

**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 June 30, 2019**

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

94-3065014

(State or Other Jurisdiction of Incorporation or Organization)

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

5245 Hellyer Avenue

San Jose , California

95138

(Address of Principal Executive Offices)

(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	<input checked="" type="checkbox"/>		Accelerated Filer	<input type="checkbox"/>
Non-accelerated Filer	<input type="checkbox"/>		Smaller Reporting Company	<input type="checkbox"/>
			Emerging Growth Company	<input type="checkbox"/>

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 July 18, 2019</u>
Common Stock, \$0.001 par value	29,330,982

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 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 risks described under the caption “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2018, and in Item 2 of Part I — “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Quarterly Report on Form 10-Q, including, but not limited to: our quarterly operating results are volatile and difficult to predict, and if we fail to meet the expectations of public market analysts or investors, the market price of our common stock may decrease significantly; 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. 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)	June 30, 2019	December 31, 2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 99,491	\$ 134,137
Short-term marketable securities	130,275	94,451
Accounts receivable, net of allowances for doubtful accounts of \$763 and \$706 in 2019 and 2018, respectively	25,468	11,072
Inventories	89,197	80,857
Prepaid expenses and other current assets	15,571	11,915
Total current assets	360,002	332,432
PROPERTY AND EQUIPMENT, net	112,939	114,117
INTANGIBLE ASSETS, net	18,920	21,152
GOODWILL	91,849	91,849
DEFERRED TAX ASSETS	5,184	6,906
OTHER ASSETS	31,495	22,241
Total assets	\$ 620,389	\$ 588,697
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 35,985	\$ 31,552
Accrued payroll and related expenses	12,825	12,131
Taxes payable	579	933
Other accrued liabilities	5,945	3,750
Total current liabilities	55,334	48,366
LONG-TERM INCOME TAXES PAYABLE	9,006	8,652
DEFERRED TAX LIABILITIES	153	216
OTHER LIABILITIES	12,031	4,391
Total liabilities	76,524	61,625
COMMITMENTS AND CONTINGENCIES (Notes 11, 12, 13 and 14)		
STOCKHOLDERS' EQUITY:		
Common stock	28	28
Additional paid-in capital	134,443	126,164
Accumulated other comprehensive loss	(1,336)	(1,689)
Retained earnings	410,730	402,569
Total stockholders' equity	543,865	527,072
Total liabilities and stockholders' equity	\$ 620,389	\$ 588,697

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

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

(In thousands, except per share amounts)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
NET REVENUES	\$ 102,865	\$ 109,482	\$ 192,053	\$ 212,563
COST OF REVENUES	51,293	53,248	95,007	102,785
GROSS PROFIT	51,572	56,234	97,046	109,778
OPERATING EXPENSES:				
Research and development	19,269	17,898	37,215	35,379
Sales and marketing	13,209	13,497	26,226	26,585
General and administrative	9,334	9,220	17,724	18,234
Total operating expenses	41,812	40,615	81,165	80,198
INCOME FROM OPERATIONS	9,760	15,619	15,881	29,580
OTHER INCOME	1,310	885	2,462	1,721
INCOME BEFORE INCOME TAXES	11,070	16,504	18,343	31,301
PROVISION FOR INCOME TAXES	225	1,123	265	1,720
NET INCOME	\$ 10,845	\$ 15,381	\$ 18,078	\$ 29,581
EARNINGS PER SHARE:				
Basic	\$ 0.37	\$ 0.52	\$ 0.62	\$ 1.00
Diluted	\$ 0.37	\$ 0.51	\$ 0.61	\$ 0.97
SHARES USED IN PER SHARE CALCULATION:				
Basic	29,297	29,505	29,125	29,651
Diluted	29,702	30,183	29,597	30,387

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

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

(In thousands)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
NET INCOME	\$ 10,845	\$ 15,381	\$ 18,078	\$ 29,581
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments, net of \$0 tax in each of the three and six months ended June 30, 2019 and 2018	(250)	37	(272)	—
Unrealized gain (loss) on marketable securities, net of \$0 tax in each of the three and six months ended June 30, 2019 and 2018	257	226	591	(12)
Amortization of defined benefit pension items, net of tax of \$5 and \$9 in the three and six months ended June 30, 2019, respectively, and \$9 and \$18 in the three and six months ended June 30, 2018, respectively	18	31	34	63
Total other comprehensive income	25	294	353	51
TOTAL COMPREHENSIVE INCOME	\$ 10,870	\$ 15,675	\$ 18,431	\$ 29,632

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		Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Common stock				
Beginning balance	\$ 28	\$ 29	\$ 28	\$ 29
Common stock issued under employee stock plans	—	—	—	—
Repurchase of common stock	—	(1)	—	(1)
Ending balance	28	28	28	28
Additional paid-in capital				
Beginning balance	127,769	175,352	126,164	198,384
Common stock issued under employee stock plans	1,178	978	5,678	5,635
Repurchase of common stock	—	(30,075)	(7,302)	(63,389)
Stock-based compensation	5,496	6,125	9,903	11,750
Ending balance	134,443	152,380	134,443	152,380
Accumulated other comprehensive loss				
Beginning balance	(1,361)	(2,382)	(1,689)	(2,139)
Other comprehensive income	25	294	353	51
Ending balance	(1,336)	(2,088)	(1,336)	(2,088)
Retained earnings				
Beginning balance	404,865	360,833	402,569	351,408
Net income	10,845	15,381	18,078	29,581
Payment of dividends to stockholders	(4,980)	(4,705)	(9,917)	(9,480)
Ending balance	410,730	371,509	410,730	371,509
Total stockholders' equity	\$ 543,865	\$ 521,829	\$ 543,865	\$ 521,829

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)	Six Months Ended June 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 18,078	\$ 29,581
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	9,431	9,691
Amortization of intangibles	2,483	2,668
Loss on disposal of property and equipment	152	60
Stock-based compensation expense	9,903	11,740
Amortization of premium (accretion of discount) on marketable securities	(230)	376
Deferred income taxes	1,659	(900)
Increase in accounts receivable allowances	57	17
Change in operating assets and liabilities:		
Accounts receivable	(14,453)	9,938
Inventories	(8,340)	(11,737)
Prepaid expenses and other assets	(3,614)	(1,388)
Accounts payable	4,153	(7,276)
Taxes payable and accrued liabilities	1,217	(344)
Net cash provided by operating activities	20,496	42,426
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(8,348)	(10,513)
Acquisition of technology licenses	(251)	(500)
Purchases of marketable securities	(54,424)	—
Proceeds from sales and maturities of marketable securities	19,422	90,353
Net cash provided by (used in) investing activities	(43,601)	79,340
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock under employee stock plans	5,678	5,635
Repurchase of common stock	(7,302)	(63,389)
Payments of dividends to stockholders	(9,917)	(9,480)
Proceeds from draw on line of credit	—	8,000
Payments on line of credit	—	(8,000)
Net cash used in financing activities	(11,541)	(67,234)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(34,646)	54,532
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	134,137	93,655
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 99,491	\$ 148,187
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Unpaid property and equipment	\$ 2,098	\$ 4,996
Unpaid technology licenses	\$ 100	\$ 500
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for income taxes, net	\$ 890	\$ 4,178

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, 2018, included in its Form 10-K filed on February 13, 2019, with the Securities and Exchange Commission.

2. SIGNIFICANT ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS:*Significant Accounting Policies and Estimates*

Except for the adoption of the new accounting standards for leases mentioned below, 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 13, 2019, for the year ended December 31, 2018.

Adoption of New Accounting Standards

In February 2016, the FASB amended the existing accounting standards for leases, ASU 2016-02, *Leases*. The amendments require lessees to recognize, on the balance sheet, assets and liabilities for the rights and obligations created by leases. The accounting by lessors will remain largely unchanged from that applied under previous U.S. GAAP. The Company is required to adopt the amendments in the first quarter of fiscal 2019, with early adoption permitted.

The Company adopted the new standards in the first quarter of 2019, effective January 1, 2019, using the optional transition method, under which the new standards were applied prospectively rather than restating the prior periods presented. The Company elected the practical expedients under the transition guidance, which includes the use of hindsight in determining the lease term and the practical expedient package to not reassess whether any expired or existing contracts are or contain leases, to not reassess the classification of any expired or existing leases, and to not reassess initial direct costs for any existing leases. In addition, the Company elected the practical expedient to recognize lease and non-lease components as a single lease component. The Company has elected not to record on the balance sheet leases with an initial term of twelve months or less. Upon adoption, the Company recognized both right-of-use assets and corresponding lease liabilities of approximately \$7.3 million and \$7.2 million, respectively, on the condensed consolidated balance sheet. The difference between the right-of-use assets and lease liabilities was due to prepaid rent. There was no impact on the condensed consolidated statement of income or the condensed consolidated statement of cash flows.

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

(In thousands)	June 30, 2019	December 31, 2018
Accounts receivable trade	\$ 63,231	\$ 54,055
Allowances for ship and debit	(34,546)	(40,118)
Allowances for stock rotation and rebate	(2,454)	(2,159)
Allowances for doubtful accounts	(763)	(706)
Total	<u>\$ 25,468</u>	<u>\$ 11,072</u>

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

Inventories

(In thousands)	June 30, 2019	December 31, 2018
Raw materials	\$ 35,184	\$ 41,138
Work-in-process	26,548	15,612
Finished goods	27,465	24,107
Total	<u>\$ 89,197</u>	<u>\$ 80,857</u>

Prepaid Expenses and Other Current Assets

(In thousands)	June 30, 2019	December 31, 2018
Prepaid legal fees	\$ 160	\$ 181
Prepaid income tax	5,369	3,081
Prepaid maintenance agreements	1,569	2,047
Interest receivable	808	595
Advance to suppliers	3,938	2,157
Other	3,727	3,854
Total	<u>\$ 15,571</u>	<u>\$ 11,915</u>

Intangible Assets

(In thousands)	June 30, 2019			December 31, 2018		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Domain name	\$ 1,261	\$ —	\$ 1,261	\$ 1,261	\$ —	\$ 1,261
In-process research and development	4,690	—	4,690	4,690	—	4,690
Developed technology	33,270	(24,052)	9,218	33,270	(22,464)	10,806
Customer relationships	20,030	(17,342)	2,688	20,030	(16,520)	3,510
Technology licenses	1,251	(188)	1,063	1,000	(115)	885
Total	<u>\$ 60,502</u>	<u>\$ (41,582)</u>	<u>\$ 18,920</u>	<u>\$ 60,251</u>	<u>\$ (39,099)</u>	<u>\$ 21,152</u>

The estimated future amortization expense related to finite-lived intangible assets at June 30, 2019, is as follows:

Fiscal Year	Estimated Amortization (In thousands)
2019 (remaining six months)	\$ 2,426
2020	3,684
2021	2,819
2022	1,740
2023	1,498
Thereafter	802
Total ⁽¹⁾	<u>\$ 12,969</u>

(1) The total above excludes \$4.7 million of in-process research and development that will be amortized, upon completion of development, over the estimated useful life of the technology.

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

Changes in accumulated other comprehensive loss for the three and six months ended June 30, 2019 and 2018 , 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	
	June 30,		June 30,		June 30,		June 30,	
	2019	2018	2019	2018	2019	2018	2019	2018
Beginning balance	\$ 68	\$ (665)	\$ (696)	\$ (1,205)	\$ (733)	\$ (512)	\$ (1,361)	\$ (2,382)
Other comprehensive income (loss) before reclassifications	257	226	—	—	(250)	37	7	263
Amounts reclassified from accumulated other comprehensive loss	—	—	18 (1)	31 (1)	—	—	18	31
Net-current period other comprehensive income (loss)	257	226	18	31	(250)	37	25	294
Ending balance	\$ 325	\$ (439)	\$ (678)	\$ (1,174)	\$ (983)	\$ (475)	\$ (1,336)	\$ (2,088)

(1) This component of accumulated other comprehensive income (loss) is included in the computation of net periodic pension cost for the three months ended June 30, 2019 and 2018 .

(In thousands)	Unrealized Gains and Losses on Marketable Securities		Defined Benefit Pension Items		Foreign Currency Items		Total	
	Six Months Ended		Six Months Ended		Six Months Ended		Six Months Ended	
	June 30,		June 30,		June 30,		June 30,	
	2019	2018	2019	2018	2019	2018	2019	2018
Beginning balance	\$ (266)	\$ (427)	\$ (712)	\$ (1,237)	\$ (711)	\$ (475)	\$ (1,689)	\$ (2,139)
Other comprehensive income (loss) before reclassifications	591	(12)	—	—	(272)	—	319	(12)
Amounts reclassified from accumulated other comprehensive loss	—	—	34 (1)	63 (1)	—	—	34	63
Net-current period other comprehensive income (loss)	591	(12)	34	63	(272)	—	353	51
Ending balance	\$ 325	\$ (439)	\$ (678)	\$ (1,174)	\$ (983)	\$ (475)	\$ (1,336)	\$ (2,088)

(1) This component of accumulated other comprehensive income (loss) is included in the computation of net periodic pension cost for the six months ended June 30, 2019 and 2018 .

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 June 30, 2019 , and December 31, 2018 , was as follows:

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

(In thousands)	Fair Value Measurement at June 30, 2019		
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Corporate securities	\$ 130,275	\$ —	\$ 130,275
Commercial paper	58,932	—	58,932
Money market funds	182	182	—
Total	\$ 189,389	\$ 182	\$ 189,207

(In thousands)	Fair Value Measurement at December 31, 2018		
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Corporate securities	\$ 94,451	\$ —	\$ 94,451
Commercial paper	96,366	—	96,366
Money market funds	304	304	—
Total	\$ 191,121	\$ 304	\$ 190,817

The Company did not transfer any investments between Level 1 and Level 2 of the fair-value hierarchy in the six months ended June 30, 2019, and the twelve months ended December 31, 2018.

5. MARKETABLE SECURITIES:

Amortized cost and estimated fair market value of marketable securities classified as available-for-sale (excluding cash equivalents) at June 30, 2019, were as follows:

(In thousands)	Amortized Cost	Gross Unrealized		Estimated Fair Market Value
		Gains	Losses	
Investments due in 3 months or less:				
Corporate securities	\$ 46,726	\$ 12	\$ (11)	\$ 46,727
Total	46,726	12	(11)	46,727
Investments due in 4-12 months:				
Corporate securities	44,829	213	(2)	45,040
Total	44,829	213	(2)	45,040
Investments due in 12 months or greater:				
Corporate securities	38,395	118	(5)	38,508
Total	38,395	118	(5)	38,508
Total marketable securities	\$ 129,950	\$ 343	\$ (18)	\$ 130,275

Amortized cost and estimated fair market value of marketable securities classified as available-for-sale (excluding cash equivalents) at December 31, 2018, were as follows:

(In thousands)	Amortized Cost	Gross Unrealized		Estimated Fair Market Value
		Gains	Losses	
Investments due in 3 months or less:				
Corporate securities	\$ 6,788	\$ —	\$ (2)	\$ 6,786
Total	6,788	—	(2)	6,786
Investments due in 4-12 months:				
Corporate securities	60,123	—	(244)	59,879
Total	60,123	—	(244)	59,879
Investments due in 12 months or greater:				
Corporate securities	27,806	2	(22)	27,786
Total	27,806	2	(22)	27,786

Total marketable securities

\$ 94,717 \$ 2 \$ (268) \$ 94,451

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

As of June 30, 2019, and December 31, 2018, the Company evaluated the nature of the investments with a loss position, which were primarily high-quality corporate securities, and determined the unrealized losses were not other-than-temporary.

6. STOCK-BASED COMPENSATION:

The following table summarizes the stock-based compensation expense recognized in accordance with ASC 718-10 for the three and six months ended June 30, 2019, and June 30, 2018:

(In thousands)	Three Months Ended		Six Months Ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Cost of revenues	\$ 273	\$ 292	\$ 544	\$ 541
Research and development	2,144	2,271	3,776	4,110
Sales and marketing	1,141	1,126	2,202	2,402
General and administrative	1,938	2,426	3,381	4,687
Total stock-based compensation expense	\$ 5,496	\$ 6,115	\$ 9,903	\$ 11,740

Stock-based compensation expense in the three months ended June 30, 2019, was approximately \$5.5 million, comprising approximately \$4.2 million related to restricted stock unit (RSU) awards, \$0.9 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. In the six months ended June 30, 2019, stock-based compensation expense was approximately \$9.9 million, comprising approximately \$8.8 million related to RSUs, \$0.3 million related to PSUs and PRSUs and \$0.8 million related to the Company's employee stock purchase plan.

Stock-based compensation expense in the three months ended June 30, 2018, was approximately \$6.1 million, comprising approximately \$3.9 million related to RSUs, \$1.8 million related to PSUs and PRSUs and \$0.4 million related to the Company's employee stock purchase plan. In the six months ended June 30, 2018, stock-based compensation expense was approximately \$11.7 million, comprising approximately \$8.2 million related to RSUs, \$2.7 million related to PSUs and PRSUs and \$0.8 million related to the Company's employee stock purchase plan.

Stock Options

A summary of stock options outstanding as of June 30, 2019, and activity during the six months then ended, is presented below:

	Shares (In thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at January 1, 2019	335	\$ 32.41		
Granted	—	—		
Exercised	(128)	\$ 23.18		
Forfeited or expired	—	—		
Outstanding at June 30, 2019	207	\$ 38.11	1.57	\$ 8,727
Vested and exercisable at June 30, 2019	207		1.57	\$ 8,727

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.

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

If the performance conditions are not achieved, no compensation cost is recognized and any previously recognized compensation is reversed.

In January 2019, it was determined that approximately 26,000 shares of the PSUs granted in 2018 vested in aggregate; the shares were released to the Company's employees and executives in the first quarter of 2019.

A summary of PSUs outstanding as of June 30, 2019, and activity during the six months then ended, is presented below:

	Shares (In thousands)	Weighted- Average Grant Date Fair Value Per Share	Weighted-Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at January 1, 2019	26	\$ 62.87		
Granted	92	\$ 70.08		
Vested	(26)	\$ 62.87		
Forfeited	—	—		
Outstanding at June 30, 2019	92	\$ 70.08	0.50	\$ 7,406
Outstanding and expected to vest at June 30, 2019	42		0.50	\$ 3,340

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 revenue 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 2017, 2018 and 2019 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.

In January 2019, it was determined that approximately 70,000 shares of the PRSUs granted in 2016, vested in aggregate; the shares were released to the Company's executives in the first quarter of 2019.

A summary of PRSUs outstanding as of June 30, 2019, and activity during the six months then ended, is presented below:

	Shares (In thousands)	Weighted- Average Grant Date Fair Value Per Share	Weighted-Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at January 1, 2019	213	\$ 55.48		
Granted	72	\$ 68.17		
Vested	(70)	\$ 43.26		
Forfeited	—	—		
Outstanding at June 30, 2019	215	\$ 63.70	1.50	\$ 17,223
Outstanding and expected to vest at June 30, 2019	86		2.29	\$ 6,920

RSU Awards

A summary of RSUs outstanding as of June 30, 2019, and activity during the six months then ended, is presented below:

	Shares (In thousands)	Weighted- Average Grant Date Fair Value Per Share	Weighted-Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at January 1, 2019	895	\$ 58.19		
Granted	263	\$ 68.37		
Vested	(290)	\$ 56.15		
Forfeited	(12)	\$ 60.25		
Outstanding at June 30, 2019	856	\$ 61.98	2.06	\$ 68,664
Outstanding and expected to vest at June 30, 2019	780		1.97	\$ 62,565

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 56% and 54% of net revenues for the three and six months ended June 30, 2019, respectively, and approximately 59% and 58%, respectively, of net revenues in the corresponding periods 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 \$74.8 million and \$144.7 million in the three and six months ended June 30, 2019, respectively, and \$83.0 million and \$162.1 million, respectively, for the corresponding periods of 2018. Direct sales to OEMs and power-supply manufacturers accounted for the remainder.

In each of three and six months ended June 30, 2019 and 2018, one customer, a distributor of the Company's products, accounted for more than 10% of the Company's net revenues.

The following table discloses this customer's percentage of revenues for the respective periods:

<u>Customer</u>	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Avnet	10%	14%	12%	15%

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 June 30, 2019, and December 31, 2018, 66% and 64%, respectively, of accounts receivable were concentrated with the Company's top ten customers.

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

<u>Customer</u>	<u>June 30, 2019</u>	<u>December 31, 2018</u>
Avnet	*	17%
Powertech Distribution Ltd.	*	11%

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

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 and six months ended June 30, 2019, and June 30, 2018, were as follows:

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

(In thousands)	Three Months Ended		Six Months Ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
United States of America	\$ 2,612	\$ 3,729	\$ 5,284	\$ 7,596
Hong Kong/China	59,355	58,614	106,584	109,971
Taiwan	10,164	12,914	16,836	24,800
Korea	6,902	8,229	15,444	17,878
Western Europe (excluding Germany)	8,625	11,476	19,526	25,068
Japan	2,909	5,647	6,559	10,198
Germany	3,813	3,705	8,740	7,009
Other	8,485	5,168	13,080	10,043
Total net revenues	\$ 102,865	\$ 109,482	\$ 192,053	\$ 212,563

8. STOCKHOLDERS' EQUITY:

Common Stock Shares Outstanding

(In thousands)	Three Months Ended		Six Months Ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Beginning balance	29,110	29,630	28,889	29,782
Common stock issued under employee stock plans	220	225	562	571
Repurchased	—	(434)	(121)	(932)
Ending balance	29,330	29,421	29,330	29,421

Common Stock Repurchases

As of December 31, 2018, the Company had approximately \$51.2 million remaining under its stock-repurchase program. In the six months ended June 30, 2019, the Company repurchased approximately 121,000 shares of its common stock for approximately \$7.3 million. As of June 30, 2019, the Company had approximately \$43.9 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. For the three and six months ended June 30, 2019, and 2018, cash dividends declared and paid were as follows:

(In thousands, except per share amounts)	Three Months Ended		Six Months Ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Dividends declared and paid	\$ 4,980	\$ 4,705	\$ 9,917	\$ 9,480
Dividends declared per common share	\$ 0.17	\$ 0.16	\$ 0.34	\$ 0.32

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.

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(In thousands, except per share amounts)	Three Months Ended		Six Months Ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Basic earnings per share:				
Net income	\$ 10,845	\$ 15,381	\$ 18,078	\$ 29,581
Weighted-average common shares	29,297	29,505	29,125	29,651
Basic earnings per share	\$ 0.37	\$ 0.52	\$ 0.62	\$ 1.00
Diluted earnings per share: ⁽¹⁾				
Net income	\$ 10,845	\$ 15,381	\$ 18,078	\$ 29,581
Weighted-average common shares	29,297	29,505	29,125	29,651
Effect of dilutive awards:				
Employee stock plans	405	678	472	736
Diluted weighted-average common shares	29,702	30,183	29,597	30,387
Diluted earnings per share	\$ 0.37	\$ 0.51	\$ 0.61	\$ 0.97

- (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 2019 and 2018 calculations as the shares were not contingently issuable as of the end of the reporting periods.

In the three and six months ended June 30, 2019 and 2018, 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 and six months ended June 30, 2019, were 2.0% and 1.4%, respectively, and 6.8% and 5.5%, respectively, for the corresponding periods of 2018. In the three and six months ended June 30, 2019 and 2018, 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.

As of June 30, 2019, 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 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.

POWER INTEGRATIONS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
11. LEASES:

The Company's leases consist of operating leases for administrative office spaces, research-and-development facilities, design centers and sales offices in various countries around the world. The Company determines if an arrangement is a lease at inception. Some lease agreements contain lease and non-lease components, which are accounted for as a single lease component. Total lease expense was \$0.6 million and \$1.2 million in the three and six months ended June 30, 2019, respectively, while short-term and variable lease expenses were not material.

Balance sheet information related to leases was as follows:

(In thousands)	Balance Sheet Classification	June 30, 2019
Right-of-use assets		
Operating lease assets	Other assets	\$ 9,957
Lease liabilities		
Current operating lease liabilities	Other accrued liabilities	\$ 1,574
Non-current operating lease liabilities	Other liabilities	7,497
Total		\$ 9,071

Initial lease terms are determined at commencement and may include options to extend or terminate the lease when it is reasonably certain the Company will exercise the option. Remaining lease terms range from one to nine years, some of which include options to extend for up to six years, and some of which include options to terminate within one year. Leases with an initial term of twelve months or less are not recorded on the balance sheet. As the Company's leases do not provide an implicit rate, the present value of future lease payments is determined using the Company's incremental borrowing rate based on information available at commencement date.

Lease term and discount rate	June 30, 2019
Weighted average remaining lease term	4.9 years
Weighted average discount rate	4.0%

Supplemental cash flows information related to leases was as follow:

(In thousands)	Six Months Ended June 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 2,004
Right-of-use assets obtained in exchange for new operating lease obligations	\$ 3,774

Future minimum lease payments under all non-cancelable lease agreements as of June 30, 2019, are as follows:

(In thousands)	June 30, 2019
2019 (remaining six months)	\$ 797
2020	2,285
2021	2,240
2022	1,848
2023	1,611
Thereafter	1,359
Total future minimum lease payments	10,140
Less imputed interest	(1,069)
Total	\$ 9,071

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. 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.

13. 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 October 20, 2004, the Company filed a complaint against Fairchild Semiconductor International, Inc. and Fairchild Semiconductor Corporation (referred to collectively as "Fairchild") in the United States District Court for the District of Delaware. In its complaint, the Company alleged that Fairchild has and is infringing four of Power Integrations' patents pertaining to pulse width modulation (PWM) integrated circuit devices. Fairchild denied infringement and asked for a declaration from the court that it does not infringe any Power Integrations patent and that the patents are invalid. The Court issued a claim construction order on March 31, 2006, which was favorable to the Company. The Court set a first trial on the issues of infringement, willfulness and damages for October 2, 2006. At the close of the first trial, on October 10, 2006, the jury returned a verdict in favor of the Company finding all asserted claims of all four patents-in-suit to be willfully infringed by Fairchild and awarding \$34.0 million in damages. Fairchild raised defenses contending that the asserted patents are invalid or unenforceable, and the Court held a second trial on these issues beginning on September 17, 2007. On September 21, 2007, the jury returned a verdict in the Company's favor, affirming the validity of the asserted claims of all four patents-in-suit. Fairchild submitted further materials on the issue of enforceability along with various other post-trial motions, and the Company filed post-trial motions seeking a permanent injunction and increased damages and attorneys' fees, among other things. On September 24, 2008, the Court denied Fairchild's motion regarding enforceability and ruled that all four patents are enforceable. On December 12, 2008, the Court ruled on the remaining post-trial motions, including granting a permanent injunction, reducing the damages award to \$6.1 million, granting Fairchild a new trial on the issue of willful infringement in view of an intervening change in the law, and denying the Company's motion for increased damages and attorneys' fees with leave to renew the motion after the resolution of the issue of willful infringement. On December 22, 2008, at Fairchild's request, the Court temporarily stayed the permanent injunction for 90 days. On January 12, 2009, Fairchild filed a notice of appeal challenging the Court's refusal to enter a more permanent stay of the injunction, and Fairchild filed additional motions requesting that both the Federal Circuit and the District Court extend the stay of injunction. The District Court temporarily extended the stay pending the Federal Circuit ruling on Fairchild's pending motion, but the Federal Circuit dismissed Fairchild's appeal and denied its motion on May 5, 2009, and the District Court issued an order on May 13, 2009 confirming the reinstatement of the permanent injunction as originally entered in December 2008. On June 22, 2009, the Court held a brief bench re-trial on the issue of willful infringement. On July 22, 2010, the Court found that Fairchild willfully infringed all four of the asserted patents, and the Court also invited briefing on enhanced damages and attorneys' fees. Fairchild also filed a motion requesting that the Court amend its findings regarding willfulness. On January 18, 2011, the Court denied Fairchild's request to amend the findings regarding Fairchild's willful infringement and doubled the damages award against Fairchild but declined to award attorneys' fees. On February 3, 2011, the Court entered final judgment in favor of the Company for a total damages award of \$12.9 million. Fairchild filed a notice of appeal challenging the final judgment and a number of the underlying rulings, and the Company filed a cross-appeal seeking to increase the damages award. The appeal was argued on January 11, 2012, and the Federal Circuit issued a mixed ruling on March 26, 2013, affirming Fairchild's infringement of certain claims that support the basis for the permanent injunction while reversing, vacating, and remanding the findings with respect to other claims, including the Company's claim for damages. The Company filed a petition seeking Supreme Court review of the Federal Circuit's ruling on damages issues, and the Supreme Court called for a response from Fairchild but ultimately declined to review the case. On remand, the District Court reinstated the prior findings that Fairchild willfully infringed three of the Company's patents; the Company intends to pursue its claim for financial compensation based on Fairchild's infringement. Moreover, following a new Supreme Court case on patent damages, the District Court on October 4, 2018 determined that the Federal Circuit's ruling on damages in the earlier appeal had been overruled; that issue is now on appeal at the Federal Circuit, with briefing completed on the impact of the Supreme Court's ruling and the scope of the proceedings on remand and oral argument expected in the coming months.

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

On May 23, 2008, the Company filed a complaint against Fairchild Semiconductor International, Inc., Fairchild Semiconductor Corporation, and Fairchild's wholly owned subsidiary System General Corporation (referred to collectively as "Fairchild"), in the United States District Court for the District of Delaware. In its complaint, the Company alleged that Fairchild has infringed and is infringing three patents pertaining to power supply controller integrated circuit devices. Fairchild answered the Company's complaint on November 7, 2008, denying infringement and asking for a declaration from the Court that it does not infringe any Power Integrations patent and that the patents are invalid and unenforceable. Fairchild's answer also included counterclaims accusing the Company of infringing three patents pertaining to primary side power conversion integrated circuit devices. Fairchild had earlier brought these same claims in a separate suit against the Company, also in Delaware, which Fairchild dismissed in favor of adding its claims to the Company's already pending suit against Fairchild. The Company has answered Fairchild's counterclaims, denying infringement and asking for a declaration from the Court that it does not infringe any Fairchild patent and that the Fairchild patents are invalid. Fairchild also filed a motion to stay the case, but the Court denied that motion on December 19, 2008. On March 5, 2009, Fairchild filed a motion for summary judgment to preclude any recovery for post-verdict sales of parts found to infringe in the parties' other ongoing litigation, described above, and the Company filed its opposition and a cross-motion to preclude Fairchild from re-litigating the issues of infringement and damages for those same products. On June 26, 2009, the Court held a hearing on the parties' motions, and on July 9, 2009 the Court issued an order denying the parties' motions but staying proceedings with respect to the products that were found to infringe and which are subject to the injunction in the other Delaware case between the parties pending the entry of final judgment in that case; those products are expected to be addressed in the context of the parties' remand proceedings following the appeal in their earlier litigation in Delaware, and the remainder of the case is proceeding. On December 18, 2009, the Court issued an order construing certain terms in the asserted claims of the Company's and Fairchild's patents in suit. Following the Court's ruling on claim construction, Fairchild withdrew its claim related to one of its patents and significantly reduced the number of claims asserted for the remaining two patents. The parties thereafter filed and argued a number of motions for summary judgment, and the Court denied the majority of the parties' motions but granted the Company's motion to preclude Fairchild from re-arguing validity positions that were rejected in the prior case between the parties. Because the assigned Judge retired at the end of July 2010, the case was re-assigned to a different Judge, and the Court vacated the trial schedule and had the parties provide their input on the appropriate course of action. The Court thereafter set a trial schedule with the jury trial on infringement and validity to begin in July 2011. On April 18, 2011, the Court rescheduled the trial to begin in January 2012, and on June 2, 2011, the Court moved the trial date to April 2012 to permit the parties to address another patent the Company accused Fairchild of infringing. Following a trial in April 2012, the jury returned a verdict finding that Fairchild infringes two of the Company's patents, that Fairchild has induced others to infringe the Company's patents, and also upheld the validity of the infringed patents. Of the two remaining counterclaim patents Fairchild asserted in the case, one was found not to be infringed, but the jury found the second patent to be infringed by a limited number of the Company's products, although the jury further found the Company did not induce infringement by any customers, including customers outside the United States. On March 29, 2013, the District Court denied most of the parties' post-trial motions on liability but granted the Company's motion for judgment as a matter of law finding that Fairchild infringed another of the Company's patents. On April 25, 2013, the Court denied both parties' motions regarding the unenforceability of each other's patents. The Company challenged adverse findings on appeal; nevertheless, the Company estimated that even if the verdict on Fairchild's patent had ultimately been upheld, the sales potentially impacted would have amounted to less than 0.5% of the Company's revenues. The Company requested an injunction preventing further infringement of its own patents by Fairchild, and Fairchild requested an injunction as well. Following a hearing on the issue in June 2014, the Court denied Fairchild's request for an injunction against the Company and granted the Company's request for an injunction against Fairchild. On January 13, 2015, the District Court entered final judgment on the liability and validity issues discussed above, and both parties filed appeals with the Federal Circuit. After briefing was completed, oral argument on the appeal took place in early July 2016, and on December 12, 2016, the Federal Circuit issued its opinion in the appeal, overturning the lone infringement verdict against the Company, finding one of the Company's patents invalid, and overturning the District Court's jury instruction on inducement. In view of the Federal Circuit's rejection of the District Court's jury instruction on inducement, the Court also vacated the inducement findings and associated injunction against Fairchild and remanded the case for a retrial on inducement, but the underlying validity and infringement findings against Fairchild on those two patents remain intact. At the conclusion of the retrial, the jury returned a verdict in favor of the Company, finding that Fairchild willfully infringed the Company's patents and induced infringement of the patents, awarding \$24.3 million in damages on November 9, 2018. Although the jury awarded damages, at this stage of the proceedings the Company cannot state the amount, if any, it might ultimately recover from Fairchild, and no benefits have been recorded in the Company's condensed consolidated financial statements as a result of the damages verdict. Fairchild challenged the verdict, and the Company sought enhanced damages for Fairchild's willful infringement in post-trial proceedings, but on July 2019, the Court denied both parties' motions. The Court did, however, award \$7.1 million in pre-judgment interest as a result of Fairchild's infringement. Further proceedings are expected over the coming months, with appeals to follow.

On June 28, 2004, the Company filed a complaint for patent infringement in the U.S. District Court, Northern District of California, against System General Corporation (SG), a Taiwanese company, and its U.S. subsidiary. The Company's complaint alleged that certain integrated circuits produced by SG infringed and continue to infringe certain of its patents. On June 10, 2005, in response to the initiation of an International Trade Commission (ITC) investigation on the patents asserted in the District Court

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

lawsuit, the District Court stayed all proceedings. Subsequent to the completion of the ITC proceedings, the District Court temporarily lifted the stay and scheduled a case management conference. On December 6, 2006, SG filed a notice of appeal of the ITC decision. In response, and by agreement of the parties, the District Court vacated the scheduled case management conference and renewed the stay of proceedings pending the outcome of the Federal Circuit appeal of the ITC determination. On November 19, 2007, the Federal Circuit affirmed the ITC's findings in all respects, and SG did not file a petition for review. The parties subsequently filed a motion to dismiss the District Court case without prejudice. On November 4, 2009, the Company re-filed its complaint for patent infringement against SG and its parent corporations, Fairchild Semiconductor International, Inc. and Fairchild Semiconductor Corporation, to address their continued infringement of patents at issue in the original suit that recently emerged from SG requested reexamination proceedings before the U.S. Patent and Trademark Office (USPTO). The Company seeks, among other things, an order enjoining SG and Fairchild from infringing the Company's patents and an award of damages resulting from the alleged infringement. Fairchild has denied infringement and asked for a declaration from the Court that it does not infringe any Power Integrations patent, that the patents are invalid, and that one of the two of the Company's patents now at issue in the case is unenforceable. On May 5, 2010, SG and Fairchild filed an amended answer including counterclaims accusing the Company of infringing two patents, and later Fairchild withdrew its claim for infringement of one of the patents it originally asserted against the Company but added another patent to the case over the Company's objections. Both parties filed summary judgment motions and challenges to each other's experts' testimony, and the Court granted the Company's motion for summary judgment of non-infringement with respect to one of Fairchild's two patents. Following a trial on the remaining claims in February 2014, the jury returned a verdict in the Company's favor, affirming the validity of the asserted claims of the Company's patents-in-suit, finding that SG and Fairchild infringed the Company's asserted patents and induced infringement by others, and awarding \$105.0 million in damages. The Jury also rejected Fairchild's remaining counterclaims for infringement against the Company. Fairchild challenged these rulings in post-trial motions, but the judge confirmed the jury's determinations on infringement and damages, although the Court declined to find Fairchild's infringement willful. Fairchild also pressed its unenforceability claim with respect to one of the two patents it was found to infringe in post-trial briefing, but the Court rejected Fairchild's unenforceability claim. Fairchild also requested reconsideration of the damages determinations, and the Court granted a new trial with respect to damages but none of the other issues addressed in the previous trial, with the retrial scheduled for December 2015. Thereafter, the parties completed pretrial proceedings challenging each other's experts, and the Court granted portions of each party's motions limiting the scope of expert testimony for purposes of the damages retrial, but neither party was successful in their efforts to prevent the other side's experts from testifying at trial. Following a retrial on the issue of damages in December 2015, the jury returned a verdict in the Company's favor, finding that the Company's patented technology created the basis for customer demand for the infringing Fairchild products and awarding \$139.8 million in damages. Although the jury awarded damages, at this stage of the proceedings the Company cannot state the amount, if any, it might ultimately recover from Fairchild, and no benefits have been recorded in the Company's consolidated financial statements as a result of the damages verdict. Fairchild filed post-trial motions challenging the verdict, but the Court rejected Fairchild's motions challenging the damages verdict in August 2016. The Company also filed motions requesting enhanced damages and attorney fees and reinstatement of the willfulness finding against Fairchild in view of an intervening change of law; on January 13, 2017, the District Court reinstated the finding that Fairchild's infringement was willful but declined to enhance damages or award fees. In January 2017, Fairchild filed a further challenge to the verdict, but the Court rejected Fairchild's motion and entered a final judgment of \$146.5 million after factoring in pre-judgment interest. Fairchild's appeal on the merits challenged the infringement findings and damages award. In July 2018, on appeal, the Federal Circuit affirmed the findings that Fairchild infringed both of the Company's asserted patents but vacated the damages award and remanded the case for further proceedings. The Company filed a petition for review by the Supreme Court seeking to overturn the Federal Circuit's ruling, but the Supreme Court denied further reviews. On remand, the Company intends to pursue its claim for damages. Although the patent claims at issue in litigation were rejected by the Patent Office in IPR proceedings, the relevant Patent Office decision in IPR has been overturned on appeal, subject to further challenge by Fairchild/ON Semiconductor as discussed below.

On May 1, 2012, Fairchild Semiconductor Corporation and Fairchild's wholly owned subsidiary, System General Corporation (referred to collectively as "Fairchild"), filed a complaint against the Company in the United States District Court for the District of Delaware. In its complaint, Fairchild alleged that the Company has infringed and is infringing four patents pertaining to power conversion integrated circuit devices. The Company answered Fairchild's complaint, denying infringement and asking for a declaration from the Court that it does not infringe any Fairchild patent and that the Fairchild patents are invalid, and the Company also asserted counterclaims against Fairchild for infringement of five of the Company's patents. Fairchild withdrew its claim for infringement of one of the patents it asserted against the Company after the Company's preliminary challenge. The parties streamlined their contentions in view of the Court's pretrial rulings, and following a trial in late May and early June 2015, a jury returned a verdict finding that Fairchild infringed one of the Company's patents, that Fairchild has induced and contributed to others' infringement of the Company's patent, and that the Company induced infringement of a Fairchild patent that was previously found infringed in the 2012 trial described above, with a damages award of \$2.4 million in favor of Fairchild. Both parties filed post-trial motions and challenges to various portions of the jury verdicts, and the Court addressed the first wave of post-trial motions, denying each side's challenges to the verdict and denying Fairchild's request for an injunction. In parallel proceedings, the Federal Circuit overturned the underlying finding of infringement against the Company on the Fairchild patent-in-suit, and the Company moved to vacate the

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

inducement and damages judgment against the Company, a motion that Fairchild did not oppose. Following a retrial on indirect infringement and damages for Fairchild's infringement of one of the Company's asserted patents, a jury awarded the Company \$0.7 million in damages on November 15, 2018. Fairchild challenged the verdict in post-trial proceedings, but the Court denied Fairchild's challenges; further proceedings are expected over the coming months, with appeals to follow.

On October 21, 2015, the Company filed a complaint for patent infringement in the United States District Court for the Northern District of California against Fairchild Semiconductor Corporation, Fairchild Semiconductor International, Inc., and wholly-owned subsidiary Fairchild (Taiwan) Corporation (referred to collectively as "Fairchild") to address Fairchild's continued infringement of two patents Fairchild was previously found to infringe in the three District Court cases the Company brought against Fairchild discussed above. In each of the three prior cases, Fairchild was found to infringe one of the patents at issue in the latest complaint, and Fairchild's challenges to the validity of the patents were rejected during the course of the prior lawsuits as well. Fairchild has answered the Company's complaint, denying infringement and asking for a declaration from the Court that it does not infringe any Power Integrations patent and that the patents are invalid. Fairchild's answer also included counterclaims accusing the Company of infringing four patents pertaining to power conversion integrated circuit devices, including one patent the Company was found not to infringe in prior litigation. The Company has answered Fairchild's counterclaims, denying infringement and asking for a declaration from the Court that it does not infringe any Fairchild patent and that the Fairchild patents are invalid. On December 15, 2016, the Court stayed the case pending resolution of the parties' *inter partes* review (IPR) and reexamination proceedings regarding the patents-in-suit. Following additional briefing regarding the Company's proposal to move forward with some of the Company's claims, the Court lifted the stay as to one of each side's patents and set a trial for November 2020, with fact and expert discovery taking place in the interim.

On March 10, 2016, Silver Star Capital, LLC filed a petition with the U.S. Patent & Trademark Office (PTO) requesting that the PTO conduct an IPR of the validity of the Company's U.S. Patent No. 6,212,079 (the '079 patent), which the Company has asserted against Fairchild Semiconductor in the California litigation initiated in 2004, as discussed above. The Company's '079 patent is also asserted in the Company's most recent lawsuits against Fairchild filed in October 2015 and against ON Semiconductor filed in November 2016, also discussed herein. On March 29, 2016, ON Semiconductor filed another petition requesting an IPR of the Company's '079 patent. Since that time, ON Semiconductor filed eleven more IPR petitions requesting review of various patents that the Company previously asserted against Fairchild as described above, and another eleven IPR petitions requesting review of various patents that the Company asserted against ON Semiconductor as described herein. The PTO denied Silver Star Capital's IPR petition on the '079 patent but instituted IPR proceedings with respect to ON Semiconductor's petitions directed to the '079 patent. The PTO also instituted IPR proceedings in response to eight of ON Semiconductor's eleven other petitions challenging patents previously asserted against Fairchild, denying institution in three cases. On September 22, 2017, the PTO rejected as obvious the claims of the Company's '079 patent that were asserted in litigation and which formed the basis for the \$146.5 million judgment against Fairchild; an appeal was filed to reverse the PTO's adverse findings, and on appeal the Federal Circuit sided with the Company and ruled that ON Semiconductor's initial IPR against the asserted claims of the '079 patent was improper because of ON Semiconductor's relationship with Fairchild. In two parallel appeals, the Federal Circuit similarly ruled that ON Semiconductor's IPR petitions regarding other patents the Company had asserted against Fairchild were improper. ON Semiconductor has stated that it intends to seek further review of these decisions, with further proceedings expected in the coming months. The PTO also instituted proceedings in response to ON Semiconductor's eleven petitions filed against patents the Company asserted against ON Semiconductor. The PTO has rejected a number of the Company's patent claims in the context of all of these ongoing proceedings, and further proceedings and appeals regarding the various IPRs are expected in the coming months as well. Although the validity of many of the Company's challenged patents has previously been confirmed in the Company's District Court litigation with Fairchild and in many cases in prior PTO reexamination proceedings as well, and though the Company intends to vigorously defend the validity of its patents, the outcome of the IPR proceedings is uncertain.

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 to follow in the coming months and oral argument thereafter.

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.

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

On August 11, 2016, ON Semiconductor filed a complaint against the Company in the United States District Court for the District of Arizona. In its complaint, ON Semiconductor alleged that the Company has infringed and is infringing six patents and requested injunctive relief. The Company filed a motion to transfer the case to the Northern District of California, which the Court granted, and the case has been consolidated with the Company's affirmative case against ON Semiconductor in the Northern District of California, as discussed below. The Company believes it has valid defenses and intends to vigorously defend itself against ON Semiconductor's claims.

On November 1, 2016, the Company filed a lawsuit against ON Semiconductor in the United States District Court for the Northern District of California to address ON Semiconductor's infringement of six patents. The court denied ON Semiconductor's motion requesting that the case be transferred to Arizona and scheduled trial for December of 2019, with interim deadlines for claim construction and dispositive motions. In consolidating the pleadings from the California and Arizona cases following the transfer of ON Semiconductor's case from Arizona, ON Semiconductor asserted two additional patents, bringing the total number of patents asserted against the Company to eight in this case, and ON Semiconductor's amended complaint also seeks a declaration of non-infringement with respect to another of the Company's patents that was previously asserted against Fairchild Semiconductor. Further proceedings and discovery will take place over the coming months, with a trial scheduled for December of 2019.

On December 27, 2016, ON Semiconductor filed a complaint against the Company in the United States District Court for the Eastern District of Texas. In its complaint, ON Semiconductor alleged that the Company has infringed and is infringing six patents and requests injunctive relief. On March 9, 2017, ON Semiconductor dismissed its Texas complaint and re-filed a substantially similar complaint in the District of Delaware. After the Company filed a motion to dismiss, ON Semiconductor filed an amended complaint; the Company has answered ON Semiconductor's complaint and asserted claims for infringement of several of the Company's patents. Trial has been scheduled for February 2020, with interim deadlines for discovery and dispositive motions. The Company believes it has valid defenses and intends to vigorously defend itself against ON Semiconductor's claims.

In November 2017, ON Semiconductor filed suit against the Company in Taiwan charging the Company with infringing three Taiwanese patents and seeking an injunction and damages of approximately \$1.0 million. After a number of hearings and briefings on various disputed issues, including issues of jurisdiction, claim construction, validity, and infringement, the Court on April 8, 2019 denied ON Semiconductor's claims and dismissed the case; ON Semiconductor has filed an appeal, and further proceedings will take place over the coming months. The Company intends to vigorously defend itself against ON Semiconductor's claims in any further proceedings in this matter.

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.

14. 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 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 June 30, 2019. 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, 2018, filed with the SEC on February 13, 2019. 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, 2018, 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 (typically 48 volts or higher) 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, power tools, industrial controls, and "smart-home," or "internet of things" applications such as networked thermostats, power strips and other building-automation 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.

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. In 2018, we introduced a new category of power-conversion ICs, a family of motor-driver ICs addressing brushless DC (BLDC) motors used in refrigerators, HVAC systems, ceiling fans and other consumer-appliance and light commercial applications.

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 300 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 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, renewable-energy installations 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 approximately \$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. In 2018 we introduced our BridgeSwitch™ motor-driver ICs, 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 (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 by increasing the level of integration of our products, which in turn increases their value. 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.

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. 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 \$102.9 million and \$109.5 million in the three months ended June 30, 2019 and 2018, respectively, and \$192.1 million and \$212.6 million in the six months ended June 30, 2019 and 2018, respectively. The decrease for the three-month period was a result of lower sales into the consumer and industrial end markets, reflecting reduced demand for consumer-appliances and a broad range of industrial applications. These decreases were partially offset by growth in the communications and computer end markets, driven by increased demand for our products in cellphone and tablet chargers, respectively. The decrease in the six-month period reflects a broad-based decline in demand across all end markets resulting from global trade disputes.

Our top ten customers, including distributors that resell to original equipment manufacturers, or OEMs, and merchant power supply manufacturers, accounted for 56% and 54% of our net revenues in the three and six months ended June 30, 2019, respectively, and 59% and 58% of net revenues in each of the respective corresponding periods of 2018. Our top customer, a distributor of our products, accounted for approximately 10% and 12% of our net revenues in the three and six months ended June 30, 2019, respectively, and 14% and 15% in the three and six months ended June 30, 2018, respectively. International sales accounted for 97% of our net revenues in each of the three and six months ended June 30, 2019 and 97% and 96% of net revenues in the three and six months ended June 30, 2018, respectively.

Our gross margin was 50% and 51% in the three months ended June 30, 2019 and 2018, respectively, and 51% and 52% in the six months ended June 30, 2019, and 2018, respectively. The slight decrease in gross margin for the three and six month periods was due primarily to increased wafer substrate costs along with an unfavorable change in end-market mix, with a greater percentage of revenues coming from lower-margin end-markets.

Total operating expenses were \$41.8 million and \$40.6 million in the three months ended June 30, 2019 and 2018, respectively, and \$81.2 million and \$80.2 million in the six months ended June 30, 2019 and 2018, respectively. The increases were due primarily to higher salary and related expenses driven by the expansion of our workforce and by annual merit increases; also contributing to the increases were higher legal expenses in connection with our litigation with ON Semiconductor as well as equipment related expenses in support of our product-development efforts. These increases were partially offset by lower stock-based compensation expense related to performance-based awards.

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, 2018, filed with the SEC on February 13, 2019.

Results of Operations

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net revenues	100.0%	100.0%	100.0%	100.0%
Cost of revenues	49.9	48.6	49.5	48.4
Gross profit	50.1	51.4	50.5	51.6
Operating expenses:				
Research and development	18.7	16.4	19.4	16.6
Sales and marketing	12.8	12.3	13.7	12.5
General and administrative	9.1	8.4	9.2	8.6
Total operating expenses	40.6	37.1	42.3	37.7
Income from operations	9.5	14.3	8.2	13.9
Other income	1.3	0.8	1.3	0.8
Income before income taxes	10.8	15.1	9.5	14.7
Provision for income taxes	0.2	1.1	0.1	0.8
Net income	10.6%	14.0%	9.4%	13.9%

Comparison of the Three and Six Months Ended June 30, 2019 and 2018

Net revenues. Net revenues consist of revenues from product sales, which are calculated net of returns and allowances. Net revenues for the three and six months ended June 30, 2019 were \$102.9 million and \$192.1 million, respectively, and \$109.5 million and \$212.6 million, respectively, for the corresponding periods of 2018. The decrease for the three-month period was a result of lower sales into the consumer and industrial end markets, reflecting reduced demand for consumer-appliances and a broad range of industrial applications. This decrease was partially offset by growth in the communications and computer end markets, driven by increased demand for our products in cellphone and tablet chargers, respectively. The decrease in the six month period reflects a broad-based decline in demand across all end markets resulting from global trade disputes.

Our revenue mix by end market for the three and six months ended June 30, 2019 and 2018 was as follows:

End Market	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Communications	24%	20%	21%	20%
Computer	6%	5%	6%	5%
Consumer	37%	40%	38%	40%
Industrial	33%	35%	35%	35%

International sales, consisting of sales outside of the United States of America based on “bill to” customer locations, were \$100.3 million and \$186.8 million in the three and six months ended June 30, 2019, respectively, and \$105.8 million and \$205.0 million, respectively, in the corresponding periods of 2018. 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 78% and 77% of our net revenues in the three and six months ended June 30, 2019, respectively, and 79% and 78%, respectively, in the corresponding periods of 2018. 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 73% and 75% of net revenues in the three and six months ended June 30, 2019, respectively, and 76% in each of the corresponding periods of 2018. Direct sales to OEMs and power-supply manufacturers accounted for the remainder.

In each of the three and six months ended June 30, 2019 and 2018, one customer, a distributor of our products, accounted for more than 10% of our net revenues.

The following table discloses this customer’s percentage of revenues for the respective periods:

Customer	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Avnet	10%	14%	12%	15%

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 and six months ended June 30, 2019 and 2018:

(dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net revenues	\$ 102.9	\$ 109.5	\$ 192.1	\$ 212.6
Gross profit	\$ 51.6	\$ 56.2	\$ 97.0	\$ 109.8
Gross margin	50.1%	51.4%	50.5%	51.6%

Gross margin decreased in the three and six months ended June 30, 2019, compared with the same period in the prior year, due primarily to increased wafer substrate costs along with an unfavorable change in end-market mix with a greater percentage of revenues coming from lower-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 and six months ended June 30, 2019 and 2018:

(dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net revenues	\$ 102.9	\$ 109.5	\$ 192.1	\$ 212.6
R&D expenses	\$ 19.3	\$ 17.9	\$ 37.2	\$ 35.4
R&D expenses as a % of net revenue	18.7%	16.4%	19.4%	16.6%

R&D expenses increased in the three and six months ended June 30, 2019 as compared to the same periods in 2018, due primarily to higher salary and related expenses driven by increased headcount and annual merit increases as well as increased

equipment related expenses; these increases were partially offset by lower 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 and six months ended June 30, 2019 and 2018 :

(dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net revenues	\$ 102.9	\$ 109.5	\$ 192.1	\$ 212.6
S&M expenses	\$ 13.2	\$ 13.5	\$ 26.2	\$ 26.6
S&M expenses as a % of net revenue	12.8%	12.3%	13.7%	12.5%

S&M expenses decreased slightly in the three and six months ended June 30, 2019 as compared to the same period in 2018 , as lower sales commissions and amortization of intangible assets were mostly offset by increased promotional activity associated with product launches. Lower stock-based compensation expense related to performance-based awards also contributed to the decrease in the six-month period.

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 and six months ended June 30, 2019 and 2018 :

(dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net revenues	\$ 102.9	\$ 109.5	\$ 192.1	\$ 212.6
G&A expenses	\$ 9.3	\$ 9.2	\$ 17.7	\$ 18.2
G&A expenses as a % of net revenue	9.1%	8.4%	9.2%	8.6%

G&A expenses were relatively flat in the three months ended June 30, 2019 as compared to the same period in 2018 as increased legal expenses related to our litigation with ON Semiconductor and higher salary and related expenses due to annual merit increases were offset by lower stock-based compensation expense related to performance-based awards. G&A expenses decreased slightly in the six months ended June 30, 2019 as compared to the same period in 2018 as lower stock-based compensation expense was partially offset by increased legal and salary and related expenses.

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 and six months ended June 30, 2019 and 2018 :

(dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net revenues	\$ 102.9	\$ 109.5	\$ 192.1	\$ 212.6
Other income	\$ 1.3	\$ 0.9	\$ 2.5	\$ 1.7
Other income as a % of net revenue	1.3%	0.8%	1.3%	0.8%

The increase in other income in the three and six months ended June 30, 2019 as compared to the same periods in 2018 was primarily due to an increase in interest income reflecting higher yields earned on our cash and investments.

Provision for income taxes . Provision for income taxes represents federal, state and foreign taxes. The table below compares income-tax expense for the three and six months ended June 30, 2019 and 2018 :

(dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Income before income taxes	\$ 11.1	\$ 16.5	\$ 18.3	\$ 31.3
Provision for income taxes	\$ 0.2	\$ 1.1	\$ 0.3	\$ 1.7
Effective tax rate	2.0%	6.8%	1.4%	5.5%

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 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 and six months ended June 30, 2019 were 2.0% and 1.4% , respectively, and 6.8% and 5.5% , respectively, for the corresponding periods of 2018 . 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 foreign income subject to U.S. tax, known as global intangible low-taxed income.

Liquidity and Capital Resources

As of June 30, 2019 , we had \$229.8 million in cash, cash equivalents and short-term marketable securities, an increase of approximately \$1.2 million from \$228.6 million as of December 31, 2018 . As of June 30, 2019 , we had working capital, defined as current assets less current liabilities, of \$304.7 million , an increase of approximately \$20.6 million from \$284.1 million as of December 31, 2018 .

Operating activities generated cash of \$20.5 million in the six months ended June 30, 2019 . Net income for this period was \$18.1 million ; we also incurred non-cash stock-based compensation expense, depreciation, amortization and deferred income taxes of \$9.9 million , \$9.4 million , \$2.5 million and \$1.7 million , respectively. Sources of cash also included a \$4.2 million increase in accounts payable, excluding payables related to property and equipment, due primarily to the timing of payments, and a \$1.2 million increase in taxes payable and accrued liabilities. These sources of cash were partially offset by a \$14.5 million increase in accounts receivable due to the timing of customer shipments, an \$8.3 million increase in inventory reflecting a combination of the recent market slowdown and anticipation of future demand, and a \$3.6 million increase in prepaid expenses and other assets, primarily driven by prepaid taxes and advances to suppliers.

Operating activities generated cash of \$42.4 million in the six months ended June 30, 2018. Net income for this period was \$29.6 million; we also incurred non-cash stock-based compensation expense, depreciation and amortization of \$11.7 million, \$9.7 million and \$2.7 million, respectively. Sources of cash also included a \$9.9 million decrease in accounts receivable due to increased cash collections. These sources of cash were partially offset by an \$11.7 million increase in inventory, reflecting anticipated demand, a \$7.3 million decrease in accounts payable, excluding payables related to property and equipment, due primarily to the timing of payments, and a \$1.4 million increase in prepaid expenses and other assets, primarily driven by prepaid taxes and maintenance agreements.

Our investing activities in the six months ended June 30, 2019 , resulted in a \$43.6 million net use of cash, primarily consisting of \$35.0 million for purchases of marketable securities, net of sales and maturities, and \$8.3 million for purchases of property and equipment, primarily production-related machinery and equipment. Our investing activities provided \$79.3 million of cash in the six months ended June 30, 2018, consisting of \$90.4 million from sales and maturities of marketable securities, partially offset by \$10.5 million for purchases of property and equipment, primarily production-related machinery and equipment.

Our financing activities in the six months ended June 30, 2019 , resulted in an \$11.5 million net use of cash, consisting of \$9.9 million for the payment of dividends to stockholders and \$7.3 million for the repurchase of our common stock. These uses of cash were offset in part by \$5.7 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 six months ended June 30, 2018, resulted in a \$67.2 million net use of cash, consisting of \$63.4 million for the repurchase of our common stock and \$9.5 million for the payment of dividends to stockholders. These uses of cash were offset in part by \$5.6 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 June 30, 2019 , we had no amounts outstanding under our agreement.

In January 2018, our board of directors declared four cash dividends in the amount of \$0.16 per share to be paid to stockholders of record at the end of each quarter in 2018. We paid a total of \$18.8 million in cash dividends in 2018. 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 . Dividend payouts of \$4.9 million and \$5.0 million occurred on March 29, 2019 and June 28, 2019, respectively. 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, 2018, we had approximately \$51.2 million remaining under our stock-repurchase program. In the six months ended June 30, 2019 we repurchased approximately 121,000 shares of our common stock for approximately \$7.3 million. As of June 30, 2019, we had approximately \$43.9 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 June 30, 2019, we had a contractual obligation related to income tax, which consisted primarily of unrecognized tax benefits of approximately \$20.3 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 June 30, 2019, 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, 2018.

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 June 30, 2019, 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 2019 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 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 June 30, 2019, 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, 2018.

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 June 30, 2019, and December 31, 2018, 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 June 30, 2019, or December 31, 2018, 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 June 30, 2019 , 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 June 30, 2019 , and December 31, 2018 , 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 June 30, 2019 , 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 13, *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

As of the date of this filing, the risk factors have not changed substantively from those disclosed in Part 1 Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2018 , which risk factors are incorporated by reference in this report.

ITEM 6. EXHIBITS

EXHIBIT NUMBER	Exhibit Description	Incorporation by Reference				
		Form	File Number	Exhibit/Appendix Reference	Filing Date	Filed Herewith
3.1	Restated Certificate of Incorporation	10-K	000-23441	3.1	2/29/2012	
3.2	Amended and Restated Bylaws	8-K	000-23441	3.1	4/26/2013	
4.1	Reference is made to Exhibits 3.1 to 3.2					
10.1	Amended and Restated 2016 Incentive Award Plan					X
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1**	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2**	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					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	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X

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

** 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: July 25, 2019

By: /s/ S ANDEEP N AYYAR

Sandeep Nayyar
Chief Financial Officer
(Duly Authorized Officer, Principal Financial Officer and
Principal Accounting Officer)

POWER INTEGRATIONS, INC.
2016 INCENTIVE AWARD PLAN
(AS APPROVED BY THE BOARD OF DIRECTORS ON MARCH 13, 2019)
(APPROVED BY THE STOCKHOLDERS ON MAY 22, 2019)

1. **General.**

- (a) **Eligible Award Recipients.** Employees, Directors and Consultants are eligible to receive Awards.
- (b) **Available Awards.** The Plan provides for the grant of the following types of Awards: (i) Restricted Stock Unit Awards; (ii) Performance Stock Unit Awards; and (iii) Performance Cash Awards. For the avoidance of doubt, no other forms of equity-based awards, including but not limited to stock options and stock appreciation rights, may be granted under the Plan.
- (c) **Purpose.** The Plan, through the granting of Awards, is intended to help the Company secure and retain the services of eligible Award recipients and provide incentives for such persons to exert maximum efforts for the success of the Company and any Affiliate.

2. **Administration.**

- (a) **Administration by Board.** The Board will administer the Plan. The Board may delegate administration of the Plan to a Committee or Committees, as provided in Section 2(c).
- (b) **Powers of Board.** The Board will have the power, subject to, and within the limitations of, the express provisions of the Plan:
- (i) To determine (A) who will be granted Awards; (B) when and how each Award will be granted; (C) what type of Award will be granted; (D) the provisions of each Award (which need not be identical), including when a person will be permitted to receive cash or Common Stock under the Award; (E) the number of shares of Common Stock subject to, or the cash value of, an Award; and (F) the Fair Market Value applicable to an Award.
- (ii) To construe and interpret the Plan and Awards granted under it, and to establish, amend and revoke rules and regulations for administration of the Plan and Awards. The Board, in the exercise of these powers, may correct any defect, omission or inconsistency in the Plan or in any Award Agreement or in the written terms of a Performance Cash Award, in a manner and to the extent it will deem necessary or expedient to make the Plan or Award fully effective.
- (iii) To settle all controversies regarding the Plan and Awards granted under it.
- (iv) To accelerate, in whole or in part, the time at which an Award may vest (or at which cash or shares of Common Stock may be issued).
- (v) To suspend or terminate the Plan at any time. Except as otherwise provided in the Plan or an Award Agreement, suspension or termination of the Plan will not impair a Participant's rights under his or her then-outstanding Award without his or her written consent except as provided in subsection (viii) below.
- (vi) To amend the Plan in any respect the Board deems necessary or advisable, including, without limitation, to make the Plan or Awards granted under the Plan exempt from or compliant with the requirements for nonqualified deferred compensation under Section 409A of the Code, subject to the limitations, if any, of applicable law. However, if required by applicable law or listing requirements, and except as provided in Section 8(a) relating to Capitalization Adjustments, the Company will seek stockholder approval of any amendment of the Plan that (A) materially increases the number of shares of Common Stock available for issuance under the Plan; (B) materially expands the class of individuals eligible to receive Awards under the Plan; (C) materially increases the benefits accruing to Participants under the Plan, (D) materially reduces the price at which shares of Common Stock may be issued under the Plan; (E) materially extends the term of the Plan; or (F) materially expands the types of Awards available for issuance under the Plan. Except as provided in the Plan (including Section 2(b)(viii)) or an Award Agreement, no amendment of the Plan will impair a Participant's rights under an outstanding Award without the Participant's written consent.
- (vii) To submit any amendment to the Plan for stockholder approval, including, but not limited to, amendments to the Plan intended to satisfy the requirements of (A) Section 162(m) of the Code regarding the exclusion of performance-based compensation from the limit on corporate deductibility of compensation paid to Covered Employees; or (B) Rule 16b-3.
- (viii) To approve forms of Award Agreements for use under the Plan and to amend the terms of any one or more Awards, including, but not limited to, amendments to provide terms more favorable to the Participant than previously provided in the Award Agreement, subject to any specified limits in the Plan that are not subject to Board discretion; *provided, however,*
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that a Participant's rights under any Award will not be impaired by any such amendment unless (A) the Company requests the consent of the affected Participant; and (B) such Participant consents in writing. Notwithstanding the foregoing, (1) a Participant's rights will not be deemed to have been impaired by any such amendment if the Board, in its sole discretion, determines that the amendment, taken as a whole, does not materially impair the Participant's rights, and (2) subject to the limitations of applicable law, if any, the Board may amend the terms of any one or more Awards without the affected Participant's consent (A) to clarify the manner of exemption from, or to bring the Award into compliance with, Section 409A of the Code; or (B) to comply with other applicable laws or listing requirements.

(ix) Generally, to exercise such powers and to perform such acts as the Board deems necessary or expedient to promote the best interests of the Company and that are not in conflict with the provisions of the Plan or Awards.

(x) To adopt such procedures and sub-plans as are necessary or appropriate to permit participation in the Plan by Employees, Directors or Consultants who are foreign nationals or employed outside the United States (provided that Board approval will not be necessary for immaterial modifications to the Plan or any Award Agreement that are required for compliance with the laws of the relevant foreign jurisdiction).

(c) **Delegation to Committee.**

(i) **General.** The Board may delegate some or all of the administration of the Plan to a Committee or Committees. If administration of the Plan is delegated to a Committee, the Committee will have, in connection with the administration of the Plan, the powers theretofore possessed by the Board that have been delegated to the Committee, including the power to delegate to a subcommittee of the Committee any of the administrative powers the Committee is authorized to exercise (and references in this Plan to the Board will thereafter be to the Committee or subcommittee, as applicable). Any delegation of administrative powers will be reflected in resolutions, not inconsistent with the provisions of the Plan, adopted from time to time by the Board or Committee (as applicable). The Committee may, at any time, abolish the subcommittee and/or revert in the Committee any powers delegated to the subcommittee. The Board may retain the authority to concurrently administer the Plan with the Committee and may, at any time, revert in the Board some or all of the powers previously delegated.

(ii) **Section 162(m) and Rule 16b-3 Compliance.** The Committee may consist solely of two (2) or more Outside Directors, in accordance with Section 162(m) of the Code, or solely of two (2) or more Non-Employee Directors, in accordance with Rule 16b-3.

(d) **Delegation to an Officer .** The Board may delegate to one or more Officers the authority to do one or both of the following (i) designate Employees who are not Officers to be recipients of Awards and the terms of such Awards, in each case to the extent permitted by applicable law; and (ii) determine the number of shares of Common Stock to be subject to such Awards granted to such Employees; *provided, however* , that the Board resolutions regarding such delegation will specify the total number of shares of Common Stock that may be subject to the Awards granted by such Officer and that such Officer may not grant an Award to himself or herself. Any such Awards will be granted using the relevant form of Award Agreement most recently approved for use by the Committee or the Board, unless otherwise provided in the resolutions approving the delegation authority. The Board may not delegate authority to an Officer who is acting solely in the capacity of an Officer (and not also as a Director) to determine the Fair Market Value pursuant to Section 12(x) below.

(e) **Effect of Board's Decision.** All determinations, interpretations and constructions made by the Board in good faith will not be subject to review by any person and will be final, binding and conclusive on all persons.

3. **Shares Subject to the Plan.**

(a) **Share Reserve.**

(i) Subject to Section 8(a) relating to Capitalization Adjustments, the aggregate number of shares of Common Stock that may be issued pursuant to Awards from and after the Effective Date will not exceed two million five hundred thousand (2,500,000) shares (the "**Share Reserve** ").

(ii) For clarity, the Share Reserve in this Section 3(a) is a limitation on the number of shares of Common Stock that may be issued pursuant to the Plan. Accordingly, this Section 3(a) does not limit the granting of Awards except as provided in the Plan. Shares may be issued in connection with a merger or acquisition as permitted by NASDAQ Listing Rule 5635(c) or, if applicable, NYSE Listed Company Manual Section 303A.08, AMEX Company Guide Section 711 or other applicable rule, and such issuance will not reduce the number of shares available for issuance under the Plan.

(b) **Reversion of Shares to the Share Reserve.** If any shares of Common Stock issued pursuant to an Award are forfeited back to the Company because of the failure to meet a contingency or condition required to vest such shares in the Participant, then the shares that are forfeited will revert to and again become available for issuance under the Plan. If any shares of Common Stock subject to an Award are not delivered to a Participant because such shares are withheld for the payment of taxes, the number of shares subject to the Award that are not delivered to the Participant shall not remain available for subsequent issuance under the Plan.

(c) **Section 162(m) Limitations** . Subject to the Share Reserve and Section 8(a) relating to Capitalization Adjustments, to the extent required to comply with Section 162(m) of the Code, the following limitations will apply.

(i) A maximum of two hundred fifty thousand (250,000) shares of Common Stock subject to Performance Stock Unit Awards may be granted to any one Participant during any one fiscal year; and

(ii) A maximum of ten million dollars (\$10,000,000) may be granted as a Performance Cash Award to any one Participant during any one fiscal year.

(d) **Limitation on Grants to Non-Employee Directors.** The maximum number of shares subject to Awards granted under this Plan or otherwise during a single fiscal year to any Non-Employee Director, taken together with any cash fees paid to such Non-Employee Director during the fiscal year, will not exceed three hundred thousand dollars (\$300,000) in total value (calculating the value of any such Awards based on the grant date fair value of such Stock Awards for financial reporting purposes).

(e) **Source of Shares.** The stock issuable under the Plan will be shares of authorized but unissued or reacquired Common Stock, including shares repurchased by the Company on the open market or otherwise.

4. **Eligibility.**

Awards may be granted to Employees, Directors and Consultants; *provided, however*, that Awards may not be granted to Employees, Directors and Consultants who are providing Continuous Service only to any “parent” of the Company, as such term is defined in Rule 405, unless (i) the stock underlying such Awards is treated as “service recipient stock” under Section 409A of the Code (for example, because the Awards are granted pursuant to a corporate transaction such as a spin off transaction) or (ii) the Company, in consultation with its legal counsel, has determined that such Awards are otherwise exempt from (or, alternatively, comply with) the distribution requirements of Section 409A of the Code.

5. **Provisions of Awards**

(a) **Restricted Stock Unit Awards.** Each Restricted Stock Unit Award Agreement will be in such form and will contain such terms and conditions as the Board deems appropriate. The terms and conditions of Restricted Stock Unit Award Agreements may change from time to time, and the terms and conditions of separate Restricted Stock Unit Award Agreements need not be identical. Each Restricted Stock Unit Award Agreement will conform to (through incorporation of the provisions hereof by reference in the Agreement or otherwise) the substance of each of the following provisions:

(i) **Consideration.** At the time of grant of a Restricted Stock Unit Award, the Board will determine the consideration, if any, to be paid by the Participant upon delivery of each share of Common Stock subject to the Restricted Stock Unit Award. The consideration to be paid (if any) by the Participant for each share of Common Stock subject to a Restricted Stock Unit Award may be paid in any form of legal consideration that may be acceptable to the Board, in its sole discretion, and permissible under applicable law.

(ii) **Vesting.** At the time of the grant of a Restricted Stock Unit Award, the Board may impose such restrictions on or conditions to the vesting of the Restricted Stock Unit Award as it, in its sole discretion, deems appropriate.

(iii) **Payment.** A Restricted Stock Unit Award may be settled by the delivery of shares of Common Stock, their cash equivalent, any combination thereof or in any other form of consideration, as determined by the Board and contained in the Restricted Stock Unit Award Agreement.

(iv) **Additional Restrictions.** At the time of the grant of a Restricted Stock Unit Award, the Board, as it deems appropriate, may impose such restrictions or conditions that delay the delivery of the shares of Common Stock (or their cash equivalent) subject to a Restricted Stock Unit Award to a time after the vesting of such Restricted Stock Unit Award.

(v) **Dividend Equivalents.** Dividend equivalents may be credited in respect of shares of Common Stock covered by a Restricted Stock Unit Award, as determined by the Board and contained in the Restricted Stock Unit Award Agreement. At the sole discretion of the Board, such dividend equivalents may be converted into additional shares of Common Stock covered by the Restricted Stock Unit Award in such manner as determined by the Board. Any additional shares covered by the Restricted Stock Unit Award credited by reason of such dividend equivalents will be subject to all of the same terms and conditions of the underlying Restricted Stock Unit Award Agreement to which they relate.

(vi) **Termination of Participant’s Continuous Service.** Except as otherwise provided in the applicable Restricted Stock Unit Award Agreement, such portion of the Restricted Stock Unit Award that has not vested will be forfeited upon the Participant’s termination of Continuous Service.

(b) **Performance Awards .**

(i) **Performance Stock Unit Awards .** A Performance Stock Unit Award is a Restricted Stock Unit Award that is granted or vests contingent upon the attainment during a Performance Period of certain Performance Goals. A Performance

Stock Unit Award may, but need not, require the Participant's completion of a specified period of Continuous Service. The length of any Performance Period, the Performance Goals to be achieved during the Performance Period, and the measure of whether and to what degree such Performance Goals have been attained will be conclusively determined by the Committee (or, if not required for compliance with Section 162(m) of the Code, the Board), in its sole discretion. In addition, to the extent permitted by applicable law and the applicable Award Agreement, the Board or Committee may determine that cash may be used in payment of Performance Stock Unit Awards.

(ii) **Performance Cash Awards** . A Performance Cash Award is a cash award that is payable contingent upon the attainment during a Performance Period of certain Performance Goals. A Performance Cash Award may also require the Participant's completion of a specified period of Continuous Service. At the time of grant of a Performance Cash Award, the length of any Performance Period, the Performance Goals to be achieved during the Performance Period, and the measure of whether and to what degree such Performance Goals have been attained will be conclusively determined by the Committee (or, if not required for compliance with Section 162(m) of the Code, the Board), in its sole discretion.

(iii) **Discretion**. The Board or Committee retains the discretion to reduce or eliminate the compensation or economic benefit due upon attainment of Performance Goals and to define the manner of calculating the Performance Criteria it selects to use for a Performance Period.

(iv) **Section 162(m) Compliance** . Unless otherwise permitted in compliance with Section 162(m) of the Code with respect to an Award intended to qualify as "performance-based compensation" thereunder, the Committee will establish the Performance Goals applicable to, and the formula for calculating the amount payable under, the Award no later than the earlier of (A) the date ninety (90) days after the commencement of the applicable Performance Period, and (B) the date on which twenty-five percent (25%) of the Performance Period has elapsed, and in any event at a time when the achievement of the applicable Performance Goals remains substantially uncertain. Prior to the payment of any compensation under an Award intended to qualify as "performance-based compensation" under Section 162(m) of the Code, the Committee will certify the extent to which any Performance Goals and any other material terms under such Award have been satisfied (other than in cases where the Performance Goals relate solely to the increase in the value of the Common Stock). Notwithstanding satisfaction or any completion of any Performance Goals, shares subject to Awards, cash or other benefits granted, issued, retainable and/or vested under an Award on account of satisfaction of such Performance Goals may be reduced by the Committee on the basis of any further considerations as the Committee, in its sole discretion, will determine.

6. **Covenants of the Company.**

(a) **Availability of Shares**. The Company will keep available at all times the number of shares of Common Stock reasonably required to satisfy then-outstanding Awards.

(b) **Securities Law Compliance**. The Company will seek to obtain from each regulatory commission or agency having jurisdiction over the Plan the authority required to grant Awards and to issue and sell shares of Common Stock upon settlement of the Awards; *provided, however*, that this undertaking will not require the Company to register under the Securities Act the Plan, any Award or any Common Stock issued or issuable pursuant to any such Award. If, after reasonable efforts and at a reasonable cost, the Company is unable to obtain from any such regulatory commission or agency the authority that counsel for the Company deems necessary for the lawful issuance and sale of Common Stock under the Plan, the Company will be relieved from any liability for failure to issue and sell Common Stock upon settlement of such Awards unless and until such authority is obtained. A Participant will not be eligible for the grant of an Award or the subsequent issuance of cash or Common Stock pursuant to the Award if such grant or issuance would be in violation of any applicable securities law.

(c) **No Obligation to Notify or Minimize Taxes**. The Company will have no duty or obligation to warn or otherwise advise such holder of a pending termination or expiration of an Award. The Company has no duty or obligation to minimize the tax consequences of an Award to the holder of such Award.

7. **Miscellaneous.**

(a) **Corporate Action Constituting Grant of Awards**. Corporate action constituting a grant by the Company of an Award to any Participant will be deemed completed as of the date of such corporate action, unless otherwise determined by the Board, regardless of when the instrument, certificate, or letter evidencing the Award is communicated to, or actually received or accepted by, the Participant. In the event that the corporate records (e.g., Board consents, resolutions or minutes) documenting the corporate action constituting the grant contain terms (e.g., vesting schedule or number of shares) that are inconsistent with those in the Award Agreement or related grant documents as a result of a clerical error in the papering of the Award Agreement or related grant documents, the corporate records will control and the Participant will have no legally binding right to the incorrect term in the Award Agreement or related grant documents.

(b) **Stockholder Rights**. No Participant will be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares of Common Stock subject to an Award unless and until (i) such Participant has satisfied all requirements

for the issuance of shares of Common Stock under the Award pursuant to its terms, and (ii) the issuance of the Common Stock subject to such Award has been entered into the books and records of the Company.

(c) **No Employment or Other Service Rights.** Nothing in the Plan, any Award Agreement or any other instrument executed thereunder or in connection with any Award granted pursuant thereto will confer upon any Participant any right to continue to serve the Company or an Affiliate in the capacity in effect at the time the Award was granted or will affect the right of the Company or an Affiliate to terminate (i) the employment of an Employee with or without notice and with or without cause, (ii) the service of a Consultant pursuant to the terms of such Consultant's agreement with the Company or an Affiliate, or (iii) the service of a Director pursuant to the bylaws of the Company or an Affiliate, and any applicable provisions of the corporate law of the state in which the Company or the Affiliate is incorporated, as the case may be.

(d) **Change in Time Commitment .** In the event a Participant's regular level of time commitment in the performance of his or her services for the Company and any Affiliates is reduced (for example, and without limitation, if the Participant is an Employee of the Company and the Employee has a change in status from a full-time Employee to a part-time Employee) after the date of grant of any Award to the Participant, the Board has the right in its sole discretion to (x) make a corresponding reduction in the number of shares or cash amount subject to any portion of such Award that is scheduled to vest or become payable after the date of such change in time commitment, and (y) in lieu of or in combination with such a reduction, extend the vesting or payment schedule applicable to such Award. In the event of any such reduction, the Participant will have no right with respect to any portion of the Award that is so reduced or extended.

(e) **Investment Assurances.** The Company may require a Participant, as a condition of acquiring Common Stock under any Award, (i) to give written assurances satisfactory to the Company as to the Participant's knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company who is knowledgeable and experienced in financial and business matters and that he or she is capable of evaluating, alone or together with the purchaser representative, the merits and risks of accepting the Award; and (ii) to give written assurances satisfactory to the Company stating that the Participant is acquiring Common Stock subject to the Award for the Participant's own account and not with any present intention of selling or otherwise distributing the Common Stock. The foregoing requirements, and any assurances given pursuant to such requirements, will be inoperative if (A) the issuance of the shares upon the acquisition of Common Stock under the Award has been registered under a then currently effective registration statement under the Securities Act, or (B) as to any particular requirement, a determination is made by counsel for the Company that such requirement need not be met in the circumstances under the then applicable securities laws. The Company may, upon advice of counsel to the Company, place legends on stock certificates issued under the Plan as such counsel deems necessary or appropriate in order to comply with applicable securities laws, including, but not limited to, legends restricting the transfer of the Common Stock.

(f) **Withholding Obligations.** Unless prohibited by the terms of an Award Agreement, the Company may, in its sole discretion, satisfy any federal, state or local tax withholding obligation relating to an Award by any of the following means or by a combination of such means: (i) causing the Participant to tender a cash payment; (ii) withholding shares of Common Stock from the shares of Common Stock issued or otherwise issuable to the Participant in connection with the Award; *provided, however*, that no shares of Common Stock are withheld with a value exceeding the minimum amount of tax required to be withheld by law (or such lesser amount as may be necessary to avoid classification of the Award as a liability for financial accounting purposes); (iii) withholding cash from an Award settled in cash; (iv) withholding payment from any amounts otherwise payable to the Participant; or (v) by such other method as may be set forth in the Award Agreement.

(g) **Electronic Delivery .** Any reference herein to a "written" agreement or document will include any agreement or document delivered electronically, filed publicly at www.sec.gov (or any successor website thereto) or posted on the Company's intranet (or other shared electronic medium controlled by the Company to which the Participant has access).

(h) **Deferrals.** To the extent permitted by applicable law, the Board, in its sole discretion, may determine that the delivery of Common Stock or the payment of cash, upon the vesting or settlement of all or a portion of any Award may be deferred and may establish programs and procedures for deferral elections to be made by Participants. Deferrals by Participants will be made in accordance with Section 409A of the Code. Consistent with Section 409A of the Code, the Board may provide for distributions while a Participant is still an employee or otherwise providing services to the Company. The Board is authorized to make deferrals of Awards and determine when, and in what annual percentages, Participants may receive payments, including lump sum payments, following the Participant's termination of Continuous Service, and implement such other terms and conditions consistent with the provisions of the Plan and in accordance with applicable law.

(i) **Compliance with Section 409A.** To the extent that the Board determines that any Award granted hereunder is subject to Section 409A of the Code, the Award Agreement evidencing such Award shall incorporate the terms and conditions necessary to avoid the consequences specified in Section 409A(a)(1) of the Code. To the extent applicable, the Plan and Award Agreements shall be interpreted in accordance with Section 409A of the Code. Notwithstanding anything to the contrary in this Plan (and unless the Award Agreement specifically provides otherwise), if the shares of Common Stock are publicly traded and a Participant holding an Award that constitutes "deferred compensation" under Section 409A of the Code is a "specified employee"

for purposes of Section 409A of the Code, no distribution or payment of any amount shall be made upon a “separation from service” before a date that is six (6) months following the date of such Participant’s “separation from service” (as defined in Section 409A of the Code without regard to alternative definitions thereunder) or, if earlier, the date of the Participant’s death.

(j) **Clawback/Recovery** . All Awards granted under the Plan will be subject to recoupment in accordance with any clawback policy that the Company is required to adopt pursuant to the listing standards of any national securities exchange or association on which the Company’s securities are listed or as is otherwise required by the Dodd-Frank Wall Street Reform and Consumer Protection Act or other applicable law. In addition, the Board may impose such other clawback, recovery or recoupment provisions in an Award Agreement as the Board determines necessary or appropriate, including but not limited to a reacquisition right in respect of previously acquired shares of Common Stock or other cash or property upon the occurrence of Cause. No recovery of compensation under such a clawback policy will be an event giving rise to a right to resign for “good reason” or “constructive termination” (or similar term) under any agreement with the Company.

8. **Adjustments upon Changes in Common Stock; Other Corporate Events.**

(a) **Capitalization Adjustments** . In the event of a Capitalization Adjustment, the Board will appropriately and proportionately adjust: (i) the class(es) and maximum number of securities subject to the Plan pursuant to Section 3(a)(i), (ii) the class(es) and maximum number of securities that may be awarded to any person pursuant to Section 3(c), and (iii) the class(es) and number of securities and price per share of stock subject to outstanding Awards. The Board will make such adjustments, and its determination will be final, binding and conclusive.

(b) **Dissolution** . Except as otherwise provided in the Award Agreement, in the event of a Dissolution of the Company, all outstanding Awards (other than Awards consisting of vested and outstanding shares of Common Stock not subject to a forfeiture condition or the Company’s right of repurchase) will terminate immediately prior to the completion of such Dissolution, and the shares of Common Stock subject to the Company’s repurchase rights or subject to a forfeiture condition may be repurchased or reacquired by the Company notwithstanding the fact that the holder of such Award is providing Continuous Service, *provided, however*, that the Board may, in its sole discretion, cause some or all Awards to become fully vested and/or no longer subject to repurchase or forfeiture (to the extent such Awards have not previously expired or terminated) before the Dissolution is completed but contingent on its completion.

(c) **Transactions**. The following provisions will apply to Awards in the event of a Transaction unless otherwise provided in the Award Agreement or any other written agreement between the Company or any Affiliate and the Participant or unless otherwise expressly provided by the Board at the time of grant of an Award. In the event of a Transaction, then, notwithstanding any other provision of the Plan, the Board may take one or more of the following actions with respect to Awards, contingent upon the closing or completion of the Transaction:

(i) arrange for the surviving corporation or acquiring corporation (or the surviving or acquiring corporation’s parent company) to assume or continue the Award or to substitute a similar Award for the Award (including, but not limited to, an award to acquire the same consideration paid to the stockholders of the Company pursuant to the Transaction);

(ii) arrange for the assignment of any reacquisition or repurchase rights held by the Company in respect of Common Stock issued pursuant to the Award to the surviving corporation or acquiring corporation (or the surviving or acquiring corporation’s parent company);

(iii) accelerate the vesting, in whole or in part, of the Award to a date prior to the effective time of such Transaction as the Board determines (or, if the Board does not determine such a date, to the date that is five (5) days prior to the effective date of the Transaction);

(iv) arrange for the lapse, in whole or in part, of any reacquisition or repurchase rights held by the Company with respect to the Award;

(v) cancel or arrange for the cancellation of the Award, to the extent not vested prior to the effective time of the Transaction, in exchange for such cash consideration or no consideration, as the Board, in its sole discretion, may consider appropriate; and

(vi) make a payment, in such form as may be determined by the Board equal to the value of the property the Participant would have received upon the settlement of the Award immediately prior to the effective time of the Transaction. Payments under this provision may be delayed to the same extent that payment of consideration to the holders of the Common Stock in connection with the Transaction is delayed as a result of escrows, earn outs, holdbacks or any other contingencies.

The Board need not take the same action or actions with respect to all Awards or portions thereof or with respect to all Participants. The Board may take different actions with respect to the vested and unvested portions of an Award.

(d) **Change in Control**. An Award may be subject to additional acceleration of vesting upon or after a qualifying termination that occurs in connection with a Change in Control as may be provided in the Award Agreement for such Award or as

may be provided in any other written agreement between the Company or any Affiliate and the Participant, but in the absence of such provision, no such acceleration will occur.

9. **Plan Term; Earlier Termination or Suspension of the Plan.**

(a) **Suspension and Termination.** The Board may suspend or terminate the Plan at any time. Unless sooner terminated, the Plan shall automatically terminate on the day before the tenth (10th) anniversary of the earlier of (i) the date the Plan is adopted by the Board, or (ii) the date the Plan is approved by the stockholders of the Company. No Awards may be granted under the Plan while the Plan is suspended or after it is terminated.

(b) **No Impairment of Rights.** Suspension or termination of the Plan will not impair rights and obligations under any Award granted while the Plan is in effect except with the written consent of the affected Participant or as otherwise permitted in the Plan.

10. **Effective Date of Plan.**

This Plan will become effective on the Effective Date.

11. **Choice of Law.**

The laws of the State of Delaware will govern all questions concerning the construction, validity and interpretation of this Plan, without regard to that state's conflict of laws rules.

12. **Definitions.** As used in the Plan, the following definitions will apply to the capitalized terms indicated below:

(a) **"Affiliate"** means, at the time of determination, any "parent" or "subsidiary" of the Company as such terms are defined in Rule 405. The Board will have the authority to determine the time or times at which "parent" or "subsidiary" status is determined within the foregoing definition.

(b) **"Award"** means a grant of Restricted Stock Units or Performance Stock Units.

(c) **"Award Agreement"** means a written agreement between the Company and a Participant evidencing the terms and conditions of an Award.

(d) **"Board"** means the Board of Directors of the Company.

(e) **"Capitalization Adjustment"** means any change that is made in, or other events that occur with respect to, the Common Stock subject to the Plan or subject to any Award after the Effective Date without the receipt of consideration by the Company through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, large nonrecurring cash dividend, stock split, reverse stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or any similar equity restructuring transaction, as that term is used in Statement of Financial Accounting Standards Board Accounting Standards Codification Topic 718 (or any successor thereto). Notwithstanding the foregoing, the conversion of any convertible securities of the Company will not be treated as a Capitalization Adjustment.

(f) **"Cause"** will have the meaning ascribed to such term in any written agreement between the Participant and the Company defining such term and, in the absence of such agreement, such term means, with respect to a Participant, the occurrence of any of the following events: (i) such Participant's failure to substantially perform his or her duties with the Company or an Affiliate; (ii) such Participant's failure to substantially follow and comply with the specific and lawful directives of the Board or any officer of the Company or an Affiliate to whom such Participant directly or indirectly reports; (iii) such Participant's commission of an act of fraud or dishonesty resulting in actual economic, financial or reputational injury to the Company or an Affiliate; (iv) such Participant's engagement in illegal conduct, gross misconduct or an act of moral turpitude, involving economic, financial or reputational injury to the Company or an Affiliate; (v) such Participant's material violation of any material written policy, guideline, code, handbook or similar document governing the conduct of directors, officers or employees of the Company or its Affiliates resulting in actual economic, financial or reputational injury to the Company or an Affiliate; (vi) such Participant's intentional, material violation of any contract or agreement between the Participant and the Company or of any statutory duty owed to the Company; or (vii) such Participant's unauthorized use or disclosure of the Company's confidential information or trade secrets. The determination that a termination of the Participant's Continuous Service is either for Cause or without Cause will be made by the Company, in its sole discretion. Any determination by the Company that the Continuous Service of a Participant was terminated with or without Cause for the purposes of outstanding Awards held by such Participant will have no effect upon any determination of the rights or obligations of the Company or such Participant for any other purpose.

(g) **"Change in Control"** means the occurrence, in a single transaction or in a series of related transactions, of any one or more of the following events:

(i) any Exchange Act Person becomes the Owner, directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the combined voting power of the Company's then outstanding securities other than

by virtue of a merger, consolidation or similar transaction. Notwithstanding the foregoing, a Change in Control will not be deemed to occur (A) on account of the acquisition of securities of the Company directly from the Company, (B) on account of the acquisition of securities of the Company by an investor, any affiliate thereof or any other Exchange Act Person that acquires the Company's securities in a transaction or series of related transactions the primary purpose of which is to obtain financing for the Company through the issuance of equity securities, or (C) solely because the level of Ownership held by any Exchange Act Person (the "**Subject Person**") exceeds the designated percentage threshold of the outstanding voting securities as a result of a repurchase or other acquisition of voting securities by the Company reducing the number of shares outstanding, provided that if a Change in Control would occur (but for the operation of this sentence) as a result of the acquisition of voting securities by the Company, and after such share acquisition, the Subject Person becomes the Owner of any additional voting securities that, assuming the repurchase or other acquisition had not occurred, increases the percentage of the then outstanding voting securities Owned by the Subject Person over the designated percentage threshold, then a Change in Control will be deemed to occur;

(ii) there is consummated a merger, consolidation or similar transaction involving (directly or indirectly) the Company and, immediately after the consummation of such merger, consolidation or similar transaction, the stockholders of the Company immediately prior thereto do not Own, directly or indirectly, either (A) outstanding voting securities representing more than fifty percent (50%) of the combined outstanding voting power of the surviving Entity in such merger, consolidation or similar transaction or (B) more than fifty percent (50%) of the combined outstanding voting power of the parent of the surviving Entity in such merger, consolidation or similar transaction, in each case in substantially the same proportions as their Ownership of the outstanding voting securities of the Company immediately prior to such transaction;

(iii) there is consummated a sale, lease, exclusive license or other disposition of all or substantially all of the consolidated assets of the Company and its Subsidiaries, other than a sale, lease, license or other disposition of all or substantially all of the consolidated assets of the Company and its Subsidiaries to an Entity, more than fifty percent (50%) of the combined voting power of the voting securities of which are Owned by stockholders of the Company in substantially the same proportions as their Ownership of the outstanding voting securities of the Company immediately prior to such sale, lease, license or other disposition; or

(iv) individuals who, on the date the Plan is adopted by the Board, are members of the Board (the "**Incumbent Board**") cease for any reason to constitute at least a majority of the members of the Board; *provided, however*, that if the appointment or election (or nomination for election) of any new Board member was approved or recommended by a majority vote of the members of the Incumbent Board then still in office, such new member will, for purposes of this Plan, be considered as a member of the Incumbent Board.

Notwithstanding the foregoing definition or any other provision of this Plan, the term Change in Control will not include a sale of assets, merger or other transaction effected exclusively for the purpose of changing the domicile of the Company.

(h) "**Code**" means the Internal Revenue Code of 1986, as amended, including any applicable regulations and guidance thereunder.

(i) "**Committee**" means a committee of one or more Directors to whom authority has been delegated by the Board in accordance with Section 2(c).

(j) "**Common Stock**" means the common stock of the Company.

(k) "**Company**" means Power Integrations, Inc., a Delaware corporation.

(l) "**Consultant**" means any person, including an advisor, who is (i) engaged by the Company or an Affiliate to render consulting or advisory services and is compensated for such services, or (ii) serving as a member of the board of directors of an Affiliate and is compensated for such services. However, service solely as a Director, or payment of a fee for such service, will not cause a Director to be considered a "Consultant" for purposes of the Plan. Notwithstanding the foregoing, a person is treated as a Consultant under this Plan only if a Form S-8 Registration Statement under the Securities Act is available to register either the offer or the sale of the Company's securities to such person.

(m) "**Continuous Service**" means that the Participant's service with the Company or an Affiliate, whether as an Employee, Director or Consultant, is not interrupted or terminated. A change in the capacity in which the Participant renders service to the Company or an Affiliate as an Employee, Director or Consultant or a change in the Entity for which the Participant renders such service, provided that there is no interruption or termination of the Participant's service with the Company or an Affiliate, will not terminate a Participant's Continuous Service; *provided, however*, that if the Entity for which a Participant is rendering services ceases to qualify as an Affiliate, as determined by the Board, in its sole discretion, such Participant's Continuous Service will be considered to have terminated on the date such Entity ceases to qualify as an Affiliate. For example, a change in status from an Employee of the Company to a Consultant of an Affiliate or to a Director will not constitute an interruption of Continuous Service. To the extent permitted by law, the Board or the chief executive officer of the Company, in that party's sole discretion, may determine whether Continuous Service will be considered interrupted in the case of (i) any leave of absence approved by the Board or chief executive officer, including sick leave, military leave or any other personal leave, or (ii) transfers

between the Company, an Affiliate, or their successors. Notwithstanding the foregoing, a leave of absence will be treated as Continuous Service for purposes of vesting in an Award only to such extent as may be provided in the Company's leave of absence policy, in the written terms of any leave of absence agreement or policy applicable to the Participant, or as otherwise required by law.

(n) “**Corporate Transaction**” means the consummation, in a single transaction or in a series of related transactions, of any one or more of the following events:

(i) a sale or other disposition of all or substantially all, as determined by the Board, in its sole discretion, of the consolidated assets of the Company and its Subsidiaries;

(ii) a sale or other disposition of more than fifty percent (50%) of the outstanding securities of the Company;

(iii) a merger, consolidation or similar transaction following which the Company is not the surviving corporation; or

(iv) a merger, consolidation or similar transaction following which the Company is the surviving corporation but the shares of Common Stock outstanding immediately preceding the merger, consolidation or similar transaction are converted or exchanged by virtue of the merger, consolidation or similar transaction into other property, whether in the form of securities, cash or otherwise.

(o) “**Covered Employee**” will have the meaning provided in Section 162(m)(3) of the Code.

(p) “**Director**” means a member of the Board.

(q) “**Disability**” means, with respect to a Participant, the inability of such Participant to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or that has lasted or can be expected to last for a continuous period of not less than twelve (12) months, as provided in Sections 22(e)(3) and 409A(a)(2)(c)(i) of the Code, and will be determined by the Board on the basis of such medical evidence as the Board deems warranted under the circumstances.

(r) “**Dissolution**” means when the Company, after having executed a certificate of dissolution with the State of Delaware, has completely wound up its affairs. Conversion of the Company into a Limited Liability Company (or any other pass-through entity) will not be considered a “Dissolution” for purposes of the Plan.

(s) “**Effective Date**” means the effective date of this Plan document, which is the date of the annual meeting of stockholders of the Company held in 2016, provided this Plan is approved by the Company's stockholders at such meeting.

(t) “**Employee**” means any person employed by the Company or an Affiliate. However, service solely as a Director, or payment of a fee for such services, will not cause a Director to be considered an “Employee” for purposes of the Plan.

(u) “**Entity**” means a corporation, partnership, limited liability company or other entity.

(v) “**Exchange Act**” means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

(w) “**Exchange Act Person**” means any natural person, Entity or “group” (within the meaning of Section 13(d) or 14(d) of the Exchange Act), except that “Exchange Act Person” will not include (i) the Company or any Subsidiary of the Company, (ii) any employee benefit plan of the Company or any Subsidiary of the Company or any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any Subsidiary of the Company, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, (iv) an Entity Owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their Ownership of stock of the Company; or (v) any natural person, Entity or “group” (within the meaning of Section 13(d) or 14(d) of the Exchange Act) that, as of the Effective Date, is the Owner, directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the combined voting power of the Company's then outstanding securities.

(x) “**Fair Market Value**” means, as of any date, the value of the Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or traded on any established market, the Fair Market Value of a share of Common Stock will be, unless otherwise determined by the Board, the closing sales price for such stock as quoted on such exchange or market (or the exchange or market with the greatest volume of trading in the Common Stock) on the date of determination, as reported in a source the Board deems reliable.

(ii) Unless otherwise provided by the Board, if there is no closing sales price for the Common Stock on the date of determination, then the Fair Market Value will be the closing selling price on the last preceding date for which such quotation exists.

(iii) In the absence of such markets for the Common Stock, the Fair Market Value will be determined by the Board in good faith and in a manner that complies with Sections 409A and 422 of the Code.

(y) “**Non-Employee Director**” means a Director who either (i) is not a current employee or officer of the Company or an Affiliate, does not receive compensation, either directly or indirectly, from the Company or an Affiliate for services rendered as a consultant or in any capacity other than as a Director (except for an amount as to which disclosure would not be required under Item 404(a) of Regulation S-K promulgated pursuant to the Securities Act (“*Regulation S-K*”), does not possess an interest in any other transaction for which disclosure would be required under Item 404(a) of Regulation S-K, and is not engaged in a business relationship for which disclosure would be required pursuant to Item 404(b) of Regulation S-K; or (ii) is otherwise considered a “non-employee director” for purposes of Rule 16b-3.

(z) “**Officer**” means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act.

(aa) “**Outside Director**” means a Director who either (i) is not a current employee of the Company or an “affiliated corporation” (within the meaning of Treasury Regulations promulgated under Section 162(m) of the Code), is not a former employee of the Company or an “affiliated corporation” who receives compensation for prior services (other than benefits under a tax-qualified retirement plan) during the taxable year, has not been an officer of the Company or an “affiliated corporation,” and does not receive remuneration from the Company or an “affiliated corporation,” either directly or indirectly, in any capacity other than as a Director, or (ii) is otherwise considered an “outside director” for purposes of Section 162(m) of the Code.

(bb) “**Own,**” “**Owned,**” “**Owner,**” “**Ownership**” A person or Entity will be deemed to “Own,” to have “Owned,” to be the “Owner” of, or to have acquired “Ownership” of securities if such person or Entity, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has or shares voting power, which includes the power to vote or to direct the voting, with respect to such securities.

(cc) “**Participant**” means a person to whom an Award is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Award.

(dd) “**Performance Cash Award**” means an award of cash granted pursuant to the terms and conditions of Section 5(b)(ii).

(ee) “**Performance Criteria**” means the one or more criteria that the Committee will select for purposes of establishing the Performance Goals for a Performance Period. The Performance Criteria that will be used to establish such Performance Goals may be based on any one of, or combination of, the following: (i) earnings (including earnings per share and net earnings); (ii) earnings before interest, taxes and depreciation; (iii) earnings before interest, taxes, depreciation and amortization; (iv) total stockholder return; (v) return on equity or average stockholder’s equity; (vi) return on assets, investment, or capital employed; (vii) stock price; (viii) margin (including gross or operating margin); (ix) income (before or after taxes); (x) operating income; (xi) operating income after taxes; (xii) pre-tax profit; (xiii) operating cash flow; (xiv) orders, sales or revenue targets; (xv) increases in revenue or product revenue; (xvi) expenses and cost reduction goals; (xvii) improvement in or attainment of working capital levels; (xviii) economic value added (or an equivalent metric); (xix) market share; (xx) cash flow; (xxi) cash flow per share; (xxii) share price performance; (xxiii) debt reduction; (xxiv) implementation or completion of projects or processes; (xxv) customer satisfaction; (xxvi) stockholders’ equity; (xxvii) capital expenditures; (xxviii) debt levels; (xxix) operating profit or net operating profit; (xxx) workforce diversity; (xxxii) growth of net income or operating income; (xxxiii) billings; (xxxiv) quality measures; and (xxxiv) to the extent that an Award is not intended to comply with Section 162(m) of the Code, other measures of performance selected by the Board or Committee.

(ff) “**Performance Goals**” means, for a Performance Period, the one or more goals established by the Committee or Board for the Performance Period based upon the Performance Criteria. Performance Goals may be based on a Company-wide basis, with respect to one or more business units, divisions, Affiliates, or business segments, and in either absolute terms or relative to the performance of one or more comparable companies or the performance of one or more relevant indices. Unless specified otherwise by the Board or Committee (i) in the Award Agreement at the time the Award is granted or (ii) in such other document setting forth the Performance Goals at the time the Performance Goals are established, the Board or Committee will appropriately make adjustments in the method of calculating the attainment of Performance Goals for a Performance Period as follows: (1) to exclude restructuring and/or other nonrecurring charges; (2) to exclude exchange rate effects; (3) to exclude the effects of changes to generally accepted accounting principles; (4) to exclude the effects of any statutory adjustments to corporate tax rates; (5) to exclude the dilutive effects of acquisitions or joint ventures; (6) to assume that any business divested by the Company achieved performance objectives at maximum levels during the balance of a Performance Period following such divestiture; (7) to exclude the effect of any change in the outstanding shares of common stock of the Company by reason of any stock dividend or split, stock repurchase, reorganization, recapitalization, merger, consolidation, spin-off, combination or exchange of shares or other similar corporate change, or any distributions to common stockholders other than regular cash dividends; (8) to exclude the effects of stock based compensation and the award of bonuses under the Company’s bonus plans; (9) to exclude costs incurred in connection with potential acquisitions or divestitures that are required to be expensed under generally accepted accounting principles; (10)

to exclude the goodwill and intangible asset impairment charges that are required to be recorded under generally accepted accounting principles and (11) to exclude the effect of any other unusual, non-recurring gain or loss or any other adjustment made to arrive at the Company's non-GAAP financial information as presented in the Company's SEC filings. For all Awards intended to qualify as performance-based compensation under Section 162(m) of the Code, such determinations shall be made within the time prescribed by, and otherwise in compliance with, Section 162(m) of the Code.

(gg) “ **Performance Period** ” means the period of time selected by the Board or Committee over which the attainment of one or more Performance Goals will be measured for the purpose of determining a Participant's right to and the payment of an Award or a Performance Cash Award. Performance Periods may be of varying and overlapping duration, at the sole discretion of the Board or Committee.

(hh) “ **Performance Stock Unit Award** ” means an Award granted under the terms and conditions of Section 5(b)(i).

(ii) “ **Plan** ” means this Power Integrations, Inc. 2016 Incentive Award Plan.

(jj) “ **Restricted Stock Unit Award** ” means a right to receive shares of Common Stock which is granted pursuant to the terms and conditions of Section 5(a).

(kk) “ **Restricted Stock Unit Award Agreement** ” means a written agreement between the Company and a holder of a Restricted Stock Unit Award evidencing the terms and conditions of a Restricted Stock Unit Award grant. Each Restricted Stock Unit Award Agreement will be subject to the terms and conditions of the Plan.

(ll) “ **Rule 16b-3** ” means Rule 16b-3 promulgated under the Exchange Act or any successor to Rule 16b-3, as in effect from time to time.

(mm) “ **Rule 405** ” means Rule 405 promulgated under the Securities Act.

(nn) “ **Rule 701** ” means Rule 701 promulgated under the Securities Act.

(oo) “ **Securities Act** ” means the Securities Act of 1933, as amended.

(pp) “ **Subsidiary** ” means, with respect to the Company, (i) any corporation of which more than fifty percent (50%) of the outstanding capital stock having ordinary voting power to elect a majority of the board of directors of such corporation (irrespective of whether, at the time, stock of any other class or classes of such corporation will have or might have voting power by reason of the happening of any contingency) is at the time, directly or indirectly, Owned by the Company, and (ii) any partnership, limited liability company or other entity in which the Company has a direct or indirect interest (whether in the form of voting or participation in profits or capital contribution) of more than fifty percent (50%).

(qq) “ **Transaction** ” means a Corporate Transaction or a Change in Control.

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: July 25, 2019

By: /s/ BALU BALAKRISHNAN

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: July 25, 2019

By: /s/ SANDEEP NAYYAR

Sandeep Nayyar
Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICERCERTIFICATION 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 June 30, 2019, 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: July 25, 2019

By: /s/ BALU BALAKRISHNAN

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 OFFICERCERTIFICATION 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 June 30, 2019, 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: July 25, 2019

By: /s/ SANDEEP NAYYAR

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.