | Three Months Ended<br>March 31, |         |
|------------------------------------|---------------------------------|---------|
|                                    | 2020                            | 2019    |
| Net revenues                       | \$ 109.7                        | \$ 89.2 |
| Other income                       | \$ 1.8                          | \$ 1.2  |
| Other income as a % of net revenue | 1.6%                            | 1.3%    |

Other income increased in the three months ended March 31, 2020 as compared to the same period in 2019 due primarily to an increase in interest income earned on higher cash and investment balances.

*Provision for income taxes.* Provision for income taxes represents federal, state and foreign taxes. The table below compares income-tax expense for the three months ended March 31, 2020 and 2019:

| (dollars in millions)      | Three Months Ended<br>March 31, |        |
|----------------------------|---------------------------------|--------|
|                            | 2020                            | 2019   |
| Income before income taxes | \$ 16.9                         | \$ 7.3 |
| Provision for income taxes | \$ 1.0                          | \$ —   |
| Effective tax rate         | 5.8%                            | 0.5%   |

Income-tax expense includes a provision for federal, state and foreign taxes based on the annual estimated effective tax rate applicable to us and our subsidiaries, adjusted for certain discrete items which are fully recognized in the period in which they occur. Accordingly, the interim effective tax rate may not be reflective of the annual estimated effective tax rate.

Our effective tax rates for the three months ended March 31, 2020 and 2019 were 5.8% and 0.5%, respectively. The effective tax rate in these periods was lower than the statutory federal income-tax rate of 21% due to the geographic distribution of our world-wide earnings in lower-tax jurisdictions, the impact of federal research tax credits and the recognition of excess tax benefits related to share-based payments. These benefits were partially offset by U.S. tax on foreign income, known as global intangible low-taxed income. The primary jurisdiction from which our foreign earnings are derived is the Cayman Islands, which is a non-taxing jurisdiction. Income earned in other foreign jurisdictions was not material. We have not been granted any incentivized tax rates and do not operate under any tax holidays in any jurisdiction.

### Liquidity and Capital Resources

As of March 31, 2020, we had \$422.6 million in cash, cash equivalents and short-term marketable securities, an increase of approximately \$11.5 million from \$411.1 million as of December 31, 2019. As of March 31, 2020, we had working capital, defined as current assets less current liabilities, of \$506.0 million, an increase of approximately \$15.1 million from \$490.9 million as of December 31, 2019.

Operating activities generated cash of \$26.4 million in the three months ended March 31, 2020. Net income for this period was \$15.9 million; we also incurred non-cash stock-based compensation expense, depreciation, amortization and deferred income taxes of \$6.7 million, \$5.5 million, \$1.1 million and \$1.1 million, respectively. Sources of cash also included an \$8.8 million increase in accounts payable, excluding payables related to property and equipment, due primarily to the timing of payments and a \$3.8 million decrease in accounts receivable due to the timing of cash receipts. These sources of cash were partially offset by a \$6.3 million increase in inventories in order to support future demand, a \$6.3 million decrease in taxes payable and accrued liabilities, primarily due to the timing of payroll related liabilities and a \$4.0 million increase in prepaid expenses and other assets, primarily driven by prepaid taxes, advances to suppliers and interest receivable on marketable securities.

Operating activities generated cash of \$1.1 million in the three months ended March 31, 2019. Net income for this period was \$7.2 million; we also incurred non-cash stock-based compensation expense, depreciation, amortization and deferred income taxes of \$4.4 million, \$4.6 million, \$1.3 million and \$1.2 million, respectively. Sources of cash also included a \$1.2 million increase in accounts payable, excluding payables related to property and equipment, due primarily to the timing of payments. These sources of cash were mostly offset by a \$9.3 million increase in accounts receivable due to the timing of customer shipments, a \$4.2 million increase in inventory reflecting a combination of the recent market slowdown and anticipation of demand and a \$4.2 million increase in prepaid expenses and other assets, primarily driven by advances to suppliers, prepaid legal fees and prepaid taxes.

Our investing activities in the three months ended March 31, 2020, resulted in a \$12.5 million net use of cash, primarily consisting of \$11.6 million for purchases of property and equipment, primarily production-related machinery and equipment and \$0.9 million for purchases of marketable securities, net of sales and maturities. Our investing activities in the three months ended March 31, 2019, resulted in a \$1.7 million net use of cash, primarily consisting of \$3.5 million for purchases of property and equipment, primarily production-related machinery and equipment, partially offset by \$2.0 million from sales and maturities of marketable securities, net of purchases.

Our financing activities in the three months ended March 31, 2020, resulted in a \$2.1 million net use of cash, consisting of \$5.6 million for the payment of dividends to stockholders and \$2.0 million for the repurchase of our common stock. These uses of cash were offset in part by \$5.5 million from the issuance of common stock, including the exercise of employee stock options and the issuance of shares through our employee stock purchase plan. Our financing activities in the three months ended March 31, 2019, resulted in a \$7.7 million net use of cash, consisting of \$7.3 million for the repurchase of our common stock and \$4.9 million for the payment of dividends to stockholders. These uses of cash were offset in part by \$4.5 million from the issuance of common stock, including the exercise of employee stock options and the issuance of shares through our employee stock purchase plan.

On July 27, 2016, we entered into a Credit Agreement with a bank (the "Credit Agreement") that provides us with a \$75.0 million revolving line of credit to use for general corporate purposes with a \$20.0 million sub-limit for the issuance of standby and trade letters of credit. We amended the Credit Agreement on April 30, 2018, to extend the termination date from July 26, 2019, to April 30, 2022, with all other terms remaining the same. Our ability to borrow under the revolving line of credit is conditioned upon our compliance with specified covenants, including reporting and financial covenants, primarily a minimum liquidity measure and a debt to earnings ratio, with which we are currently in compliance. The Credit Agreement terminates on April 30, 2022; all advances under the revolving line of credit will become due on such date, or earlier in the event of a default. As of March 31, 2020, \$6.2 million was reserved against the available credit in the form a standby letter of credit. No advances were outstanding under the agreement as of March 31, 2020.

In January 2019, our board of directors declared four quarterly cash dividends in the amount of \$0.17 per share to be paid to stockholders of record at the end of each quarter in 2019. In October 2019, our board of directors raised the cash dividend per share with the declaration five cash dividends, consisting of (a) a dividend in the amount of \$0.02 per share to be paid to stockholders of record at the end of the fourth quarter in 2019, which is in addition to the dividend in the amount of \$0.17 per share to be paid to stockholders of record at the end of the fourth quarter in 2019 previously declared by the board in January 2019, and (b) a dividend in the amount of \$0.19 per share to be paid to stockholders of record at the end of each quarter in 2020. In April 2020, our board of directors raised the cash dividend further with the declaration of three cash dividends in the amount of \$0.21 per share (in lieu of the \$0.19 per share previously announced) to be paid to stockholders of record at the end of each of the second, third and fourth quarters in 2020. A dividend payout of \$5.6 million occurred on March 31, 2020. The declaration of any future cash dividend is at the discretion of the board of directors and will depend on our financial condition, results of operations, capital requirements, business conditions and other factors, as well as a determination that cash dividends are in the best interests of our stockholders.

As of December 31, 2019, we had approximately \$43.9 million remaining under our stock-repurchase program. In the three months ended March 31, 2020 we repurchased approximately 24,000 shares of our common stock for approximately \$2.0 million. As of March 31, 2020, we had approximately \$41.9 million remaining in our repurchase program, which has no expiration date. Authorization of future repurchase programs is at the discretion of the board of directors and will depend on our financial condition, results of operations, capital requirements, business conditions and other factors.

As of March 31, 2020, we had a contractual obligation related to income tax, which consisted primarily of unrecognized tax benefits of approximately \$20.6 million. A portion of the tax obligation is classified as long-term income taxes payable and a portion is recorded in deferred tax assets in our condensed consolidated balance sheet.

As of March 31, 2020, there were no material changes in our contractual commitments from those reported in our Annual Report on Form 10-K for the year ended December 31, 2019.

Our cash, cash equivalents and investment balances may change in future periods due to changes in our planned cash outlays, including changes in incremental costs such as direct and integration costs related to future acquisitions. The Tax Act signed into law on December 22, 2017, subjects U.S. companies to a one-time transition tax on total post-1986 earnings and profits of their foreign subsidiaries and generally allows companies to repatriate accumulated foreign earnings without incurring additional U.S. federal taxes beginning after December 31, 2017. Accordingly, as of March 31, 2020, our worldwide cash and marketable securities are available to fund capital allocation needs, including capital and internal investments, acquisitions, stock repurchases and/or dividends without incurring additional U.S. federal income taxes.

If our operating results deteriorate during the remainder of 2020 as a result of a decrease in customer demand, pricing pressure, or other factors, our ability to generate positive cash flow from operations may be jeopardized. In particular, the economic disruption around the world caused by COVID-19 such as business shutdowns, stay-at-home directives, travel restrictions, border closures as well as factory closures, delays on deliveries, and disruptions to freight infrastructure could significantly disrupt our sales and marketing activities, manufacturing and product shipments and demand for our products which could have a material adverse

impact on our cash flows. In that case, we may be forced to use our cash, cash equivalents and short-term investments, use our credit agreement or seek additional financing from third parties to fund our operations. We believe that cash generated from operations, together with existing sources of liquidity, will satisfy our projected working capital and other cash requirements for at least the next 12 months.

#### ***Off-Balance-Sheet Arrangements***

As of March 31, 2020, we did not have any off-balance-sheet arrangements or relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which are typically established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

#### ***Recent Accounting Pronouncements***

Information with respect to this item may be found in Note 2, *Significant Accounting Policies and Recent Accounting Pronouncements*, in our Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1, of this Quarterly Report on Form 10-Q, which information is incorporated herein by reference.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There has not been a material change in our exposure to foreign currency exchange and interest rate risks from that described in our Annual Report on Form 10-K for the year ended December 31, 2019.

***Interest Rate Risk.*** Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. We consider cash invested in highly liquid financial instruments with a remaining maturity of three months or less at the date of purchase to be cash equivalents. Investments in highly liquid financial instruments with maturities greater than three months at the date of purchase are classified as short-term investments. We generally hold securities until maturity; however, they may be sold under certain circumstances, including, but not limited to, when necessary for the funding of acquisitions and other strategic investments, and therefore we classify our investment portfolio as available-for-sale. We invest in high-credit quality issuers and, by policy, limit the amount of credit exposure to any one issuer. As stated in our policy, we seek to ensure the safety and preservation of our invested principal funds by limiting default risk, market risk and reinvestment risk. We mitigate default risk by investing in safe and high-credit quality securities and by constantly positioning our portfolio to respond appropriately to a significant reduction in a credit rating of any investment issuer, guarantor or depository. Our portfolio includes only marketable securities with active secondary or resale markets to facilitate portfolio liquidity. At March 31, 2020, and December 31, 2019, we held primarily cash equivalents and short-term investments with fixed interest rates.

Our investment securities are subject to market interest rate risk and will vary in value as market interest rates fluctuate. We monitor our investments per our above-mentioned investment policy; therefore, if market interest rates were to increase or decrease by 10% from interest rates as of March 31, 2020, or December 31, 2019, the increase or decrease in the fair market value of our portfolio on these dates would not have been material. We monitor our investments for impairment on a periodic basis. Refer to Note 5, *Marketable Securities*, in our Notes to Unaudited Condensed Consolidated Financial Statements, for a tabular presentation of our available-for-sale investments and the expected maturity dates.

***Foreign Currency Exchange Risk.*** As of March 31, 2020, our primary transactional currency was U.S. dollars; in addition, we hold cash in Swiss francs and euro. We maintain cash denominated in Swiss francs and euro to fund the operations of our Swiss subsidiary. The foreign exchange rate fluctuation between the U.S. dollar versus the Swiss franc and euro is recorded in other income in our condensed consolidated statements of income.

We have sales offices in various other foreign countries in which our expenses are denominated in the local currency, primary Asia and Western Europe. Cash balances held in foreign countries are subject to local banking laws and may bear higher or lower risk than cash deposited in the United States. From time to time we may enter into foreign currency hedging contracts to hedge certain foreign currency transactions. As of March 31, 2020, and December 31, 2019, we did not have an open foreign currency hedge program utilizing foreign currency forward exchange contracts.

Two of our major suppliers, Epson and Lapis, have wafer supply agreements based in U.S. dollars; however, our agreements with Epson and Lapis also allow for mutual sharing of the impact of the exchange rate fluctuation between Japanese yen and the U.S. dollar on future purchases. Each year, our management and these two suppliers review and negotiate future pricing; the negotiated pricing is denominated in U.S. dollars but is subject to contractual exchange rate provisions. The fluctuation in the exchange rate is shared equally between us and each of these suppliers on future purchases. Nevertheless, as a result of these supplier agreements, our gross margin is influenced by fluctuations in the exchange rate between the U.S. dollar and the Japanese yen. All else being equal, a 10% change in the value of the U.S. dollar compared to the Japanese yen would result in a corresponding change in our gross margin of approximately 1.0%; this sensitivity may increase or decrease depending on the percentage of our wafer supply that we purchase from some of our Japanese suppliers and could subject our gross profit and operating results to the potential for material fluctuations.

## ITEM 4. CONTROLS AND PROCEDURES

### *Limitation on Effectiveness of Controls*

Any control system, no matter how well designed and operated, can provide only reasonable assurance as to the tested objectives. The design of any control system is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. The inherent limitations in any control system include the realities that judgments related to decision-making can be faulty, and that reduced effectiveness in controls can occur because of simple errors or mistakes. Due to the inherent limitations in a cost-effective control system, misstatements due to error may occur and may not be detected.

### *Evaluation of Disclosure Controls and Procedures*

Management is required to evaluate our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”). Disclosure controls and procedures are controls and other procedures designed to provide reasonable assurance that information required to be disclosed in our reports filed under the Exchange Act, such as this Quarterly Report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include controls and procedures designed to provide reasonable assurance that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer as appropriate to allow timely decisions regarding required disclosure. Based on our management’s evaluation (with the participation of our principal executive officer and principal financial officer), our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective as of the end of the period covered by this report.

### *Changes in Internal Control over Financial Reporting*

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2020, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

Information with respect to this item may be found in Note 12, *Legal Proceedings and Contingencies*, in our Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1, of this Quarterly Report on Form 10-Q, which information is incorporated herein by reference.

### ITEM 1A. RISK FACTORS

In addition to the risk factors disclosed in Part I Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2019, which are incorporated herein by reference, the following is an additional risk factor facing our business that could affect our operating results:

*We face risks related to the Novel Coronavirus pandemic (COVID-19), which could significantly disrupt our operations, including our manufacturing, research and development, and sales and marketing activities, which could have a material adverse impact on our business, financial condition, operating results and cash flows.* Our business as well as the business of our suppliers, customers and distributors have been and may continue to be adversely impacted by the world-wide response to COVID-19 such as public health measures, travel restrictions, business shutdowns, border closures, delivery and freight delays and other disruptions. These disruptions may adversely affect not only our sales and marketing activities, product development, manufacturing and product shipments which could negatively impact our ability to meet customer commitments but also our customers’ ability to manufacture their products, which could reduce their demand for our products. The effects of the pandemic have resulted in a significant economic downturn in local and global economies, as well as a significant downturn in financial markets, and the continuing pandemic could result in further significant economic downturns which may result in reduced end-customer demand and materially impact our revenues. All of these effects could have a material adverse effect on our customer relationships, operating results, cash flows, financial condition and have a negative impact on our stock price.

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

In October 2018, our board of directors authorized the use of \$80.0 million for the repurchase of our common stock, which was announced on October 25, 2018. As of December 31, 2019, we had approximately \$43.9 million available for future repurchases to be executed according to pre-defined price/volume guidelines.

In the three months ended March 31, 2020, we purchased approximately 24,000 shares for approximately \$2.0 million. As of March 31, 2020, we had approximately \$41.9 million remaining in our repurchase program, which has no expiration date.

### Issuer Purchases of Equity Securities

The following table summarizes repurchases of our common stock during the first quarter of fiscal 2020:

| <b>Period</b>                          | <b>Total Number of Shares Purchased</b> | <b>Average Price Paid Per Share</b> | <b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b> | <b>Maximum Approximate Dollar Value of Shares that May Yet be Repurchased Under the Plans or Programs (in millions)</b> |
|--|---|-------------------------------------|---|---|
| January 1, 2020, to January 31, 2020   | —                                       | —                                   | —   | \$ 43.9   |
| February 1, 2020, to February 29, 2020 | 2,500                                   | \$ 84.96                            | 2,500   | \$ 43.7   |
| March 1, 2020, to March 31, 2020       | 21,564                                  | \$ 83.50                            | 21,564  | \$ 41.9   |
| Total                                  | 24,064                                  |                                     | 24,064  |   |

All of the shares repurchased were pursuant to our publicly announced repurchase program.

**ITEM 6. EXHIBITS**

| EXHIBIT NUMBER | Exhibit Description  | Incorporation by Reference |             |                            |             |                |
|----------------|--|----------------------------|-------------|----------------------------|-------------|----------------|
|                |  | Form                       | File Number | Exhibit/Appendix Reference | Filing Date | Filed Herewith |
| 3.1            | <a href="#">Restated Certificate of Incorporation</a>  | 10-K                       | 000-23441   | 3.1                        | 2/29/2012   |                |
| 3.2            | <a href="#">Amended and Restated Bylaws</a>  | 8-K                        | 000-23441   | 3.1                        | 4/26/2013   |                |
| 4.2            | Reference is made to Exhibits 3.1 to 3.2   |                            |             |                            |             |                |
| †10.1          | <a href="#">Amendment Number Ten to the Amended and Restated Wafer Supply Agreement, between Power Integrations International, Ltd. and Lapis Semiconductor Co., Ltd. (formerly OKI Semiconductor Co., Ltd.), effective as of December 16, 2019</a>    |                            |             |                            |             | X              |
| †10.2          | <a href="#">Amendment Number Eleven to the Amended and Restated Wafer Supply Agreement, between Power Integrations International, Ltd. and Lapis Semiconductor Co., Ltd. (formerly OKI Semiconductor Co., Ltd.), effective as of December 20, 2019</a> |                            |             |                            |             | X              |
| †10.3          | <a href="#">Amendment Number Nine to Wafer Supply Agreement, effective as of November 1, 2017 by Power Integrations International Ltd. and Seiko Epson Corporation</a>   |                            |             |                            |             | X              |
| 10.4           | <a href="#">2020 Compensation Arrangements with Named Executive Officers</a>   | 10-K                       | 000-23441   | Item 9B                    | 2/7/2020    |                |
| 31.1           | <a href="#">Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>   |                            |             |                            |             | X              |
| 31.2           | <a href="#">Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>   |                            |             |                            |             | X              |
| 32.1**         | <a href="#">Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>   |                            |             |                            |             | X              |
| 32.2**         | <a href="#">Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>   |                            |             |                            |             | X              |
| 101.INS        | XBRL Instance Document - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.  |                            |             |                            |             | X              |
| 101.SCH        | Inline XBRL Taxonomy Extension Schema Document   |                            |             |                            |             | X              |
| 101.CAL        | Inline XBRL Taxonomy Extension Calculation Linkbase Document   |                            |             |                            |             | X              |
| 101.DEF        | Inline XBRL Taxonomy Extension Definition Linkbase Document  |                            |             |                            |             | X              |
| 101.LAB        | Inline XBRL Taxonomy Extension Label Linkbase Document   |                            |             |                            |             | X              |
| 101.PRE        | Inline XBRL Taxonomy Extension Presentation Linkbase Document  |                            |             |                            |             | X              |
| 104            | Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)   |                            |             |                            |             |                |

All references in the table above to previously filed documents or descriptions are incorporating those documents and descriptions by reference thereto.

† Portions of this exhibit have been omitted as being immaterial and would be competitively harmful if disclosed.

\*\* The certifications attached as Exhibits 32.1 and 32.2 accompanying this Form 10-Q, are not deemed filed with the SEC, and are not to be incorporated by reference into any filing of Power Integrations, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Form 10-Q, irrespective of any general incorporation language contained in such filing.

**SIGNATURES**

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

POWER INTEGRATIONS, INC.

Dated: May 7, 2020

By:           /s/ SANDEEP NAYYAR          

Sandeep Nayyar

Chief Financial Officer

(Duly Authorized Officer, Principal Financial Officer and  
Principal Accounting Officer)



AMENDMENT NUMBER TEN TO AMENDED AND RESTATED  
WAFER SUPPLY AGREEMENT

This Amendment Number Ten (the “Amendment”), is effective as of December 16, 2019 (the “Amendment Effective Date”), and amends the Amended and Restated Wafer Supply Agreement that is effective as of April 1, 2003, as further amended by Amendment Number One that is effective as of August 11, 2004, Amendment Number Two, that is effective as of April 1, 2008, Amendment Number Three, that is effective as of June 9, 2008, Amendment Number Four, that is effective as of June 13, 2008, Amendment Number Five that is effective as of November 14, 2008, Amendment Number Six that is effective as of November 1, 2015, Amendment Number Seven that is effective as of August 8, 2016, Amendment Number Eight that is effective as of July 26, 2017, and Amendment Number Nine that is effective as of February 6, 2019, (the “Agreement”), by and between Lapis Semiconductor Co., Ltd., a Japanese corporation having its registered head office at 2-4-8 Shinyokohama, Kouhoku-ku Yokohama 222-8575 Japan (“Lapis”), and Power Integrations, Ltd. d.b.a. Power Integrations International, Ltd. (“PI”) a Cayman Islands corporation having its principal place of business at 4<sup>th</sup> Floor, Century Yard, Cricket Square, Elgin Avenue, P.O. Box 32322, Grand Cayman K Y 1-1209. Unless specifically designated otherwise, capitalized terms used herein shall have the same meanings given them in the Agreement.

**RECITALS**

WHEREAS, PI and LAPIS desire to amend the terms of the Agreement; and

WHEREAS, in accordance with Section 18. 10 of the Agreement, the Agreement may be amended only by an instrument in writing duly executed by authorized officers of LAPIS and PI.

Now, THEREFORE, in consideration of the mutual promises contained herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereby amend the Agreement as follows:

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## AGREEMENT

1. Add the following new article: ARTICLE 25. [ \* ].

25.1 [ \* ]. PI shall make [ \* ] to SUPPLIER for [ \* ]

25.2 [ \* ]. A [ \* ] will be issued by SUPPLIER at the end of each calendar quarter beginning in Q1 2020 [ \* ] during such quarter, [ \* ].

25.3 If the [ \* ] on or before the termination or expiry of the Agreement, SUPPLIER shall, on such date, provide PI, [ \* ].

IN WITNESS WHEREOF, the parties have caused this Amendment to be executed by their duly authorized representatives, effective as of the Amendment Effective Date.

LAPIS SEMICONDUCTOR CO., LTD.

Signature: /Akira Yamazaki/

Name: Akira Yamazaki

Title: General Manager

2020.1.20

POWER INTEGRATIONS, LTD. d.b.a. POWER  
INTEGRATIONS INTERNATIONAL, LTD.

Signature: /Raja Petrakian/

Name: Raja Petrakian

Title: President and Director

January 21, 2020

AMENDMENT NUMBER ELEVEN TO AMENDED AND RESTATED  
WAFER SUPPLY AGREEMENT

This Amendment Number Eleven (the "Amendment"), is effective as of December 20, 2019 (the "Amendment Effective Date"), and amends the Amended and Restated Wafer Supply Agreement that is effective as of April 1, 2003, as further amended by Amendment Number One that is effective as of August 11, 2004, Amendment Number Two, that is effective as of April 1, 2008, Amendment Number Three, that is effective as of June 9, 2008, Amendment Number Four, that is effective as of June 13, 2008, Amendment Number Five that is effective as of November 14, 2008, Amendment Number Six that is effective as of November 1, 2015, Amendment Number Seven that is effective as of August 8, 2016, Amendment Number Eight that is effective as of July 26, 2017, Amendment Number Nine that is effective as of February 6, 2019, and amendment Number 10 that is effective as of December 16, 2019 (the "Agreement"), by and between Lapis Semiconductor Co., Ltd., a Japanese corporation having its registered head office at 2-4-8 Shinyokohama, Kouhoku-ku Yokohama 222-8575 Japan ("Lapis"), and Power Integrations, Ltd. d.b.a. Power Integrations International, Ltd. ("PI") a Cayman Islands corporation having its principal place of business at 4th Floor, Century Yard, Cricket Square, Elgin Avenue, P.O. Box 32322, Grand Cayman K Y 1-1209. Unless specifically designated otherwise, capitalized terms used herein shall have the same meanings given them in the Agreement.

RECITALS

WHEREAS, PI and LAPIS desire to amend the terms of the Agreement; and

WHEREAS, in accordance with Section 18. 10 of the Agreement, the Agreement may be amended only by an instrument in writing duly executed by authorized officers of LAPIS and PI.

Now, THEREFORE, in consideration of the mutual promises contained herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereby amend the Agreement as follows:

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AGREEMENT

1. Add the following new sections to ARTICLE 1. DEFINITIONS.

- 1.29 [\*] Wafers made in the [\*] process.
- 1.30 [\*] Wafers made in the [\*] process.
- 1.31 [\*] Wafers made in the [\*] process.

2. In ARTICLE 24:

In Section 24.2, replace all recitations of [\*] with [\*].

In Section 24.4.1, add the following new paragraphs:

The base price for an additional [\*] to [\*] [\*] wafers per month manufactured in [\*] will be priced at the base price of the [\*] wafers manufactured in Lapis [\*], plus [\*].

Starting [\*], Lapis will reduce the base price for [\*] wafers manufactured at the Lapis [\*] plant to [\*] such that the total value [\*] of the above [\*] [\*] [\*] price [\*] the total value of the [\*] [\*] wafer price [\*] during [\*] and thereafter.

At the end of each calendar quarter beginning at the end of [\*], PI and Lapis will exchange [\*] or [\*], as the case may be, to account for any mismatch of the total value [\*] of the [\*] [\*] [\*] and the Lapis [\*] wafer [\*], for each such calendar quarter.

IN WITNESS WHEREOF, the parties have caused this Amendment to be executed by their duly authorized representatives, effective as of the Amendment Effective Date.

LAPIS SEMICONDUCTOR CO., LTD.

Signature: /Akira Yamazaki/

Name: Akira Yamazaki

Title: General Manager

2020.1.20

POWER INTEGRATIONS, LTD. d.b.a. POWER  
INTEGRATIONS INTERNATIONAL, LTD.

Signature: /Raja Petrakian/

Name: Raja Petrakian

Title: President and Director

January 21, 2020

AMENDMENT NUMBER NINE TO  
WAFER SUPPLY AGREEMENT

This Amendment Number Nine (the "Amendment"), effective as of October 1, 2017, (the "Amendment Effective Date"), amends the Wafer Supply Agreement effective April 1, 2005, as amended by Amendment Number One effective December 19, 2008, Amendment Number Two effective September 13, 2010, Amendment number Three effective February 1, 2012, Amendment number Four effective April 1, 2015, Amendment number Five effective November 2, 2015, Amendment number Six effective December 8, 2015, Amendment number Seven effective October 3, 2016, and Amendment number Eight effective November 8, 2016 (as amended the "Agreement") by and between:

(1) POWER INTEGRATIONS INTERNATIONAL LTD., a Cayman Islands corporation having a place of business at, P.O. Box 32322, 4<sup>th</sup> Floor, Century Yard, Cricket Square, Elgin Avenue, George Town, Grand Cayman, Cayman Islands ("Power Integrations")

and

(2) SEIKO EPSON CORPORATION, a Japanese corporation having a place of business at 281 Fujimi, Fujimi-machi, Suwa-gun, Nagano-ken, 399-0293 Japan ("Seiko Epson").

RECITALS

WHEREAS, pursuant to the terms of the Agreement, Power Integrations grants to Seiko Epson licenses of certain of Power Integrations' intellectual property for the sole purpose of Power Integrations acquiring from Seiko Epson the fabrication and supply of wafers of certain power IC products; and

WHEREAS, Power Integrations and Seiko Epson desire to amend the terms of the Agreement; and

WHEREAS, in accordance with Section 18.10 of the Agreement, the Agreement may be amended only by an instrument in writing duly executed by authorized representatives of Seiko Epson and Power Integrations.

Now, THEREFORE, in consideration of the mutual promises contained herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereby amend the Agreement as follows:

AGREEMENT

**Addition of Exhibit E:** The Agreement is adding Exhibit E, which defines the terms for the addition of the [\*] to the [\*].

Effective as of the Amendment Effective Date, all references in the Agreement to the "Agreement" or "this Agreement" shall mean the Agreement as amended by this Amendment. Except as expressly amended herein, the terms of the Agreement continue unchanged and shall remain in full force and effect. This Amendment may be executed in one or more counterparts, each of which shall be considered an original, but all of which counterparts together shall constitute one and the same instrument.

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IN WITNESS WHEREOF, the parties have caused this Amendment to be executed by their duly authorized representatives, effective as of the Amendment Effective Date,

SEIKO EPSON CORPORATION

By: /Nobuyuki Shimotome/  
Name: Nobuyuki Shimotome  
Title: Chief Operating Office

POWER INTEGRATIONS INTERNATIONAL, LTD.

By: /Raja Petrakian/  
Name: Raja Petrakian  
Title: President, PIIL

## CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Balu Balakrishnan certify that:

1. I have reviewed this Form 10-Q of Power Integrations, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 7, 2020

By: /s/ BALU BALAKRISHNAN

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Balu Balakrishnan  
Chief Executive Officer

## CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Sandeep Nayyar, certify that:

1. I have reviewed this Form 10-Q of Power Integrations, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 7, 2020

By: /s/ SANDEEP NAYYAR

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Sandeep Nayyar  
Chief Financial Officer



**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

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

In connection with the Quarterly Report of Power Integrations, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Balu Balakrishnan, Chief Executive Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 ("Section 906"), certify to the best of my knowledge that:

- (1) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 7, 2020

By: /s/ BALU BALAKRISHNAN

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Balu Balakrishnan  
Chief Executive Officer

*A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Registrant and will be retained by the Registrant and furnished to the Securities and Exchange Commission or its staff upon request.*

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

In connection with the Quarterly Report of Power Integrations, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sandeep Nayyar, Chief Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 ("Section 906"), certify to the best of my knowledge that:

- (1) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 7, 2020

By: /s/ SANDEEP NAYYAR

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Sandeep Nayyar  
Chief Financial Officer

*A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Registrant and will be retained by the Registrant and furnished to the Securities and Exchange Commission or its staff upon request.*