

**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, 2020

or

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

Commission File Number 000-23441

POWER INTEGRATIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

94-3065014

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

5245 Hellyer Avenue

San Jose, California

(Address of Principal Executive Offices)

95138

(Zip Code)

(408) 414-9200

(Registrant's telephone number, including area code)

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

Title of each class

Trading Symbol(s)

Name of each exchange on which registered

Common Stock

POWI

The Nasdaq Global Select Market

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

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

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

Large Accelerated Filer

Non-accelerated Filer

Accelerated Filer

Smaller Reporting Company

Emerging Growth Company

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

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

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

Class

Common Stock, \$0.001 par value

Shares Outstanding at July 27, 2020

29,887,160

POWER INTEGRATIONS, INC.

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Cautionary Note Regarding Forward-Looking Statements

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

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

(In thousands)	June 30, 2020	December 31, 2019
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 251,325	\$ 178,690
Short-term marketable securities	194,556	232,398
Accounts receivable, net	12,872	24,274
Inventories	103,963	90,380
Prepaid expenses and other current assets	14,512	15,597
Total current assets	577,228	541,339
PROPERTY AND EQUIPMENT, net	138,572	116,619
INTANGIBLE ASSETS, net	14,658	16,865
GOODWILL	91,849	91,849
DEFERRED TAX ASSETS	1,514	2,836
OTHER ASSETS	29,956	34,388
Total assets	\$ 853,777	\$ 803,896
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 42,871	\$ 27,433
Accrued payroll and related expenses	14,365	13,408
Taxes payable	363	584
Other accrued liabilities	7,156	9,051
Total current liabilities	64,755	50,476
LONG-TERM INCOME TAXES PAYABLE	15,329	14,617
DEFERRED TAX LIABILITIES	121	164
OTHER LIABILITIES	14,100	14,093
Total liabilities	94,305	79,350
COMMITMENTS AND CONTINGENCIES (Notes 11, 12 and 13)		
STOCKHOLDERS' EQUITY:		
Common stock	28	28
Additional paid-in capital	168,470	152,117
Accumulated other comprehensive loss	(1,720)	(3,130)
Retained earnings	592,694	575,531
Total stockholders' equity	759,472	724,546
Total liabilities and stockholders' equity	\$ 853,777	\$ 803,896

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

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

(In thousands, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
NET REVENUES	\$ 106,832	\$ 102,865	\$ 216,496	\$ 192,053
COST OF REVENUES	53,296	51,293	106,480	95,007
GROSS PROFIT	53,536	51,572	110,016	97,046
OPERATING EXPENSES:				
Research and development	19,770	19,269	38,922	37,215
Sales and marketing	13,037	13,209	26,510	26,226
General and administrative	7,804	9,334	16,565	17,724
Total operating expenses	40,611	41,812	81,997	81,165
INCOME FROM OPERATIONS	12,925	9,760	28,019	15,881
OTHER INCOME	1,480	1,310	3,257	2,462
INCOME BEFORE INCOME TAXES	14,405	11,070	31,276	18,343
PROVISION FOR INCOME TAXES	1,213	225	2,198	265
NET INCOME	\$ 13,192	\$ 10,845	\$ 29,078	\$ 18,078
EARNINGS PER SHARE:				
Basic	\$ 0.44	\$ 0.37	\$ 0.98	\$ 0.62
Diluted	\$ 0.44	\$ 0.37	\$ 0.96	\$ 0.61
SHARES USED IN PER SHARE CALCULATION:				
Basic	29,856	29,297	29,729	29,125
Diluted	30,312	29,702	30,232	29,597

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements. The Earnings Per Share and Shares Used in Per Share Calculation information presented above does not reflect the effect of the August 2020 stock split. Refer to Note 9, *Earnings Per Share*, in this Form 10-Q for details.

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

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
NET INCOME	\$ 13,192	\$ 10,845	\$ 29,078	\$ 18,078
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, 2020 and 2019	(30)	(250)	(313)	(272)
Unrealized gain on marketable securities, net of \$0 tax in each of the three and six months ended June 30, 2020 and 2019	2,566	257	1,614	591
Amortization of defined benefit pension items, net of tax of \$24 and \$55 in the three and six months ended June 30, 2020, respectively, and \$5 and \$9 in the three and six months ended June 30, 2019, respectively	58	18	109	34
Total other comprehensive income	2,594	25	1,410	353
TOTAL COMPREHENSIVE INCOME	\$ 15,786	\$ 10,870	\$ 30,488	\$ 18,431

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 June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Common stock				
Beginning balance	\$ 28	\$ 28	\$ 28	\$ 28
Common stock issued under employee stock plans	—	—	—	—
Repurchase of common stock	—	—	—	—
Ending balance	28	28	28	28
Additional paid-in capital				
Beginning balance	162,343	127,769	152,117	126,164
Common stock issued under employee stock plans	769	1,178	6,298	5,678
Repurchase of common stock	(623)	—	(2,636)	(7,302)
Stock-based compensation	5,981	5,496	12,691	9,903
Ending balance	168,470	134,443	168,470	134,443
Accumulated other comprehensive loss				
Beginning balance	(4,314)	(1,361)	(3,130)	(1,689)
Other comprehensive income	2,594	25	1,410	353
Ending balance	(1,720)	(1,336)	(1,720)	(1,336)
Retained earnings				
Beginning balance	585,773	404,865	575,531	402,569
Net income	13,192	10,845	29,078	18,078
Payment of dividends to stockholders	(6,271)	(4,980)	(11,915)	(9,917)
Ending balance	592,694	410,730	592,694	410,730
Total stockholders' equity	\$ 759,472	\$ 543,865	\$ 759,472	\$ 543,865

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,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 29,078	\$ 18,078
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	11,069	9,431
Amortization of intangibles	2,207	2,483
Loss on disposal of property and equipment	292	152
Stock-based compensation expense	12,691	9,903
Amortization of premium (accretion of discount) on marketable securities	321	(230)
Deferred income taxes	1,279	1,659
Increase (decrease) in accounts receivable allowance for credit losses	(154)	57
Change in operating assets and liabilities:		
Accounts receivable	11,556	(14,453)
Inventories	(13,583)	(8,340)
Prepaid expenses and other assets	4,092	(3,614)
Accounts payable	5,861	4,153
Taxes payable and accrued liabilities	(1,665)	1,217
Net cash provided by operating activities	63,044	20,496
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(21,622)	(8,348)
Proceeds from sale of property and equipment	331	—
Acquisition of technology licenses	—	(251)
Purchases of marketable securities	(19,827)	(54,424)
Proceeds from sales and maturities of marketable securities	58,962	19,422
Net cash provided by (used in) investing activities	17,844	(43,601)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock under employee stock plans	6,298	5,678
Repurchase of common stock	(2,636)	(7,302)
Payments of dividends to stockholders	(11,915)	(9,917)
Net cash used in financing activities	(8,253)	(11,541)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	72,635	(34,646)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	178,690	134,137
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 251,325	\$ 99,491
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Unpaid property and equipment	\$ 13,932	\$ 2,098
Unpaid technology licenses	\$ —	\$ 100
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid (received) for income taxes, net	\$ (2,155)	\$ 890

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

POWER INTEGRATIONS, INC.**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****1. BASIS OF PRESENTATION:**

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

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

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

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

Adoption of New Accounting Standards

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

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

(In thousands)	June 30, 2020	December 31, 2019
Accounts receivable trade	\$ 53,118	\$ 61,036
Allowance for ship and debit	(37,143)	(33,475)
Allowance for stock rotation and rebate	(2,494)	(2,524)
Allowance for credit losses	(609)	(763)
Total	<u>\$ 12,872</u>	<u>\$ 24,274</u>

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

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

(In thousands)	Allowance for Credit Losses	
	Three Months Ended	Six Months Ended
	June 30, 2020	June 30, 2020
Beginning balance	\$ (609)	\$ (763)
Provision for credit loss expense	—	—
Receivables written off	—	154
Recoveries collected	—	—
Ending balance	\$ (609)	\$ (609)

(In thousands)	June 30, 2020	December 31, 2019
Raw materials	\$ 43,795	\$ 39,058
Work-in-process	33,588	25,982
Finished goods	26,580	25,340
Total	\$ 103,963	\$ 90,380

Prepaid Expenses and Other Current Assets

(In thousands)	June 30, 2020	December 31, 2019
Prepaid legal fees	\$ 172	\$ 16
Prepaid income tax	3,014	5,615
Prepaid maintenance agreements	2,017	819
Interest receivable	1,065	1,279
Advance to suppliers	3,877	3,579
Other	4,367	4,289
Total	\$ 14,512	\$ 15,597

Intangible Assets

(In thousands)	June 30, 2020			December 31, 2019		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Domain name	\$ 1,261	\$ —	\$ 1,261	\$ 1,261	\$ —	\$ 1,261
Developed technology	37,960	(27,529)	10,431	37,960	(25,933)	12,027
Customer relationships	16,700	(15,255)	1,445	20,030	(18,098)	1,932
Technology licenses	1,926	(405)	1,521	1,926	(281)	1,645
Total	\$ 57,847	\$ (43,189)	\$ 14,658	\$ 61,177	\$ (44,312)	\$ 16,865

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

The estimated future amortization expense related to finite-lived intangible assets at June 30, 2020, is as follows:

Fiscal Year	Estimated Amortization (In thousands)
2020 (remaining six months)	\$ 2,152
2021	3,494
2022	2,415
2023	2,173
2024	1,279
Thereafter	1,884
Total	\$ 13,397

Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive loss for three and six months ended June 30, 2020 and 2019, were as follows:

(In thousands)	Unrealized Gains and Losses on Marketable Securities		Defined Benefit Pension Items		Foreign Currency Items		Total	
	Three Months Ended June 30,		Three Months Ended June 30,		Three Months Ended June 30,		Three Months Ended June 30,	
	2020	2019	2020	2019	2020	2019	2020	2019
Beginning balance	\$ (369)	\$ 68	\$ (2,433)	\$ (696)	\$ (1,512)	\$ (733)	\$ (4,314)	\$ (1,361)
Other comprehensive income (loss) before reclassifications	2,566	257	—	—	(30)	(250)	2,536	7
Amounts reclassified from accumulated other comprehensive loss	—	—	58	(1) 18	—	—	58	18
Net-current period other comprehensive income (loss)	2,566	257	58	18	(30)	(250)	2,594	25
Ending balance	\$ 2,197	\$ 325	\$ (2,375)	\$ (678)	\$ (1,542)	\$ (983)	\$ (1,720)	\$ (1,336)

(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, 2020 and 2019.

(In thousands)	Unrealized Gains and Losses on Marketable Securities		Defined Benefit Pension Items		Foreign Currency Items		Total	
	Six Months Ended June 30,		Six Months Ended June 30,		Six Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019	2020	2019	2020	2019
Beginning balance	\$ 583	\$ (266)	\$ (2,484)	\$ (712)	\$ (1,229)	\$ (711)	\$ (3,130)	\$ (1,689)
Other comprehensive income (loss) before reclassifications	1,614	591	—	—	(313)	(272)	1,301	319
Amounts reclassified from accumulated other comprehensive loss	—	—	109	(1) 34	—	—	109	34
Net-current period other comprehensive income (loss)	1,614	591	109	34	(313)	(272)	1,410	353
Ending balance	\$ 2,197	\$ 325	\$ (2,375)	\$ (678)	\$ (1,542)	\$ (983)	\$ (1,720)	\$ (1,336)

(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, 2020 and 2019.

4. FAIR VALUE MEASUREMENTS:

The FASB established a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows: (Level 1) observable inputs such as quoted prices for identical assets in active markets; (Level 2) inputs other than the quoted

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

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, 2020, and December 31, 2019, was as follows:

(In thousands)	Fair Value Measurement at June 30, 2020		
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Corporate securities	\$ 191,560	\$ —	\$ 191,560
Commercial paper	203,594	—	203,594
Money market funds	8,594	8,594	—
Total	\$ 403,748	\$ 8,594	\$ 395,154

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

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, 2020, and the twelve months ended December 31, 2019.

5. MARKETABLE SECURITIES:

Amortized cost and estimated fair market value of marketable securities classified as available-for-sale (excluding cash equivalents) at June 30, 2020, were as follows:

(In thousands)	Amortized Cost	Gross Unrealized		Estimated Fair Market Value
		Gains	Losses	
Investments due in 3 months or less:				
Commercial paper	\$ 2,996	\$ —	\$ —	\$ 2,996
Corporate securities	25,030	77	—	25,107
Total	28,026	77	—	28,103
Investments due in 4-12 months:				
Corporate securities	133,251	1,597	—	134,848
Total	133,251	1,597	—	134,848
Investments due in 12 months or greater:				
Corporate securities	31,082	523	—	31,605
Total	31,082	523	—	31,605
Total marketable securities	\$ 192,359	\$ 2,197	\$ —	\$ 194,556

Accrued interest receivable was \$1.1 million at June 30, 2020 and was recorded within prepaid expenses and other current assets on the condensed consolidated balance sheet.

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

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

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

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

As of June 30, 2020 the Company had no marketable securities classified as available-for-sale (excluding cash equivalents) in a continuous unrealized loss position for which an allowance for credit losses was not recorded. The following table summarizes marketable securities classified as available-for-sale (excluding cash equivalents) in a continuous unrealized loss position for which an allowance for credit losses was not recorded at December 31, 2019:

(In thousands)	Less Than 12 Months		12 Months or Longer		Total	
	Estimated Fair Market Value	Gross Unrealized Losses	Estimated Fair Market Value	Gross Unrealized Losses	Estimated Fair Market Value	Gross Unrealized Losses
December 31, 2019						
Corporate securities	\$ 13,069	\$ (6)	\$ —	\$ —	\$ 13,069	\$ (6)
Total marketable securities	\$ 13,069	\$ (6)	\$ —	\$ —	\$ 13,069	\$ (6)

In the three and six months ended June 30, 2020, no unrealized losses on marketable securities were recognized in income.

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, 2020, and June 30, 2019:

(In thousands)	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Cost of revenues	\$ 252	\$ 273	\$ 648	\$ 544
Research and development	2,351	2,144	4,460	3,776
Sales and marketing	1,258	1,141	2,650	2,202
General and administrative	2,120	1,938	4,933	3,381
Total stock-based compensation expense	\$ 5,981	\$ 5,496	\$ 12,691	\$ 9,903

Stock-based compensation expense in the three months ended June 30, 2020, was approximately \$6.0 million, comprising approximately \$4.5 million related to restricted stock unit (RSU) awards, \$1.1 million related to performance-based (PSU) awards and long-term performance-based (PRSU) awards and \$0.4 million related to the Company's employee stock purchase plan. Stock-based compensation expense in the six months ended June 30, 2020, was approximately \$12.7 million, comprising approximately \$9.5 million related to RSUs, \$2.4 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, 2019, was approximately \$5.5 million, comprising approximately \$4.2 million related to RSUs, \$0.9 million related to PSUs and PRSUs and \$0.4 million related to the

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

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 Options

A summary of stock options outstanding as of June 30, 2020, 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, 2020	167	\$ 38.88		
Granted	—	—		
Exercised	(90)	\$ 37.22		
Forfeited or expired	—	—		
Outstanding at June 30, 2020	77	\$ 40.81	1.51	\$ 5,973
Vested and exercisable at June 30, 2020	77		1.51	\$ 5,973

PSU Awards

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

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

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

A summary of PSUs outstanding as of June 30, 2020, 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, 2020	61	\$ 70.11		
Granted	73	\$ 92.12		
Vested	(61)	\$ 70.11		
Forfeited	—	—		
Outstanding at June 30, 2020	73	\$ 92.12	0.50	\$ 8,652
Outstanding and expected to vest at June 30, 2020	50		0.50	\$ 5,961

PRSU Awards

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

Expense associated with these awards, net of estimated forfeitures, is recorded throughout the year based on an

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

assessment of the expected achievement of the performance targets. If the performance conditions are not achieved, no compensation cost is recognized and any previously recognized compensation is reversed.

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

A summary of PRSUs outstanding as of June 30, 2020, 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, 2020	144	\$ 64.05		
Granted	73	\$ 98.75		
Vested	—	—		
Forfeited	—	—		
Outstanding at June 30, 2020	217	\$ 75.70	1.50	\$ 25,540
Outstanding and expected to vest at June 30, 2020	100		2.23	\$ 11,808

RSU Awards

A summary of RSUs outstanding as of June 30, 2020, 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, 2020	860	\$ 62.66		
Granted	191	\$ 85.96		
Vested	(288)	\$ 60.09		
Forfeited	(11)	\$ 66.16		
Outstanding at June 30, 2020	752	\$ 69.51	1.89	\$ 88,770
Outstanding and expected to vest at June 30, 2020	690		1.82	\$ 81,463

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 59% and 56% of net revenues for the three and six months ended June 30, 2020, respectively, and approximately 56% and 54%, respectively, 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 \$87.3 million and \$170.8 million in the three and six months ended June 30, 2020, respectively and \$74.8 million and \$144.7 million, respectively, for the corresponding periods of 2019. Direct sales to OEMs and power-supply manufacturers accounted for the remainder.

In each of three and six months ended June 30, 2020, one customer, a distributor of the Company's products, accounted for more than 10% of the Company's net revenues.

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Customer	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Avnet	13 %	10 %	12 %	12 %

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, 2020, and December 31, 2019, 65% and 63%, respectively, of accounts receivable were concentrated with the Company's top ten customers.

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

Customer	June 30, 2020	December 31, 2019
Avnet	20 %	*
Powertech Distribution Ltd.	*	10 %

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

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

Geographic Net Revenues

The Company markets its products globally through its sales personnel and a worldwide network of independent sales representatives and distributors. Geographic net revenues, based on "bill to" customer locations, for the three and six months ended June 30, 2020, and June 30, 2019, were as follows:

(In thousands)	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
United States of America	\$ 2,935	\$ 2,612	\$ 5,648	\$ 5,284
Hong Kong/China	65,680	59,355	126,093	106,584
Taiwan	7,199	10,164	13,678	16,836
Korea	7,284	6,902	17,641	15,444
Western Europe (excluding Germany)	7,995	8,625	18,030	19,526
Japan	4,398	2,909	8,303	6,559
Germany	5,847	3,813	11,414	8,740
Other	5,494	8,485	15,689	13,080
Total net revenues	\$ 106,832	\$ 102,865	\$ 216,496	\$ 192,053

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(In thousands)	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Beginning balance	29,691	29,110	29,431	28,889
Common stock issued under employee stock plans	193	220	477	562
Repurchased	(8)	—	(32)	(121)
Ending balance	29,876	29,330	29,876	29,330

In July 2020, the Company's board of directors approved a two-for-one stock split in the form of a stock dividend, payable on August 18, 2020, to stockholders of record as of the close of business on August 14, 2020. The Company's stockholders will receive one additional share of common stock for each share of common stock held on August 14, 2020. As the stock split is not effective as of the filing date of this Form 10-Q, the shares outstanding and basic and diluted earnings per share included in this Form 10-Q have not been adjusted for the effect of the stock split.

Common Stock Repurchases

As of December 31, 2019, the Company had approximately \$43.9 million remaining under its stock-repurchase program. In the six months ended June 30, 2020, the Company repurchased approximately 32,000 shares of its common stock for approximately \$2.6 million. As of June 30, 2020, the Company had approximately \$41.3 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 of \$0.17 per share to be paid to stockholders of record at the end of each quarter in 2019. In October 2019, the Company's board of directors raised the cash dividends per share with the declaration of five cash dividends, consisting of (a) a dividend of \$0.02 per share to be paid to stockholders of record at the end of the fourth quarter in 2019, which is in addition to the dividend of \$0.17 per share to be paid to stockholders of record at the end of the fourth quarter in 2019 previously declared by the board in January 2019, and (b) a dividend of \$0.19 per share to be paid to stockholders of record at the end of each quarter in 2020.

In April 2020, the Company's board of directors raised the cash dividends with the declaration of three cash dividends of \$0.21 per share (in lieu of the \$0.19 per share previously announced in October 2019) to be paid to stockholders of record at the end of each of the second, third and fourth quarter in 2020. In July 2020, the Company's board of directors raised the cash dividends further with the declaration of two cash dividends of \$0.22 per share, equivalent to \$0.11 on a post-split basis (in lieu of the \$0.21 per share announced in April 2020) to be paid to stockholders of record at the end of each of the third and fourth quarter in 2020.

For the three and six months ended June 30, 2020, and 2019, cash dividends declared and paid were as follows:

(In thousands, except per share amounts)	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Dividends declared and paid	\$ 6,271	\$ 4,980	\$ 11,915	\$ 9,917
Dividends declared per common share	\$ 0.21	\$ 0.17	\$ 0.40	\$ 0.34

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

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

assumed vesting of outstanding restricted stock units, the assumed issuance of awards under the stock purchase plan and contingently issuable performance-based awards, as computed using the treasury stock method.

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

(In thousands, except per share amounts)	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Basic earnings per share:				
Net income	\$ 13,192	\$ 10,845	\$ 29,078	\$ 18,078
Weighted-average common shares	29,856	29,297	29,729	29,125
Basic earnings per share	\$ 0.44	\$ 0.37	\$ 0.98	\$ 0.62
Diluted earnings per share: ⁽¹⁾				
Net income	\$ 13,192	\$ 10,845	\$ 29,078	\$ 18,078
Weighted-average common shares	29,856	29,297	29,729	29,125
Effect of dilutive awards:				
Employee stock plans	456	405	503	472
Diluted weighted-average common shares	30,312	29,702	30,232	29,597
Diluted earnings per share	\$ 0.44	\$ 0.37	\$ 0.96	\$ 0.61

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

In the three and six months ended June 30, 2020 and 2019, no outstanding stock awards were determined to be anti-dilutive and therefore excluded from the computation of diluted earnings per share.

In July 2020, the Company's board of directors approved a two-for-one stock split in the form of a stock dividend to stockholders of record as of the close of business on August 14, 2020. Refer to Note 8, *Stockholders' Equity*, for additional information. The following table discloses unaudited pro forma weighted average shares outstanding and earnings per share information, as if the additional shares resulting from the stock split had been outstanding since the beginning of each period presented:

(In thousands, except per share amounts)	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Weighted average shares outstanding				
Basic	59,712	58,594	59,458	58,250
Diluted	60,624	59,404	60,464	59,194
Earnings per share:				
Basic	\$ 0.22	\$ 0.19	\$ 0.49	\$ 0.31
Diluted	\$ 0.22	\$ 0.18	\$ 0.48	\$ 0.31

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, 2020, were 8.4% and 7.0%, respectively and 2.0% and 1.4%, respectively, for the corresponding periods of 2019. In the three and six months ended June 30, 2020 and 2019, the effective tax rate was lower than the statutory federal income-tax rate of 21% due to the geographic distribution of the Company's world-wide earnings in lower-tax jurisdictions, federal research tax credits and the recognition of excess tax benefits related to share-based payments. These benefits were partially offset by foreign income subject to U.S. tax, known as global intangible low-taxed income. The Company's primary jurisdiction where foreign earnings are derived is the Cayman Islands,

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

which is a non-taxing jurisdiction. Income earned in other foreign jurisdictions was not material. The Company has not been granted any incentivized tax rates and does not operate under any tax holidays in any jurisdiction.

As of June 30, 2020, the Company maintained a valuation allowance on its California deferred tax assets, New Jersey deferred tax assets, and capital losses for federal purposes, and a valuation allowance with respect to its deferred tax assets relating to tax credits in Canada.

Determining the consolidated provision for income-tax expense, income-tax liabilities and deferred tax assets and liabilities involves judgment. The Company calculates and provides for income taxes in each of the tax jurisdictions in which it operates, which involves estimating current tax exposures as well as making judgments regarding the recoverability of deferred tax assets in each jurisdiction. The estimates used could differ from actual results, which may have a significant impact on operating results in future periods.

11. COMMITMENTS:***Supplier Agreements***

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

12. LEGAL PROCEEDINGS AND CONTINGENCIES:

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

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

On June 19, 2019, Opticurrent, LLC filed a follow-on lawsuit accusing more of the Company's products of infringing the same claim of the same patent asserted in the parties' prior litigation, as described above. Limited discovery is currently under way, but no schedule has yet been set for expert discovery, dispositive motions, or trial. The Company believes it has strong defenses, and intends to vigorously defend itself against Opticurrent's claims, with appeals to follow if necessary.

On January 6, 2020, the Company filed a complaint against CogniPower LLC for infringement of two of the Company's patents and seeking a declaration of non-infringement with respect to patents that CogniPower had charged the Company's customers with infringing, based on customer use of the Company's products. In response, CogniPower filed a motion to dismiss the Company's declaratory judgment claims on the basis that CogniPower had not threatened the Company directly with suit. That motion was granted, therefore CogniPower's claims for infringement will go forward separately in their lawsuit against the Company's customers, and the Company's infringement claims against CogniPower likewise will proceed in a separate action. These cases are in their preliminary stages, and no schedules have been set for the cases at this time, but the Company believes it has strong claims and defenses, and intends to vigorously defend itself against CogniPower's claims against the Company's technology, with appeals to follow if necessary.

The Company is unable to predict the outcome of legal proceedings with certainty, and there can be no assurance that Power Integrations will prevail in the above-mentioned unsettled litigations. These litigations, whether or not determined in Power Integrations' favor or settled, will be costly and will divert the efforts and attention of the Company's management and technical personnel from normal business operations, potentially causing a material adverse effect on the business, financial

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

condition and operating results. Currently, the Company is not able to estimate a loss or a range of loss for the ongoing litigation disclosed above, however adverse determinations in litigation could result in monetary losses, the loss of proprietary rights, subject the Company to significant liabilities, require Power Integrations to seek licenses from third parties or prevent the Company from licensing the technology, any of which could have a material adverse effect on the Company's business, financial condition and operating results.

13. INDEMNIFICATIONS:

The Company sells products to its distributors under contracts, collectively referred to as Distributor Sales Agreements ("DSA"). Each DSA contains the relevant terms of the contractual arrangement with the distributor, and generally includes certain provisions for indemnifying the distributor against losses, expenses, and liabilities from damages that may be awarded against the distributor in the event the Company's products are found to infringe upon a patent, copyright, trademark, or other proprietary right of a third party ("Customer Indemnification"). The DSA generally limits the scope of and remedies for the Customer Indemnification obligations in a variety of industry-standard respects, including, but not limited to, limitations based on time and geography, and a 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, 2020. For several reasons, including the lack of prior indemnification claims and the lack of a monetary liability limit for certain infringement cases, the Company cannot determine the maximum amount of potential future payments, if any, related to such indemnifications.

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

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

Overview

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

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

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

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

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

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

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

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

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

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

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

Recent Results

Our net revenues were \$106.8 million and \$102.9 million in the three months ended June 30, 2020 and 2019, respectively and \$216.5 million and \$192.1 million in the six months ended June 30, 2020 and 2019. The increase in revenue was primarily due to growth in the communications and industrial end markets, reflecting increased adoption of higher-power chargers for mobile phones and growth across a broad range of industrial applications. In the three-month period these increases were partially offset by lower revenues from the consumer end market, while strong demand for appliance applications in the first quarter of 2020 provided year-over-year growth in the consumer end market for the six-month period.

Our top ten customers, including distributors that resell to original equipment manufacturers, or OEMs, and merchant power supply manufacturers, accounted for 59% and 56% of our net revenues in the three and six months ended June 30, 2020, respectively and 56% and 54% of net revenues in each of the respective corresponding periods of 2019. In the three and six months ended June 30, 2020, one customer, a distributor of our products, accounted for approximately 13% and 12% of our net revenues. In the three months and six ended June 30, 2019, the same customer accounted for approximately 10% and 12% of our net revenues. International sales accounted for 97% of our net revenues in each of the three and six months ended June 30, 2020 and 2019.

Our gross margin was 50.1% in each of the three months ended June 30, 2020 and 2019, respectively, and 50.8% and 50.5% in the six months ended June 30, 2020, and 2019, respectively. The increase in gross margin in the six-month period was due to a favorable change in end-market mix with a greater amount of revenues coming from higher-margin end markets.

Total operating expenses were \$40.6 million and \$41.8 million in the three months ended June 30, 2020 and 2019, respectively, and \$82.0 million and \$81.2 million in the six months ended June 30, 2020 and 2019, respectively. The decrease in

the three-month period was due primarily to lower legal expenses following the conclusion of our patent litigation with ON Semiconductor in October 2019, as well as lower travel expenses due to restrictions associated with the COVID-19 pandemic. These decreases were partially offset by higher salary and related expenses driven by the expansion of our workforce, as well as higher stock-based compensation expense related to performance-based awards. The increase in the six-month period was primarily due to higher salary and related expenses from the expansion of our workforce and higher stock-based compensation expense related to performance awards. These increases were mostly offset by lower legal expenses following the conclusion of our litigation with ON Semiconductor and lower travel expenses due to COVID-19 pandemic related restrictions.

COVID-19 Pandemic

The COVID-19 pandemic has disrupted everyday life and markets worldwide, and governments around the world have imposed restrictions aimed at controlling the spread of the virus, including shelter-in-place orders, travel restrictions, business shutdowns and border closures. Beginning March 16, 2020 our San Jose headquarters location was subject to a shelter-in-place order, under which most of our employees were required to work from home; other locations around the world have also been subject to such restrictions. We will begin a phased reopening of our San Jose headquarters when these restrictions are lifted. Most of our employees in other locations around the world have returned to the office under a phased reopening plan. We have implemented a variety of measures to protect the health and safety of our employees, including the provision of masks, gloves and sanitizers, social-distancing rules, and regular deep cleaning of our facilities.

While we have been able to conduct our day-to-day operations effectively in spite of the restrictions caused by the pandemic, the pandemic has caused disruptions in our supply chain. While the supply of wafers from our foundry partners has not been interrupted, government-mandated closures in China, Malaysia, Sri Lanka and the Philippines have caused temporary shutdowns at our assembly and test sub-contractors in those countries; all of the affected sub-contractors have now resumed operations. While these disruptions have resulted in delayed shipments to some customers, we believe we have thus far prevented a material impact to our results through a variety of mitigation measures including higher-than-normal inventories of wafers and finished goods, safety stocks of certain key inputs, and multiple sources for most of our products.

The economic downturn stemming from the pandemic has resulted in reduced demand for goods incorporating our products. While the future trajectory of demand is highly uncertain, we have adjusted our near-term operating-expense and capital-spending plans, in anticipation of a continued period of reduced demand. However, we believe our business is fundamentally sound with strong, long-term growth prospects and ample cash resources. We have not reduced headcount and intend to continue investing in research and development and other functions necessary to support our future growth. We also intend to continue our cash dividend and stock repurchase programs; however, if the economy deteriorates more than we expect or our business outlook changes, our board of directors may choose to suspend or alter these programs at its discretion. For additional discussion regarding COVID-19 business risks refer to Part II, Item 1A “Risk Factors” in this Quarterly Report on Form 10-Q.

Critical Accounting Policies and Estimates

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

Our critical accounting policies are as follows:

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

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

Results of Operations

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net revenues	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenues	49.9	49.9	49.2	49.5
Gross profit	50.1	50.1	50.8	50.5
Operating expenses:				
Research and development	18.5	18.7	18.0	19.4
Sales and marketing	12.2	12.8	12.2	13.7
General and administrative	7.3	9.1	7.7	9.2
Total operating expenses	38.0	40.6	37.9	42.3
Income from operations	12.1	9.5	12.9	8.2
Other income	1.4	1.3	1.5	1.3
Income before income taxes	13.5	10.8	14.4	9.5
Provision for income taxes	1.1	0.2	1.0	0.1
Net income	12.4 %	10.6 %	13.4 %	9.4 %

Comparison of the Three and Six Months Ended June 30, 2020 and 2019

Net revenues. Net revenues consist of revenues from product sales, which are calculated net of returns and allowances. Net revenues for the three and six months ended June 30, 2020 were \$106.8 million and \$216.5 million, respectively and \$102.9 million and \$192.1 million, respectively, for the corresponding periods of 2019. The increase in revenue was primarily due to growth in the communications and industrial end markets, reflecting increased adoption of higher-power chargers for mobile phones and growth across a broad range of industrial applications. In the three-month period these increases were partially offset by lower revenues from the consumer end market following strong sales from appliance applications in the prior quarter as reflected in the higher rate of year-over-year growth for the six-month period.

Our revenue mix by end market for the three and six months ended June 30, 2020 and 2019 was as follows:

End Market	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Communications	28 %	24 %	25 %	21 %
Computer	6 %	6 %	5 %	6 %
Consumer	31 %	37 %	36 %	38 %
Industrial	35 %	33 %	34 %	35 %

International sales, consisting of sales outside of the United States of America based on “bill to” customer locations, were \$103.9 million and \$210.8 million in the three and six months ended June 30, 2020, respectively, and \$100.3 million and \$186.8 million, respectively, in the corresponding periods of 2019. 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 81% and 78% of our net revenues in the three and six months ended June 30, 2020, respectively, and 78% and 77%, respectively, in the corresponding periods of 2019. We expect international sales, and sales to the Asia region in particular, to continue to account for a large portion of our net revenues in the future.

Sales to distributors accounted for 82% and 79% of net revenues in the three and six months ended June 30, 2020, respectively and 73% and 75% in the corresponding periods of 2019. Direct sales to OEMs and power-supply manufacturers accounted for the remainder.

In each of the three and six months ended June 30, 2020, and 2019, 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,	
	2020	2019	2020	2019
Avnet	13 %	10 %	12 %	12 %

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, 2020 and 2019:

(dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net revenues	\$ 106.8	\$ 102.9	\$ 216.5	\$ 192.1
Gross profit	\$ 53.5	\$ 51.6	\$ 110.0	\$ 97.0
Gross margin	50.1 %	50.1 %	50.8 %	50.5 %

Gross margin increased in the six months ended June 30, 2020, compared with the corresponding period in 2019, due primarily to a favorable change in end-market mix with more revenues coming from higher-margin end markets.

Research and development expenses. Research and development ("R&D") expenses consist primarily of employee-related expenses, including stock-based compensation, and expensed material and facility costs associated with the development of new technologies and new products. We also record R&D expenses for prototype wafers related to new products until such products are released to production. The table below compares R&D expenses for the three and six months ended June 30, 2020 and 2019:

(dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net revenues	\$ 106.8	\$ 102.9	\$ 216.5	\$ 192.1
R&D expenses	\$ 19.8	\$ 19.3	\$ 38.9	\$ 37.2
R&D expenses as a % of net revenue	18.5 %	18.7 %	18.0 %	19.4 %

R&D expenses increased in the three and six months ended June 30, 2020 as compared to the corresponding periods in 2019, due primarily to higher salary and related expenses driven by increased headcount, as well as higher stock-based compensation expense related to performance-based awards.

Sales and marketing expenses. Sales and marketing ("S&M") expenses consist primarily of employee-related expenses, including stock-based compensation, commissions to sales representatives, amortization of intangible assets and facilities expenses, including expenses associated with our regional sales and support offices. The table below compares S&M expenses for the three and six months ended June 30, 2020 and 2019:

(dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net revenues	\$ 106.8	\$ 102.9	\$ 216.5	\$ 192.1
S&M expenses	\$ 13.0	\$ 13.2	\$ 26.5	\$ 26.2
S&M expenses as a % of net revenue	12.2 %	12.8 %	12.2 %	13.7 %

S&M expenses decreased in the three months ended June 30, 2020, as compared to the corresponding period in 2019, due to lower travel expenses and promotional activities resulting from restrictions associated with the COVID-19 pandemic, along with lower amortization of intangibles, which were partially offset by higher salary and related expenses driven by the expansion of our sales force and higher stock-based compensation expense related to performance-based awards. S&M increased in the six months ended June 30, 2020, as compared to the corresponding period in 2019, as the higher salary and related expenses driven by the expansion of our sales force and higher stock-based compensation were only partially offset by lower travel expenses and promotional activities resulting from restrictions associated with the COVID-19 pandemic, and lower amortization of intangibles.

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, 2020 and 2019:

(dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net revenues	\$ 106.8	\$ 102.9	\$ 216.5	\$ 192.1
G&A expenses	\$ 7.8	\$ 9.3	\$ 16.6	\$ 17.7
G&A expenses as a % of net revenue	7.3 %	9.1 %	7.7 %	9.2 %

G&A expenses decreased in the three and six months ended June 30, 2020 as compared to the corresponding periods in 2019 due to lower patent-litigation expense following our settlement with ON Semiconductor in October 2019, partially offset by higher stock-based compensation expense related to performance-based awards.

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, 2020 and 2019:

(dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net revenues	\$ 106.8	\$ 102.9	\$ 216.5	\$ 192.1
Other income	\$ 1.5	\$ 1.3	\$ 3.3	\$ 2.5
Other income as a % of net revenue	1.4 %	1.3 %	1.5 %	1.3 %

Other income increased in the three and six months ended June 30, 2020 as compared to the corresponding periods in 2019 due primarily to an increase in interest income earned on higher cash and investment balances.

Provision for income taxes. Provision for income taxes represents federal, state and foreign taxes. The table below compares income-tax expense for the three and six months ended June 30, 2020 and 2019:

(dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Income before income taxes	\$ 14.4	\$ 11.1	\$ 31.3	\$ 18.3
Provision for income taxes	\$ 1.2	\$ 0.2	\$ 2.2	\$ 0.3
Effective tax rate	8.4 %	2.0 %	7.0 %	1.4 %

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

Our effective tax rates for the three and six months ended June 30, 2020 were 8.4% and 7.0%, respectively, and 2.0% and 1.4%, respectively, for the corresponding periods of 2019. The effective tax rate in these periods was lower than the statutory federal income-tax rate of 21% due to the geographic distribution of our world-wide earnings in lower-tax jurisdictions, the impact of federal research tax credits and the recognition of excess tax benefits related to share-based payments. These benefits were partially offset by U.S. tax on foreign income, known as global intangible low-taxed income. The primary jurisdiction from which our foreign earnings are derived is the Cayman Islands, which is a non-taxing jurisdiction. Income earned in other foreign jurisdictions was not material. We have not been granted any incentivized tax rates and do not operate under any tax holidays in any jurisdiction.

Liquidity and Capital Resources

As of June 30, 2020, we had \$445.9 million in cash, cash equivalents and short-term marketable securities, an increase of approximately \$34.8 million from \$411.1 million as of December 31, 2019. As of June 30, 2020, we had working capital, defined as current assets less current liabilities, of \$512.5 million, an increase of approximately \$21.6 million from \$490.9 million as of December 31, 2019.

Operating activities generated cash of \$63.0 million in the six months ended June 30, 2020. Net income for this period was \$29.1 million; we also incurred non-cash stock-based compensation expense, depreciation, amortization and deferred income taxes of \$12.7 million, \$11.1 million, \$2.2 million and \$1.3 million, respectively. Sources of cash also included a \$11.6 million

decrease in accounts receivable due to the timing of cash receipts, a \$5.9 million increase in accounts payable (excluding payables related to property and equipment) due primarily to the timing of payments, and a \$4.1 million decrease in prepaid expenses and other assets, primarily driven by taxes refunded. These sources of cash were partially offset by a \$13.6 million increase in inventories in order to support future demand and a \$1.7 million decrease in taxes payable and accrued liabilities.

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.

Our investing activities provided \$17.8 million of cash in the six months ended June 30, 2020, primarily consisting of \$39.1 million from sales and maturities of marketable securities, net of purchases, partially offset by \$21.6 million for purchases of property and equipment, primarily production-related machinery and equipment as well as construction of our office in Switzerland. 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 financing activities in the six months ended June 30, 2020, resulted in a \$8.3 million net use of cash, consisting of \$11.9 million for the payment of dividends to stockholders and \$2.6 million for the repurchase of our common stock. These uses of cash were offset in part by \$6.3 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, 2019, resulted in a \$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.

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, 2020, \$6.2 million was reserved against the available credit in the form a standby letter of credit. No advances were outstanding under the agreement as of June 30, 2020.

In January 2019, our board of directors declared four quarterly cash dividends of \$0.17 per share to be paid to stockholders of record at the end of each quarter in 2019. In October 2019, our board of directors raised the cash dividend per share with the declaration five cash dividends, consisting of (a) a dividend of \$0.02 per share to be paid to stockholders of record at the end of the fourth quarter in 2019, which is in addition to the dividend of \$0.17 per share to be paid to stockholders of record at the end of the fourth quarter in 2019 previously declared by the board in January 2019, and (b) a dividend of \$0.19 per share to be paid to stockholders of record at the end of each quarter in 2020. In April 2020, our board of directors raised the cash dividend further with the declaration of three cash dividends of \$0.21 per share (in lieu of the \$0.19 per share previously announced) to be paid to stockholders of record at the end of each of the second, third and fourth quarters in 2020. Dividend payouts of \$5.6 million and \$6.3 million occurred on March 31, 2020 and June 30, 2020, 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, 2019, we had approximately \$43.9 million remaining under our stock-repurchase program. In the six months ended June 30, 2020 we repurchased approximately 32,000 shares of our common stock for approximately \$2.6 million. As of June 30, 2020, we had approximately \$41.3 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, 2020, we had a contractual obligation related to income tax, which consisted primarily of unrecognized tax benefits of approximately \$20.8 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, 2020, there were no material changes in our contractual commitments from those reported in our Annual Report on Form 10-K for the year ended December 31, 2019.

Our cash, cash equivalents and investment balances may change in future periods due to changes in our planned cash outlays, including changes in incremental costs such as direct and integration costs related to future acquisitions. The Tax Act signed into law on December 22, 2017, subjects U.S. companies to a one-time transition tax on total post-1986 earnings and profits of their foreign subsidiaries and generally allows companies to repatriate accumulated foreign earnings without incurring additional U.S. federal taxes beginning after December 31, 2017. Accordingly, as of June 30, 2020, our worldwide cash and marketable securities are available to fund capital allocation needs, including capital and internal investments, acquisitions, stock repurchases and/or dividends without incurring additional U.S. federal income taxes.

If our operating results deteriorate during the remainder of 2020 as a result of a decrease in customer demand, pricing pressure, or other factors, our ability to generate positive cash flow from operations may be jeopardized. In particular, the economic disruption around the world caused by COVID-19 such as business shutdowns, stay-at-home directives, travel restrictions, border closures as well as factory closures, delays on deliveries, and disruptions to freight infrastructure could significantly disrupt our sales and marketing activities, manufacturing and product shipments and demand for our products which could have a material adverse impact on our cash flows. In that case, we may be forced to use our cash, cash equivalents and short-term investments, use our credit agreement or seek additional financing from third parties to fund our operations. We believe that cash generated from operations, together with existing sources of liquidity, will satisfy our projected working capital and other cash requirements for at least the next 12 months.

Off-Balance-Sheet Arrangements

As of June 30, 2020, we did not have any off-balance-sheet arrangements or relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which are typically established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Recent Accounting Pronouncements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk. Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. We consider cash invested in highly liquid financial instruments with a remaining maturity of three months or less at the date of purchase to be cash equivalents. Investments in highly liquid financial instruments with maturities greater than three months at the date of purchase are classified as short-term investments. We generally hold securities until maturity; however, they may be sold under certain circumstances, including, but not limited to, when necessary for the funding of acquisitions and other strategic investments, and therefore we classify our investment portfolio as available-for-sale. We invest in high-credit quality issuers and, by policy, limit the amount of credit exposure to any one issuer. As stated in our policy, we seek to ensure the safety and preservation of our invested principal funds by limiting default risk, market risk and reinvestment risk. We mitigate default risk by investing in safe and high-credit quality securities and by constantly positioning our portfolio to respond appropriately to a significant reduction in a credit rating of any investment issuer, guarantor or depository. Our portfolio includes only marketable securities with active secondary or resale markets to facilitate portfolio liquidity. At June 30, 2020, and December 31, 2019, we held primarily cash equivalents and short-term investments with fixed interest rates.

Our investment securities are subject to market interest rate risk and will vary in value as market interest rates fluctuate. We monitor our investments per our above-mentioned investment policy; therefore, if market interest rates were to increase or decrease by 10% from interest rates as of June 30, 2020, or December 31, 2019, the increase or decrease in the fair market value of our portfolio on these dates would not have been material. We monitor our investments for impairment on a periodic basis. Refer to Note 5, *Marketable Securities*, in our Notes to Unaudited Condensed Consolidated Financial Statements, for a tabular presentation of our available-for-sale investments and the expected maturity dates.

Foreign Currency Exchange Risk. As of June 30, 2020, our primary transactional currency was U.S. dollars; in addition, we hold cash in Swiss francs and euro. We maintain cash denominated in Swiss francs and euro to fund the operations of our Swiss subsidiary. The foreign exchange rate fluctuation between the U.S. dollar versus the Swiss franc and euro is recorded in other income in our condensed consolidated statements of income.

We have sales offices in various other foreign countries in which our expenses are denominated in the local currency, primary Asia and Western Europe. Cash balances held in foreign countries are subject to local banking laws and may bear higher or lower risk than cash deposited in the United States. From time to time we may enter into foreign currency hedging contracts to hedge certain foreign currency transactions. As of June 30, 2020, and December 31, 2019, we did not have an open foreign currency hedge program utilizing foreign currency forward exchange contracts.

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

ITEM 4. CONTROLS AND PROCEDURES

Limitation on Effectiveness of Controls

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

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2020, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

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

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

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

In the six months ended June 30, 2020, we repurchased approximately 32,000 of our shares for approximately \$2.6 million. As of June 30, 2020, we had approximately \$41.3 million remaining in our repurchase program, which has no expiration date.

Issuer Purchases of Equity Securities

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

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet be Repurchased Under the Plans or Programs (in millions)
April 1, 2020, to April 30, 2020	7,525	\$ 82.62	7,525	\$ 41.3
May 1, 2020, to May 31, 2020	—	—	—	\$ 41.3
June 1, 2020, to June 30, 2020	—	—	—	\$ 41.3
Total	7,525		7,525	

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

ITEM 6. EXHIBITS

EXHIBIT NUMBER	Exhibit Description	Incorporation by Reference				
		Form	File Number	Exhibit/Appendix Reference	Filing Date	Filed Herewith
3.1	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	
4.2	Reference is made to Exhibits 3.1 to 3.2					
10.1	2020 Compensation Arrangements with Named Executive Officers	10-K	000-23441	Item 9B	2/7/2020	
10.2	Amendment to the Amended and Restated Executive Officer Benefits Agreement, dated as of June 1, 2020, between Power Integrations, Inc. and Balu Balakrishnan					X
10.3	Amendment to the Amended and Restated Executive Officer Benefits Agreement, dated as of June 1, 2020, between Power Integrations, Inc. and Douglas Bailey					X
10.4	Amendment to the Amended and Restated Executive Officer Benefits Agreement, dated as of June 1, 2020, between Power Integrations, Inc. and Radu Barsan					X
10.5	Amendment to the Amended and Restated Executive Officer Benefits Agreement, dated as of June 1, 2020, between Power Integrations, Inc. and Ben Sutherland					X
10.6	Amendment to the Amended and Restated Executive Officer Benefits Agreement, dated as of June 1, 2020, between Power Integrations, Inc. and Mike Matthews					X
10.7	Amendment to the Amended and Restated Executive Officer Benefits Agreement, dated as of June 1, 2020, between Power Integrations, Inc. and Sandeep Nayyar					X
10.8	Amendment to the Amended and Restated Executive Officer Benefits Agreement, dated as of June 1, 2020, between Power Integrations, Inc. and Raja Petrakian					X
10.9	Amendment to the Amended and Restated Executive Officer Benefits Agreement, dated as of June 1, 2020, between Power Integrations, Inc. and Clifford Walker					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	Inline XBRL Taxonomy Extension Schema Document					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					X

101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	X
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)	

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

** 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 30, 2020

By: /s/ SANDEEP NAYYAR
Sandeep Nayyar
Chief Financial Officer
(Duly Authorized Officer, Principal Financial Officer and
Principal Accounting Officer)

**AMENDMENT TO THE
AMENDED AND RESTATED CHIEF EXECUTIVE OFFICER BENEFITS AGREEMENT**

This **AMENDMENT TO THE AMENDED AND RESTATED CHIEF EXECUTIVE OFFICER BENEFITS AGREEMENT** (this "*Amendment*") is made and entered into as of June 1, 2020 by and between Power Integrations, Inc., a Delaware Corporation (the "*Company*") and Balu Balakrishnan ("*Executive*").

RECITALS

A. The Company and Executive previously entered into an Amended and Restated Chief Executive Officer Benefits Agreement by and between the Company and Executive, dated May 1, 2014 (the "*Agreement*").

B. Pursuant to this Amendment, the Company and Executive have agreed to a clarifying amendment to the Agreement, which amendment is intended to align the meaning of the term "Stock Award" with the terms used in the Company's current equity incentive programs as well as the original intent of the parties.

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows

I. Section 21(r) of Exhibit A of the Agreement shall be amended as follows:

"*Stock Award*" shall (i) have the same meaning ascribed to such term in the 2007 Equity Incentive Plan, as may be amended from time to time, (ii) have the same meaning as the term "Award" under the Company's 2016 incentive Award Plan, as amended from time to time and any successor plan thereto, and (iii) mean any equity or equity-based incentive award granted by the Company to Executive, whether or not such award was granted under an equity incentive plan adopted by the Company.

2. All provisions of the Agreement, as amended by this Amendment, remain in full force and effect. After this Amendment becomes effective, all references in the Agreement to "this Agreement", "hereof", "herein" or words of similar effect referring to the Agreement shall be deemed to be references to the Agreement, as amended by this Amendment.

3. This Amendment shall not be deemed to expressly or impliedly waive, amend or supplement any provision of the Agreement, other than as set forth herein.

4. This Amendment may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

5. This Amendment shall be governed by, and construed in accordance with, the laws of the State of California, without regard to such state's of conflict of laws rules.

[signature page follows]

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the date set forth in the first paragraph hereof.

POWER INTEGRATIONS, INC.

By: /s/ SANDEEP NAYYAR
Print Name: Sandeep Nayyar
Title: Chief Financial Officer

EXECUTIVE

By: /s/ BALU BALAKRISHNAN
Print Name: Balu Balakrishnan

**AMENDMENT TO THE
AMENDED AND RESTATED EXECUTIVE OFFICER BENEFITS AGREEMENT**

This **AMENDMENT TO THE AMENDED AND RESTATED EXECUTIVE OFFICER BENEFITS AGREEMENT** (this "*Amendment*") is made and entered into as of June 1, 2020 by and between Power Integrations, Inc., a Delaware Corporation (the "*Company*") and Doug Bailey ("*Executive*").

RECITALS

A. The Company and Executive previously entered into an Amended and Restated Executive Officer Benefits Agreement by and between the Company and Executive, dated May 1, 2014 (the "*Agreement*").

B. Pursuant to this Amendment, the Company and Executive have agreed to a clarifying amendment to the Agreement, which amendment is intended to align the meaning of the term "Stock Award" with the terms used in the Company's current equity incentive programs as well as the original intent of the parties.

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows

I. Section 21(u) of Exhibit A of the Agreement shall be amended as follows:

"*Stock Award*" shall (i) have the same meaning ascribed to such term in the 2007 Equity Incentive Plan, as may be amended from time to time, (ii) have the same meaning as the term "Award" under the Company's 2016 incentive Award Plan, as amended from time to time and any successor plan thereto, and (iii) mean any equity or equity-based incentive award granted by the Company to Executive, whether or not such award was granted under an equity incentive plan adopted by the Company.

2. All provisions of the Agreement, as amended by this Amendment, remain in full force and effect. After this Amendment becomes effective, all references in the Agreement to "this Agreement", "hereof", "herein" or words of similar effect referring to the Agreement shall be deemed to be references to the Agreement, as amended by this Amendment.

3. This Amendment shall not be deemed to expressly or impliedly waive, amend or supplement any provision of the Agreement, other than as set forth herein.

4. This Amendment may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

5. This Amendment shall be governed by, and construed in accordance with, the laws of the State of California, without regard to such state's of conflict of laws rules.

[signature page follows]

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the date set forth in the first paragraph hereof.

POWER INTEGRATIONS, INC.

By: /s/ BALU BALAKRISHNAN

Print Name: Balu Balakrishnan

Title: President and CEO

EXECUTIVE

By: /s/ DOUG BAILEY

Print Name: Doug Bailey

**AMENDMENT TO THE
AMENDED AND RESTATED EXECUTIVE OFFICER BENEFITS AGREEMENT**

This **AMENDMENT TO THE AMENDED AND RESTATED CHIEF EXECUTIVE OFFICER BENEFITS AGREEMENT** (this "*Amendment*") is made and entered into as of June 1, 2020 by and between Power Integrations, Inc., a Delaware Corporation (the "*Company*") and Radu Barsan ("*Executive*").

RECITALS

A. The Company and Executive previously entered into an Amended and Restated Executive Officer Benefits Agreement by and between the Company and Executive, dated May 1, 2014 (the "*Agreement*").

B. Pursuant to this Amendment, the Company and Executive have agreed to a clarifying amendment to the Agreement, which amendment is intended to align the meaning of the term "Stock Award" with the terms used in the Company's current equity incentive programs as well as the original intent of the parties.

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows

I. Section 21(u) of Exhibit A of the Agreement shall be amended as follows:

"*Stock Award*" shall (i) have the same meaning ascribed to such term in the 2007 Equity Incentive Plan, as may be amended from time to time, (ii) have the same meaning as the term "Award" under the Company's 2016 incentive Award Plan, as amended from time to time and any successor plan thereto, and (iii) mean any equity or equity-based incentive award granted by the Company to Executive, whether or not such award was granted under an equity incentive plan adopted by the Company.

2. All provisions of the Agreement, as amended by this Amendment, remain in full force and effect. After this Amendment becomes effective, all references in the Agreement to "this Agreement", "hereof", "herein" or words of similar effect referring to the Agreement shall be deemed to be references to the Agreement, as amended by this Amendment.

3. This Amendment shall not be deemed to expressly or impliedly waive, amend or supplement any provision of the Agreement, other than as set forth herein.

4. This Amendment may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

5. This Amendment shall be governed by, and construed in accordance with, the laws of the State of California, without regard to such state's of conflict of laws rules.

[signature page follows]

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the date set forth in the first paragraph hereof.

POWER INTEGRATIONS, INC.

By: /s/ BALU BALAKRISHNAN
Print Name: Balu Balakrishnan
Title: President and CEO

EXECUTIVE

By: /s/ RADU BARSAN
Print Name: Radu Barsan

**AMENDMENT TO THE
AMENDED AND RESTATED EXECUTIVE OFFICER BENEFITS AGREEMENT**

This **AMENDMENT TO THE AMENDED AND RESTATED EXECUTIVE OFFICER BENEFITS AGREEMENT** (this "*Amendment*") is made and entered into as of June 1, 2020 by and between Power Integrations, Inc., a Delaware Corporation (the "*Company*") and Ben Sutherland ("*Executive*").

RECITALS

A. The Company and Executive previously entered into an Amended and Restated Executive Officer Benefits Agreement by and between the Company and Executive, dated May 1, 2014 (the "*Agreement*").

B. Pursuant to this Amendment, the Company and Executive have agreed to a clarifying amendment to the Agreement, which amendment is intended to align the meaning of the term "Stock Award" with the terms used in the Company's current equity incentive programs as well as the original intent of the parties.

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows

I. Section 21(u) of Exhibit A of the Agreement shall be amended as follows:

"*Stock Award*" shall (i) have the same meaning ascribed to such term in the 2007 Equity Incentive Plan, as may be amended from time to time, (ii) have the same meaning as the term "Award" under the Company's 2016 incentive Award Plan, as amended from time to time and any successor plan thereto, and (iii) mean any equity or equity-based incentive award granted by the Company to Executive, whether or not such award was granted under an equity incentive plan adopted by the Company.

2. All provisions of the Agreement, as amended by this Amendment, remain in full force and effect. After this Amendment becomes effective, all references in the Agreement to "this Agreement", "hereof", "herein" or words of similar effect referring to the Agreement shall be deemed to be references to the Agreement, as amended by this Amendment.

3. This Amendment shall not be deemed to expressly or impliedly waive, amend or supplement any provision of the Agreement, other than as set forth herein.

4. This Amendment may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

5. This Amendment shall be governed by, and construed in accordance with, the laws of the State of California, without regard to such state's of conflict of laws rules.

[signature page follows]

**AMENDMENT TO THE
AMENDED AND RESTATED EXECUTIVE OFFICER BENEFITS AGREEMENT**

This **AMENDMENT TO THE AMENDED AND RESTATED EXECUTIVE OFFICER BENEFITS AGREEMENT** (this "*Amendment*") is made and entered into as of June 1, 2020 by and between Power Integrations, Inc., a Delaware Corporation (the "*Company*") and Mike Matthews ("*Executive*").

RECITALS

A. The Company and Executive previously entered into an Amended and Restated Executive Officer Benefits Agreement by and between the Company and Executive, dated May 1, 2014 (the "*Agreement*").

B. Pursuant to this Amendment, the Company and Executive have agreed to a clarifying amendment to the Agreement, which amendment is intended to align the meaning of the term "Stock Award" with the terms used in the Company's current equity incentive programs as well as the original intent of the parties.

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows

I. Section 21(u) of Exhibit A of the Agreement shall be amended as follows:

"*Stock Award*" shall (i) have the same meaning ascribed to such term in the 2007 Equity Incentive Plan, as may be amended from time to time, (ii) have the same meaning as the term "Award" under the Company's 2016 incentive Award Plan, as amended from time to time and any successor plan thereto, and (iii) mean any equity or equity-based incentive award granted by the Company to Executive, whether or not such award was granted under an equity incentive plan adopted by the Company.

2. All provisions of the Agreement, as amended by this Amendment, remain in full force and effect. After this Amendment becomes effective, all references in the Agreement to "this Agreement", "hereof", "herein" or words of similar effect referring to the Agreement shall be deemed to be references to the Agreement, as amended by this Amendment.

3. This Amendment shall not be deemed to expressly or impliedly waive, amend or supplement any provision of the Agreement, other than as set forth herein.

4. This Amendment may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

5. This Amendment shall be governed by, and construed in accordance with, the laws of the State of California, without regard to such state's of conflict of laws rules.

[signature page follows]

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the date set forth in the first paragraph hereof.

POWER INTEGRATIONS, INC.

By: /s/ BALU BALAKRISHNAN
Print Name: Balu Balakrishnan
Title: President and CEO

EXECUTIVE

By: /s/ MIKE MATTHEWS
Print Name: Mike Matthews

**AMENDMENT TO THE
AMENDED AND RESTATED EXECUTIVE OFFICER BENEFITS AGREEMENT**

This **AMENDMENT TO THE AMENDED AND RESTATED EXECUTIVE OFFICER BENEFITS AGREEMENT** (this "*Amendment*") is made and entered into as of June 1, 2020 by and between Power Integrations, Inc., a Delaware Corporation (the "*Company*") and Sandeep Nayyar ("*Executive*").

RECITALS

A. The Company and Executive previously entered into an Amended and Restated Executive Officer Benefits Agreement by and between the Company and Executive, dated May 1, 2014 (the "*Agreement*").

B. Pursuant to this Amendment, the Company and Executive have agreed to a clarifying amendment to the Agreement, which amendment is intended to align the meaning of the term "Stock Award" with the terms used in the Company's current equity incentive programs as well as the original intent of the parties.

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows

I. Section 21(u) of Exhibit A of the Agreement shall be amended as follows:

"*Stock Award*" shall (i) have the same meaning ascribed to such term in the 2007 Equity Incentive Plan, as may be amended from time to time, (ii) have the same meaning as the term "Award" under the Company's 2016 incentive Award Plan, as amended from time to time and any successor plan thereto, and (iii) mean any equity or equity-based incentive award granted by the Company to Executive, whether or not such award was granted under an equity incentive plan adopted by the Company.

2. All provisions of the Agreement, as amended by this Amendment, remain in full force and effect. After this Amendment becomes effective, all references in the Agreement to "this Agreement", "hereof", "herein" or words of similar effect referring to the Agreement shall be deemed to be references to the Agreement, as amended by this Amendment.

3. This Amendment shall not be deemed to expressly or impliedly waive, amend or supplement any provision of the Agreement, other than as set forth herein.

4. This Amendment may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

5. This Amendment shall be governed by, and construed in accordance with, the laws of the State of California, without regard to such state's of conflict of laws rules.

[signature page follows]

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the date set forth in the first paragraph hereof.

POWER INTEGRATIONS, INC.

By: /s/ BALU BALAKRISHNAN

Print Name: Balu Balakrishnan

Title: President and CEO

EXECUTIVE

By: /s/ SANDEEP NAYYAR

Print Name: Sandeep Nayyar

**AMENDMENT TO THE
EXECUTIVE OFFICER BENEFITS AGREEMENT**

This **AMENDMENT TO THE EXECUTIVE OFFICER BENEFITS AGREEMENT** (this "*Amendment*") is made and entered into as of June 1, 2020 by and between Power Integrations, Inc., a Delaware Corporation (the "*Company*") and Raja Georges Petrakian ("*Executive*").

RECITALS

A. The Company and Executive previously entered into an Executive Officer Benefits Agreement by and between the Company and Executive, dated April 23, 2015 (the "*Agreement*").

B. Pursuant to this Amendment, the Company and Executive have agreed to a clarifying amendment to the Agreement, which amendment is intended to align the meaning of the term "Stock Award" with the terms used in the Company's current equity incentive programs as well as the original intent of the parties.

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows

I. Section 21(u) of Exhibit A of the Agreement shall be amended as follows:

"*Stock Award*" shall (i) have the same meaning ascribed to such term in the 2007 Equity Incentive Plan, as may be amended from time to time, (ii) have the same meaning as the term "Award" under the Company's 2016 incentive Award Plan, as amended from time to time and any successor plan thereto, and (iii) mean any equity or equity-based incentive award granted by the Company to Executive, whether or not such award was granted under an equity incentive plan adopted by the Company.

2. All provisions of the Agreement, as amended by this Amendment, remain in full force and effect. After this Amendment becomes effective, all references in the Agreement to "this Agreement", "hereof", "herein" or words of similar effect referring to the Agreement shall be deemed to be references to the Agreement, as amended by this Amendment.

3. This Amendment shall not be deemed to expressly or impliedly waive, amend or supplement any provision of the Agreement, other than as set forth herein.

4. This Amendment may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

5. This Amendment shall be governed by, and construed in accordance with, the laws of the State of California, without regard to such state's of conflict of laws rules.

[signature page follows]

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the date set forth in the first paragraph hereof.

POWER INTEGRATIONS, INC.

By: /s/ BALU BALAKRISHNAN
Print Name: Balu Balakrishnan
Title: President and CEO

EXECUTIVE

By: /s/ RAJA GEORGES PETRAKIAN
Print Name: Raja Georges Petrakian

**AMENDMENT TO THE
AMENDED AND RESTATED EXECUTIVE OFFICER BENEFITS AGREEMENT**

This **AMENDMENT TO THE AMENDED AND RESTATED EXECUTIVE OFFICER BENEFITS AGREEMENT** (this "*Amendment*") is made and entered into as of June 1, 2020 by and between Power Integrations, Inc., a Delaware Corporation (the "*Company*") and Clifford J. Walker ("*Executive*").

RECITALS

A. The Company and Executive previously entered into an Amended and Restated Executive Officer Benefits Agreement by and between the Company and Executive, dated May 1, 2014 (the "*Agreement*").

B. Pursuant to this Amendment, the Company and Executive have agreed to a clarifying amendment to the Agreement, which amendment is intended to align the meaning of the term "Stock Award" with the terms used in the Company's current equity incentive programs as well as the original intent of the parties.

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows

I. Section 21(u) of Exhibit A of the Agreement shall be amended as follows:

"*Stock Award*" shall (i) have the same meaning ascribed to such term in the 2007 Equity Incentive Plan, as may be amended from time to time, (ii) have the same meaning as the term "Award" under the Company's 2016 incentive Award Plan, as amended from time to time and any successor plan thereto, and (iii) mean any equity or equity-based incentive award granted by the Company to Executive, whether or not such award was granted under an equity incentive plan adopted by the Company.

2. All provisions of the Agreement, as amended by this Amendment, remain in full force and effect. After this Amendment becomes effective, all references in the Agreement to "this Agreement", "hereof", "herein" or words of similar effect referring to the Agreement shall be deemed to be references to the Agreement, as amended by this Amendment.

3. This Amendment shall not be deemed to expressly or impliedly waive, amend or supplement any provision of the Agreement, other than as set forth herein.

4. This Amendment may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

5. This Amendment shall be governed by, and construed in accordance with, the laws of the State of California, without regard to such state's of conflict of laws rules.

[signature page follows]

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the date set forth in the first paragraph hereof.

POWER INTEGRATIONS, INC.

By: /s/ BALU BALAKRISHNAN
Print Name: Balu Balakrishnan
Title: President and CEO

EXECUTIVE

By: /s/ CLIFFORD J. WALKER
Print Name: Clifford J. Walker

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 30, 2020

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 30, 2020

By: /s/ SANDEEP NAYYAR

Sandeep Nayyar
Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

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

In connection with the Quarterly Report of Power Integrations, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Balu Balakrishnan, Chief Executive Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 ("Section 906"), certify to the best of my knowledge that:

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

Dated: July 30, 2020

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 OFFICER

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

In connection with the Quarterly Report of Power Integrations, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sandeep Nayyar, Chief Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 ("Section 906"), certify to the best of my knowledge that:

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

Dated: July 30, 2020

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.