

## Power Integrations Reports First-Quarter Financial Results

*Net revenues were \$82.6 million; non-GAAP earnings were \$0.43 per diluted share; GAAP earnings were \$0.21 per diluted share*

**SAN JOSE, CALIF. – April 29, 2015** – Power Integrations (Nasdaq: [POWI](#)) today announced financial results for the quarter ended March 31, 2015. Net revenues for the first quarter were \$82.6 million, down five percent from the prior quarter and one percent from the first quarter of 2014. GAAP gross margin for the first quarter was 51.2 percent; operating margin was 8.4 percent. Net income for the quarter was \$6.3 million or \$0.21 per diluted share, compared with \$0.48 per diluted share in the prior quarter and \$0.40 per diluted share in the first quarter of 2014.

In addition to its GAAP results, the company provided non-GAAP financial measures that exclude stock-based compensation expenses, acquisition-related expenses and the related tax effects of these items. Non-GAAP gross margin for the first quarter was 53.1 percent; operating margin was 17.1 percent. Non-GAAP net income for the quarter was \$13.0 million or \$0.43 per diluted share, compared with \$0.59 per diluted share in the prior quarter and \$0.56 per diluted share in the first quarter of 2014.

Commented Balu Balakrishnan, president and CEO of Power Integrations: "First-quarter revenues were within the expected range, albeit toward the lower end, largely reflecting continued softness in the desktop PC market. While the overall demand environment appears somewhat mixed, we expect growth in key focus areas in the months ahead, including rapid-charging and high-power applications. Notably, shipments increased nearly ten percent sequentially in the first quarter in anticipation of stronger demand through the distribution channel. All in all, we expect second-quarter revenues to increase sequentially by five to ten percent."

### Additional Highlights

- The company paid a dividend of \$0.12 per share on March 31. A dividend of \$0.12 per share is scheduled to be paid on June 30, 2015, to stockholders of record as of May 29.
- In January the company acquired Cambridge Semiconductor, a UK-based supplier of controller ICs for AC-DC power supplies, for \$22.1 million net of cash assumed.

- Power Integrations had \$173.2 million in cash and short-term marketable securities at quarter-end, a decrease of \$2.1 million during the quarter. Cash flow from operations in the quarter was \$17.7 million.
- Power Integrations was issued 13 U.S. patents during the first quarter and had 724 U.S. patents at quarter-end including patents acquired during the quarter.

### **Financial Outlook**

The company issued the following forecast for the second quarter of 2015:

- Revenues are expected to increase by five to ten percent compared to the first quarter.
- Non-GAAP gross margin is expected to be between 52.5 percent and 53 percent. (Excludes \$0.3 million of stock-based compensation and \$1 million of amortization of acquisition-related intangibles.) GAAP gross margin is expected to be between 51 percent and 51.5 percent.
- Non-GAAP operating expenses are expected to be between \$31.5 million and \$32 million. (Excludes approximately \$4.3 million of stock-based compensation and \$0.7 million of amortization of acquisition-related intangibles.) GAAP operating expenses are expected to be between \$36.5 million and \$37 million.

### **Conference Call Today at 1:45 p.m. Pacific Time**

Power Integrations management will hold a conference call today at 1:45 p.m. PT. Members of the investment community can join the call by dialing 1-647-788-4901. The call will also be available on the investor section of the company's website, <http://investors.power.com>.

### **About Power Integrations**

[Power Integrations, Inc.](http://www.power.com) is a leading innovator in semiconductor technologies for high-voltage power-conversion. The company's products are key building blocks in the clean-power ecosystem, enabling the generation of renewable energy as well as the efficient transmission and consumption of power in applications ranging from milliwatts to megawatts. For more information please visit [www.power.com](http://www.power.com).

### **Note Regarding Use of Non-GAAP Financial Measures**

In addition to the company's consolidated financial statements, which are presented according to GAAP, the company provides certain non-GAAP financial information that excludes stock-based compensation expenses recorded under ASC 718-10, amortization of acquisition-related intangible assets and the write-up of acquired inventory, acquisition expenses and related transition expenses, and the tax effects of these items. The company uses these measures in its own financial and operational decision-making and, with respect to one measure, in setting performance targets for employee-compensation purposes. Further, the company believes that these non-GAAP measures offer an important analytical tool to help investors understand the company's core operating results and trends, and to facilitate comparability with the operating results of other companies that provide similar measures. These non-GAAP measures have certain limitations as analytical tools and are not meant to be considered in isolation or as a substitute for GAAP financial information. For example, stock-based compensation is an important component of the company's compensation mix, and will continue to result in significant expenses in the company's GAAP results for the foreseeable future, but is not reflected in the non-GAAP measures. Also, other companies, including companies in Power Integrations' industry, may calculate non-GAAP measures differently, limiting their usefulness as comparative measures.

**Note Regarding Forward-Looking Statements**

The statements in this press release regarding the company's forecast for its second-quarter financial performance and its prospects for growth in 2015 are forward-looking statements reflecting management's current expectations and beliefs. These forward-looking statements are based on current information that is, by its nature, subject to rapid and even abrupt change. Due to risks and uncertainties associated with the company's business, actual results could differ materially from those projected or implied by these statements. These risks and uncertainties include, but are not limited to: changes in global macroeconomic conditions, which may impact the level of demand for the company's products; potential changes and shifts in customer demand away from end products that utilize the company's integrated circuits to end products that do not incorporate the company's products; the effects of competition, which may cause the company to decrease its selling prices for its products; the outcome and cost of patent litigation, which may affect sales of the company's products or could result in higher expenses and charges than currently expected; unforeseen costs and expenses; and unfavorable fluctuations in component costs or operating expenses resulting from changes in commodity prices and/or exchange rates. In addition, new product introductions and design wins are subject to the risks and uncertainties that typically accompany development and delivery of complex technologies to the marketplace, including product development delays and defects and market acceptance of the new products. These and other risk factors that may cause actual results to differ are more fully explained under the caption "Risk Factors" in the company's most recent Annual Report on Form 10-K, filed with the Securities and Exchange Commission (SEC) on February 10, 2015. The company is under no obligation (and expressly disclaims any obligation) to update or alter its forward-looking statements, whether as a result of new information, future events or otherwise, except as otherwise required by the rules and regulations of the SEC.

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**POWER INTEGRATIONS, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(in thousands, except per-share amounts)

|   | <u>March 31, 2015</u> | <u>December 31, 2014</u> | <u>March 31, 2014</u> |
|---|-----------------------|--------------------------|-----------------------|
| NET REVENUES  | \$ 82,557             | \$ 86,595                | \$ 83,073             |
| COST OF REVENUES                                      | <u>40,265</u>         | <u>40,790</u>            | <u>37,096</u>         |
| GROSS PROFIT  | <u>42,292</u>         | <u>45,805</u>            | <u>45,977</u>         |
| OPERATING EXPENSES:                                   |                       |                          |                       |
| Research and development                              | 14,573                | 13,667                   | 13,490                |
| Sales and marketing                                   | 11,307                | 11,262                   | 10,975                |
| General and administrative                            | 7,983                 | 7,574                    | 7,646                 |
| Amortization of acquisition-related intangible assets | 750                   | 628                      | 1,135                 |
| Acquisition expenses and related transition costs     | <u>722</u>            | <u>809</u>               | <u>-</u>              |
| Total operating expenses                              | <u>35,335</u>         | <u>33,940</u>            | <u>33,246</u>         |
| INCOME FROM OPERATIONS                                | 6,957                 | 11,865                   | 12,731                |
| Other income (expense), net                           | <u>(223)</u>          | <u>182</u>               | <u>257</u>            |
| INCOME BEFORE INCOME TAXES                            | 6,734                 | 12,047                   | 12,988                |
| PROVISION (BENEFIT) FOR INCOME TAXES                  | <u>391</u>            | <u>(2,307)</u>           | <u>625</u>            |
| NET INCOME  | <u>\$ 6,343</u>       | <u>\$ 14,354</u>         | <u>\$ 12,363</u>      |
| EARNINGS PER SHARE:                                   |                       |                          |                       |
| Basic   | <u>\$ 0.22</u>        | <u>\$ 0.49</u>           | <u>\$ 0.41</u>        |
| Diluted   | <u>\$ 0.21</u>        | <u>\$ 0.48</u>           | <u>\$ 0.40</u>        |
| SHARES USED IN PER-SHARE CALCULATION:                 |                       |                          |                       |
| Basic   | 29,309                | 29,350                   | 30,239                |
| Diluted   | 30,058                | 30,051                   | 31,167                |
| SUPPLEMENTAL INFORMATION:                             |                       |                          |                       |
| Stock-based compensation expenses included in:        |                       |                          |                       |
| Cost of revenues                                      | \$ 249                | \$ 231                   | \$ 219                |
| Research and development                              | 1,391                 | 1,262                    | 1,212                 |
| Sales and marketing                                   | 1,012                 | 962                      | 935                   |
| General and administrative                            | <u>1,739</u>          | <u>1,157</u>             | <u>1,549</u>          |
| Total stock-based compensation expense                | <u>\$ 4,391</u>       | <u>\$ 3,612</u>          | <u>\$ 3,915</u>       |
| Cost of revenues includes:                            |                       |                          |                       |
| Amortization of write-up of acquired inventory        | <u>\$ 309</u>         | <u>\$ -</u>              | <u>\$ -</u>           |
| Amortization of acquisition-related intangible assets | <u>\$ 961</u>         | <u>\$ 646</u>            | <u>\$ 645</u>         |
| General & administrative expenses include:            |                       |                          |                       |
| Patent-litigation expenses                            | <u>\$ 1,457</u>       | <u>\$ 1,815</u>          | <u>\$ 1,186</u>       |
| REVENUE MIX BY END MARKET                             |                       |                          |                       |
| Communications  | 21%                   | 21%                      | 18%                   |
| Computer  | 8%                    | 9%                       | 10%                   |
| Consumer  | 38%                   | 37%                      | 37%                   |
| Industrial  | 33%                   | 33%                      | 35%                   |

**POWER INTEGRATIONS, INC.**  
**RECONCILIATION OF NON-GAAP FINANCIAL MEASURES TO GAAP RESULTS**  
(in thousands, except per-share amounts)

|   | <u>March 31, 2015</u> | <u>December 31, 2014</u> | <u>March 31, 2014</u> |
|---|-----------------------|--------------------------|-----------------------|
| <b>RECONCILIATION OF GROSS PROFIT</b>   |                       |                          |                       |
| GAAP gross profit   | \$ 42,292             | \$ 45,805                | \$ 45,977             |
| <i>GAAP gross margin</i>  | 51.2%                 | 52.9%                    | 55.3%                 |
| Stock-based compensation included in cost of revenues                             | 249                   | 231                      | 219                   |
| Amortization of write-up of acquired inventory                                    | 309                   | -                        | -                     |
| Amortization of acquisition-related intangible assets                             | 961                   | 646                      | 645                   |
| Non-GAAP gross profit   | <u>\$ 43,811</u>      | <u>\$ 46,682</u>         | <u>\$ 46,841</u>      |
| <i>Non-GAAP gross margin</i>  | 53.1%                 | 53.9%                    | 56.4%                 |
| <b>RECONCILIATION OF OPERATING EXPENSES</b>                                       |                       |                          |                       |
| GAAP operating expenses   | \$ 35,335             | \$ 33,940                | \$ 33,246             |
| Less: Stock-based compensation expense included in operating expenses             |                       |                          |                       |
| Research and development  | 1,391                 | 1,262                    | 1,212                 |
| Sales and marketing   | 1,012                 | 962                      | 935                   |
| General and administrative  | 1,739                 | 1,157                    | 1,549                 |
| Total   | <u>4,142</u>          | <u>3,381</u>             | <u>3,696</u>          |
| Amortization of acquisition-related intangible assets                             | <u>750</u>            | <u>628</u>               | <u>1,135</u>          |
| Acquisition expenses and related transition costs                                 | <u>722</u>            | <u>809</u>               | <u>-</u>              |
| Non-GAAP operating expenses   | <u>\$ 29,721</u>      | <u>\$ 29,122</u>         | <u>\$ 28,415</u>      |
| <b>RECONCILIATION OF INCOME FROM OPERATIONS</b>                                   |                       |                          |                       |
| GAAP income from operations   | \$ 6,957              | \$ 11,865                | \$ 12,731             |
| <i>GAAP operating margin</i>  | 8.4%                  | 13.7%                    | 15.3%                 |
| Add: Total stock-based compensation   | 4,391                 | 3,612                    | 3,915                 |
| Amortization of write-up of acquired inventory                                    | 309                   | -                        | -                     |
| Amortization of acquisition-related intangible assets                             | 1,711                 | 1,274                    | 1,780                 |
| Acquisition expenses and related transition costs                                 | <u>722</u>            | <u>809</u>               | <u>-</u>              |
| Non-GAAP income from operations   | <u>\$ 14,090</u>      | <u>\$ 17,560</u>         | <u>\$ 18,426</u>      |
| <i>Non-GAAP operating margin</i>  | 17.1%                 | 20.3%                    | 22.2%                 |
| <b>RECONCILIATION OF PROVISION (BENEFIT) FOR INCOME TAXES</b>                     |                       |                          |                       |
| GAAP provision (benefit) for income taxes   | \$ 391                | \$ (2,307)               | \$ 625                |
| <i>GAAP effective tax rate</i>  | 5.8%                  | -19.1%                   | 4.8%                  |
| Tax effect of other adjustments to GAAP results                                   | <u>(521)</u>          | <u>(2,251)</u>           | <u>(548)</u>          |
| Non-GAAP provision (benefit) for income taxes                                     | <u>\$ 912</u>         | <u>\$ (56)</u>           | <u>\$ 1,173</u>       |
| <i>Non-GAAP effective tax rate</i>  | 6.6%                  | -0.3%                    | 6.3%                  |
| <b>RECONCILIATION OF NET INCOME PER SHARE (DILUTED)</b>                           |                       |                          |                       |
| GAAP net income   | \$ 6,343              | \$ 14,354                | \$ 12,363             |
| Adjustments to GAAP net income  |                       |                          |                       |
| Stock-based compensation  | 4,391                 | 3,612                    | 3,915                 |
| Amortization of write-up of acquired inventory                                    | 309                   | -                        | -                     |
| Amortization of acquisition-related intangible assets                             | 1,711                 | 1,274                    | 1,780                 |
| Acquisition expenses and related transition costs                                 | 722                   | 809                      | -                     |
| Tax effect of items excluded from non-GAAP results                                | <u>(521)</u>          | <u>(2,251)</u>           | <u>(548)</u>          |
| Non-GAAP net income   | <u>\$ 12,955</u>      | <u>\$ 17,798</u>         | <u>\$ 17,510</u>      |
| Average shares outstanding for calculation of non-GAAP income per share (diluted) | <u>30,058</u>         | <u>30,051</u>            | <u>31,167</u>         |
| Non-GAAP net income per share (diluted)   | <u>\$ 0.43</u>        | <u>\$ 0.59</u>           | <u>\$ 0.56</u>        |
| GAAP income per share   | <u>\$ 0.21</u>        | <u>\$ 0.48</u>           | <u>\$ 0.40</u>        |

**POWER INTEGRATIONS, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands)

|   | <u>March 31, 2015</u> | <u>December 31, 2014</u> |
|---|-----------------------|--------------------------|
| <b>ASSETS</b>                               |                       |                          |
| CURRENT ASSETS:                             |                       |                          |
| Cash and cash equivalents                   | \$ 85,637             | \$ 60,708                |
| Short-term marketable securities            | 87,560                | 114,575                  |
| Accounts receivable                         | 12,631                | 10,186                   |
| Inventories                                 | 65,009                | 64,025                   |
| Deferred tax assets                         | 39                    | 39                       |
| Prepaid expenses and other current assets   | <u>11,458</u>         | <u>16,379</u>            |
| Total current assets                        | <u>262,334</u>        | <u>265,912</u>           |
| <br>  |                       |                          |
| PROPERTY AND EQUIPMENT, net                 | 94,179                | 95,823                   |
| INTANGIBLE ASSETS, net                      | 42,758                | 35,524                   |
| GOODWILL                                    | 91,849                | 80,599                   |
| DEFERRED TAX ASSETS                         | 11,265                | 11,562                   |
| OTHER ASSETS                                | <u>4,789</u>          | <u>4,243</u>             |
| Total assets                                | <u>\$ 507,174</u>     | <u>\$ 493,663</u>        |
| <br>  |                       |                          |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b> |                       |                          |
| CURRENT LIABILITIES:                        |                       |                          |
| Accounts payable                            | \$ 23,907             | \$ 21,980                |
| Accrued payroll and related expenses        | 8,815                 | 9,071                    |
| Taxes payable                               | 2,930                 | 2,963                    |
| Deferred tax liabilities                    | 2,187                 | 2,193                    |
| Deferred income on sales to distributors    | 17,254                | 15,223                   |
| Other accrued liabilities                   | <u>3,834</u>          | <u>3,730</u>             |
| Total current liabilities                   | <u>58,927</u>         | <u>55,160</u>            |
| <br>  |                       |                          |
| LONG-TERM LIABILITIES                       |                       |                          |
| Income taxes payable                        | 746                   | 743                      |
| Deferred tax liabilities                    | 4,059                 | 4,272                    |
| Other liabilities                           | <u>2,960</u>          | <u>2,812</u>             |
| Total liabilities                           | <u>66,692</u>         | <u>62,987</u>            |
| <br>  |                       |                          |
| <b>STOCKHOLDERS' EQUITY:</b>                |                       |                          |
| Common stock                                | 29                    | 29                       |
| Additional paid-in capital                  | 178,816               | 171,938                  |
| Accumulated other comprehensive loss        | (1,031)               | (1,136)                  |
| Retained earnings                           | <u>262,668</u>        | <u>259,845</u>           |
| Total stockholders' equity                  | <u>440,482</u>        | <u>430,676</u>           |
| Total liabilities and stockholders' equity  | <u>\$ 507,174</u>     | <u>\$ 493,663</u>        |

**POWER INTEGRATIONS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

|  | <u>March 31, 2015</u>   | <u>Three Months Ended<br/>December 31, 2014</u> | <u>March 31, 2014</u>   |
|--|-------------------------|---|-------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                 |                         |   |                         |
| Net income   | \$ 6,343                | \$ 14,354                                       | \$ 12,363               |
| Adjustments to reconcile net income to cash provided by operating activities |                         |   |                         |
| Depreciation   | 4,032                   | 4,035   | 3,971                   |
| Amortization of intangible assets  | 1,786                   | 1,349   | 1,856                   |
| Loss on disposal of property and equipment                                   | -                       | 80  | 159                     |
| Stock-based compensation expense   | 4,391                   | 3,612   | 3,915                   |
| Amortization of premium on marketable securities                             | 286                     | 398   | 394                     |
| Deferred income taxes  | 77                      | 939   | 3,864                   |
| Decrease in accounts receivable allowances                                   | (5)                     | (5)   | (15)                    |
| Deficiency associated with employee stock plans                              | (189)                   | -   | -                       |
| Change in operating assets and liabilities:                                  |                         |   |                         |
| Accounts receivable  | (550)                   | 200   | (4,017)                 |
| Inventories  | 424                     | (7,064)   | (5,652)                 |
| Prepaid expenses and other assets  | (227)                   | (1,744)   | 1,825                   |
| Accounts payable   | 349                     | (172)   | 1,088                   |
| Taxes payable and other accrued liabilities                                  | (1,076)                 | 15  | (5,624)                 |
| Deferred income on sales to distributors                                     | 2,031                   | (3,522)   | 2,116                   |
| Net cash provided by operating activities                                    | <u>17,672</u>           | <u>12,475</u>                                   | <u>16,243</u>           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                 |                         |   |                         |
| Purchases of property and equipment  | (3,322)                 | (5,677)   | (4,465)                 |
| Acquisition, net of cash acquired  | (15,365)                | -   | -                       |
| Loan to third party  | -                       | (6,600)   | -                       |
| Purchases of marketable securities   | -                       | -   | (24,751)                |
| Proceeds from sales and maturities of marketable securities                  | <u>26,785</u>           | <u>38,052</u>                                   | <u>-</u>                |
| Net cash provided by (used in) investing activities                          | <u>8,098</u>            | <u>25,775</u>                                   | <u>(29,216)</u>         |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                  |                         |   |                         |
| Net proceeds from issuance of common stock                                   | 3,519                   | 751   | 7,045                   |
| Repurchase of common stock   | (841)                   | (35,502)  | -                       |
| Payments of dividends to stockholders  | <u>(3,519)</u>          | <u>(3,511)</u>                                  | <u>(3,033)</u>          |
| Net cash provided by (used in) financing activities                          | <u>(841)</u>            | <u>(38,262)</u>                                 | <u>4,012</u>            |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                  | <b>24,929</b>           | <b>(12)</b>                                     | <b>(8,961)</b>          |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>                      | <b><u>60,708</u></b>    | <b><u>60,720</u></b>                            | <b><u>92,928</u></b>    |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>                            | <b><u>\$ 85,637</u></b> | <b><u>\$ 60,708</u></b>                         | <b><u>\$ 83,967</u></b> |