

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549  
FORM 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2020

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_ to \_

Commission File Number 000-23441  
**POWER INTEGRATIONS, INC.**  
(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of Incorporation or organization)

**94-3065014**

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

**5245 Hellyer Avenue  
San Jose , California**

(Address of principal executive offices)

**95138-1002**

(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           |

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of registrant's voting and non-voting common stock held by non-affiliates of registrant on June 30, 2020, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$2.6 billion, based upon the closing sale price of the common stock as reported on The Nasdaq Global Select Market. Shares of common stock held by each officer and director have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not a conclusive determination for other purposes.

Outstanding shares of registrant's common stock, \$0.001 par value, as of February 2, 2021: 60,053,859.

**DOCUMENTS INCORPORATED BY REFERENCE**

The information required by Part III of this report, to the extent not set forth herein, is incorporated by reference from the Registrant's definitive proxy statement relating to the 2021 annual meeting of stockholders, which definitive proxy statement will be filed with the Securities and Exchange Commission within 120 days after the fiscal year to which this Report relates.

**POWER INTEGRATIONS, INC.**

TABLE OF CONTENTS

|  | <u>Page</u> |
|--|-------------|
| <b><u>PART I.</u></b>  |             |
| <a href="#">ITEM 1. BUSINESS</a>   | 4           |
| <a href="#">ITEM 1A. RISK FACTORS</a>  | 13          |
| <a href="#">ITEM 1B. UNRESOLVED STAFF COMMENTS</a>   | 20          |
| <a href="#">ITEM 2. PROPERTIES</a>   | 20          |
| <a href="#">ITEM 3. LEGAL PROCEEDINGS</a>  | 20          |
| <a href="#">ITEM 4. MINE SAFETY DISCLOSURES</a>  | 20          |
| <b><u>PART II.</u></b>   |             |
| <a href="#">ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</a> | 20          |
| <a href="#">ITEM 6. SELECTED FINANCIAL DATA</a>  | 22          |
| <a href="#">ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</a>                        | 23          |
| <a href="#">ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</a>  | 32          |
| <a href="#">ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</a>  | 34          |
| <a href="#">ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</a>                         | 64          |
| <a href="#">ITEM 9A. CONTROLS AND PROCEDURES</a>   | 64          |
| <a href="#">ITEM 9B. OTHER INFORMATION</a>   | 66          |
| <b><u>PART III.</u></b>  |             |
| <a href="#">ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</a>  | 69          |
| <a href="#">ITEM 11. EXECUTIVE COMPENSATION</a>  | 69          |
| <a href="#">ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</a>              | 69          |
| <a href="#">ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</a>                                   | 69          |
| <a href="#">ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES</a>  | 69          |
| <b><u>PART IV.</u></b>   |             |
| <a href="#">ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES</a>   | 70          |
| <a href="#">ITEM 16. FORM 10-K SUMMARY</a>   | 76          |
| <a href="#">SIGNATURES</a>   | 77          |

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

This Annual Report on Form 10-K 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-K. These factors include, but are not limited to: the novel coronavirus pandemic (COVID-19), which has disrupted and may again disrupt our operations, including our manufacturing, research and development, and sales and marketing activities, which in turn 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 in the high-voltage power supply industry 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 in Item 1A of Part I -- “Risk Factors” of this Form 10-K. We make these forward looking statements based upon information available on the date of this Form 10-K, and 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. In evaluating these statements, you should specifically consider the risks described under Item 1A of Part I -- “Risk Factors,” Item 7 of Part II -- “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Annual Report on Form 10-K.

In addition, statements that “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based upon information available to us as of the date of this Annual Report on Form 10-K, and while we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. These statements are inherently uncertain and investors are cautioned not to unduly rely upon these statements.

## PART I.

### Item 1. Business.

#### 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 gigawatts) 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 reduce the energy consumption of power converters during normal use and in "standby" operation, when the end product is not in use. In addition to the environmental benefits of reduced energy usage, our energy-saving technologies provide a number of benefits to our customers; these include helping them meet the increasingly stringent efficiency standards now in effect for many electronic products, and enabling the elimination of bulky heatsinks used to dissipate the heat produced by wasted electricity.

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 ranging from a few kilowatts up to gigawatts, 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, InnoSwitch™ 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 began incorporating proprietary gallium-nitride (GaN) transistors in some our products, enabling 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.

## **Industry Background**

Virtually every electronic device that plugs into a wall socket requires a power supply to convert the high-voltage alternating current provided by electric utilities into the low-voltage direct current required by most electronic devices. A power supply may be located inside a device, such as a consumer appliance or flat-panel TV, or it may be outside the device as in the case of a mobile-phone charger or an adapter for a cordless phone or cable modem.

Until approximately 1970, AC-DC power supplies were generally in the form of line-frequency, or linear, transformers. These devices, consisting primarily of copper wire wound around an iron core, tend to be bulky and heavy, and typically waste a substantial amount of electricity. In the 1970s, the availability of high-voltage discrete semiconductors enabled the development of a new generation of power supplies known as switched-mode power supplies, or switchers. These switchers generally came to be cost-effective alternatives to linear transformers in applications requiring more than a few watts of power; in recent years the use of linear transformers has declined even further as a result of energy-efficiency standards and higher raw-material prices.

Switchers are generally smaller, lighter-weight and more energy-efficient than linear transformers. However, switchers designed with discrete components are highly complex, containing numerous components and requiring a high level of analog design expertise. Further, the complexity and high component count of discrete switchers make them relatively costly, difficult to manufacture and prone to failures. Also, some discrete switchers lack protection and energy-efficiency features; adding these features may further increase the component count, cost and complexity of the power supply.

In high-power systems such as industrial motor drives, electric locomotives and renewable-energy systems, power conversion is typically performed using arrays of high-power silicon transistors known as IGBT modules; these modules are operated by electronic circuitry known as gate drivers (or IGBT drivers), whose function is to ensure accurate, safe and reliable operation of the IGBT modules. Much like discrete power supplies, discrete gate drivers tend to be highly complex, requiring a large number of components and a great deal of design expertise.

## **Our Highly Integrated Approach**

In 1994 we introduced TOPSwitch, the industry’s first cost-effective high-voltage IC for switched-mode AC-DC power supplies. We have since introduced a range of other product families, expanding the range of power-supply applications we can serve and enhancing our competitiveness in applications that we already addressed. In 2012 we expanded our addressable market to include high-voltage gate drivers.

Our ICs and gate drivers drastically reduce the complexity and component count of power converters compared to typical discrete designs by integrating many of the functions otherwise performed by numerous discrete electronic components, and by eliminating (or reducing the size and cost of) additional components through innovative system design. As a result, our products enable power converters to have superior features and functionality at a total cost equal to or lower than that of many competing alternatives. Our products offer the following key benefits:

- *Fewer Components, Reduced Size and Higher Reliability*

Our highly integrated ICs and gate drivers enable designs with up to 70% fewer components than comparable discrete designs. This reduction in component count enhances reliability and efficiency, reduces size, and results in lower manufacturing costs for our customers. Power supplies that incorporate our ICs are also lighter and more portable than comparable power supplies built with linear transformers, which are still used in some low-power applications.

- *Reduced Time-to-Market, Enhanced Manufacturability*

Because our products eliminate much of the complexity associated with the design of power converters, designs can typically be completed in much less time, resulting in more efficient use of our customers’ design resources and shorter time-to-market for new designs. The lower component count and reduced complexity enabled by our products also makes designs more suitable for high-volume manufacturing. We also provide extensive hands-on design support as well as online design tools, such as our PI Expert design software, that further reduce time-to-market and product development risks.

- *Energy Efficiency*

Our patented EcoSmart technology, introduced in 1998, improves the energy efficiency of electronic devices during normal operation as well as standby and “no-load” conditions. This technology enables manufacturers to cost-effectively meet the growing demand for energy-efficient products, and to comply with increasingly stringent energy-efficiency requirements. Also, our GaN transistor technology, introduced in 2019, offers substantially higher levels of active-mode efficiency compared to traditional silicon-based switches, while our BridgeSwitch motor-driver ICs enable efficiency of up to 98.5 percent, not only minimizing waste but also eliminating the need for heatsinks in many applications, which in turn reduces cost and weight.

- *Wide Power Range and Scalability*

Products in our current IC families can address AC-DC power supplies with output power up to approximately 500 watts as well as some high-voltage DC-DC applications; our high-voltage gate drivers are used in applications with power levels as high as one gigawatt, while our motor-driver ICs address BLDC applications up to 300 watts. Within each of our product families, designers can scale up or down in power to address a wide range of designs with minimal design effort.

## **Energy Efficiency**

Power supplies often draw significantly more electricity than the amount needed by the devices they power. As a result, billions of dollars’ worth of electricity is wasted each year, and millions of tons of greenhouse gases are unnecessarily produced by power plants. Energy waste occurs during the normal operation of a device and in standby mode, when the device is plugged in but idle. For example: computers and printers waste energy while in “sleep” mode; TVs that are turned off by remote control consume energy while awaiting a remote-control signal to turn them back on; a mobile-phone charger left plugged into a wall outlet continues to draw electricity even when not connected to the phone (a condition known as “no-load”); and many common household appliances, such as microwave ovens, dishwashers and washing machines, also consume power when not in use. In fact, a 2015 study by the National Resources Defense Council found that devices that are “always-on” but inactive may be causing as much as \$19 billion in annual energy waste in the United States alone.

## [Table of Contents](#)

Lighting is another major source of energy waste. Less than 5% of the energy consumed by traditional incandescent light bulbs is converted to light, while the remainder is wasted as heat. The Alliance to Save Energy has estimated that a conversion to efficient lighting technologies such as compact fluorescent bulbs and LEDs could save as much as \$18 billion worth of electricity and 158 million tons of carbon dioxide emissions per year in the United States alone.

In response to concerns about the environmental impact of carbon emissions, policymakers have taken action to promote energy efficiency. For example, the ENERGY STAR® program and the European Union Code of Conduct encourage manufacturers of electronic devices to comply with voluntary energy-efficiency specifications. In 2007 the California Energy Commission (CEC) implemented mandatory efficiency standards for external power supplies. The CEC standards were implemented nationwide in the United States in July 2008 as a result of the Energy Independence and Security Act of 2007 (EISA); these federal standards were tightened in 2016. Similar standards for external power supplies took effect in the European Union in 2010 as part of the EU's EcoDesign Directive for Energy-Related Products.

In 2010, the EU EcoDesign Directive implemented standards limiting standby power consumption on a wide range of electronic products. The limit was reduced by 50 percent beginning in 2013, with many products now limited to 500 milliwatts of standby usage; further tightening of the standards is under consideration. The EISA legislation also required substantial improvements in the efficiency of lighting technologies beginning in 2012; as of 2014, traditional 100-, 75-, 60- and 40-watt bulbs are no longer permitted to be manufactured or sold in the United States. Plans to eliminate conventional incandescent bulbs have also been announced or enacted in other geographies such as Canada, Australia and Europe. In December 2019 the government of China published new efficiency standards for room air conditioners, which took effect on July 1, 2020.

We believe we offer products that enable manufacturers to meet or exceed these regulations, and all other such regulations of which we are aware. Our EcoSmart technology, introduced in 1998, dramatically reduces waste in both operating and standby modes; we estimate that this technology has saved billions of dollars' worth of standby power worldwide since 1998. In 2010 we introduced our CapZero and SenZero IC families, which eliminate additional sources of standby waste in some power supplies; we also offer a range of products designed specifically for LED-lighting applications.

### **Products**

Below is a brief description of our products:

- *AC-DC power conversion products*

TOPSwitch, our first commercially successful product family, was introduced in 1994. Since that time we have introduced a wide range of products (such as our TinySwitch, LinkSwitch and Hiper families) to increase the level of integration and improve upon the functionality of the original TOPSwitch, and to broaden the range of power levels we can address. In 2010 we introduced our CapZero and SenZero families, which reduce standby power consumption in certain applications by eliminating waste caused by so-called bleed resistors and sense resistors. We have also introduced products designed specifically for LED-lighting applications, known as LYTSwitch ICs, as well as a range of high-performance, high-voltage diodes known as Qspeed diodes.

In 2014 we introduced our InnoSwitch product family, the first power-supply ICs to combine primary, secondary and feedback circuits into a single package. These ICs employ a proprietary technology known as FluxLink to enable precise control without the need for optical components, which tend to add cost and diminish the reliability of power supplies.

This portfolio of power-conversion products generally addresses power supplies ranging from less than one watt of output up to approximately 500 watts of output, a market we refer to as the "low-power" market. This market consists of an extremely broad range of applications including mobile-device chargers, consumer appliances, utility meters, LCD monitors, main and standby power supplies for desktop computers and TVs, and numerous other consumer and industrial applications, as well as LED lighting.

- *High-voltage gate drivers*

We offer a range of high-voltage gate-driver products sold primarily under the SCALE and SCALE-2 product-family names. These products are fully assembled circuit boards incorporating multiple ICs, electrical isolation

## [Table of Contents](#)

components and other circuitry. We offer both ready-to-operate “plug-and-play” drivers designed specifically for use with particular IGBT modules, as well as “driver cores,” which provide more basic driver functionality that customers can customize to their own specifications after purchase. In May 2016 we introduced the SCALE-iDriver family of standalone ICs, which enables us to address applications ranging from a few kilowatts up to about 100 kilowatts, whereas previously our sales of high-power products were primarily for applications above 100 kilowatts.

- *Motor-driver products*

The BridgeSwitch family of products, introduced in 2018, is a family of motor-driver ICs addressing BLDC motor applications up to approximately 400 watts. Such applications include refrigerator compressors, ceiling fans, air purifiers as well as pumps, fans and blowers used in consumer appliances such as dishwashers and laundry machines.

### **Other Product Information**

TOPSwitch, TinySwitch, LinkSwitch, DPA-Switch, EcoSmart, Hiper, Qspeed, InnoSwitch, BridgeSwitch, SCALE, SCALE-II, SCALE-III, SCALE-iDriver, PeakSwitch, CAPZero, SENZero, ChiPhy, FluxLink, CONCEPT and PI Expert are trademarks of Power Integrations, Inc.

### **End Markets and Applications**

Our net revenues consist primarily of sales of the products described above. When evaluating our net revenues, we categorize our sales into the following four major end-market groupings: communications, computer, consumer, and industrial.

The table below provides the approximate mix of our net sales by end market:

| <b>End Market</b> | <b>Year Ended December 31,</b> |             |             |
|-------------------|--------------------------------|-------------|-------------|
|                   | <b>2020</b>                    | <b>2019</b> | <b>2018</b> |
| Communications    | 30 %                           | 26 %        | 20 %        |
| Computer          | 7 %                            | 5 %         | 5 %         |
| Consumer          | 33 %                           | 35 %        | 38 %        |
| Industrial        | 30 %                           | 34 %        | 37 %        |

Our products are used in a vast range of power-conversion applications in the above-listed end-market categories. The following chart lists the most prominent applications for our products in each category.

| <b>Market Category</b> | <b>Primary Applications</b>   |
|------------------------|---|
| Communications         | Mobile-phone chargers, adaptors for routers, cordless phones, broadband modems, voice-over-IP phones, other network and telecom gear  |
| Computer               | Desktop PCs and monitors, servers, adapters for tablets and notebook computers, other computer peripherals  |
| Consumer               | Major and small appliances, air conditioners, TV set-top boxes, digital cameras, TVs, video-game consoles   |
| Industrial             | Industrial controls, LED lighting, utility meters, motor controls, uninterruptible power supplies, battery-powered tools, networked thermostats, power strips and other “smart home” devices, industrial motor drives, renewable energy systems, electric locomotives, electric buses and other electric vehicles, high-voltage DC transmission systems |

### **Sales, Distribution and Marketing**

We sell our products to original equipment manufacturers, or OEMs, and merchant power-supply manufacturers through our direct sales staff and a worldwide network of independent sales representatives and distributors. We have sales offices in the United States, United Kingdom, Germany, Italy, India, China, Japan, South Korea, the Philippines, Singapore and Taiwan. Direct sales to OEMs and merchant power supply manufacturers represented approximately 25%, 28% and 25% of our net product revenues in 2020, 2019 and 2018, respectively, while sales to distributors accounted for the remainder in each of the corresponding years. Most of our distributors are entitled to return privileges based on revenues and are protected from price reductions affecting their inventories. Our distributors are not subject to minimum purchase requirements, and sales representatives and distributors can discontinue marketing our products at any time.



## [Table of Contents](#)

Our sales are primarily made pursuant to standard purchase orders. The quantity of products purchased by our customers as well as shipment schedules are subject to revisions that reflect changes in both the customers' requirements and in manufacturing availability. Historically, our business has been characterized by short-lead-time orders and quick delivery schedules.

Our top ten customers, including distributors that resell to OEMs and merchant power supply manufacturers, accounted for approximately 62%, 54% and 56% of net revenues in 2020, 2019 and 2018, respectively. In 2020, two distributors accounted for more than 10% of revenues. In 2019 and 2018, one of these distributors accounted for more than 10% of revenues.

### **Research and Development**

Our research and development efforts are focused on improving our technologies, introducing new products to expand our addressable markets, reducing the costs of existing products, and improving the cost-effectiveness and functionality of our customers' power converters. We have assembled teams of highly skilled engineers to meet our research and development goals. These engineers have expertise in high-voltage device structure and process technology, analog and digital IC design, system architecture and packaging.

### **Intellectual Property and Other Proprietary Rights**

We use a combination of patents, trademarks, copyrights, trade secrets and confidentiality procedures to protect our intellectual-property rights. In 2020 we received 29 U.S. and 54 foreign patents. As of December 31, 2020, we held 450 U.S. patents and 360 foreign patents. Both U.S. and foreign patents have expiration dates ranging from 2021 to 2041. While our patent portfolio as a whole is important to the success of our business, we are not materially dependent upon any single patent. We also hold trademarks in the U.S. and various other geographies including Taiwan, Korea, Hong Kong, China, Europe, Japan, India, and Brazil.

We regard as proprietary some equipment, processes, information and knowledge that we have developed and used in the design and manufacture of our products. Our trade secrets include a high-volume production process used in the manufacture of our high-voltage ICs. We attempt to protect our trade secrets and other proprietary information through non-disclosure agreements, proprietary-information agreements with employees and consultants, and other security measures.

### **Manufacturing**

We contract with three foundries for the manufacture of the vast majority of our silicon wafers: (1) Lapis Semiconductor Co., Ltd., or Lapis, (formerly OKI Electric Industry), (2) Seiko Epson Corporation, or Epson, (3) X-FAB Semiconductor Foundries AG, or X-FAB. These contractors manufacture wafers using our proprietary high-voltage process technologies at fabrication facilities located in Japan, Germany and the United States.

Our ICs are assembled, packaged and tested by independent subcontractors in China, Malaysia, Thailand and the Philippines; a small percentage of our ICs are tested at our headquarters facility in California. Our gate-driver boards are assembled and tested by independent subcontractors in Sri Lanka and Thailand; some of the boards are tested at our facility in Switzerland.

Our fabless manufacturing model enables us to focus on our engineering and design strengths, minimize capital expenditures and still have access to high-volume manufacturing capacity. We utilize both proprietary and standard IC packages for assembly. Some of the materials used in our packages and certain aspects of the assembly process are specific to our products. We require our assembly manufacturers to use high-voltage molding compounds which are more difficult to process than industry standard molding compounds. We work closely with our contractors on a continuous basis to maintain and improve our manufacturing processes.

Our proprietary high-voltage processes do not require leading-edge geometries, which enables us to use our foundries' older, lower-cost facilities for wafer manufacturing. However, because of our highly sensitive high-voltage process, we must interact closely with our foundries to achieve satisfactory yields. Our wafer supply agreements with Lapis, Epson and X-FAB expire in April 2028, December 2025 and December 2028, respectively. Under the terms of the Lapis and Epson agreements, each supplier has agreed to reserve a specified amount of production capacity and to sell wafers to us at fixed prices, which are subject to periodic review jointly by the supplier and us. In addition, Lapis and

## [Table of Contents](#)

Epson require us to supply them with a rolling six-month forecast on a monthly basis. Our agreements with Lapis and Epson each provide for the purchase of wafers in U.S. dollars, with mutual sharing of the impact of the fluctuations in the exchange rate between the Japanese yen and the U.S. dollar. Under the terms of the X-FAB agreement, X-FAB has agreed to reserve a specified amount of production capacity and to sell wafers to us at fixed prices, which are subject to periodic review jointly by X-FAB and us. The agreement with X-FAB also requires us to supply them with rolling six-month forecasts on a monthly basis. Our purchases of wafers from X-FAB are denominated in U.S. dollars.

Although some aspects of our relationships with Lapis, Epson and X-FAB are contractual, some important aspects of these relationships are not written in binding contracts and depend on the suppliers' continued cooperation. We cannot assure that we will continue to work successfully with Lapis, Epson or X-FAB in the future, that they will continue to provide us with sufficient capacity at their foundries to meet our needs, or that any of them will not seek an early termination of their wafer supply agreement with us. Our operating results could suffer in the event of a supply disruption with one or more of our foundries if we were unable to quickly qualify alternative manufacturing sources for existing or new products or if these sources were unable to produce wafers with acceptable manufacturing yields.

We typically receive shipments from our foundries approximately four to six weeks after placing orders, and lead times for new products can be substantially longer. To provide sufficient time for assembly, testing and finishing, we typically need to receive wafers four weeks before the desired ship date to our customers. As a result of these factors and the fact that customers' orders can be placed with little advance notice, we have only a limited ability to react to fluctuations in demand for our products. We try to carry a substantial amount of wafer and finished-goods inventory to help offset these risks and to better serve our markets and meet customer demand.

### **Competition**

Competing alternatives to our high-voltage ICs for the power-supply market include monolithic and hybrid ICs from companies such as ON Semiconductor, STMicroelectronics, Infineon, and Sanken Electric Company, as well as PWM-controller chips paired with discrete high-voltage bipolar transistors and MOSFETs; such controller chips are produced by a large number of vendors, including those listed above as well as such companies as NXP Semiconductors, Diodes Inc., On-Bright Electronics and Dialog Semiconductor. Self-oscillating switchers, built with discrete components supplied by numerous vendors, are also commonly used. For some applications, line-frequency transformers are also a competing alternative to designs utilizing our products. Our gate-driver products compete with alternatives from such companies as Avago, Infineon and Semikron, as well as driver circuits made up of discrete devices. Our motor-driver ICs compete with alternatives from such companies as ON Semiconductor, Infineon, STMicroelectronics and Sanken Electric Company.

Generally, our products enable customers to design power converters with total bill-of-materials costs similar to those of competing alternatives. As a result, the value of our products is influenced by the prices of discrete components, which fluctuate in relation to market demand, raw-material prices and other factors, but have generally decreased over time.

While we vary the pricing of our ICs in response to fluctuations in prices of alternative solutions, we also compete based on a variety of other factors. Most importantly, the highly integrated nature of our products enables designs that utilize fewer total components than comparable discrete designs or designs using other integrated or hybrid products. This enables power converters to be designed more quickly and manufactured more efficiently and reliably than competing designs. We also compete on the basis of product functionality such as safety features and energy-efficiency features and on the basis of the technical support we provide to our customers. This support includes hands-on design assistance as well as a range of design tools and documentation such as software and reference designs. We also believe that our record of product quality and history of delivering products to our customers on a timely basis serve as additional competitive advantages.

### **Warranty**

We generally warrant that our products will substantially conform to the published specifications for 12 months from the date of shipment. Under the terms and conditions of sale, our liability is limited generally to either a credit equal to the purchase price or replacement of the defective part.

## **Human Capital**

As of December 31, 2020, we employed 725 full-time personnel across 14 countries with 363, or 50% of the total, residing in North America, while 50% resided offshore comprising 259 in the Asia-Pacific region and 103 across Europe, Middle East and Africa. As of December 31, 2020, 5% of our worldwide employees were foreign nationals, defined as individuals requiring employment visas in the countries where they are employed. Women comprise more than 40% of our U.S. non-technical workforce. The ethnic makeup of our U.S. workforce is approximately as follows: 60% Asian; 29% white; 7% Hispanic or Latino; 4% other.

Innovation is the lifeblood of our company, and we depend on our people to sustain our competitive advantage. We offer attractive compensation with generous comprehensive benefits for employees and dependents (including domestic partners), including health, dental and vision insurance, matching 401(k) contributions, employee stock plans, paid time off and family leave, life insurance, flu vaccinations, charitable gift matching, a health-and-wellness program designed to promote physical well-being, and an employee assistance program and other mental health services. Approximately 97% of eligible U.S. employees participate in our 401(k) plan. These benefits, combined with our culture of innovation and sustainable growth, contribute to low employee turnover and an average tenure of nearly 10 years.

It is our policy to ensure equal employment opportunity for all applicants and employees without regard to prohibited considerations of race, color, religion, sex (including pregnancy, gender identity and sexual orientation), national origin, age, disability or genetic information, marital status or any other classification protected by applicable local, state or federal laws. Our employees are encouraged to engage with company leadership and raise concerns and questions in-person, via e-mail (anonymously if desired), or at our quarterly employee communications meeting with the CEO and senior management team. All employees receive training in the prevention of sexual harassment and abusive conduct in the workplace.

We value our employees, giving them the tools and training to grow as individuals, and the freedom to take risks in the service of innovation. We offer tuition reimbursement for job-related education and provide live and online classes covering topics such as communication, leadership and management, software, and time management. Subject to restrictions due to the current COVID-19 pandemic, we also offer catered lunch-time workshops on a range of personal-development topics such as financial planning, nutrition and stress management.

Additional information regarding our commitment to our people can be found on our website at <https://www.power.com/company/sustainability-citizenship/>.

## **Investor Information**

We make available, free of charge, copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after filing this material electronically or otherwise furnishing it to the SEC. Investors may obtain free electronic copies or request paper copies of these reports via the “For Investors” section of our website, [www.power.com](http://www.power.com). Our website address is provided solely for informational purposes. We do not intend, by this reference, that our website should be deemed to be part of this Annual Report. The reports we file with the SEC are also available at [www.sec.gov](http://www.sec.gov).

Our corporate governance guidelines, the charters of our board committees, and our code of business conduct and ethics, including ethics provisions that apply to our principal executive officer, principal financial officer, controller and senior financial officers, are also available via the investor website listed above. These items are also available in print to any stockholder who requests them by calling (408) 414-9200. We intend to satisfy the disclosure requirements of Form 8-K regarding an amendment to, or a waiver from, a provision of our code of business conduct and ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions by posting such information on our investor website listed above.

Power Integrations, Inc. was incorporated in California on March 25, 1988, and reincorporated in Delaware in December 1997.

## Information About Our Executive Officers

As of February 1, 2021, our executive officers, who are appointed by and serve at the discretion of the board of directors, were as follows:

| <u>Name</u>           | <u>Position With Power Integrations</u>             | <u>Age</u> |
|-----------------------|---|------------|
| Balu Balakrishnan     | President, Chief Executive Officer and Director     | 66         |
| Douglas Bailey        | Vice President, Marketing                           | 54         |
| Radu Barsan           | Vice President, Technology                          | 68         |
| Sunil Gupta           | Vice President, Operations                          | 48         |
| David “Mike” Matthews | Vice President, Product Development                 | 56         |
| Sandeep Nayyar        | Vice President, Finance and Chief Financial Officer | 61         |
| Ben Sutherland        | Vice President, Worldwide Sales                     | 49         |
| Clifford Walker       | Vice President, Corporate Development               | 69         |

*Balu Balakrishnan* has served as president and chief executive officer and as a director of Power Integrations since January 2002. He served as president and chief operating officer from April 2001 to January 2002. From January 2000 to April 2001, he was vice president of engineering and strategic marketing. From September 1997 to January 2000, he was vice president of engineering and new business development. From September 1994 to September 1997, Mr. Balakrishnan served as vice president of engineering and marketing. Prior to joining Power Integrations in 1989, Mr. Balakrishnan was employed by National Semiconductor Corporation.

*Douglas Bailey* has served as our vice president of marketing since November 2004. From March 2001 to April 2004, he served as vice president of marketing at ChipX, a structured-ASIC company. His earlier experience includes serving as business management and marketing consultant for Sapiential Prime, Inc., director of sales and business unit manager for 8x8, Inc., and serving in application engineering management for IIT, Inc. and design engineering roles with LSI Logic, Immos, Ltd. and Marconi.

*Radu Barsan* has served as our vice president of technology since January 2013, leading our foundry engineering, technology development and quality organizations. Prior to joining Power Integrations, Dr. Barsan served as chairman and CEO at Redfern Integrated Optics, Inc., a supplier of single-frequency narrow-linewidth lasers, modules, and subsystems, from 2001 to 2013. Previously, he served in a succession of engineering-management and technology-development roles at Phaethon Communications, Inc., a photonics technology company, Cirrus Logic, Inc., a high-precision analog and digital signal processing company, Advanced Micro Devices, a semiconductor design company, Cypress Semiconductor, Inc., a semiconductor company and Microelectronica, a semiconductor company. Dr. Barsan has 40 years of commercial experience in semiconductor and photonic components development, engineering and operations.

*Sunil Gupta* has served as our vice president of operations since August 2020. Prior to joining Power Integrations, Mr. Gupta was vice president of operations at Renesas Electronics Corporation, a provider of electronics solutions, from July 2017 until August 2020, in which position he was responsible for global operations for Intersil and IDT products as well as the integration into the operations of Renesas. Prior to joining Renesas he was Senior Vice President, Global Operations at Intersil Corporation, a developer of power management and precision analog integrated circuits, from June 2016 to July 2017, in which position he led the global operations and technology teams, and was Vice President, Quality and Technology Development at Intersil from September 2013 to June 2016, in which position he led the quality, reliability, yield, process technology and package technology teams. Mr. Gupta joined Intersil in 2012 as its Vice President, Quality and Reliability. Prior to joining Intersil, Mr. Gupta was the Director of Worldwide Customer Quality Engineering at Qualcomm, and prior to Qualcomm Mr. Gupta spent 16 years at National Semiconductor in wafer fab operations and quality.

*Mike Matthews* has served as our vice president of product development since August 2012. Mr. Matthews joined Power Integrations in 1992, managing our European application-engineering group and then our European sales organization as managing director of Power Integrations (Europe). He has led our product-definition team since 2000, serving as director of strategic marketing prior to assuming his current role. Prior to joining Power Integrations, Mr. Matthews worked at several electric motor-drive companies and then at Siliconix, a semiconductor company, as a motor-control applications specialist.

*Sandeep Nayyar* has served as our vice president and chief financial officer since June 2010. From 2002 to 2009 Mr. Nayyar served as vice president of finance at Applied Biosystems, Inc., a developer and manufacturer of life-sciences products, where he was a member of the executive team with world-wide responsibilities for finance. From 1990 to 2001, Mr. Nayyar served in a succession of financial roles including vice president of finance at Quantum Corporation, a computer storage company. Mr. Nayyar also worked for five years in the public-accounting field at Ernst & Young LLP. Mr. Nayyar is a Certified Public Accountant, Chartered Accountant and has a Bachelor of Commerce from the University of Delhi, India. Since 2014, Mr. Nayyar has served as a director and audit-committee chairman of Smart Global Holdings, Inc., a manufacturer of specialty memory solutions; in 2021 he was named lead independent director.

*Ben Sutherland* has served as our vice president, worldwide sales since July 2011. Mr. Sutherland joined our company in May 2000 as a member of our sales organization in Europe. From May 2000 to July 2011, Mr. Sutherland served in various sales positions responsible primarily for our international sales, and more recently for domestic sales. From 1997 to 2000, Mr. Sutherland served in various product marketing and sales roles at Vishay Intertechnology, Inc., a manufacturer and supplier of discrete semiconductors and passive electronic components.

*Clifford Walker* has served as our vice president, corporate development since June 1995. From September 1994 to June 1995, Mr. Walker served as vice president of Reach Software Corporation, a software company. From December 1993 to September 1994, Mr. Walker served as president of Morgan Walker International, a consulting company.

#### **Item 1A. Risk Factors.**

*The following are important factors that could cause actual results or events to differ materially from those contained in any forward-looking statements made by us or on our behalf. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we deem immaterial also may impair our business operations. If any of the following risks or such other risks actually occurs, our business could be harmed.*

##### **Risks Related to Ownership of Our Common Stock**

*Our operating results are volatile and difficult to predict. If we fail to meet the expectations of public market analysts or investors, the market price of our common stock may decrease significantly.* Our net revenues and operating results have varied significantly in the past, are difficult to forecast, are subject to numerous factors both within and outside of our control, and may fluctuate significantly in the future. As a result, our operating results could fall below the expectations of public market analysts or investors. If that occurs, the price of our stock may decline.

Some of the factors that could affect our operating results include the following:

- we face risks related to the Novel Coronavirus pandemic (COVID-19), which has disrupted and may again 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;
- the volume and timing of delivery of orders placed by us with our wafer foundries and assembly subcontractors, and their ability to procure materials;
- the volume and timing of orders received from customers;
- our products are sold through distributors, which limits our direct interaction with our end customers, which reduces our ability to forecast sales and increases the complexity of our business;
- reliance on international sales activities for a substantial portion of our net revenues;
- competitive pressures on selling prices;
- the ability of our products to penetrate additional markets;
- our ability to develop and bring to market new products and technologies on a timely basis;
- the lengthy timing of our sales cycle;

## [Table of Contents](#)

- the demand for our products declining in the major end markets we serve, which may occur due to competitive factors, supply-chain fluctuations or changes in macroeconomic conditions;
- our ability to attract and retain qualified personnel;
- interruptions in our information technology systems;
- earthquakes, terrorists acts, pandemic or other disasters;
- fluctuations in exchange rates, particularly the exchange rate between the U.S. dollar and the Japanese yen, the Euro and the Swiss franc;
- the inability to adequately protect or enforce our intellectual property rights;
- expenses we are required to incur (or choose to incur) in connection with our intellectual property litigations;
- undetected defects and failures in meeting the exact specifications required by our products;
- risks associated with acquisitions and strategic investments;
- our ability to successfully integrate, or realize the expected benefits from, our acquisitions; and
- changes in tax rules and regulations, changes in interpretation of tax rules and regulations, or unfavorable assessments from tax audits may increase the amount of taxes we are required to pay;
- changes in environmental laws and regulations, including with respect to energy consumption and climate change;
- continued impact of changes in securities laws and regulations, including potential risks resulting from our evaluation of our internal controls over financial reporting; and
- uncertainties arising out of economic consequences of current and potential military actions or terrorist activities and associated political instability.

### **Risks Related to the Operation and Growth of Our Business**

*We face risks related to the Novel Coronavirus pandemic (COVID-19), which has disrupted and may again 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.

*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.* Our primary supply arrangements for the production of wafers are with Epson, Lapis, and X-FAB. Our contracts with these suppliers expire on varying dates, with the earliest to expire in December 2025. Although some aspects of our relationships with Lapis, X-FAB and Epson are contractual, many important aspects of these relationships depend on their continued cooperation. We cannot assure that we will continue to work successfully with Epson, Lapis and X-FAB in the future, and that the wafer foundries' capacity will meet our needs. Additionally, one or more of these wafer foundries could seek an early termination of our wafer supply agreements. Any serious disruption in the supply of wafers from Epson, Lapis and X-FAB could harm our business. We estimate that it would take 12 to 24 months from the time we identified an alternate manufacturing source to produce wafers with acceptable manufacturing yields in sufficient quantities to meet our needs.

## [Table of Contents](#)

Although we provide our foundries with rolling forecasts of our production requirements, their ability to provide wafers to us is ultimately limited by the available capacity of the wafer foundry. Any reduction in wafer foundry capacity available to us could require us to pay amounts in excess of contracted or anticipated amounts for wafer deliveries or require us to make other concessions to meet our customers' requirements, or may limit our ability to meet demand for our products. Further, to the extent demand for our products exceeds wafer foundry capacity, this could inhibit us from expanding our business and harm relationships with our customers. Any of these concessions or limitations could harm our business.

If our third-party suppliers and independent subcontractors do not produce our wafers and assemble our finished products at acceptable yields, our net revenues may decline. We depend on independent foundries to produce wafers, and independent subcontractors to assemble and test finished products, at acceptable yields and to deliver them to us in a timely manner. The failure of the foundries to supply us wafers at acceptable yields could prevent us from selling our products to our customers and would likely cause a decline in our net revenues and gross margin. In addition, our IC assembly process requires our manufacturers to use a high-voltage molding compound that has been available from only a few suppliers. These compounds and their specified processing conditions require a more exacting level of process control than normally required for standard IC packages. Unavailability of assembly materials or problems with the assembly process can materially and adversely affect yields, timely delivery and cost to manufacture. We may not be able to maintain acceptable yields in the future.

In addition, if prices for commodities used in our products increase significantly, raw material costs would increase for our suppliers which could result in an increase in the prices our suppliers charge us. To the extent we are not able to pass these costs on to our customers; this would have an adverse effect on our gross margins.

*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.* Our business is characterized by short-term customer orders and shipment schedules, and the ordering patterns of some of our large customers have been unpredictable in the past and will likely remain unpredictable in the future. Not only does the volume of units ordered by particular customers vary substantially from period to period, but also purchase orders received from particular customers often vary substantially from early oral estimates provided by those customers for planning purposes. In addition, customer orders can be canceled or rescheduled without significant penalty to the customer. In the past, we have experienced customer cancellations of substantial orders for reasons beyond our control, and significant cancellations could occur again at any time. Also, a relatively small number of distributors, OEMs and merchant power supply manufacturers account for a significant portion of our revenues. Specifically, our top ten customers, including distributors, accounted for 62%, 54% and 56% of our net revenues in each of the years ended December 31, 2020, 2019 and 2018, respectively. However, a significant portion of these revenues are attributable to sales of our products through distributors of electronic components. These distributors sell our products to a broad, diverse range of end users, including OEMs and merchant power supply manufacturers, which mitigates the risk of customer concentration to a large degree.

*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.* Sales to distributors accounted for approximately 75%, 72% and 75% of net revenues in the years ended December 31, 2020, 2019 and 2018, respectively. Selling through distributors reduces our ability to forecast sales and increases the complexity of our business, requiring us to:

- manage a more complex supply chain;
- monitor the level of inventory of our products at each distributor, and
- monitor the financial condition and credit-worthiness of our distributors, many of which are located outside of the United States and are not publicly traded.

Since we have limited ability to forecast inventory levels at our end customers, it is possible that there may be significant build-up of inventories in the distributor channel, with the OEM or the OEM's contract manufacturer. Such a buildup could result in a slowdown in orders, requests for returns from customers, or requests to move out planned shipments. This could adversely impact our revenues and profits. Any failure to manage these complexities could disrupt or reduce sales of our products and unfavorably impact our financial results.

## [Table of Contents](#)

*Our international sales activities account for a substantial portion of our net revenues, which subjects us to substantial risks.* Sales to customers outside of the United States of America account for, and have accounted for a large portion of our net revenues, including approximately 98%, 97% and 96% of our net revenues for the year ended December 31, 2020, 2019 and 2018. If our international sales declined and we were unable to increase domestic sales, our revenues would decline and our operating results would be harmed. International sales involve a number of risks to us, including:

- tariffs, protectionist measures and other trade barriers and restrictions;
- potential insolvency of international distributors and representatives;
- reduced protection for intellectual property rights in some countries;
- the impact of recessionary environments in economies outside the United States;
- the burdens of complying with a variety of foreign and applicable U.S. Federal and state laws; and
- foreign-currency exchange risk.

Our failure to adequately address these risks could reduce our international sales and materially and adversely affect our operating results. Furthermore, because substantially all of our foreign sales are denominated in U.S. dollars, increases in the value of the dollar cause the price of our products in foreign markets to rise, making our products more expensive relative to competing products priced in local currencies.

*Intense competition in the high-voltage power supply industry may lead to a decrease in our average selling price and reduced sales volume of our products.* The high-voltage power supply industry is intensely competitive and characterized by significant price sensitivity. Our products face competition from alternative technologies, such as linear transformers, discrete switcher power supplies, and other integrated and hybrid solutions. If the price of competing solutions decreases significantly, the cost effectiveness of our products will be adversely affected. If power requirements for applications in which our products are currently utilized go outside the cost-effective range of our products, some of these alternative technologies can be used more cost effectively. In addition, as our patents expire, our competitors could legally begin using the technology covered by the expired patents in their products, potentially increasing the performance of their products and/or decreasing the cost of their products, which may enable our competitors to compete more effectively. Our current patents may or may not inhibit our competitors from getting any benefit from an expired patent. Our U.S. patents have expiration dates ranging from 2020 to 2039. We cannot assure that our products will continue to compete favorably or that we will be successful in the face of increasing competition from new products and enhancements introduced by existing competitors or new companies entering this market. We believe our failure to compete successfully in the high-voltage power supply business, including our ability to introduce new products with higher average selling prices, would materially harm our operating results.

*If our products do not penetrate additional markets, our business will not grow as we expect.* We believe that our future success depends in part upon our ability to penetrate additional markets for our products. We cannot assure that we will be able to overcome the marketing or technological challenges necessary to penetrate additional markets. To the extent that a competitor penetrates additional markets before we do, or takes market share from us in our existing markets, our net revenues and financial condition could be materially adversely affected.

*If our efforts to enhance existing products and introduce new products are not successful, we may not be able to generate demand for our products.* Our success depends in significant part upon our ability to develop new ICs for high-voltage power conversion for existing and new markets, to introduce these products in a timely manner and to have these products selected for design into products of leading manufacturers. New product introduction schedules are subject to the risks and uncertainties that typically accompany development and delivery of complex technologies to the market place, including product development delays and defects. If we fail to develop and sell new products in a timely manner, then our net revenues could decline.

In addition, we cannot be sure that we will be able to adjust to changing market demands as quickly and cost-effectively as necessary to compete successfully. Furthermore, we cannot assure that we will be able to introduce new products in a timely and cost-effective manner or in sufficient quantities to meet customer demand or that these products will achieve market acceptance. Our failure, or our customers' failure, to develop and introduce new products successfully and in a timely manner would harm our business. In addition, customers may defer or return orders for existing products



in response to the introduction of new products. When a potential liability exists we will maintain reserves for customer returns, however we cannot assure that these reserves will be adequate.

*Because the sales cycle for our products can be lengthy, we may incur substantial expenses before we generate significant revenues, if any.* Our products are generally incorporated into a customer's products at the design stage. However, customer decisions to use our products, commonly referred to as design wins, can often require us to expend significant research and development and sales and marketing resources without any assurance of success. These significant research and development and sales and marketing resources often precede volume sales, if any, by a year or more. The value of any design win will largely depend upon the commercial success of the customer's product. We cannot assure that we will continue to achieve design wins or that any design win will result in future revenues. If a customer decides at the design stage not to incorporate our products into its product, we may not have another opportunity for a design win with respect to that product for many months or years.

*If demand for our products declines in our major end markets, our net revenues will decrease.* A limited number of applications of our products, such as cellphone chargers and consumer appliances, make up a significant percentage of our net revenues. We expect that a significant level of our net revenues and operating results will continue to be dependent upon these applications in the near term. The demand for these products has been highly cyclical and has been impacted by economic downturns in the past. Any economic slowdown in the end markets that we serve could cause a slowdown in demand for our ICs. When our customers are not successful in maintaining high levels of demand for their products, their demand for our ICs decreases, which adversely affects our operating results. Any significant downturn in demand in these markets would cause our net revenues to decline and could cause the price of our stock to fall.

*We must attract and retain qualified personnel to be successful and competition for qualified personnel is intense in our market.* Our success depends to a significant extent upon the continued service of our executive officers and other key management and technical personnel, and on our ability to continue to attract, retain and motivate qualified personnel, such as experienced analog design engineers and systems applications engineers. The competition for these employees is intense, particularly in Silicon Valley. The loss of the services of one or more of our engineers, executive officers or other key personnel could harm our business. In addition, if one or more of these individuals leaves our employ, and we are unable to quickly and efficiently replace those individuals with qualified personnel who can smoothly transition into their new roles, our business may suffer. We do not have long-term employment contracts with, and we do not have in place key person life insurance policies on, any of our employees.

*Interruptions in our information technology systems could adversely affect our business.* We rely on the efficient and uninterrupted operation of complex information technology systems and networks to operate our business. Any significant system or network disruption, including but not limited to new system implementations, computer viruses, security breaches, or energy blackouts could have a material adverse impact on our operations, sales and operating results. We have implemented measures to manage our risks related to such disruptions, but such disruptions could still occur and negatively impact our operations and financial results. In addition, we may incur additional costs to remedy any damages caused by these disruptions or security breaches.

*In the event of an earthquake, terrorist act, another pandemic or other disaster, our operations may be interrupted and our business would be harmed.* Our principal executive offices and operating facilities are situated near San Francisco, California, and most of our major suppliers, which are wafer foundries and assembly houses, are located in areas that have been subject to severe earthquakes, such as Japan. Many of our suppliers are also susceptible to other disasters such as tropical storms, typhoons or tsunamis. In the event of a disaster, such as the earthquake and tsunami in Japan, we or one or more of our major suppliers may be temporarily unable to continue operations and may suffer significant property damage. Any interruption in our ability or that of our major suppliers to continue operations could delay the development and shipment of our products and have a substantial negative impact on our financial results.

#### **Risks Related to Financial Performance or General Economic Conditions**

*Fluctuations in exchange rates, particularly the exchange rate between the U.S. dollar and the Japanese yen, Swiss franc and euro, may impact our gross margin and net income.* Our exchange rate risk related to the Japanese yen includes two of our major suppliers, Epson and Lapis, with which we have wafer supply agreements based in U.S. dollars; however, these agreements also allow for mutual sharing of the impact of the exchange rate fluctuation between Japanese yen and the U.S. dollar. Each year, our management and these suppliers review and negotiate 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 Power Integrations and each of these suppliers. We maintain cash denominated

## [Table of Contents](#)

in Swiss francs and euros to fund the operations of our Swiss subsidiary. The functional currency of our Swiss subsidiary is the U.S. dollar; gains and losses arising from the re-measurement of non-functional currency balances are recorded in other income in our consolidated statements of income, and material unfavorable exchange-rate fluctuations with the Swiss franc could negatively impact our net income.

*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.* Our success depends upon our ability to continue our technological innovation and protect our intellectual property, including patents, trade secrets, copyrights and know-how. We are currently engaged in litigation to enforce our intellectual property rights, and associated expenses have been, and are expected to remain, material and have adversely affected our operating results. We cannot assure that the steps we have taken to protect our intellectual property will be adequate to prevent misappropriation, or that others will not develop competitive technologies or products. From time to time, we have received, and we may receive in the future, communications alleging possible infringement of patents or other intellectual property rights of others. Costly litigation may be necessary to enforce our intellectual property rights or to defend us against claimed infringement. The failure to obtain necessary licenses and other rights, and/or litigation arising out of infringement claims could cause us to lose market share and harm our business.

As our patents expire, we will lose intellectual property protection previously afforded by those patents. Additionally, the laws of some foreign countries in which our technology is or may in the future be licensed may not protect our intellectual property rights to the same extent as the laws of the United States, thus limiting the protections applicable to our technology.

*If we do not prevail in our litigation, we will have expended significant financial resources, potentially without any benefit, and may also suffer the loss of rights to use some technologies.* We are currently involved in a number of patent litigation matters and the outcome of the litigation is uncertain. See Note 13, *Legal Proceedings and Contingencies*, in our Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K. For example, we are being sued in an ongoing case for patent infringement. Should we ultimately be determined to be infringing another party's patents, or if an injunction is issued against us while litigation is pending on those claims, such result could have an adverse impact on our ability to sell products found to be infringing, either directly or indirectly. In the event of an adverse outcome, we may be required to pay substantial damages, stop our manufacture, use, sale, or importation of infringing products, or obtain licenses to the intellectual property we are found to have infringed. We have also incurred, and expect to continue to incur, significant legal costs in conducting these lawsuits, including the appeal of the case we won, and our involvement in this litigation and any future intellectual property litigation could adversely affect sales and divert the efforts and attention of our technical and management personnel, whether or not such litigation is resolved in our favor. Thus, even if we are successful in these lawsuits, the benefits of this success may fail to outweigh the significant legal costs we will have incurred.

*Our products must meet exacting specifications, and undetected defects and failures may occur which may cause customers to return or stop buying our products and/or impose significant costs to us.* Our customers generally establish demanding specifications for quality, performance and reliability, and our products must meet these specifications. ICs as complex as those we sell often encounter development delays and may contain undetected defects or failures when first introduced or after commencement of commercial shipments. We have from time to time in the past experienced product quality, performance or reliability problems. If defects and failures occur in our products, we could experience lost revenue, increased costs, including product warranty or liability claims and costs associated with customer support and product recalls, delays in or cancellations or rescheduling of orders or shipments and product returns or discounts. While we specifically exclude consequential damages in our standard terms and conditions, certain of our contracts may not exclude such liabilities. Our liability insurance which covers certain damages arising out of product defects may not cover all claims or be of a sufficient amount to fully protect against such claims. Costs or payments in connection with such claims could harm our operating results.

*We are exposed to risks associated with acquisitions and strategic investments.* We have made, and in the future intend to make, acquisitions of, and investments in, companies, technologies or products in existing, related or new markets. Acquisitions involve numerous risks, including but not limited to:

- inability to realize anticipated benefits, which may occur due to any of the reasons described below, or for other unanticipated reasons

- the risk of litigation or disputes with customers, suppliers, partners or stockholders of an acquisition target arising from a proposed or completed transaction;
- impairment of acquired intangible assets and goodwill as a result of changing business conditions, technological advancements or worse-than-expected performance, which would adversely affect our financial results; and
- unknown, underestimated and/or undisclosed commitments, liabilities or issues not discovered in our due diligence of such transactions.

We also in the future may have strategic relationships with other companies, which may decline in value and/or not meet desired objectives. The success of these strategic relationships depends on various factors over which we may have limited or no control and requires ongoing and effective cooperation with strategic partners. Moreover, these relationships are often illiquid, such that it may be difficult or impossible for us to monetize such relationships.

*Our inability to successfully integrate, or realize the expected benefits from, our acquisitions could adversely affect our results.* We have made, and in the future intend to make, acquisitions of other businesses and with these acquisitions there is a risk that integration difficulties may cause us not to realize expected benefits. The success of the acquisitions could depend, in part, on our ability to realize the anticipated benefits and cost savings (if any) from combining the businesses of the acquired companies and our business, which may take longer to realize than expected.

#### **Risks Related to Laws and Regulations**

*Changes in tax rules and regulations, changes in interpretation of tax rules and regulations, or unfavorable assessments from tax audits may increase the amount of taxes we are required to pay.* Our operations are subject to income and transaction taxes in the United States and in multiple foreign jurisdictions and to review or audit by the U.S. Internal Revenue Service (IRS) and state, local and foreign tax authorities. In addition, the United States, countries in Asia and other countries where we do business have recently enacted or are considering changes in relevant tax, accounting and other laws, regulations and interpretations, including changes to tax laws applicable to multinational companies. These potential changes could adversely affect our effective tax rates or result in other costs to us.

Recently enacted U.S. tax legislation has significantly changed the taxation of U.S.-based multinational corporations, by, among other things, reducing the U.S. corporate income tax rate, adopting elements of a territorial tax system, assessing a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, and the creation of new taxes on certain foreign-sourced earnings. The legislation as initially enacted was unclear in some respects and has required interpretations and implementing regulations by the Internal Revenue Service, as well as state tax authorities, and the legislation has been subject to amendments and technical corrections. Further amendments and technical corrections may occur, any of which could lessen or increase certain adverse impacts of the legislation. A significant portion of our earnings are earned by our subsidiaries outside the U.S. Changes to the taxation of certain foreign earnings resulting from the newly enacted U.S. tax legislation, along with the state tax impact of these changes and potential future cash distributions, may have an adverse effect on our effective tax rate. Furthermore, changes to the taxation of undistributed foreign earnings could change our future intentions regarding reinvestment of such earnings. The foregoing items could have a material effect on our business, cash flow, results of operations or financial conditions.

*Changes in environmental laws and regulations may increase our costs related to obsolete products in our existing inventory.* Changing environmental regulations and the timetable to implement them continue to impact our customers' demand for our products. As a result, there could be an increase in our inventory obsolescence costs for products manufactured prior to our customers' adoption of new regulations. Currently we have limited visibility into our customers' strategies to implement these changing environmental regulations into their business. The inability to accurately determine our customers' strategies could increase our inventory costs related to obsolescence.

#### **General Risk Factors**

*Securities laws and regulations, including potential risk resulting from our evaluation of internal controls over financial reporting, will continue to impact our results.* Complying with the requirements of the federal securities laws and Nasdaq's conditions for continued listing have imposed significant legal and financial compliance costs, and are expected to continue to impose significant costs and management burden on us. These rules and regulations also may make it more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These rules and regulations could also make it more

difficult for us to attract and retain qualified executive officers and members of our board of directors, particularly qualified members to serve on our audit committee. Further, the rules and regulations under the Dodd-Frank Wall Street Reform and Consumer Protection Act, which became effective in 2011, may impose significant costs and management burden on us.

Additionally, because these laws, regulations and standards are expected to be subject to varying interpretations, their application in practice may evolve over time as new guidance becomes available. This evolution may result in continuing uncertainty regarding compliance matters and additional costs necessitated by ongoing revisions to our disclosure and governance practices.

*Uncertainties arising out of economic consequences of current and potential military actions or terrorist activities and associated political instability could adversely affect our business.* Like other U.S. companies, our business and operating results are subject to uncertainties arising out of economic consequences of current and potential military actions or terrorist activities and associated political instability, and the impact of heightened security concerns on domestic and international travel and commerce. These uncertainties could also lead to delays or cancellations of customer orders, a general decrease in corporate spending or our inability to effectively market and sell our products. Any of these results could substantially harm our business and results of operations, causing a decrease in our revenues.

**Item 1B. Unresolved Staff Comments.**

Not applicable.

**Item 2. Properties.**

We own our principal executive, administrative, manufacturing and technical offices which are located in San Jose, California. We also own an R&D facility in New Jersey, a design center in Germany and a test facility in Switzerland. We lease administrative office space in Singapore and Switzerland, R&D facilities in Canada, United Kingdom and Malaysia, in addition to sales offices in various countries around the world to accommodate our sales force. We believe that our current facilities are sufficient for our company; however, if headcount increases above capacity we may need to lease additional space.

**Item 3. Legal Proceedings.**

Information with respect to this item may be found in Note 13, *Legal Proceedings and Contingencies*, in our Notes to Consolidated Financial Statements included later in this Annual Report on Form 10-K, which information is incorporated here by reference.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**PART II**

**Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

Our common stock trades on the Nasdaq Global Select Market under the symbol “POWI”.

As of February 2, 2021, there were approximately 43 stockholders of record. Because brokers and other institutions hold many of our shares on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

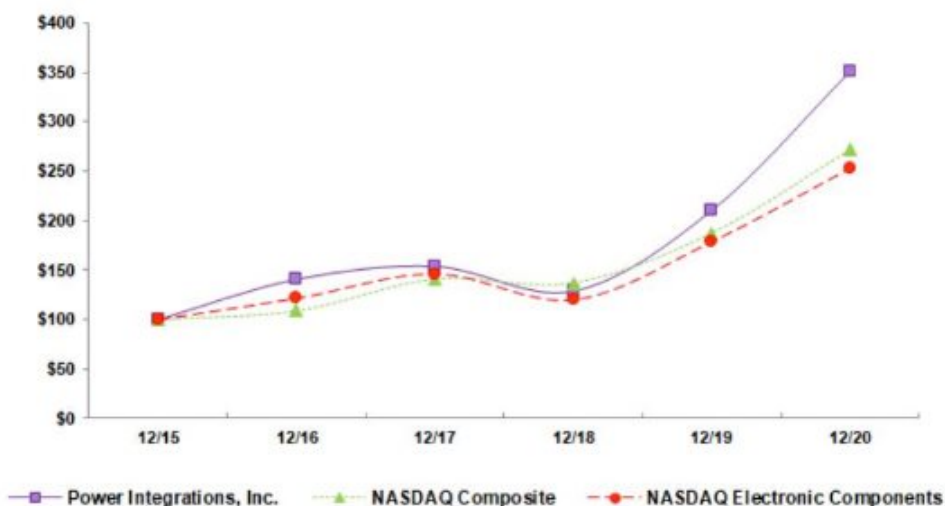
**Issuer Purchases of Equity Securities**

Over the years our board of directors has authorized the use of funds to repurchase shares of our common stock, including \$80.0 million in October 2018, with repurchases to be executed according to pre-defined price/volume guidelines. We did not repurchase any shares of our common stock in the fourth quarter of 2020. As of December 31, 2020, we had \$41.3 million available for future stock repurchases in our repurchase program, which has no expiration date. Authorization of future stock-repurchase programs is at the discretion of the board of directors and will depend on our financial condition, results of operations, capital requirements and business conditions as well as other factors.

**Performance Graph (1)**

The following graph shows the cumulative total return on an investment of \$100 in cash on December 31, 2015, through December 31, 2020, in our common stock, the Nasdaq Composite Index and the Nasdaq Electronic Components Index and assuming that all dividends were reinvested. The stockholder return shown on the graph below is not necessarily indicative of future performance, and we do not make or endorse any predictions as to future stockholder returns.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\***  
Among Power Integrations, Inc., the NASDAQ Composite Index  
and the NASDAQ Electronic Components Index



\*\$100 invested on 12/31/15 in stock or index, including reinvestment of dividends.  
Fiscal year ending December 31.

| Company/Index                | 12/31/15 | 12/31/16 | 12/31/17 | 12/31/18 | 12/31/19 | 12/31/20 |
|------------------------------|----------|----------|----------|----------|----------|----------|
| Power Integrations, Inc.     | 100.00   | 140.87   | 153.94   | 128.81   | 210.80   | 351.57   |
| Nasdaq Composite             | 100.00   | 108.87   | 141.13   | 137.12   | 187.44   | 271.64   |
| Nasdaq Electronic Components | 100.00   | 121.48   | 146.21   | 119.92   | 178.71   | 252.83   |

(1) This Section is not “soliciting material,” is not deemed “filed” with the SEC and is not to be incorporated by reference in any filing of Power Integrations under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

**Item 6. Selected Financial Data.**

The following selected consolidated financial data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and the notes thereto included elsewhere in this Annual Report on Form 10-K to fully understand factors that may affect the comparability of the information presented below.

| Consolidated Statement of Income Data<br>(in thousands, except per share amounts) | Year Ended December 31, |            |            |            |            |
|---|-------------------------|------------|------------|------------|------------|
|   | 2020                    | 2019(2)    | 2018       | 2017(3)(4) | 2016(3)    |
| Net revenues  | \$ 488,318              | \$ 420,669 | \$ 415,955 | \$ 431,755 | \$ 389,668 |
| Income from operations  | 70,487                  | 217,022    | 55,648     | 57,637     | 48,874     |
| Provision (benefit) for income taxes  | 4,075                   | 28,946     | (10,220)   | 32,690     | 1,054      |
| Net income  | \$ 71,176               | \$ 193,468 | \$ 69,984  | \$ 27,609  | \$ 48,898  |
| Earnings per share: <sup>(1)</sup>  |                         |            |            |            |            |
| Basic   | \$ 1.19                 | \$ 3.31    | \$ 1.19    | \$ 0.47    | \$ 0.85    |
| Diluted   | \$ 1.17                 | \$ 3.25    | \$ 1.16    | \$ 0.45    | \$ 0.83    |
| Shares used in per share calculation: <sup>(1)</sup>                              |                         |            |            |            |            |
| Basic   | 59,657                  | 58,534     | 58,912     | 59,348     | 57,850     |
| Diluted   | 60,845                  | 59,632     | 60,294     | 61,090     | 59,238     |
| Dividends per share <sup>(1)</sup>  | \$ 0.42                 | \$ 0.35    | \$ 0.32    | \$ 0.28    | \$ 0.26    |
| Consolidated Balance Sheet Data   |                         |            |            |            |            |
| (in thousands)  |                         |            |            |            |            |
|   | Year Ended December 31, |            |            |            |            |
|   | 2020                    | 2019(2)    | 2018       | 2017(3)(4) | 2016(3)    |
| Cash and cash equivalents   | \$ 258,874              | \$ 178,690 | \$ 134,137 | \$ 93,655  | \$ 62,134  |
| Short-term marketable securities  | 190,318                 | 232,398    | 94,451     | 189,236    | 188,323    |
| Cash, cash equivalents and short-term marketable securities                       | 449,192                 | 411,088    | 228,588    | 282,891    | 250,457    |
| Working capital   | 538,706                 | 490,863    | 284,066    | 313,483    | 274,318    |
| Total assets  | 903,339                 | 803,896    | 588,697    | 621,074    | 554,410    |
| Long-term liabilities   | 30,402                  | 28,874     | 13,259     | 22,341     | 7,380      |
| Stockholders’ equity  | \$ 810,411              | \$ 724,546 | \$ 527,072 | \$ 547,682 | \$ 503,084 |

- (1) In July 2020, our 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. Our stockholders received one additional share of common stock for each share of common stock held on August 14, 2020. The share and per share information for all periods presented in this Form 10-K have been adjusted for the effect of the stock split (Refer to Note 10, *Earnings Per Share*, in this Form 10-K for details).
- (2) In October 2019, we entered into a favorable litigation settlement with ON Semiconductor Corporation which resulted in a \$169.0 million net gain.
- (3) In 2017, we adopted Accounting Standards Update 2014-09, *Revenue from Contracts with Customers*, which amended the accounting standards for revenue recognition. The standards were applied on a retrospective basis to 2016.
- (4) In December 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act.

## **Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

*The following discussion and analysis of our financial condition and results of our operations should be read in conjunction with the consolidated financial statements and the notes to those statements included elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. See “Cautionary Note Regarding Forward-Looking Statements” at the beginning of this Form 10-K. Our actual results could differ materially from those contained in these forward-looking statements due to a number of factors, including those discussed in Part I, Item 1A “Risk Factors” and elsewhere in this report.*

### **Business 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 gigawatts) such as industrial motors, solar- and wind-power systems, electric vehicles (EVs) and high-voltage DC transmission systems.

Our net revenues were \$488.3 million, \$420.7 million and \$416.0 million in 2020, 2019 and 2018, respectively. In 2020, revenues increased by \$67.6 million due to growth across all end markets reflecting increased adoption of higher-power chargers for mobile phones and tablets, increased sales for desktop computers and monitors, as well as a broad range of industrial and consumer-appliance applications. In 2019, revenues increased by \$4.7 million due to growth in sales into the communications end-market, reflecting increased adoption of faster, higher-power chargers for mobile phones; this trend has resulted in both unit growth and higher average selling prices for our products in this market. Growth in revenues from the communications end-market was largely offset by lower sales into the consumer and industrial markets, primarily reflecting macroeconomic, cyclical and trade-related factors that have affected the broader semiconductor industry.

Our top ten customers, including distributors that resell to OEMs and merchant power supply manufacturers, accounted for approximately 62%, 54% and 56% of net revenues in 2020, 2019 and 2018, respectively. In 2020, two customers, distributors of our products, accounted for approximately 19% and 11% of net revenues. In 2019 and 2018, one of these customers accounted for approximately 11% and 14% of net revenues. International sales represented approximately 98%, 97% and 96% of net revenues in 2020, 2019 and 2018, respectively.

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. Also, 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. All else being equal, a 10% change in the value of the U.S. dollar compared to the Japanese yen would eventually 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 Japanese suppliers. Also, 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 profit margin are impacted by the volume of units we produce.

## [Table of Contents](#)

Our gross profit, defined as net revenues less cost of revenues, was \$243.6 million or 50% of net revenues in 2020, compared to \$213.4 million or 51% of net revenues in 2019, and \$214.8 million or 52% of net revenues in 2018. Our gross margin decreased in 2020 due primarily to an unfavorable change in end-market mix with a greater amount of revenues coming from lower-margin end markets. Our gross margin decreased in 2019 primarily due to increased wafer substrate costs.

Total operating expenses in 2020 were \$173.1 million, compared to a net gain of \$3.6 million in 2019 stemming from the \$169.0 million gain on settlement of our litigation with ON Semiconductor. In 2018, total operating expenses were \$159.1 million. Apart from the effects of the 2019 legal settlement, the increase in operating expenses in 2020 was due primarily to higher stock-based compensation expense related mainly to performance-based awards, along with higher salary and related expenses from annual merit increases and the expansion of our workforce. These increases were partially offset by lower legal expenses following the conclusion of our litigation with ON Semiconductor as well as lower travel expenses, trade event and promotional activities 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. Some 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 in the early stages of the pandemic 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 resulted in delayed shipments to some customers, our results were not materially affected due to 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 components for most of our products.

Despite the economic downturn stemming from the pandemic, demand for goods incorporating our products is strong. While the future trajectory of demand is highly uncertain, we believe our business is fundamentally sound with strong, long-term growth prospects. 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 I, Item 1A “Risk Factors” in this Annual Report on Form 10-K.

### **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, or 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; and
- income taxes.



[Table of Contents](#)

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. A brief description of these critical accounting policies is set forth below. For more information regarding our accounting policies, see Note 2, *Summary of Significant Accounting Policies and Recent Accounting Pronouncements*, in our Notes to Consolidated Financial Statements in this Annual Report on Form 10-K.

**Revenue recognition**

Product revenues consist of sales to original equipment manufacturers, or OEMs, merchant power supply manufacturers and distributors. Approximately 75% of our net product sales were made to distributors in 2020. We apply the provisions of Accounting Standards Codification (ASC) 606-10, *Revenue from Contracts with Customers*, and all related appropriate guidance. We recognize revenue under the core principle to depict the transfer of control to our customers in an amount reflecting the consideration we expect to be entitled. In order to achieve that core principle, we apply the following five-step approach: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when a performance obligation is satisfied.

Product revenues consist of sales to original equipment manufacturers, or OEMs, merchant power supply manufacturers and distributors. We consider customer purchase orders, which in some cases are governed by master sales agreements, to be the contracts with a customer. In situations where sales are to a distributor, we have concluded that our contracts are with the distributor as we hold contracts bearing enforceable rights and obligations with only the distributor. As part of our consideration of the contract, we evaluate certain factors including the customer's ability to pay (or credit risk). For each contract, we consider the promise to transfer products, each of which is distinct, to be the identified performance obligations. In determining the transaction price we evaluate whether the price is subject to refund or adjustment to determine the net consideration to which we expect to be entitled. As our standard payment terms are less than one year, we elected the practical expedient under ASC 606-10-32-18 to not assess whether a contract has a significant financing component. We allocate the transaction price to each distinct product based on their relative standalone selling price. We consider the product price as specified on the purchase order the standalone selling price as it is an observable input which depicts the price as if sold to a similar customer in similar circumstances. We recognize revenue when control of the product is transferred to the customer (i.e., when our performance obligation is satisfied), which typically occurs at shipment. Further, in determining whether control has transferred, we consider if there is a present right to payment and legal title, along with risks and rewards of ownership having transferred to the customer.

Frequently, we receive orders for products to be delivered over multiple dates that may extend across several reporting periods. We invoice for each delivery upon shipment and recognize revenue for each distinct product delivered, assuming transfer of control has occurred. As scheduled delivery dates are within one year, under the optional exemption provided by ASC 606-10-50-14 revenues allocated to future shipments of partially completed contracts are not disclosed. We have also elected the practical expedient under ASC 340-40-25-4 to expense commissions when incurred as the amortization period of the commission asset we would have otherwise recognized is less than one year.

Sales to international customers that are shipped from our facility outside of the United States are pursuant to EX Works, or EXW, shipping terms, meaning that control of the product transfers to the customer upon shipment from our foreign warehouse. Sales to international customers that we ship from our facility in California are pursuant to Delivered at Frontier, or DAF, shipping terms. As such, control of the product passes to the customer when the shipment reaches the destination country and we recognize revenue upon the arrival of the product in that country. Shipments to customers in the Americas are pursuant to Free on Board, or FOB, point of origin shipping terms meaning that we pass control to the customer upon shipment.

Sales to most distributors are made under terms allowing certain price adjustments and limited rights of return (known as "stock rotation") of our products held in their inventory or upon sale to their end customers. We recognize revenue from sales to distributors upon the transfer of control to the distributor. Frequently, distributors need to sell at a price lower than the standard distribution price in order to win business. At the time the distributor invoices its customer or soon thereafter, the distributor submits a "ship and debit" price adjustment claim to us to adjust the distributor's cost from the standard price to the pre-approved lower price. After we verify that the claim was pre-approved, we issue a credit memo to the distributor for the ship and debit claim. In determining the transaction price, we consider ship and debit price adjustments to be variable consideration. Such price adjustments are estimated using the expected value method based on an analysis of actual ship and debit claims, at the distributor and product level, over a period of time considered adequate

[Table of Contents](#)

to account for current pricing and business trends. Historically, actual price adjustments for ship and debit claims relative to those estimated and included when determining the transaction price have not materially differed. To the extent future ship and debit claims significantly exceed amounts estimated, there could be a material impact on our revenues and results of operations. Stock rotation rights grant the distributor the ability to return certain specified amounts of inventory. Stock rotation adjustments are an additional form of variable consideration and are also estimated using the expected value method based on historical return rates. Historically, these distributor stock rotation adjustments have not been material.

Sales to certain distributors are made under terms that do not include rights of return or price concessions after the product is shipped to the distributor. Accordingly, upon application of steps one through five above, product revenue is recognized upon shipment and transfer of control.

We generally provide an assurance warranty that our products will substantially conform to the published specifications for twelve months from the date of shipment. Our liability is limited to either a credit equal to the purchase price or replacement of the defective part. Returns under warranty have historically been immaterial. As such, we do not record a specific warranty reserve or consider activities related to such warranty, if any, to be a separate performance obligation.

### ***Income taxes***

We account for income taxes under the provisions of ASC 740, *Income Taxes*. Under the provisions of ASC 740, deferred tax assets and liabilities are recognized based on the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, utilizing the tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We recognize valuation allowances to reduce any deferred tax assets to the amount that we estimate will more likely than not be realized based on available evidence and management's judgment. In the event that we determine, based on available evidence and management judgment, that all or part of the net deferred tax assets will not be realized in the future, we would record a valuation allowance in the period the determination is made. In addition, the calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. Resolution of these uncertainties in a manner inconsistent with our expectations could have a material impact on our results of operations and financial position.

As of December 31, 2020, we continue to maintain a valuation allowance on our California, New Jersey and Canada deferred tax assets as we believe that it is not more likely than not that the deferred tax assets will be fully realized.

### **Results of Operations**

The following table sets forth statement of income data as a percentage of net revenues for the periods indicated:

|                                      | Year Ended December 31, |         |         |
|--------------------------------------|-------------------------|---------|---------|
|                                      | 2020                    | 2019    | 2018    |
| Net revenues                         | 100.0 %                 | 100.0 % | 100.0 % |
| Cost of revenues                     | 50.1                    | 49.3    | 48.4    |
| Gross profit                         | 49.9                    | 50.7    | 51.6    |
| Operating expenses:                  |                         |         |         |
| Research and development             | 16.7                    | 17.5    | 17.0    |
| Sales and marketing                  | 11.2                    | 12.9    | 12.8    |
| General and administrative           | 7.6                     | 8.9     | 8.4     |
| Litigation settlement                | —                       | (40.2)  | —       |
| Total operating expenses             | 35.4                    | (0.9)   | 38.2    |
| Income from operations               | 14.4                    | 51.6    | 13.4    |
| Other income                         | 1.0                     | 1.3     | 1.0     |
| Income before income taxes           | 15.4                    | 52.9    | 14.4    |
| Provision (benefit) for income taxes | 0.8                     | 6.9     | (2.4)   |
| Net income                           | 14.6 %                  | 46.0 %  | 16.8 %  |

**Comparison of Years Ended December 31, 2020, 2019 and 2018**

*Net revenues.* Net revenues consist of revenues from product sales, which are calculated net of returns and allowances. In 2020 revenues increased by \$67.6 million compared to 2019 due to growth across all end markets reflecting increased adoption of higher-power chargers for mobile phones and tablets, increased sales for desktop computers and monitors, as well as a broad range of consumer appliance and industrial applications. In 2019 revenues increased by \$4.7 million compared to 2018 as growth in the communications end-market more than offset a broad-based decline in demand across the consumer and industrial end markets.

Our approximate net revenue mix by end-markets served in 2020, 2019 and 2018 is as follows:

| <b>End Market</b> | <b>2020</b> | <b>2019</b> | <b>2018</b> |
|-------------------|-------------|-------------|-------------|
| Communications    | 30 %        | 26 %        | 20 %        |
| Computer          | 7 %         | 5 %         | 5 %         |
| Consumer          | 33 %        | 35 %        | 38 %        |
| Industrial        | 30 %        | 34 %        | 37 %        |

Sales to customers outside of the United States were \$477.3 million in 2020, compared to \$410.0 million in 2019 and \$400.6 million in 2018, representing approximately 98%, 97% and 96% of net revenues in 2020, 2019 and 2018, respectively. Although power supplies using our products are designed and distributed worldwide, most of these power supplies are manufactured by our customers in Asia. As a result, sales to this region accounted for approximately 81% of our net revenues in 2020, and 77% of our net revenues in each of 2019 and 2018. We expect international sales to continue to account for a large portion of our net revenues for the foreseeable future.

Sales to distributors accounted for 75%, 72% and 75% of our net revenues in 2020, 2019 and 2018, respectively, with direct sales to OEMs and merchant power supply manufacturers accounting for the remainder in each of the corresponding years.

The following customers represented 10% or more of our net revenues for the respective years:

| <b>Customer</b>                 | <b>2020</b> | <b>2019</b> | <b>2018</b> |
|---------------------------------|-------------|-------------|-------------|
| Avnet                           | 19 %        | 11 %        | 14 %        |
| Honestar Technologies Co., Ltd. | 11 %        | *           | *           |

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

No other customers accounted for 10% or more of net revenues during these years.

*Gross profit.* Gross profit is net revenues less cost of revenues. Our cost of revenues consists primarily of 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 facility, overhead associated with the management of our supply chain and the amortization of acquired intangible assets. Gross margin is gross profit divided by net revenues. The following table compares gross profit and gross margin for the years ended December 31, 2020, 2019 and 2018:

| <b>(dollars in millions)</b> | <b>2020</b> | <b>Change</b> | <b>2019</b> | <b>Change</b> | <b>2018</b> |
|------------------------------|-------------|---------------|-------------|---------------|-------------|
| Gross profit                 | \$ 243.6    | 14.1 %        | \$ 213.4    | (0.7)%        | \$ 214.8    |
| Gross margin                 | 49.9 %      |               | 50.7 %      |               | 51.6 %      |

Our gross margin decreased in 2020 as compared to 2019 primarily due to an unfavorable change in end-market mix with a greater amount of revenues coming from lower-margin end markets. Our gross margin decreased in 2019 as compared to 2018 primarily due to increased wafer substrate costs.

*Research and development expenses.* Research and development (R&D) expenses consist primarily of employee-related expenses including salaries and stock-based compensation, as well as expensed material and facility costs associated with the development of new processes and products. We also record R&D expenses for prototype wafers related to new products until the products are released to production. The following table compares R&D expenses for the years ended December 31, 2020, 2019 and 2018:

| <b>(dollars in millions)</b> | <b>2020</b> | <b>Change</b> | <b>2019</b> | <b>Change</b> | <b>2018</b> |
|------------------------------|-------------|---------------|-------------|---------------|-------------|
| R&D expenses                 | \$ 81.7     | 11.2 %        | \$ 73.5     | 4.1 %         | \$ 70.6     |
| Percentage of net revenues   | 16.7 %      |               | 17.5 %      |               | 17.0 %      |

[Table of Contents](#)

R&D expenses increased in 2020 compared to 2019 due to higher salary and related expenses driven by expansion of headcount and annual merit increases, increased equipment-related expenses in support of product development as well as higher stock-based compensation expense primarily related to performance-based awards. R&D expenses increased in 2019 compared to 2018 due to higher salary and related expenses driven by increased headcount as well as increased equipment-related expenses.

*Sales and marketing expenses.* Sales and marketing (S&M) expenses consist primarily of employee-related expenses, including salaries and stock-based compensation, and commissions to sales representatives, as well as amortization of acquired intangible assets and facilities expenses, including expenses associated with our regional sales and support offices. The following table compares sales and marketing expenses for the years ended December 31, 2020, 2019 and 2018:

| (dollars in millions)        | 2020    | Change | 2019    | Change | 2018    |
|------------------------------|---------|--------|---------|--------|---------|
| Sales and marketing expenses | \$ 54.5 | 0.4 %  | \$ 54.3 | 2.3 %  | \$ 53.1 |
| Percentage of net revenues   | 11.2 %  |        | 12.9 %  |        | 12.8 %  |

S&M expenses increased in 2020 compared to 2019 due to higher salary and related expenses from the expansion of headcount and higher stock-based compensation expense primarily related to performance-based awards. These factors were partially offset by lower travel expenses, trade event and promotional activities resulting from restrictions associated with the COVID-19 pandemic, as well as lower amortization of intangibles. S&M expenses increased in 2019 as compared to 2018 due primarily to expansion of our sales force, resulting in higher salary and related expenses, partially offset by lower amortization of intangibles.

*General and administrative expenses.* General and administrative (G&A) expenses consist primarily of employee-related expenses, including salaries and stock-based compensation expenses for administration, finance, human resources and general management, as well as consulting, professional services, legal and auditing expenses. The table below compares G&A expenses for the years ended December 31, 2020, 2019 and 2018:

| (dollars in millions)      | 2020    | Change | 2019    | Change | 2018    |
|----------------------------|---------|--------|---------|--------|---------|
| G&A expenses               | \$ 36.9 | (1.9)% | \$ 37.6 | 5.9 %  | \$ 35.5 |
| Percentage of net revenues | 7.6 %   |        | 8.9 %   |        | 8.4 %   |

G&A expenses decreased in 2020 due to lower patent-litigation expenses partially offset by higher stock-based compensation expense primarily related to performance-based awards. G&A expenses increased in 2019 as a result of increased expenses related to patent litigation and higher salary and related expenses due to expansion of headcount.

*Litigation settlement.* Litigation settlement in fiscal 2019 represents a \$169.0 million gain net of direct legal fees due to a favorable legal settlement with ON Semiconductor Corporation, pursuant to which all outstanding legal and administrative disputes were dismissed, withdrawn, and/or terminated.

*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 following table compares other income for the years ended December 31, 2020, 2019 and 2018:

| (dollars in millions)      | 2020   | Change  | 2019   | Change | 2018   |
|----------------------------|--------|---------|--------|--------|--------|
| Other income               | \$ 4.8 | (11.8)% | \$ 5.4 | 32.0 % | \$ 4.1 |
| Percentage of net revenues | 1.0 %  |         | 1.3 %  |        | 1.0 %  |

Other income decreased in 2020 due primarily to lower interest income, reflecting lower yields earned on our cash and investments despite higher cash and investment balances. Other income increased in 2019 due primarily to an increase in interest income reflecting an increase in our cash and investments along with higher yields earned on those balances.

[Table of Contents](#)

*Provision (benefit) for income taxes.* Provision (benefit) for income taxes represents federal, state and foreign taxes. The following table compares the provision (benefit) for income taxes for the years ended December 31, 2020, 2019 and 2018:

| (dollars in millions)                | 2020   | Change  | 2019    | Change  | 2018      |
|--------------------------------------|--------|---------|---------|---------|-----------|
| Provision (benefit) for income taxes | \$ 4.1 | (85.9)% | \$ 28.9 | 383.2 % | \$ (10.2) |
| Percentage of net revenues           | 0.8 %  |         | 6.9 %   |         | (2.4)%    |
| Effective tax rate                   | 5.4 %  |         | 13.0 %  |         | (17.1)%   |

In 2020, 2019 and 2018, the effective tax rate was lower than the statutory U.S. federal income-tax rates 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 compensation. These benefits were partially offset by U.S. tax on foreign income, known as global intangible low-taxed income. Additionally, in 2018 the effective tax rate was favorably impacted by revisions to our provisional estimate for the enactment of the U.S. Tax Cuts and Jobs Act (Tax Act). 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. For additional details, refer to Note 11, *Provision (Benefit) for Income Taxes*, in our Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

### Liquidity and Capital Resources

We had approximately \$449.2 million in cash, cash equivalents and short-term marketable securities at December 31, 2020 compared to \$411.1 million at December 31, 2019, and \$228.6 million at December 31, 2018. As of December 31, 2020, 2019 and 2018, we had working capital, defined as current assets less current liabilities, of approximately \$538.7 million, \$490.9 million and \$284.1 million, respectively.

We have 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. 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 December 31, 2020, and 2019, we had no advances outstanding under the Credit Agreement.

Our operating activities generated cash of \$125.6 million, \$224.5 million, and \$84.0 million in the years ended December 31, 2020, 2019 and 2018, respectively. We generate cash primarily from operating activities in the ordinary course of business. In addition, in 2019 our cash generated from operating activities was favorably impacted by the settlement of our patent litigation with ON Semiconductor Corporation.

#### *Cash Provided by Operating Activities*

In 2020, our net income was \$71.2 million, which reflected non-cash charges of \$30.9 million of stock-based compensation expenses, \$23.7 million of depreciation and \$4.4 million of intangibles amortization. Sources of cash also included a \$9.1 million decrease in prepaid expenses and other assets, primarily driven by taxes refunded, a \$5.7 million increase in accounts payable (excluding payables related to property and equipment) and a \$4.1 million increase in taxes payable and accrued liabilities, in each case due to the timing of payments. These sources of cash were partially offset by an \$11.3 million increase in accounts receivable due to increased shipments and the timing of collections, a \$12.5 million increase in inventories, reflecting impact of a market slowdown during the first half of the year and higher inventory levels to support anticipated future demand.

In 2019, our net income was \$193.5 million, which included a \$169.0 million gain, net of direct legal fees, from a favorable litigation settlement, \$23.3 million of stock-based compensation expenses, \$19.2 million of depreciation and \$5.2 million of intangibles amortization. Sources of cash also included a \$10.6 million increase in taxes payable and accrued liabilities due primarily to increased taxes payable as result of favorable litigation settlement. These sources of cash were partially offset by a \$13.3 million increase in accounts receivable due to increased shipments and the timing of collections, a \$9.5 million increase in inventories in anticipation of future demand, and a \$6.6 million decrease in accounts payable due to the timing of payments.

## [Table of Contents](#)

In 2018, our net income was \$70.0 million, which included stock-based compensation expenses, depreciation and intangibles amortization of \$21.6 million, \$18.9 million, and \$5.3 million, respectively. Sources of cash also included a \$5.8 million decrease in accounts receivable due to decreased shipments and the timing of collections. These sources of cash were partially offset by a \$23.8 million increase in inventories, partially reflecting lower-than-normal inventory levels at the beginning of the year, but also driven by lower-than-expected sales, particularly in the latter half of the year, and a \$9.9 million decrease in taxes payable and accrued liabilities due primarily to a decrease in taxes payable related to the enactment of the Tax Act.

### *Cash Provided by (Used in) Investing Activities*

Our investing activities in the year ended December 31, 2020 resulted in a \$28.3 million net use of cash, consisting primarily of \$41.7 million from purchases of marketable securities, net of sales and maturities, and \$70.6 million for purchases of property and equipment, primarily machinery and equipment for use in the manufacture of our products and a building for our design center in Germany.

Our investing activities in the year ended December 31, 2019 resulted in a \$162.0 million net use of cash, consisting primarily of \$136.9 million from purchases of marketable securities, net of sales and maturities, and \$24.1 million for purchases of property and equipment, primarily machinery and equipment for use in the manufacture of our products.

Our investing activities provided \$69.1 million of cash in the year ended December 31, 2018, consisting primarily of \$94.7 million from sales and maturities of marketable securities, net of purchases, partially offset by \$24.7 million for purchases of property and equipment, primarily machinery and equipment for use in the manufacture of our products.

### *Cash Used in Financing Activities*

Our financing activities in the year ended December 31, 2020, resulted in a net use of \$17.2 million of cash. Financing activities consisted primarily of \$25.1 million for the payment of dividends to stockholders and \$2.6 million for the repurchase of our common stock, partially offset by proceeds of \$10.5 million from the issuance of common stock, including the exercise of employee stock options and the issuance of shares through our employee stock purchase plan.

Our financing activities in the year ended December 31, 2019, resulted in a net use of \$17.9 million of cash. Financing activities consisted primarily of \$20.5 million for the payment of dividends to stockholders and \$7.3 million for the repurchase of our common stock, partially offset by proceeds of \$9.9 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 year ended December 31, 2018, resulted in a net use of \$112.6 million of cash. Financing activities consisted primarily of \$103.2 million for the repurchase of our common stock and \$18.8 million for the payment of dividends to stockholders, partially offset by proceeds of \$9.4 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.

### *Dividends*

In January 2018, our board of directors declared four quarterly cash dividends in the amount of \$0.08 per share to be paid to stockholders of record at the end of each quarter in 2018. In January 2019, our board of directors declared four quarterly cash dividends of \$0.085 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 dividends per share with the declaration of five cash dividends, consisting of (a) a dividend of \$0.01 per share to be paid to stockholders of record at the end of the fourth quarter in 2019, that was in addition to the dividend of \$0.085 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 \$0.095 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 dividends with the declaration of three cash dividends of \$0.105 per share (in lieu of the \$0.095 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, our board of directors raised the cash dividends further with the declaration of two cash dividends of \$0.11 per share (in lieu of the \$0.105 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. In January 2021, our board of directors raised the quarterly cash dividend by an additional \$0.02 per share with the declaration of four cash dividends of \$0.13 per share to be paid to stockholders of record at the end of each quarter in 2021. 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

[Table of Contents](#)

other factors, as well as a determination that cash dividends are in the best interest of our stockholders. The dividends per share presented above reflect the 2-for-1 stock split implemented as a stock dividend in August 2020.

*Stock Repurchases*

Over the years our board of directors has authorized the use of funds to repurchase shares of our common stock, including \$80.0 million in October 2018 with repurchases to be executed according to pre-defined price/volume guidelines. In 2018, we purchased 3,144,000 shares for approximately \$103.2 million. In 2019, we purchased 242,000 shares for approximately \$7.3 million. In 2020, we purchased 63,000 shares for approximately \$2.6 million. As of December 31, 2020, \$41.3 million was available for future stock repurchases, which has no expiration date. Authorization of future stock repurchase programs is at the discretion of the board of directors and will depend on our financial condition, results of operations, capital requirements and business conditions as well as other factors.

As of December 31, 2020, we had a contractual obligation related to income tax, consisting primarily of unrecognized tax benefits of approximately \$21.1 million. The tax obligation was classified as long-term income taxes payable or recorded as contra deferred tax assets in our consolidated balance sheet.

*Other Information*

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 December 31, 2020, our worldwide cash and marketable securities are available to fund capital allocation needs, including capital and internal investments, acquisitions, stock repurchases and/or dividends without incurring significant U.S. federal income taxes.

If our operating results deteriorate in future periods, either as a result of a decrease in customer demand or pricing pressures from our customers or our competitors, or for other reasons, our ability to generate positive cash flow from operations may be jeopardized. In that case, we may be forced to use our cash, cash equivalents and short-term investments, use our current financing 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 December 31, 2020 and 2019, we did not have any off-balance-sheet arrangements or relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which are typically established for the purpose of facilitating off-balance-sheet arrangements or other contractually narrow or limited purposes.

**Contractual Obligations**

As of December 31, 2020, we had the following contractual obligations:

| (in thousands)                             | Payments Due by Period |                  |             |             |              |
|--|------------------------|------------------|-------------|-------------|--------------|
|  | Total                  | Less than 1 Year | 1 - 3 Years | 4 - 5 Years | Over 5 Years |
| Operating lease obligations <sup>(1)</sup> | \$ 8,220               | \$ 2,909         | \$ 4,478    | \$ 833      | \$ —         |
| Purchase obligations <sup>(2)</sup>        | \$ 60,084              | \$ 60,084        | —           | —           | —            |

(1) Operating lease obligations represent undiscounted non-cancelable remaining lease payments.

(2) Purchase obligations represent commitments to our suppliers and other parties for the purchases of goods and services, which primarily consist of wafer and other inventory purchases, assembly and other manufacturing services, and purchases of property and equipment.

In addition to our contractual obligations noted above we have a contractual obligation related to income tax as of December 31, 2020, which primarily comprises unrecognized tax benefits of approximately \$21.1 million, and was classified as contra deferred tax assets or long-term income taxes payable in our consolidated balance sheet. As of

December 31, 2020 we also had approximately \$4.5 million classified as long-term income taxes payable related to the estimated one-time transition tax from the enactment of the Tax Act which will be payable in five annual installments.

#### Recently Issued Accounting Pronouncements

For recently issued accounting announcements, see “Recently Issued Accounting Pronouncements” in Note 2, *Significant Accounting Policies and Recent Accounting Pronouncements*, in our Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

#### Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

*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 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. As a result of this policy, 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. The portfolio includes only marketable securities with active secondary or resale markets to facilitate portfolio liquidity. At December 31, 2020 and 2019, we held primarily cash equivalents and short-term investments with fixed interest rates. We do not hold any instruments for trading purposes.

Our investment securities are subject to market interest rate risk and will vary in value as market interest rates fluctuate. To minimize market risk, we invest in high-credit quality issuers and, by policy, limit the amount of credit exposure to any one issuer, and therefore if market interest rates were to increase or decrease by 10% from interest rates as of December 31, 2020, or December 31, 2019, the increase or decrease in the fair market value of our portfolio on these dates would not have been material. We monitor our investments for impairment on a periodic basis. Refer to Note 5, *Marketable Securities*, in our Notes to Consolidated Financial Statements in this Annual Report on Form 10-K, for a tabular presentation of our available-for-sale investments and the expected maturity dates.

*Foreign Currency Exchange Risk.* As of December 31, 2020, our primary transactional currency was the U.S. dollar; in addition, we hold cash in Swiss francs and euros to fund the operation of our Swiss subsidiary. 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. The following represents the potential impact on our pretax income from a change in the value of the U.S. dollar compared to the Swiss franc and euro as of December 31, 2020. This sensitivity analysis applies a change in the U.S. dollar value of 5% and 10%.

| (in thousands of USD)                        | December 31, 2020 |        |
|--|-------------------|--------|
|  | 5%                | 10%    |
| Swiss franc and euro foreign exchange impact | \$ 121            | \$ 242 |

The foreign exchange rate fluctuation between the U.S. dollar versus the Swiss franc and euro is recorded in other income in our 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. From time to time we may enter into foreign currency hedging contracts to hedge certain foreign currency transactions. As of December 31, 2020, and December 31, 2019, we did not have an open foreign currency hedge program utilizing foreign currency forward exchange contracts.

With two of our major suppliers, Seiko Epson Corporation (Epson) and ROHM Lapis Semiconductor Co., Ltd. (Lapis) we 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. Each year, our management and these suppliers review and negotiate 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.



[Table of Contents](#)

Nevertheless, as a result of our above-mentioned 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 eventually 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 8. Financial Statements and Supplementary Data.**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Stockholders and the Board of Directors of Power Integrations, Inc.

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Power Integrations, Inc. and subsidiaries (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with the accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 5, 2021 expressed an unqualified opinion on the Company's internal control over financial reporting.

**Change in Accounting Principle**

As discussed in Note 12 to the financial statements, effective January 1, 2019, the Company adopted Accounting Standards Update (ASU) 2016-02, Leases (Topic 842), using the optional transition method.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

**Critical Audit Matters**

Critical audit matters are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there are no critical audit matters.

/s/ DELOITTE & TOUCHE LLP

San Jose, California

February 5, 2021

We have served as the Company's auditor since 2005.

**POWER INTEGRATIONS, INC.**  
**CONSOLIDATED BALANCE SHEETS**

| (In thousands, except par value)                                      | December 31,<br>2020 | December 31,<br>2019 |
|---|----------------------|----------------------|
| <b>ASSETS</b>   |                      |                      |
| <b>CURRENT ASSETS:</b>  |                      |                      |
| Cash and cash equivalents   | \$ 258,874           | \$ 178,690           |
| Short-term marketable securities                                      | 190,318              | 232,398              |
| Accounts receivable, net  | 35,910               | 24,274               |
| Inventories   | 102,878              | 90,380               |
| Prepaid expenses and other current assets                             | 13,252               | 15,597               |
| Total current assets  | 601,232              | 541,339              |
| PROPERTY AND EQUIPMENT, net   | 166,188              | 116,619              |
| INTANGIBLE ASSETS, net  | 12,506               | 16,865               |
| GOODWILL  | 91,849               | 91,849               |
| DEFERRED TAX ASSETS   | 3,339                | 2,836                |
| OTHER ASSETS  | 28,225               | 34,388               |
| Total assets  | <u>\$ 903,339</u>    | <u>\$ 803,896</u>    |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                           |                      |                      |
| <b>CURRENT LIABILITIES:</b>   |                      |                      |
| Accounts payable  | \$ 34,712            | \$ 27,433            |
| Accrued payroll and related expenses                                  | 14,806               | 13,408               |
| Taxes payable   | 902                  | 584                  |
| Other accrued liabilities   | 12,106               | 9,051                |
| Total current liabilities   | 62,526               | 50,476               |
| LONG-TERM INCOME TAXES PAYABLE  | 15,588               | 14,617               |
| DEFERRED TAX LIABILITIES  | 75                   | 164                  |
| OTHER LIABILITIES   | 14,739               | 14,093               |
| Total liabilities   | 92,928               | 79,350               |
| <b>COMMITMENTS AND CONTINGENCIES (Notes 11, 12 and 13)</b>            |                      |                      |
| <b>STOCKHOLDERS' EQUITY:</b>  |                      |                      |
| Common stock, \$0.001 par value                                       |                      |                      |
| Authorized - 280,000 shares   |                      |                      |
| Outstanding - 59,910 and 58,862 shares in 2020 and 2019, respectively | 28                   | 28                   |
| Additional paid-in capital  | 190,920              | 152,117              |
| Accumulated other comprehensive loss                                  | (2,163)              | (3,130)              |
| Retained earnings   | 621,626              | 575,531              |
| Total stockholders' equity  | 810,411              | 724,546              |
| Total liabilities and stockholders' equity                            | <u>\$ 903,339</u>    | <u>\$ 803,896</u>    |

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

**POWER INTEGRATIONS, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**

| (In thousands, except per share amounts)     | Year Ended December 31, |            |            |
|--|-------------------------|------------|------------|
|  | 2020                    | 2019       | 2018       |
| NET REVENUES                                 | \$ 488,318              | \$ 420,669 | \$ 415,955 |
| COST OF REVENUES                             | 244,728                 | 207,267    | 201,167    |
| GROSS PROFIT                                 | 243,590                 | 213,402    | 214,788    |
| <b>OPERATING EXPENSES:</b>                   |                         |            |            |
| Research and development                     | 81,711                  | 73,470     | 70,580     |
| Sales and marketing                          | 54,497                  | 54,297     | 53,064     |
| General and administrative                   | 36,895                  | 37,582     | 35,496     |
| Litigation settlement                        | —                       | (168,969)  | —          |
| Total operating expenses                     | 173,103                 | (3,620)    | 159,140    |
| INCOME FROM OPERATIONS                       | 70,487                  | 217,022    | 55,648     |
| OTHER INCOME                                 | 4,764                   | 5,392      | 4,116      |
| INCOME BEFORE INCOME TAXES                   | 75,251                  | 222,414    | 59,764     |
| PROVISION (BENEFIT) FOR INCOME TAXES         | 4,075                   | 28,946     | (10,220)   |
| NET INCOME                                   | \$ 71,176               | \$ 193,468 | \$ 69,984  |
| <b>EARNINGS PER SHARE:</b>                   |                         |            |            |
| Basic  | \$ 1.19                 | \$ 3.31    | \$ 1.19    |
| Diluted                                      | \$ 1.17                 | \$ 3.24    | \$ 1.16    |
| <b>SHARES USED IN PER SHARE CALCULATION:</b> |                         |            |            |
| Basic  | 59,657                  | 58,534     | 58,912     |
| Diluted                                      | 60,845                  | 59,632     | 60,294     |

The accompanying notes are an integral part of these consolidated financial statements. The Earnings Per Share and Shares Used in Per Share Calculation information presented above reflects the effect of the August 2020 stock split. Refer to Note 10, *Earnings Per Share*, in this Form 10-K for details.

**POWER INTEGRATIONS, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

| <b>(In thousands)</b>  | <b>Year Ended December 31,</b> |                   |                  |
|--|--------------------------------|-------------------|------------------|
|  | <b>2020</b>                    | <b>2019</b>       | <b>2018</b>      |
| Net income   | \$ 71,176                      | \$ 193,468        | \$ 69,984        |
| Other comprehensive income (loss), net of tax:   |                                |                   |                  |
| Foreign currency translation adjustments, net of \$0 tax in 2020, 2019 and 2018  | (183)                          | (518)             | (236)            |
| Unrealized gain on marketable securities, net of \$0 tax in 2020, 2019 and 2018  | 307                            | 849               | 161              |
| Unrealized actuarial gain (loss) on pension benefits, net of tax of (\$308), \$497, and (\$144) in 2020, 2019 and 2018, respectively | 843                            | (1,772)           | 525              |
| Total other comprehensive income (loss)  | 967                            | (1,441)           | 450              |
| <b>TOTAL COMPREHENSIVE INCOME</b>  | <b>\$ 72,143</b>               | <b>\$ 192,027</b> | <b>\$ 70,434</b> |

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

**POWER INTEGRATIONS, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

| (In thousands)  | Common Stock  |              | Additional<br>Paid-In<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Loss | Retained<br>Earnings | Total<br>Stockholders'<br>Equity |
|---|---------------|--------------|----------------------------------|---|----------------------|----------------------------------|
|   | Shares        | Amount       |                                  |   |                      |                                  |
| BALANCE AT JANUARY 1, 2018  | 59,564        | \$ 29        | \$ 198,384                       | \$ (2,139)                                    | \$ 351,408           | \$ 547,682                       |
| Issuance of common stock under employee stock option and stock award plans    | 1,182         | —            | 4,010                            | —   | —                    | 4,010                            |
| Repurchase of common stock  | (3,144)       | (1)          | (103,153)                        | —   | —                    | (103,154)                        |
| Issuance of common stock under employee stock purchase plan                   | 176           | —            | 5,343                            | —   | —                    | 5,343                            |
| Stock-based compensation expense related to employee stock options and awards | —             | —            | 20,027                           | —   | —                    | 20,027                           |
| Stock-based compensation expense related to employee stock purchases          | —             | —            | 1,553                            | —   | —                    | 1,553                            |
| Payment of dividends to stockholders  | —             | —            | —                                | —   | (18,823)             | (18,823)                         |
| Unrealized actuarial gain on pension benefits                                 | —             | —            | —                                | 525   | —                    | 525                              |
| Unrealized gain on marketable securities                                      | —             | —            | —                                | 161   | —                    | 161                              |
| Foreign currency translation adjustment                                       | —             | —            | —                                | (236)   | —                    | (236)                            |
| Net income  | —             | —            | —                                | —   | 69,984               | 69,984                           |
| BALANCE AT DECEMBER 31, 2018  | 57,778        | 28           | 126,164                          | (1,689)                                       | 402,569              | 527,072                          |
| Issuance of common stock under employee stock option and stock award plans    | 1,130         | —            | 4,359                            | —   | —                    | 4,359                            |
| Repurchase of common stock  | (242)         | —            | (7,302)                          | —   | —                    | (7,302)                          |
| Issuance of common stock under employee stock purchase plan                   | 196           | —            | 5,549                            | —   | —                    | 5,549                            |
| Stock-based compensation expense related to employee stock awards             | —             | —            | 21,686                           | —   | —                    | 21,686                           |
| Stock-based compensation expense related to employee stock purchases          | —             | —            | 1,661                            | —   | —                    | 1,661                            |
| Payment of dividends to stockholders  | —             | —            | —                                | —   | (20,506)             | (20,506)                         |
| Unrealized actuarial loss on pension benefits                                 | —             | —            | —                                | (1,772)                                       | —                    | (1,772)                          |
| Unrealized gain on marketable securities                                      | —             | —            | —                                | 849   | —                    | 849                              |
| Foreign currency translation adjustment                                       | —             | —            | —                                | (518)   | —                    | (518)                            |
| Net income  | —             | —            | —                                | —   | 193,468              | 193,468                          |
| BALANCE AT DECEMBER 31, 2019  | 58,862        | 28           | 152,117                          | (3,130)                                       | 575,531              | 724,546                          |
| Issuance of common stock under employee stock option and stock award plans    | 963           | —            | 4,608                            | —   | —                    | 4,608                            |
| Repurchase of common stock  | (63)          | —            | (2,636)                          | —   | —                    | (2,636)                          |
| Issuance of common stock under employee stock purchase plan                   | 148           | —            | 5,919                            | —   | —                    | 5,919                            |
| Stock-based compensation expense related to employee stock awards             | —             | —            | 28,952                           | —   | —                    | 28,952                           |
| Stock-based compensation expense related to employee stock purchases          | —             | —            | 1,960                            | —   | —                    | 1,960                            |
| Payment of dividends to stockholders  | —             | —            | —                                | —   | (25,081)             | (25,081)                         |
| Unrealized actuarial gain on pension benefits                                 | —             | —            | —                                | 843   | —                    | 843                              |
| Unrealized gain on marketable securities                                      | —             | —            | —                                | 307   | —                    | 307                              |
| Foreign currency translation adjustment                                       | —             | —            | —                                | (183)   | —                    | (183)                            |
| Net income  | —             | —            | —                                | —   | 71,176               | 71,176                           |
| BALANCE AT DECEMBER 31, 2020  | <u>59,910</u> | <u>\$ 28</u> | <u>\$ 190,920</u>                | <u>\$ (2,163)</u>                             | <u>\$ 621,626</u>    | <u>\$ 810,411</u>                |

The accompanying notes are an integral part of these consolidated financial statements. The Shares presented above reflects the effect of the August 2020 stock split. Refer to Note 10, *Earnings Per Share*, in this Form 10-K for details.

**POWER INTEGRATIONS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| (In thousands)  | Year Ended December 31, |            |            |
|---|-------------------------|------------|------------|
|   | 2020                    | 2019       | 2018       |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                         |            |            |
| Net income  | \$ 71,176               | \$ 193,468 | \$ 69,984  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                         |            |            |
| Depreciation  | 23,743                  | 19,190     | 18,918     |
| Amortization of intangibles   | 4,359                   | 5,213      | 5,267      |
| Loss on disposal of property and equipment  | 525                     | 249        | 553        |
| Stock-based compensation expense  | 30,912                  | 23,347     | 21,580     |
| Amortization of premium (accretion of discount) on marketable securities          | 705                     | (192)      | 227        |
| Deferred income taxes   | (592)                   | 4,019      | (4,465)    |
| Increase (decrease) in accounts receivable allowance for credit losses, net       | (336)                   | 57         | (28)       |
| Change in operating assets and liabilities:                                       |                         |            |            |
| Accounts receivable   | (11,300)                | (13,259)   | 5,754      |
| Inventories   | (12,498)                | (9,523)    | (23,770)   |
| Prepaid expenses and other assets   | 9,153                   | (2,132)    | (1,495)    |
| Accounts payable  | 5,697                   | (6,556)    | 1,336      |
| Taxes payable and accrued liabilities   | 4,095                   | 10,618     | (9,897)    |
| Net cash provided by operating activities   | 125,639                 | 224,499    | 83,964     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                         |            |            |
| Purchases of property and equipment   | (70,598)                | (24,114)   | (24,677)   |
| Proceeds from sale of property and equipment                                      | 651                     | —          | —          |
| Acquisition of technology licenses  | —                       | (1,026)    | (900)      |
| Purchases of marketable securities  | (109,703)               | (207,240)  | (62,833)   |
| Proceeds from sales and maturities of marketable securities                       | 151,385                 | 70,334     | 157,551    |
| Net cash provided by (used in) investing activities                               | (28,265)                | (162,046)  | 69,141     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                         |            |            |
| Issuance of common stock under employee stock plans                               | 10,527                  | 9,908      | 9,353      |
| Repurchase of common stock  | (2,636)                 | (7,302)    | (103,153)  |
| Payments of dividends to stockholders   | (25,081)                | (20,506)   | (18,823)   |
| Proceeds from draw on line of credit  | —                       | —          | 8,000      |
| Payments on line of credit  | —                       | —          | (8,000)    |
| Net cash used in financing activities   | (17,190)                | (17,900)   | (112,623)  |
| NET INCREASE IN CASH AND CASH EQUIVALENTS   | 80,184                  | 44,553     | 40,482     |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD                                  | 178,690                 | 134,137    | 93,655     |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD  | \$ 258,874              | \$ 178,690 | \$ 134,137 |
| <b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>    |                         |            |            |
| Unpaid property and equipment   | \$ 5,937                | \$ 4,355   | \$ 1,818   |
| Unpaid technology licenses  | \$ —                    | \$ —       | \$ 100     |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>                          |                         |            |            |
| Cash paid (received) for income taxes, net (Note 11)                              | \$ (1,973)              | \$ 21,327  | \$ 7,437   |

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

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

**1. THE COMPANY:**

Power Integrations, Inc. (“Power Integrations” or the “Company”), incorporated in California on March 25, 1988, and reincorporated in Delaware in December 1997, designs, develops, manufactures and markets analog and mixed-signal integrated circuits (ICs) and other electronic components and circuitry used in high-voltage power conversion. The Company’s 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. A large percentage of the Company’s 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 the Company’s 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 other building-automation and security devices. The Company also supplies high-voltage LED drivers, which are AC-DC ICs specifically designed for lighting applications that utilize light-emitting diodes. In 2018, the Company introduced a new category of power-conversion ICs: a family of motor-driver ICs addressing brushless DC (BLDC) motors used in refrigerators, HVAC systems, ceiling fans and other consumer-appliance and light commercial applications. The Company also offers 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 gigawatts) such as industrial motors, solar- and wind-power systems, electric vehicles and high-voltage DC transmission systems.

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

**Significant Accounting Policies and Estimates**

*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 markets. 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.

*Principles of Consolidation*

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries after elimination of all intercompany transactions and balances.

*Estimates*

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles (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. Actual results could differ from those estimates. On an ongoing basis, the Company evaluates its estimates, including those related to revenue recognition and allowances for receivables and inventories. These estimates are based on historical facts and various other factors, which the Company believes to be reasonable at the time the estimates are made. However, as the effects of future events cannot be determined with precision, actual results could differ significantly from management’s estimates.

*Revenue Recognition*

The Company applies the provisions of Accounting Standards Codification (ASC) 606-10, *Revenue from Contracts with Customers*, and all related appropriate guidance. The Company recognizes revenue under the core principle to depict the transfer of control to the Company’s customers in an amount reflecting the consideration the Company expects to be entitled. In order to achieve that core principle, the Company applies the following five-step approach: (1) identify



## [Table of Contents](#)

the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when a performance obligation is satisfied.

Product revenues consist of sales to original equipment manufacturers, or OEMs, merchant power supply manufacturers and distributors. The Company considers customer purchase orders, which in some cases are governed by master sales agreements, to be the contracts with a customer. In situations where sales are to a distributor, the Company has concluded that its contracts are with the distributor as the Company holds a contract bearing enforceable rights and obligations only with the distributor. As part of its consideration of the contract, the Company evaluates certain factors including the customer's ability to pay (or credit risk). For each contract, the Company considers the promise to transfer products, each of which is distinct, to be the identified performance obligations. In determining the transaction price the Company evaluates whether the price is subject to refund or adjustment to determine the net consideration to which the Company expects to be entitled. As the Company's standard payment terms are less than one year, the Company has elected the practical expedient under ASC 606-10-32-18 to not assess whether a contract has a significant financing component. The Company allocates the transaction price to each distinct product based on their relative standalone selling price. The product price as specified on the purchase order is considered the standalone selling price as it is an observable input which depicts the price as if sold to a similar customer in similar circumstances. Revenue is recognized when control of the product is transferred to the customer (i.e., when the Company's performance obligation is satisfied), which typically occurs at shipment. Further, in determining whether control has transferred, the Company considers if there is a present right to payment and legal title, along with risks and rewards of ownership having transferred to the customer.

Frequently, the Company receives orders for products to be delivered over multiple dates that may extend across several reporting periods. The Company invoices for each delivery upon shipment and recognizes revenues for each distinct product delivered, assuming transfer of control has occurred. As scheduled delivery dates are within one year, under the optional exemption provided by ASC 606-10-50-14 revenues allocated to future shipments of partially completed contracts are not disclosed. The Company has also elected the practical expedient under ASC 340-40-25-4 to expense commissions when incurred as the amortization period of the commission asset the Company would have otherwise recognized is less than one year.

Sales to international customers that are shipped from the Company's facility outside of the United States are pursuant to EX Works, or EXW, shipping terms, meaning that control of the product transfers to the customer upon shipment from the Company's foreign warehouse. Sales to international customers that are shipped from the Company's facility in California are pursuant to Delivered at Frontier, or DAF, shipping terms. As such, control of the product passes to the customer when the shipment reaches the destination country and revenue is recognized upon the arrival of the product in that country. Shipments to customers in the Americas are pursuant to Free on Board, or FOB, point of origin shipping terms meaning that control is passed to the customer upon shipment.

Sales to most distributors are made under terms allowing certain price adjustments and limited rights of return (known as "stock rotation") of the Company's products held in their inventory or upon sale to their end customers. Revenue from sales to distributors is recognized upon the transfer of control to the distributor. Frequently, distributors need to sell at a price lower than the standard distribution price in order to win business. At the time the distributor invoices its customer or soon thereafter, the distributor submits a "ship and debit" price adjustment claim to the Company to adjust the distributor's cost from the standard price to the pre-approved lower price. After the Company verifies that the claim was pre-approved, a credit memo is issued to the distributor for the ship and debit claim. In determining the transaction price, the Company considers ship and debit price adjustments to be variable consideration. Such price adjustments are estimated using the expected value method based on an analysis of actual ship and debit claims, at the distributor and product level, over a period of time considered adequate to account for current pricing and business trends. Historically, actual price adjustments for ship and debit claims relative to those estimated and included when determining the transaction price have not materially differed. Stock rotation rights grant the distributor the ability to return certain specified amounts of inventory. Stock rotation adjustments are an additional form of variable consideration and are also estimated using the expected value method based on historical return rates. Historically, distributor stock rotation adjustments have not been material.

Sales to certain distributors are made under terms that do not include rights of return or price concessions after the product is shipped to the distributor. Accordingly, upon application of steps one through five above, product revenue is recognized upon shipment and transfer of control.

## [Table of Contents](#)

The Company generally provides an assurance warranty that its products will substantially conform to the published specifications for twelve months from the date of shipment. The Company's liability is limited to either a credit equal to the purchase price or replacement of the defective part. Returns under warranty have historically been immaterial. As such, the Company does not record a specific warranty reserve or consider activities related to such warranty, if any, to be a separate performance obligation.

### *Inventories*

Inventories (which consist of costs associated with the purchases of wafers from domestic and offshore foundries and of packaged components from offshore assembly manufacturers, as well as internal labor and overhead associated with the testing of both wafers and packaged components) are stated at the lower of cost (first-in, first-out) or market. Provisions, when required, are made to reduce inventories to their estimated net realizable values.

### *Income Taxes*

Income-tax expense is an estimate of current income taxes payable or refundable in the current fiscal year based on reported income before income taxes. Deferred income taxes reflect the effect of temporary differences and carry-forwards that are recognized for financial reporting and income tax purposes.

The Company accounts for income taxes under the provisions of ASC 740, *Income Taxes*. Under the provisions of ASC 740, deferred tax assets and liabilities are recognized based on the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, utilizing the tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company recognizes valuation allowances to reduce any deferred tax assets to the amount that it estimates will more likely than not be realized based on available evidence and management's judgment. The Company limits the deferred tax assets recognized related to certain officers' compensation to amounts that it estimates will be deductible in future periods based upon Internal Revenue Code Section 162(m). In the event that the Company determines, based on available evidence and management judgment, that all or part of the net deferred tax assets will not be realized in the future, it would record a valuation allowance in the period the determination is made. In addition, the calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. Resolution of these uncertainties in a manner inconsistent with the Company's expectations could have a material impact on the Company's results of operations and financial position.

### *Goodwill and Intangible Assets*

Goodwill and the Company's domain name are evaluated in accordance with ASC 350-10, *Goodwill and Other Intangible Assets*, and an impairment analysis is conducted on an annual basis, or sooner if indicators exist for a potential impairment.

In accordance with ASC 360-10, *Accounting for the Impairment or Disposal of Long-Lived Assets*, long-lived assets, such as property and equipment and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

### *Cash and Cash Equivalents*

The Company considers cash invested in highly liquid financial instruments with maturities of three months or less at the date of purchase to be cash equivalents.

### *Marketable Securities*

The Company generally holds 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. As a result, the Company classifies its investment portfolio as available-for-sale. The Company classifies all investments with a

## [Table of Contents](#)

maturity date greater than three months at the date of purchase as short-term marketable securities in its consolidated balance sheet. As of December 31, 2020, and December 31, 2019, the Company's marketable securities consisted primarily of commercial paper, corporate bonds, government securities and/or other high-quality commercial securities.

### *Employee Benefits Plan*

The Company sponsors a 401(k) tax-deferred savings plan for all employees in the United States who meet certain eligibility requirements. Participants may contribute up to the amount allowable as a deduction for federal income tax purposes. The Company is not required to contribute; however, the Company contributes a certain percentage of employee annual salaries on a discretionary basis, not to exceed an established threshold. The Company provided for a contribution of approximately \$1.8 million, \$1.4 million and \$1.3 million in 2020, 2019 and 2018, respectively.

### *Retirement Benefit Obligations (Pension)*

The Company recognizes the over-funded or under-funded status of a defined benefit pension or post-retirement plan as an asset or liability in the accompanying consolidated balance sheets. Actuarial gains and losses are recorded in accumulated other comprehensive loss, a component of stockholders' equity, and are amortized as a component of net periodic cost over the remaining estimated service period of participants.

### *Foreign Currency Risk and Foreign Currency Translation*

As of December 31, 2020, the Company's primary transactional currency was U.S. dollars; in addition, the Company holds cash in Swiss francs and euros to fund the operations of the Company's Swiss subsidiary. The foreign exchange rate fluctuation between the U.S. dollar versus the Swiss franc and euro is recorded in other income in the consolidated statements of income.

Gains and losses arising from the remeasurement of non-functional currency balances are recorded in other income in the accompanying consolidated statements of income. The Company realized a foreign exchange transaction loss of \$0.5 million, \$0.3 million and \$0.1 million in 2020, 2019, and 2018 respectively.

The functional currencies of the Company's other subsidiaries are the local currencies. Accordingly, all assets and liabilities are translated into U.S. dollars at the current exchange rates as of the applicable balance sheet date. Revenues and expenses are translated at the average exchange rate prevailing during the period. Cumulative gains and losses from the translation of the foreign subsidiaries' financial statements have been included in stockholders' equity.

### *Warranty*

The Company generally warrants that its products will substantially conform to the published specifications for 12 months from the date of shipment. The Company's liability is limited to either a credit equal to the purchase price or replacement of the defective part. Returns under warranty have historically been immaterial, and as a result, the Company does not record a specific warranty reserve.

### *Advertising*

Advertising costs are expensed as incurred and amounted to \$1.2 million, \$1.4 million and \$1.2 million in 2020, 2019 and 2018, respectively.

### *Research and Development*

Research and development costs are expensed as incurred.

### *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 December 31, 2020. For several reasons, including the lack of prior indemnification claims and the lack of a monetary liability limit for certain infringement cases, the Company cannot determine the maximum amount of potential future payments, if any, related to such indemnifications.

#### **Adoption of New Accounting Standards**

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 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 consolidated balance sheet. Upon adoption, there was no impact on the Company's consolidated financial statements.

### 3. COMPONENTS OF THE COMPANY'S CONSOLIDATED BALANCE SHEETS:

#### Accounts Receivable

| (In thousands)                          | December 31,<br>2020 | December 31,<br>2019 |
|---|----------------------|----------------------|
| Accounts receivable trade               | \$ 66,703            | \$ 61,036            |
| Accrued ship and debit                  | (26,435)             | (33,475)             |
| Allowance for stock rotation and rebate | (3,931)              | (2,524)              |
| Allowance for credit losses             | (427)                | (763)                |
| Total                                   | <u>\$ 35,910</u>     | <u>\$ 24,274</u>     |

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

| (In thousands)                    | <u>Allowance for Credit Losses</u> |              |
|-----------------------------------|------------------------------------|--------------|
|                                   | Year Ended                         |              |
|                                   | December 31, 2020                  |              |
| Beginning balance                 | \$                                 | (763)        |
| Provision for credit loss expense |                                    | (621)        |
| Receivables written off           |                                    | 198          |
| Recoveries collected              |                                    | 759          |
| Ending balance                    | <u>\$</u>                          | <u>(427)</u> |

#### Inventories

| (In thousands)  | December 31,<br>2020 | December 31,<br>2019 |
|-----------------|----------------------|----------------------|
| Raw materials   | \$ 32,131            | \$ 39,058            |
| Work-in-process | 39,469               | 25,982               |
| Finished goods  | 31,278               | 25,340               |
| Total           | <u>\$ 102,878</u>    | <u>\$ 90,380</u>     |

#### Property and Equipment

| (In thousands)   | December 31,<br>2020 | December 31,<br>2019 |
|--|----------------------|----------------------|
| Land   | \$ 22,189            | \$ 21,790            |
| Construction-in-progress   | 34,886               | 18,604               |
| Building and improvements  | 64,808               | 55,785               |
| Machinery and equipment  | 202,698              | 168,576              |
| Computer software and hardware and office furniture and fixtures | 55,591               | 52,265               |
|  | <u>380,172</u>       | <u>317,020</u>       |
| Accumulated depreciation   | (213,984)            | (200,401)            |
| Total  | <u>\$ 166,188</u>    | <u>\$ 116,619</u>    |

Depreciation expense for property and equipment for fiscal years ended December 31, 2020, 2019 and 2018, was approximately \$23.7 million, \$19.2 million and \$18.9 million, respectively, and was determined using the straight-line method over the following useful lives:

|  |              |
|--|--------------|
| Building and improvements  | 4 - 40 years |
| Machinery and equipment  | 2 - 8 years  |
| Computer software and hardware and office furniture and fixtures | 4 - 7 years  |

[Table of Contents](#)

Total property and equipment (excluding accumulated depreciation) located in the United States at December 31, 2020, 2019 and 2018, was approximately \$167.0 million, \$160.7 million and \$167.6 million, respectively. In 2020, 2019 and 2018 approximately 14%, 14% and 12%, respectively, of total property and equipment (excluding accumulated depreciation) was held in Thailand by one of the Company's subcontractors. Also in 2020, approximately 14% of total property and equipment was held by one of the Company's subcontractors in Malaysia. No other country held 10% or more of total property and equipment in the periods presented.

**Accumulated Other Comprehensive Loss**

Changes in accumulated other comprehensive loss for the three years ended December 31, 2020:

| (In thousands)   | Unrealized Gains<br>and Losses on<br>Available-for-Sale<br>Securities | Defined Benefit<br>Pension Items | Foreign<br>Currency<br>Items | Total      |
|--|---|----------------------------------|------------------------------|------------|
| Balance at January 1, 2018                                     | \$ (427)  | \$ (1,237)                       | \$ (475)                     | \$ (2,139) |
| Other comprehensive income (loss) before reclassifications     | 161   | 401                              | (236)                        | 326        |
| Amounts reclassified from accumulated other comprehensive loss | —   | 124 (1)                          | —                            | 124        |
| Other comprehensive income                                     | 161   | 525                              | (236)                        | 450        |
| Balance at December 31, 2018                                   | (266)   | (712)                            | (711)                        | (1,689)    |
| Other comprehensive income (loss) before reclassifications     | 849   | (1,839)                          | (518)                        | (1,508)    |
| Amounts reclassified from accumulated other comprehensive loss | —   | 67 (1)                           | —                            | 67         |
| Other comprehensive loss                                       | 849   | (1,772)                          | (518)                        | (1,441)    |
| Balance at December 31, 2019                                   | 583   | (2,484)                          | (1,229)                      | (3,130)    |
| Other comprehensive income (loss) before reclassifications     | 307   | 636                              | (183)                        | 760        |
| Amounts reclassified from accumulated other comprehensive loss | —   | 207 (1)                          | —                            | 207        |
| Other comprehensive income                                     | 307   | 843                              | (183)                        | 967        |
| Balance at December 31, 2020                                   | \$ 890  | \$ (1,641)                       | \$ (1,412)                   | \$ (2,163) |

(1) This component of accumulated other comprehensive loss is included in the computation of net periodic pension cost for the years ended December 31, 2020, 2019 and 2018.

**4. FAIR VALUE MEASUREMENTS:**

ASC 820-10, *Fair Value Measurements*, clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, ASC 820-10 establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows: (Level 1) observable inputs such as quoted prices for identical assets in active markets; (Level 2) inputs other than the quoted prices in active markets that are observable either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data, which requires the Company to develop its own assumptions. This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value.

The Company's cash equivalents and investment instruments 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 type of instrument valued based on quoted market prices in active markets primarily includes money market securities. This type of instrument is generally classified within Level 1 of the fair-value hierarchy. The types of instruments valued based on other observable inputs (Level 2 of the fair-value hierarchy) include investment-grade corporate bonds and commercial paper. Such types of investments are valued by using a multi-dimensional relational model, the inputs are primarily benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including market research publications. The Company does not hold any instruments that would be classified within Level 3 of the fair-value hierarchy.

[Table of Contents](#)

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

| (In thousands)       | Fair Value Measurement at<br>December 31, 2020 |   |   |
|----------------------|--|---|---|
|                      | Total Fair Value                               | Quoted Prices in<br>Active Markets for<br>Identical Assets<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) |
| Corporate securities | \$ 146,658                                     | \$ —  | \$ 146,658  |
| Commercial paper     | 253,855  | —   | 253,855   |
| Money market funds   | 1,634  | 1,634   | —   |
| Total                | <u>\$ 402,147</u>                              | <u>\$ 1,634</u>   | <u>\$ 400,513</u>                                   |

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

The Company did not transfer any investments between level 1 and level 2 of the fair value hierarchy in the years ended December 31, 2020, and 2019.

**5. MARKETABLE SECURITIES:**

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

| (In thousands)                              | Amortized<br>Cost | Gross Unrealized |             | Estimated Fair<br>Market Value |
|---|-------------------|------------------|-------------|--------------------------------|
|   |                   | Gains            | Losses      |                                |
| <b>Investments due in 3 months or less:</b> |                   |                  |             |                                |
| Commercial paper                            | \$ 43,660         | \$ —             | \$ —        | \$ 43,660                      |
| Corporate securities                        | 19,846            | 44               | —           | 19,890                         |
| Total                                       | <u>63,506</u>     | <u>44</u>        | <u>—</u>    | <u>63,550</u>                  |
| <b>Investments due in 4-12 months:</b>      |                   |                  |             |                                |
| Corporate securities                        | 125,922           | 846              | —           | 126,768                        |
| Total                                       | <u>125,922</u>    | <u>846</u>       | <u>—</u>    | <u>126,768</u>                 |
| <b>Total marketable securities</b>          | <u>\$ 189,428</u> | <u>\$ 890</u>    | <u>\$ —</u> | <u>\$ 190,318</u>              |

The Company did not have any investments due in twelve months or greater as of December 31, 2020. Accrued interest receivable was \$0.8 million at December 31, 2020 and was recorded within prepaid expenses and other current assets on the condensed consolidated balance sheet.

[Table of Contents](#)

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

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

As of December 31, 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<br>Fair Market<br>Value | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Market<br>Value | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Market<br>Value | Gross<br>Unrealized<br>Losses |
| <b>December 31, 2019</b>    |                                   |                               |                                   |                               |                                   |                               |
| Corporate securities        | \$ 13,069                         | \$ (6)                        | \$ —                              | \$ —                          | \$ 13,069                         | \$ (6)                        |
| Total marketable securities | \$ 13,069                         | \$ (6)                        | \$ —                              | \$ —                          | \$ 13,069                         | \$ (6)                        |

The weighted average interest rate of investments at December 31, 2020 and 2019, was approximately 0.89% and 2.17%, respectively. In the year ended December 31, 2020, no unrealized losses on marketable securities were recognized in income.

## 6. GOODWILL AND INTANGIBLE ASSETS:

The carrying amount of goodwill as of December 31, 2020 and 2019 was \$91.8 million with no changes to goodwill in any of the respective fiscal years.

Intangible assets consist primarily of developed technology, acquired licenses, customer relationships, trade name, domain name, in-process R&D and patent rights, and are reported net of accumulated amortization.

The Company amortizes the cost of all intangible assets over the shorter of the estimated useful life or the term of the developed technology, customer relationships, technology licenses and in-place leases, which range from two to twelve years, with the exception of \$1.3 million paid to acquire an internet domain name. The Company acquired the rights to the internet domain name *www.power.com*, which is now the Company's primary domain name; the cost to acquire the domain name has been recorded as an intangible asset and will not be amortized as it has an indefinite useful life. Amortization of acquired intangible assets was approximately \$4.4 million, \$5.2 million and \$5.3 million in the years ended December 31, 2020, 2019 and 2018, respectively. The Company does not believe there is any significant residual value associated with the following intangible assets:



[Table of Contents](#)

| (In thousands)          | December 31, 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            | (29,126)                 | 8,834     | 37,960            | (25,933)                 | 12,027    |
| Customer relationships  | 16,700            | (15,687)                 | 1,013     | 20,030            | (18,098)                 | 1,932     |
| Technology licenses     | 1,926             | (528)                    | 1,398     | 1,926             | (281)                    | 1,645     |
| Total intangible assets | \$ 57,847         | \$ (45,341)              | \$ 12,506 | \$ 61,177         | \$ (44,312)              | \$ 16,865 |

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

| Fiscal Year | Estimated Amortization (In thousands) |
|-------------|---------------------------------------|
| 2021        | \$ 3,494                              |
| 2022        | 2,415                                 |
| 2023        | 2,173                                 |
| 2024        | 1,279                                 |
| 2025        | 832                                   |
| Thereafter  | 1,052                                 |
| Total       | \$ 11,245                             |

## 7. STOCK PLANS AND SHARE BASED COMPENSATION:

The share and per share information for all periods presented in this Form 10-K has been adjusted for the effect of the August 2020 stock split. Refer to *Note 10, Earnings Per Share*, in this Form 10-K for details.

### Stock Plans

As of December 31, 2020, the Company had three stock-based compensation plans (the “Plans”) which are described below.

#### 2007 Equity Incentive Plan

The 2007 Equity Incentive Plan (2007 Plan) was adopted by the board of directors on September 10, 2007, and approved by the stockholders on November 7, 2007, as an amendment and restatement of the 1997 Stock Option Plan (1997 Plan). The 2007 Plan provides for the grant of incentive stock options, non-statutory stock options, restricted stock awards, restricted stock unit (RSU) awards, stock appreciation rights, performance-based (PSU) awards, long-term performance based (PRSU) awards and other stock awards to employees, directors and consultants. Pursuant to the 2007 Plan, the exercise price for incentive stock options and non-statutory stock options is generally at least 100% of the fair market value of the underlying shares on the date of grant. Options generally vest over 48 months measured from the date of grant. Options generally expire no later than ten years after the date of grant, subject to earlier termination upon an optionee’s cessation of employment or service. The 2007 Plan expired in September 2017 with no further grants to be made under this plan; however previous grants under this plan shall remain outstanding until they are exercised, vest, forfeited or expire.

#### 2016 Incentive Award Plan

The 2016 Incentive Award Plan (2016 Plan) was adopted by the board of directors on March 17, 2016 and approved by the stockholders on May 13, 2016. The 2016 Plan provides for the grant of RSU awards, PSU awards and PRSU awards. No other forms of equity-based awards, including stock options and stock appreciation rights, may be granted under the 2016 Plan. As of December 31, 2020, 2.2 million awards have been issued and approximately 2.8 million shares of common stock remain available for future grant under the 2016 Plan.

*1997 Employee Stock Purchase Plan*

Under the 1997 Employee Stock Purchase Plan (Purchase Plan), eligible employees may apply accumulated payroll deductions, which may not exceed 15% of an employee's compensation, to the purchase of shares of the Company's common stock at periodic intervals. The purchase price of stock under the Purchase Plan is equal to 85% of the lower of (i) the fair market value of the Company's common stock on the first day of each offering period, or (ii) the fair market value of the Company's common stock on the purchase date (as defined in the Purchase Plan). Each offering period consists of one purchase period of approximately six months' duration. An aggregate of 7.0 million shares of common stock were reserved for issuance to employees under the Purchase Plan. As of December 31, 2020, of the shares reserved for issuance, 6.6 million shares had been purchased and 0.4 million shares were reserved for future issuance under the Purchase Plan.

*Shares Reserved*

As of December 31, 2020, the Company had approximately 3.4 million shares of common stock reserved for future grant under all stock plans.

**Stock-Based Compensation**

The Company applies the provisions of ASC 718-10, *Stock Compensation*. Under the provisions of ASC 718-10, the Company recognizes the fair value of stock-based compensation in its financial statements over the requisite service period of the individual grants, which generally equals a four-year vesting period. The Company uses estimates of volatility, expected term, risk-free interest rate, dividend yield and forfeitures in determining the fair value of these awards and the amount of compensation expense to recognize. The Company uses the straight-line method to amortize all stock awards granted over the requisite service period of the award.

The following table summarizes the stock-based compensation expense recognized in accordance with ASC 718-10 for the years ended December 31, 2020, 2019 and 2018:

| (In thousands)                         | Year Ended December 31, |                  |                  |
|--|-------------------------|------------------|------------------|
|  | 2020                    | 2019             | 2018             |
| Cost of revenues                       | \$ 1,963                | \$ 1,237         | \$ 1,097         |
| Research and development               | 10,378                  | 8,423            | 7,688            |
| Sales and marketing                    | 6,290                   | 5,015            | 4,729            |
| General and administrative             | 12,281                  | 8,672            | 8,066            |
| Total stock-based compensation expense | <u>\$ 30,912</u>        | <u>\$ 23,347</u> | <u>\$ 21,580</u> |

The following table summarizes total compensation expense related to unvested awards not yet recognized, net of expected forfeitures, and the weighted average period over which it is expected to be recognized as of December 31, 2020:

|   | Unrecognized Compensation<br>Expense for Unvested<br>Awards<br>(In thousands) | Weighted Average<br>Remaining Recognition<br>Period<br>(In years) |
|---|---|---|
| Long-term performance-based awards      | \$ 5,810  | 1.64  |
| Restricted stock units                  | 34,654  | 2.62  |
| Purchase plan                           | 202   | 0.08  |
| Total unrecognized compensation expense | <u>\$ 40,666</u>  |   |

Stock-based compensation expense in the year ended December 31, 2020, was approximately \$30.9 million (comprising approximately \$18.7 million related to restricted stock units, \$10.2 million related to performance-based awards and \$2.0 million related to the Company's Purchase Plan).

Stock-based compensation expense in the year ended December 31, 2019, was approximately \$23.3 million (comprising approximately \$17.5 million related to restricted stock units, \$4.1 million related to performance-based awards and \$1.7 million related to the Company's Purchase Plan).

[Table of Contents](#)

Stock-based compensation expense in the year ended December 31, 2018, was approximately \$21.6 million comprising approximately \$16.6 million related to restricted stock units, \$3.4 million related to performance-based awards and \$1.6 million related to the Company's Purchase Plan).

The Company did not grant stock options in the years ended December 31, 2020, 2019 and 2018, and therefore no fair-value assumptions are reported.

The fair value of employees' stock purchase rights under the Purchase Plan was estimated using the Black-Scholes model with the following weighted-average assumptions used during the three years ended December 31, 2020, 2019 and 2018:

|  | Year Ended December 31, |          |          |
|--|-------------------------|----------|----------|
|  | 2020                    | 2019     | 2018     |
| Risk-free interest rates                                 | 0.90 %                  | 2.28 %   | 1.94 %   |
| Expected volatility rates                                | 47 %                    | 37 %     | 31 %     |
| Expected dividend yield                                  | 0.78 %                  | 0.91 %   | 0.89 %   |
| Expected term of purchase rights (in years)              | 0.50                    | 0.50     | 0.50     |
| Weighted-average estimated fair value of purchase rights | \$ 15.73                | \$ 19.39 | \$ 17.33 |

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

|   | Shares<br>(In thousands) | Weighted-<br>Average<br>Exercise<br>Price | Weighted-<br>Average<br>Remaining<br>Contractual<br>Term<br>(In years) | Aggregate<br>Intrinsic Value<br>(In thousands) |
|---|--------------------------|---|--|--|
| Outstanding at January 1, 2018              | 1,022                    | \$ 14.52                                  |  |  |
| Granted                                     | —                        | —   |  |  |
| Exercised                                   | (352)                    | \$ 11.30                                  |  |  |
| Forfeited or expired                        | —                        | —   |  |  |
| Outstanding at December 31, 2018            | 670                      | \$ 16.21                                  |  |  |
| Granted                                     | —                        | —   |  |  |
| Exercised                                   | (335)                    | \$ 12.98                                  |  |  |
| Forfeited or expired                        | —                        | —   |  |  |
| Outstanding at December 31, 2019            | 335                      | \$ 19.44                                  |  |  |
| Granted                                     | —                        | —   |  |  |
| Exercised                                   | (243)                    | \$ 18.99                                  |  |  |
| Forfeited or expired                        | —                        | —   |  |  |
| Outstanding at December 31, 2020            | 92                       | \$ 20.63                                  | 1.05   | \$ 5,643                                       |
| Vested and Exercisable at December 31, 2020 | 92                       |   | 1.05   | \$ 5,643                                       |

The total intrinsic value of options exercised during the year ended December 31, 2020, 2019 and 2018, was \$9.1 million, \$8.3 million and \$7.5 million, respectively.

The following table summarizes the stock options outstanding at December 31, 2020:

| (shares in thousands)<br>Range of Exercise Prices | Options Outstanding    |   |  | Options Exercisable    |  |
|---|------------------------|---|--|------------------------|--|
|   | Options<br>Outstanding | Weighted Average<br>Remaining<br>Contractual Term<br>(in years) | Weighted<br>Average<br>Exercise<br>Price | Options<br>Exercisable | Weighted<br>Average<br>Exercise<br>Price |
| \$18.48 - \$19.75                                 | 28                     | 0.38  | \$ 18.77                                 | 28                     | \$ 18.77                                 |
| \$21.44 - \$21.44                                 | 64                     | 1.35  | \$ 21.44                                 | 64                     | \$ 21.44                                 |
|   | 92                     | 1.05  | \$ 20.63                                 | 92                     | \$ 20.63                                 |

[Table of Contents](#)*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 earnings 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.

A summary of PSU awards outstanding as of December 31, 2020, and activity during the three years then ended, is presented below:

|   | Shares<br>(In thousands) | Weighted-<br>Average<br>Grant Date Fair<br>Value Per Share | Weighted-<br>Average<br>Remaining<br>Contractual Term<br>(In years) | Aggregate<br>Intrinsic Value<br>(In thousands) |
|---|--------------------------|--|---|--|
| Outstanding at January 1, 2018                        | 158                      | \$ 32.00   |   |  |
| Granted   | 178                      | \$ 31.44   |   |  |
| Vested  | (158)                    | \$ 32.00   |   |  |
| Forfeited or canceled                                 | (126)                    | \$ 31.44   |   |  |
| Outstanding at December 31, 2018                      | 52                       | \$ 31.44   |   |  |
| Granted   | 185                      | \$ 35.06   |   |  |
| Vested  | (52)                     | \$ 31.44   |   |  |
| Forfeited or canceled                                 | (64)                     | \$ 35.06   |   |  |
| Outstanding at December 31, 2019                      | 121                      | \$ 35.06   |   |  |
| Granted   | 150                      | \$ 46.31   |   |  |
| Vested  | (121)                    | \$ 35.06   |   |  |
| Forfeited or canceled                                 | —                        | —  |   |  |
| Outstanding at December 31, 2020                      | 150                      | \$ 46.27   | —   | \$ 12,219                                      |
| Outstanding and expected to vest at December 31, 2020 | 150                      |  | —   | \$ 12,219                                      |

The grant-date fair value of PSU awards released, which were fully vested, in the years ended December 31, 2020, 2019 and 2018 was approximately \$4.2 million, \$1.6 million and \$5.1 million, respectively.

*PRSU Awards (Long-term Performance Based)*

The Company's PRSU program provides for the issuance of PRSUs which will vest based on the Company's performance measured against the PRSU Plan's established revenue targets. The PRSUs were 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. Recipients of a PRSU award generally must remain employed by the Company on a continuous basis through the end of the applicable three-year performance period in order to receive shares subject to that award. The performance goals for PRSUs granted in fiscal 2020, 2019 and 2018 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 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.

[Table of Contents](#)

A summary of PRSU awards outstanding as of December 31, 2020, and activity during the three years then ended, is presented below:

|   | Shares<br>(In thousands) | Weighted-Average<br>Grant Date Fair<br>Value Per Share | Weighted-Average<br>Remaining<br>Contractual Term<br>(In years) | Aggregate<br>Intrinsic<br>Value<br>(In thousands) |
|---|--------------------------|--|---|---|
| Outstanding at January 1, 2018                        | 368                      | \$ 26.40   |   |   |
| Granted   | 144                      | \$ 29.95   |   |   |
| Vested  | (76)                     | \$ 26.23   |   |   |
| Forfeited or canceled                                 | (10)                     | \$ 21.63   |   |   |
| Outstanding at December 31, 2018                      | 426                      | \$ 27.74   |   |   |
| Granted   | 144                      | \$ 34.09   |   |   |
| Vested  | (140)                    | \$ 21.63   |   |   |
| Forfeited or canceled                                 | (143)                    | \$ 31.50   |   |   |
| Outstanding at December 31, 2019                      | 287                      | \$ 32.03   |   |   |
| Granted   | 152                      | \$ 49.67   |   |   |
| Vested  | —                        | —  |   |   |
| Forfeited or canceled                                 | (138)                    | \$ 29.95   |   |   |
| Outstanding at December 31, 2020                      | 301                      | \$ 41.90   | 1.51  | \$ 24,637   |
| Outstanding and expected to vest at December 31, 2020 | 272                      |  | 1.54  | \$ 22,279   |

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 2020. The grant-date fair value of PRSU awards released, which were fully vested, in the years ended December 31, 2019 and 2018 was approximately \$3.0 million and \$2.0 million, respectively.

#### *RSU Awards*

RSUs granted to employees typically vest ratably over a four-year period, and are converted into shares of the Company's common stock upon vesting on a one-for-one basis subject to the employee's continued service to the Company over that period. The fair value of RSUs 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. Compensation expense is recognized on a straight-line basis over the requisite service period of each grant adjusted for estimated forfeitures.

[Table of Contents](#)

A summary of RSU awards outstanding as of December 31, 2020, and activity during the three years then ended, is presented below:

|   | Shares<br>(In thousands) | Weighted-Average<br>Grant Date Fair<br>Value Per Share | Weighted-Average<br>Remaining<br>Contractual Term<br>(In years) | Aggregate<br>Intrinsic<br>Value<br>(In thousands) |
|---|--------------------------|--|---|---|
| Outstanding at January 1, 2018                        | 1,896                    | \$ 27.76   |   |   |
| Granted   | 550                      | \$ 31.43   |   |   |
| Vested  | (592)                    | \$ 26.89   |   |   |
| Forfeited   | (64)                     | \$ 29.72   |   |   |
| Outstanding at December 31, 2018                      | 1,790                    | \$ 29.10   |   |   |
| Granted   | 582                      | \$ 34.90   |   |   |
| Vested  | (603)                    | \$ 28.10   |   |   |
| Forfeited   | (50)                     | \$ 31.72   |   |   |
| Outstanding at December 31, 2019                      | 1,719                    | \$ 31.33   |   |   |
| Granted   | 439                      | \$ 44.82   |   |   |
| Vested  | (599)                    | \$ 30.25   |   |   |
| Forfeited   | (41)                     | \$ 36.77   |   |   |
| Outstanding at December 31, 2020                      | 1,518                    | \$ 35.51   | 1.42  | \$ 124,239  |
| Outstanding and expected to vest at December 31, 2020 | 1,423                    |  | 1.36  | \$ 116,475  |

The grant-date fair value of RSUs vested in the years ended December 31, 2020, 2019 and 2018, was approximately \$18.1 million, \$16.9 million and \$15.9 million, respectively.

**8. SIGNIFICANT CUSTOMERS AND GEOGRAPHIC NET REVENUES:**

*Customer Concentration*

The Company's top ten customers accounted for approximately 62%, 54% and 56% of revenues in 2020, 2019 and 2018, respectively. 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 OEMs and merchant power supply manufacturers. Sales to distributors in 2020, 2019 and 2018 were \$367.7 million, \$304.6 million and \$313.9 million, respectively. Direct sales to OEMs and power-supply manufacturers accounted for the remainder.

The following customers represented 10% or more of the Company's net revenues for the respective years:

| Customer                        | Year Ended December 31, |      |      |
|---------------------------------|-------------------------|------|------|
|                                 | 2020                    | 2019 | 2018 |
| Avnet                           | 19 %                    | 11 % | 14 % |
| Honestar Technologies Co., Ltd. | 11 %                    | *    | *    |

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

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 consisted principally of cash investments and trade receivables. The Company does not have any off-balance-sheet credit exposure related to its customers. As of December 31, 2020 and December 31, 2019, 90% and 63% of accounts receivable were concentrated with the Company's top ten customers, respectively.

[Table of Contents](#)

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

| <b>Customer</b>             | <b>December 31,<br/>2020</b> | <b>December 31,<br/>2019</b> |
|-----------------------------|------------------------------|------------------------------|
| Powertech Distribution Ltd. | 10 %                         | 10 %                         |
| Avnet                       | 50 %                         | *                            |

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

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

#### *Geographic Net Revenues*

The Company markets its products globally through its sales personnel and a worldwide network of independent sales representatives and distributors. Geographic net revenues based on "bill to" customer locations were as follows:

| <b>(In thousands)</b>              | <b>Year Ended December 31,</b> |                   |                   |
|------------------------------------|--------------------------------|-------------------|-------------------|
|                                    | <b>2020</b>                    | <b>2019</b>       | <b>2018</b>       |
| United States of America           | \$ 11,065                      | \$ 10,662         | \$ 15,315         |
| Hong Kong/China                    | 306,938                        | 237,341           | 218,752           |
| Taiwan                             | 21,650                         | 36,297            | 43,081            |
| Korea                              | 40,059                         | 30,395            | 33,877            |
| Western Europe (excluding Germany) | 33,564                         | 36,025            | 49,834            |
| Japan                              | 17,453                         | 15,496            | 19,897            |
| Germany                            | 23,242                         | 20,197            | 14,403            |
| Other                              | 34,347                         | 34,256            | 20,796            |
| Total net revenues                 | <u>\$ 488,318</u>              | <u>\$ 420,669</u> | <u>\$ 415,955</u> |

## **9. COMMON STOCK REPURCHASES AND CASH DIVIDENDS:**

### **Common Stock Repurchases**

Over the years the Company's board of directors has authorized the use of funds to repurchase shares of the Company's common stock, including \$110.0 million in 2018, with repurchases to be executed according to pre-defined price/volume guidelines. In 2018, 2019 and 2020 the Company purchased approximately 3,144,000, 242,000 and 63,000 shares, respectively, for approximately \$103.2 million, \$7.3 million and \$2.6 million, respectively. As of December 31, 2020, the Company had \$41.3 million available for future stock repurchases, which has no expiration date. Authorization of future stock 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 and business conditions as well as other factors.

### **Common Stock Dividend**

The following table presents the quarterly dividends declared per share of the Company's common stock for the periods indicated:

|                | <b>Year Ended December 31,</b> |             |             |
|----------------|--------------------------------|-------------|-------------|
|                | <b>2020</b>                    | <b>2019</b> | <b>2018</b> |
| First Quarter  | \$ 0.095                       | \$ 0.085    | \$ 0.080    |
| Second Quarter | \$ 0.105                       | \$ 0.085    | \$ 0.080    |
| Third Quarter  | \$ 0.110                       | \$ 0.085    | \$ 0.080    |
| Fourth Quarter | \$ 0.110                       | \$ 0.095    | \$ 0.080    |

The Company paid a total of approximately \$25.1 million, \$20.5 million and \$18.8 million in cash dividends during 2020, 2019 and 2018, respectively.

In January 2018, the Company's board of directors declared a \$0.080 per share quarterly dividend for each quarter in 2018. In January 2019, the Company's board of directors declared four quarterly cash dividends of \$0.085 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 \$0.01 per

share to be paid to stockholders of record at the end of the fourth quarter in 2019, that was in addition to the dividend of \$0.085 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 \$0.095 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 \$0.105 per share (in lieu of the \$0.095 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 \$0.11 per share (in lieu of the \$0.105 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. In January 2021, the Company's board of directors raised the quarterly cash dividend again by \$0.02 per share with the declaration of four cash dividends of \$0.13 per share to be paid to stockholders of record at the end of each quarter in 2021.

## 10. EARNINGS PER SHARE:

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

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

| (In thousands, except per share amounts)          | Year Ended December 31, |            |           |
|---|-------------------------|------------|-----------|
|   | 2020                    | 2019       | 2018      |
| <b>Basic earnings per share:</b>                  |                         |            |           |
| Net income  | \$ 71,176               | \$ 193,468 | \$ 69,984 |
| Weighted-average common shares                    | 59,657                  | 58,534     | 58,912    |
| Basic earnings per share                          | \$ 1.19                 | \$ 3.31    | \$ 1.19   |
| <b>Diluted earnings per share: <sup>(1)</sup></b> |                         |            |           |
| Net income  | \$ 71,176               | \$ 193,468 | \$ 69,984 |
| Weighted-average common shares                    | 59,657                  | 58,534     | 58,912    |
| Effect of dilutive awards:                        |                         |            |           |
| Employee stock plans                              | 1,188                   | 1,098      | 1,382     |
| Diluted weighted-average common shares            | 60,845                  | 59,632     | 60,294    |
| Diluted earnings per share                        | \$ 1.17                 | \$ 3.24    | \$ 1.16   |

(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 included in the 2020, 2019 and 2018 calculations those shares that were contingently issuable upon the satisfaction of the performance conditions as of the end of the respective periods.

In the years ended December 31, 2020, 2019, and 2018, no outstanding stock awards were determined to be anti-dilutive and therefore were 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, payable on August 18, 2020, to stockholders of record as of the close of business on August 14, 2020. The Company's stockholders received one additional share of common stock for each share of common stock held on August 14, 2020. The share and per share information for all periods presented in this Form 10-K has been adjusted for the effect of the stock split.



## 11. PROVISION (BENEFIT) FOR INCOME TAXES:

### *Income Taxes*

The Company accounts for income taxes under the provisions of ASC 740, *Income Taxes*. Under the provisions of ASC 740, deferred tax assets and liabilities are recognized based on the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, utilizing the tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

U.S. and foreign components of income before income taxes were:

| (In thousands)                   | Year Ended December 31, |                   |                  |
|----------------------------------|-------------------------|-------------------|------------------|
|                                  | 2020                    | 2019              | 2018             |
| U.S. operations                  | \$ (6,252)              | \$ 82,692         | \$ (6,529)       |
| Foreign operations               | 81,503                  | 139,722           | 66,293           |
| Total income before income taxes | <u>\$ 75,251</u>        | <u>\$ 222,414</u> | <u>\$ 59,764</u> |

The components of the provision (benefit) for income taxes are as follows:

| (In thousands)                | Year Ended December 31, |                  |                    |
|-------------------------------|-------------------------|------------------|--------------------|
|                               | 2020                    | 2019             | 2018               |
| Current provision (benefit):  |                         |                  |                    |
| Federal                       | \$ 2,788                | \$ 18,293        | \$ (6,382)         |
| State                         | (181)                   | 184              | 4                  |
| Foreign                       | 1,677                   | 1,293            | 938                |
|                               | <u>4,284</u>            | <u>19,770</u>    | <u>(5,440)</u>     |
| Deferred provision (benefit): |                         |                  |                    |
| Federal                       | 348                     | 9,683            | (4,593)            |
| State                         | —                       | —                | —                  |
| Foreign                       | (557)                   | (507)            | (187)              |
|                               | <u>(209)</u>            | <u>9,176</u>     | <u>(4,780)</u>     |
| Total                         | <u>\$ 4,075</u>         | <u>\$ 28,946</u> | <u>\$ (10,220)</u> |

The provision (benefit) for income taxes differs from the amount that would result by applying the applicable federal income tax rate to income before income taxes, as follows:

|  | Year Ended December 31, |               |                |
|--|-------------------------|---------------|----------------|
|  | 2020                    | 2019          | 2018           |
| Provision (benefit) computed at Federal statutory rate | 21.0 %                  | 21.0 %        | 21.0 %         |
| Business tax credits                                   | (7.4)                   | (2.4)         | (9.1)          |
| Stock-based compensation                               | (0.1)                   | (0.2)         | (2.2)          |
| Foreign income taxed at different rate                 | (22.0)                  | (12.7)        | (25.0)         |
| GILTI inclusion  | 10.7                    | 6.2           | 10.6           |
| U.S. Tax Act - transition tax                          | —                       | 0.1           | (16.2)         |
| Deferred tax asset and liability adjustment            | 0.3                     | —             | —              |
| Valuation allowance                                    | 2.6                     | 0.8           | 2.8            |
| Other  | 0.3                     | 0.2           | 1.0            |
| Total  | <u>5.4 %</u>            | <u>13.0 %</u> | <u>(17.1)%</u> |

The Company's effective tax rate is impacted by the geographic distribution of the Company's world-wide earnings in lower-tax jurisdictions, federal research tax credits and the recognition of excess tax benefits related to share-based payments. These benefits were partially offset by foreign income subject to U.S. tax, known as global intangible low-taxed income. The Company's primary jurisdiction where foreign earnings are derived is the Cayman Islands, which is a non-taxing jurisdiction. Income earned in other foreign jurisdictions was not material. The Company has not been granted any incentivized tax rates and does not operate under any tax holidays in any jurisdiction. Additionally, in 2018 the Company's effective tax rate was favorably impacted by revisions to the Tax Act resulting in a \$9.7 million income tax benefit.

[Table of Contents](#)

The components of the net deferred income tax assets (liabilities) were as follows:

| (In thousands)              | December 31, |          |
|-----------------------------|--------------|----------|
|                             | 2020         | 2019     |
| Deferred tax assets:        |              |          |
| Other reserves and accruals | \$ 3,707     | \$ 3,099 |
| Tax credit carry-forwards   | 20,713       | 18,968   |
| Stock compensation          | 1,494        | 1,644    |
| Capital losses              | 158          | 157      |
| Net operating loss          | 2,303        | 899      |
| Other                       | 1,023        | 1,000    |
| Valuation allowance         | (24,160)     | (20,822) |
|                             | 5,238        | 4,945    |
| Deferred tax liabilities:   |              |          |
| Depreciation                | (1,974)      | (2,273)  |
|                             | (1,974)      | (2,273)  |
| Net deferred tax assets     | \$ 3,264     | \$ 2,672 |

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities and projected future taxable income. In the event that the Company determines, based on available evidence and management judgment, that all or part of the net deferred tax assets will not be realized in the future, the Company would record a valuation allowance in the period the determination is made. In addition, the calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. Resolution of these uncertainties in a manner inconsistent with the Company's expectations could have a material impact on its results of operations and financial position.

As of December 31, 2020, the Company continues to maintain a valuation allowance primarily as a result of capital losses for federal purposes, and on its California, New Jersey and Canada deferred tax assets as the Company believes that it is not more likely than not that the deferred tax assets will be fully realized.

As of December 31, 2020, the Company had utilized all of its federal research and development tax credit carryforwards. As of December 31, 2020, the Company had California research and development tax credit carryforwards of approximately \$30.2 million (there is no expiration of research and development tax credit carryforwards for the state of California) and California net operating losses of \$44.7 million which will begin to expire in 2032. As of December 31, 2020, the Company had Canadian scientific research and experimental development tax credit carryforwards of approximately \$3.4 million and New Jersey research and experimental development tax credit carryforwards of approximately \$0.7 million, which will start to expire in 2030 and 2026, respectively.

The Tax Act signed into law on December 22, 2017, generally allows companies to repatriate accumulated foreign earnings without incurring additional U.S. federal taxes beginning after December 31, 2017. Local foreign and U.S. states taxes may still be incurred upon repatriation. The Company has not provided for U.S. taxes on its undistributed earnings of foreign subsidiaries. The determination of the future tax consequences of the remittance of these earnings is not practicable.

[Table of Contents](#)

*Unrecognized Tax Benefits*

The Company applies the provisions of ASC 740-10, relating to accounting for uncertain income taxes. Reconciliation of the beginning and ending amount of unrecognized tax benefits:

| <b>(In thousands)</b>                                  | <b>Unrecognized<br/>Tax Benefits</b> |
|--|--------------------------------------|
| Unrecognized Tax Benefits Balance at January 1, 2018   | \$ 16,683                            |
| Gross Increase for Tax Positions of Current Year       | 1,994                                |
| Gross Decrease for Tax Positions of Prior Years        | (70)                                 |
| Unrecognized Tax Benefits Balance at December 31, 2018 | 18,607                               |
| Gross Increase for Tax Positions of Current Year       | 1,379                                |
| Gross Decrease for Tax Positions of Prior Years        | (937)                                |
| Unrecognized Tax Benefits Balance at December 31, 2019 | 19,049                               |
| Gross Increase for Tax Positions of Current Year       | 2,002                                |
| Gross Decrease for Tax Positions of Prior Years        | —                                    |
| Unrecognized Tax Benefits Balance at December 31, 2020 | \$ 21,051                            |

The Company's total unrecognized tax benefits as of December 31, 2020, 2019 and 2018, were \$21.1 million, \$19.0 million and \$18.6 million, respectively. An income tax benefit of \$11.1 million, net of valuation allowance adjustments, would be recorded if these unrecognized tax benefits are recognized. The Company cannot reasonably estimate the amount of the unrecognized tax benefit that could be adjusted in the next twelve months.

The Company's continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company had accrued interest and penalties of \$0.1 million as of both December 31, 2020 and 2019, which have been recorded in long-term income taxes payable in the accompanying consolidated balance sheets.

As of December 31, 2020, the Company has concluded all U.S. federal income tax matters for the years through 2012. However, due to tax attributes, the IRS may calculate tax adjustments for subsequent years for positions taken prior to 2012. There are currently no pending income tax audits.

On July 27, 2015, in *Altera Corp. v. Commissioner*, the U.S. Tax Court issued an opinion related to the treatment of stock-based compensation expense in an intercompany cost-sharing arrangement. A final decision was issued by the Tax Court in December 2015. In February 2016, the Commissioner appealed the Tax Court decision. On July 24, 2018, the U.S. Ninth Circuit Court of Appeals reversed the U.S. Tax Court's decision *Altera Corp. v. Commissioner*; the reversal was subsequently withdrawn. On June 7, 2019, the Ninth Circuit Court of Appeals overturned the U.S. Tax Court decision; finding that the Government had adequately supported in the record that stock-based compensation should be treated as an intangible development cost in a cost-sharing arrangement and Treasury's position on the issue was not a policy change, holding stock-based compensation to be a compensable cost under IRC Section 482.

On February 10, 2020, Altera filed a petition for a writ of certiorari asking the Supreme Court to review the Ninth Circuit's decision. The Supreme Court's denied the petition for certiorari, and thus the Ninth Circuit's decision stands. The decision above does not impact the Company as it treats stock-based compensation as a compensable cost under IRC Section 482.

**12. LEASES AND COMMITMENTS:**

*Facilities and Leases*

The Company owns its main executive, administrative, manufacturing and technical offices in San Jose, California. The Company also owns a research and development facility in New Jersey, a design center in Germany and a test facility in Switzerland. The Company's leases consist of operating leases for administrative office spaces, research-and-development facilities and sales offices in various countries around the world. Effective January 1, 2019, the Company adopted Accounting Standards Update 2016-02, Leases (Topic 842), using the optional transition method. The Company determines if an arrangement is a lease at inception. Some lease agreements contain lease and non-lease components, which are accounted for as a single lease component. Total lease expense was \$2.7 million, \$2.5 million and \$2.2 million in the years ended December 31, 2020, 2019 and 2018, respectively, while short-term and variable lease expenses were not material during these periods.

[Table of Contents](#)

Balance sheet information related to leases was as follows:

| <b>(In thousands)</b>                   | <b>Balance Sheet Classification</b> | <b>December 31,<br/>2020</b> | <b>December 31,<br/>2019</b> |
|---|-------------------------------------|------------------------------|------------------------------|
| <b>Right-of-use assets</b>              |                                     |                              |                              |
| Operating lease assets                  | Other assets                        | \$ 10,295                    | \$ 9,521                     |
| <b>Lease liabilities</b>                |                                     |                              |                              |
| Current operating lease liabilities     | Other accrued liabilities           | \$ 2,682                     | \$ 1,954                     |
| Non-current operating lease liabilities | Other liabilities                   | 7,345                        | 7,031                        |
| Total                                   |                                     | \$ 10,027                    | \$ 8,985                     |

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

| <b>Lease term and discount rate</b>   | <b>December 31,<br/>2020</b> | <b>December 31,<br/>2019</b> |
|---------------------------------------|------------------------------|------------------------------|
| Weighted average remaining lease term | 4.2 years                    | 4.8 years                    |
| Weighted average discount rate        | 3.3 %                        | 3.9 %                        |

Supplemental cash flows information related to leases was as follow:

| <b>(In thousands)</b>  | <b>Year Ended December 31,</b> |             |
|--|--------------------------------|-------------|
|  | <b>2020</b>                    | <b>2019</b> |
| Cash paid for amounts included in the measurement of lease liabilities:      |                                |             |
| Operating cash flows from operating leases                                   | \$ 2,459                       | \$ 2,964    |
| Right-of-use assets obtained in exchange for new operating lease obligations | \$ 2,947                       | \$ 4,884    |

Future minimum lease payments under all non-cancelable lease agreements as of December 31, 2020, are as follows:

| <b>(In thousands)</b>               | <b>December 31,<br/>2020</b> |
|-------------------------------------|------------------------------|
| 2021                                | \$ 2,964                     |
| 2022                                | 2,840                        |
| 2023                                | 2,477                        |
| 2024                                | 1,334                        |
| 2025                                | 342                          |
| Thereafter                          | 830                          |
| Total future minimum lease payments | 10,787                       |
| Less imputed interest               | (760)                        |
| Total                               | \$ 10,027                    |

*Purchase Obligations*

At December 31, 2020, the Company had no non-cancelable purchase obligations that were due beyond one year.

**13. LEGAL PROCEEDINGS AND CONTINGENCIES:**

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

On April 1, 2016, Opticurrent, LLC filed a complaint against the Company in the United States District Court for the Eastern District of Texas alleging that the Company infringed one patent pertaining to transistor switch devices and seeking damages for the alleged infringement. The Company filed a motion to transfer the case to the Northern District of 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. Although the Court of Appeals affirmed the original findings and the reduced damages award, the Company believes it has strong defenses, and intends to continue to vigorously defend itself against Opticurrent's claims, including through a pending motion to set aside the judgment in view of a disclaimer that Opticurrent made during reexamination proceedings, which has been fully briefed and argued, with rulings expected in the coming months.

On June 19, 2019, Opticurrent, LLC filed a follow-on lawsuit in the United States District Court for the Northern District of California accusing more of the Company's products of infringement and seeking damages for the alleged infringement of the same claim of the same patent asserted in the parties' prior litigation, as described above. Limited discovery has taken place, but proceedings are currently stayed pending resolution of the Company's motion to set aside the judgment in the parties' prior litigation, and 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 in the United States District Court for the District of Delaware 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, so CogniPower's claims for infringement initially went forward separately in their lawsuit against the Company's customers in the District of Delaware, but the Company filed a motion to intervene in that lawsuit and received a ruling allowing the Company to intervene in CogniPower's customer lawsuit on February 1, 2021. Fact discovery and claim construction proceedings are now under way, 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 condition and operating results. Currently, the Company is not able to estimate a loss or a range of loss for the ongoing litigation disclosed above, however adverse determinations in litigation could result in monetary losses, the loss of proprietary rights, subject the Company to significant liabilities, require Power Integrations to seek licenses from third parties or prevent the Company from licensing the technology, any of which could have a material adverse effect on the Company's business, financial condition and operating results.

#### **14. RETIREMENT PLANS:**

The Company sponsors a defined benefit pension plan (Pension Plan) for its Swiss subsidiary in accordance with the legal requirements of Switzerland. The plan assets, which provide benefits in the event of an employee's retirement, death or disability, are held in legally autonomous trustee-administered funds that are subject to Swiss law. Benefits are based on the employee's age, years of service and salary, and the plan is financed by contributions by both the employee and the Company.

The net periodic benefit cost of the Pension Plan was not material to the Company's financial statements during the years ended December 31, 2020, 2019 and 2018. At December 31, 2020, the projected benefit obligation was \$16.6 million, the plan assets were \$9.7 million and the net pension liability was \$6.9 million. As of December 31, 2019, the projected benefit obligation was \$14.8 million, the plan assets were \$8.2 million, and the net pension liability was \$6.6 million. The Company has recorded the unfunded amount as a liability in its consolidated balance sheet at December 31,

[Table of Contents](#)

2020 and 2019, under the other liabilities caption. The Company expects to make contributions to the Pension Plan of approximately \$0.4 million during 2021. The unrealized actuarial loss on pension benefits, net of tax, at December 31, 2020, 2019 and 2018 was \$1.6 million, \$2.5 million and \$0.7 million, respectively. These amounts were reflected in Note 3 under the caption accumulated other comprehensive loss.

In accordance with the Compensation-Retirement Benefits Topic of ASC 715-20, *Defined Benefits Plan*, the Company recognizes the over-funded or under-funded status of its defined post-retirement plan as an asset or liability in its statement of financial position. The Company measured the plan assets and benefit obligations as of the date of the fiscal year-end.

**15. BANK LINE OF CREDIT:**

On July 27, 2016, the Company entered into a credit agreement with a bank (the "Credit Agreement") that provides the Company 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. The Credit Agreement was amended on April 30, 2018, to extend the termination date from July 26, 2019, to April 30, 2022, with all other terms remaining the same. The Company's ability to borrow under the revolving line of credit is conditioned upon the Company's compliance with specified covenants, including reporting and financial covenants, primarily a minimum cash requirement and a debt to earnings ratio. 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. The Company was compliant with all covenants and had no advances outstanding under the Credit Agreement.

**16. SELECTED QUARTERLY INFORMATION (Unaudited):**

The following tables set forth certain data from the Company's consolidated statements of income for each of the quarters in the years ended December 31, 2020 and 2019.

The unaudited quarterly consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements contained herein and include all adjustments that the Company considers necessary for a fair presentation of such information when read in conjunction with the Company's annual audited consolidated financial statements and notes thereto appearing elsewhere in this report. The operating results for any quarter are not necessarily indicative of the results for any subsequent period or for the entire fiscal year.

|   | <b>Three Months Ended</b> |                           |                          |                          |                             |                           |                          |                          |
|---|---------------------------|---------------------------|--------------------------|--------------------------|-----------------------------|---------------------------|--------------------------|--------------------------|
|   | <b>(unaudited)</b>        |                           |                          |                          |                             |                           |                          |                          |
| (In thousands, except per share data)               | <b>Dec. 31,<br/>2020</b>  | <b>Sept. 30,<br/>2020</b> | <b>June 30,<br/>2020</b> | <b>Mar. 31,<br/>2020</b> | <b>Dec. 31,<br/>2019(1)</b> | <b>Sept. 30,<br/>2019</b> | <b>June 30,<br/>2019</b> | <b>Mar. 31,<br/>2019</b> |
| Net revenues  | \$ 150,693                | \$ 121,129                | \$ 106,832               | \$ 109,664               | \$ 114,457                  | \$ 114,159                | \$ 102,865               | \$ 89,188                |
| Gross profit  | 74,005                    | 59,569                    | 53,536                   | 56,480                   | 58,225                      | 58,131                    | 51,572                   | 45,474                   |
| Net income  | \$ 27,278                 | \$ 14,820                 | \$ 13,192                | \$ 15,886                | \$ 158,291                  | \$ 17,099                 | \$ 10,845                | \$ 7,233                 |
| Earnings per share <sup>(2)</sup>                   |                           |                           |                          |                          |                             |                           |                          |                          |
| Basic   | \$ 0.46                   | \$ 0.25                   | \$ 0.22                  | \$ 0.27                  | \$ 2.69                     | \$ 0.29                   | \$ 0.19                  | \$ 0.13                  |
| Diluted   | \$ 0.45                   | \$ 0.24                   | \$ 0.22                  | \$ 0.27                  | \$ 2.64                     | \$ 0.29                   | \$ 0.19                  | \$ 0.13                  |
| Shares used in per share calculation <sup>(2)</sup> |                           |                           |                          |                          |                             |                           |                          |                          |
| Basic   | 59,879                    | 59,823                    | 59,712                   | 59,204                   | 58,854                      | 58,770                    | 58,594                   | 57,902                   |
| Diluted   | 61,176                    | 60,852                    | 60,624                   | 60,268                   | 60,010                      | 59,732                    | 59,404                   | 58,892                   |

(1) In October 2019, the Company entered into a favorable litigation settlement with ON Semiconductor Corporation which resulted in a \$169.0 million net gain.

(2) 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 received one additional share of common stock for each share of common stock held on August 14, 2020. The share and per share information for all periods presented in this Form 10-K has been adjusted for the effect of the stock split (Refer to Note 10, *Earnings Per Share*, in this Form 10-K for details).

**Schedule II**

*Valuation and Qualifying Accounts*

The Company maintains an allowance for the distributors' ship and debit credits relating to the sell-through of the Company's products. This reserve is established using the Company's historical ship and debit amounts and levels of inventory in the distributor channels.

The following is a summary of the activity in the allowance for ship and debit credits:

| <b>(In thousands)</b>                        | <b>Balance at<br/>Beginning of<br/>Period</b> | <b>Charged to<br/>Costs and<br/>Expenses</b> | <b>Deductions(1)</b> | <b>Balance at End<br/>of Period</b> |
|--|---|--|----------------------|-------------------------------------|
| <b>Allowance for ship and debit credits:</b> |   |  |                      |                                     |
| Year ended December 31, 2018                 | \$ 39,486                                     | \$ 242,068                                   | \$ (241,436)         | \$ 40,118                           |
| Year ended December 31, 2019                 | \$ 40,118                                     | \$ 230,278                                   | \$ (236,921)         | \$ 33,475                           |
| Year ended December 31, 2020                 | \$ 33,475                                     | \$ 257,765                                   | \$ (264,805)         | \$ 26,435                           |

- (1) Deductions relate to ship and debit credits issued which adjust the sales price from the standard distribution price to the pre-approved lower price. Refer to Note 2, *Significant Accounting Policies and Recent Accounting Pronouncements*, for the Company's revenue recognition policy, including the Company's accounting for ship and debit claims.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

Not applicable.

**Item 9A. Controls and Procedures.**

**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, as amended, or 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 Annual Report on Form 10-K, 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. Our disclosure controls and procedures include components of our internal control over financial reporting, which consists of control processes designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles in the U.S. To the extent that components of our internal control over financial reporting are included within our disclosure controls and procedures, they are included in the scope of our periodic controls evaluation. 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.

**Management's Report on Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting.

Management conducted an assessment of Power Integrations' internal control over financial reporting as of December 31, 2020, based on the framework established by the Committee of Sponsoring Organization (COSO) of the Treadway Commission in *Internal Control - Integrated Framework* issued in 2013. Based on this assessment, management concluded that, as of December 31, 2020, our internal control over financial reporting was effective.

The effectiveness of Power Integrations' internal control over financial reporting as of December 31, 2020, has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which appears below.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal controls over financial reporting during the fourth quarter of 2020, which were identified in connection with management's evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.



## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Stockholders and the Board of Directors of Power Integrations, Inc.

### **Opinion on Internal Control over Financial Reporting**

We have audited the internal control over financial reporting of Power Integrations, Inc. and subsidiaries (the “Company”) as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2020, of the Company and our report dated February 5, 2021 expressed an unqualified opinion on those consolidated financial statements and included an explanatory paragraph relating to the Company’s adoption of Accounting Standards Update (ASU) 2016-02, Leases (Topic 842).

### **Basis for Opinion**

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### **Definition and Limitations of Internal Control over Financial Reporting**

A company’s internal control over financial reporting is a process designed 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. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ DELOITTE & TOUCHE LLP

San Jose, California

February 5, 2021

**Item 9B. Other Information.**

**Compensation Matters**

On February 1, 2021, the Compensation Committee of the Board of Directors of Power Integrations, Inc. (the “Company”) took the following compensation actions with respect to the Company’s chief executive officer, chief financial officer, and other “named executive officers” as defined in Rule 402 of SEC Regulation S-K (collectively, the “Officers”).

***2021 Performance-based Incentive Plan***

Approved the 2021 Performance-based Incentive Plan (the “2021 PSU Plan”) as follows:

Each Officer, as described below, was granted performance stock units, referred to as “PSUs,” which will vest (referred to as a “payout” below) based on Company performance as against the 2021 PSU Plan’s established net revenue targets, non-GAAP operating income targets and strategic goals, each as established by the Compensation Committee. The 2021 target net revenue and non-GAAP operating income levels are intended to have difficulty in attainment levels consistent with the Company’s 2020 PSU Plan.

The portion of the performance stock units granted under the 2021 PSU Plan that will vest will be calculated independently for each of its net revenue, non-GAAP operating income and strategic goals components. “Net revenue” is as set forth in the Company’s annual report for 2021 to be filed with the Securities and Exchange Commission (“SEC”). “Non-GAAP operating income” means operating income for 2021 determined in accordance with GAAP but excluding the following items: (i) stock-based compensation expenses recorded under Accounting Standards Codification 718; (ii) amortization of acquisition-related intangible assets, and the fair-value write-up of acquired inventory; (iii) any other mergers and acquisitions related expenses; and (iv) any other adjustment made to arrive at the Company’s non-GAAP financial information as presented in the Company’s SEC filings. Further, in the event of any mergers, acquisitions or divestitures, or any patent or other litigation settlements or judgments, during the performance period, the net revenue and non-GAAP operating income targets shall be adjusted based on a revised plan approved by the Board of Directors. The strategic goals component is made up of five different strategic goals for the Company.

Weighting of the target components is as follows:

|                           |       |
|---------------------------|-------|
| Net revenue               | 40 %  |
| Non-GAAP operating income | 30 %  |
| Strategic goals           | 30 %  |
| Total                     | 100 % |

***Net Revenue Component of the 2021 PSU Plan:***

No payout will be made under the net revenue component of the 2021 PSU Plan if the Company’s 2021 actual net revenue does not exceed at least the established minimum amount of net revenue as set forth in the 2021 PSU Plan. To the extent 2021 actual net revenue is above the minimum amount of net revenue, the payout increases linearly from zero at the minimum amount of net revenue as set forth in the 2021 PSU Plan up to 100% of the net revenue component of the target when actual net revenue equals target net revenue in the 2021 PSU Plan. If 2021 actual net revenue is above the target amount of net revenue, then the payout for performance above target increases linearly from the target amount up to a maximum of 200% of the net revenue component of the target when actual net revenue equals or exceeds the established target to achieve the maximum payout under the net revenue component of the 2021 PSU Plan.

***Non-GAAP Operating Income Component of the 2021 PSU Plan:***

No payout will be made under the non-GAAP operating income component of the 2021 PSU Plan if the Company’s 2021 actual non-GAAP operating income does not exceed at least the established minimum amount of non-GAAP operating income as set forth in the 2021 PSU Plan. To the extent 2021 actual non-GAAP operating income is above the minimum amount of non-GAAP operating income, the payout increases linearly from zero at the minimum amount of non-GAAP operating income as set forth in the 2021 PSU Plan up to 100% of the non-GAAP operating income component of the target when actual non-GAAP operating income equals target non-GAAP operating income in the 2021 PSU Plan. If 2021 actual non-GAAP operating income is above the target amount of non-GAAP operating income, then

the payout for performance above target increases linearly from the target amount up to a maximum of 200% of the non-GAAP operating income component of the target when actual non-GAAP operating income equals or exceeds the established target to achieve the maximum payout under the non-GAAP operating income component of the 2021 PSU Plan.

*Strategic Goals Component of the 2021 PSU Plan:*

Each of the five goals in the strategic goals component of the 2021 PSU Plan is assigned a weighting percentage, which percentages range from 2% to 14%, and which collectively add up to 30%. If the Company's 2021 actual achievement of a goal does not exceed at least the established minimum requirement for a particular goal, then no amount is earned for that goal. To the extent 2021 actual performance for a goal is better than the established minimum for the goal, then the payout increases linearly from zero at the minimum amount of performance as set forth in the 2021 PSU Plan up to 100% of the amount for that goal when actual performance equals target performance for that goal in the 2021 PSU Plan. To the extent 2021 actual performance for a goal is better than the established target for the goal, then the payout for performance above target increases linearly from the target amount actual performance, up to a maximum of 200% for the specific goal when actual performance equals or exceeds the established target to achieve the maximum payout under the specific goal as set forth in the 2021 PSU Plan.

**2021 Target Performance Stock Units**

Approved the 2021 target performance stock units for the Officers as follows:

| <b>Executive Officer</b> | <b>Title</b>                          | <b>2021 Target PSUs</b> |
|--------------------------|---------------------------------------|-------------------------|
| Balu Balakrishnan        | President and Chief Executive Officer | 11,000                  |
| Sandeep Nayyar           | Chief Financial Officer               | 3,500                   |
| Radu Barsan              | Vice President, Technology            | 3,000                   |
| David "Mike" Matthews    | Vice President, Product Development   | 2,300                   |
| Ben Sutherland           | Vice President, Worldwide Sales       | 2,300                   |

The actual number of shares subject to the performance stock units is twice the target level shown in the table above to enable the payout of up to 200% of the target amount if the actual net revenue, non-GAAP operating income and strategic goals achievement equal or exceed the established levels to achieve the maximum amount of the 2021 PSU Plan.

**2021 Restricted Stock Unit Grants**

Approved restricted stock units, referred to as "RSUs," grants to the following Officers:

| <b>Executive Officer</b> | <b>Title</b>                          | <b>2021 RSU Grants</b> |
|--------------------------|---------------------------------------|------------------------|
| Balu Balakrishnan        | President and Chief Executive Officer | 30,000                 |
| Sandeep Nayyar           | Chief Financial Officer               | 12,000                 |
| Radu Barsan              | Vice President, Technology            | 9,900                  |
| David "Mike" Matthews    | Vice President, Product Development   | 7,500                  |
| Ben Sutherland           | Vice President, Worldwide Sales       | 7,500                  |

The RSU grants will be effective on the grant date. Twenty-five percent (25%) of the RSUs vest on the one-year anniversary of the vesting commencement date (as specified in the Officers' RSU award agreements), and an additional twenty-five percent (25%) of the RSUs vest annually over the next three (3) years thereafter, subject to the respective Officer's continuous service.

**2021 Long-term Performance-Based Incentive Plan**

Approved the 2021 Long-term Performance-Based Incentive Plan ("2021 PRSU Plan") as follows:

Each Officer, as described below, was granted long term performance stock units, referred to as "PRSUs," which will vest (referred to as a "payout" below) based on Company revenue performance as against the 2021 PRSU Plan's established three-year (years 2021, 2022 and 2023) compound annual growth rate ("CAGR") of revenue as measured against a specified index of the analog semiconductor industry CAGR (the "Index"). The level of performance of the Company's three-year revenue CAGR as against the Index is intended to have a difficulty in attainment level consistent

[Table of Contents](#)

with the Company's 2020 PRSU Plan. The portion of the performance stock units that will vest will be calculated based on the Company's actual three-year revenue CAGR as compared to the Index and awarded in early 2024 upon approval by the Compensation Committee. In the event of any mergers, acquisitions or divestitures, or any patent or other litigation settlements or judgments, during the performance period, the Company's target three-year revenue CAGR as against the Index shall be adjusted based on a revised plan approved by the Board of Directors.

No payout will be made in early 2024 under the 2021 PRSU Plan if the Company's actual three-year revenue CAGR does not exceed at least the established minimum amount as measured against the Index as set forth in the 2021 PRSU Plan. To the extent the Company's actual three-year revenue CAGR exceeds at least the established minimum amount as measured against the Index as set forth in the 2021 PRSU Plan, the payout increases linearly from zero at the minimum CAGR performance level as measured against the Index as set forth in the 2021 PRSU Plan up to 100% when the Company's actual three-year revenue CAGR equals the target at the specified level as set forth in the 2021 PRSU Plan. If the Company's actual three-year revenue CAGR exceeds the target, then the payout for performance above target increases linearly from the target amount up to a maximum of 200% of the target when the Company's actual three-year revenue CAGR equals or exceeds the established amount to achieve the maximum payout as set forth in the 2021 PRSU Plan. Except to the extent provided in the executive officer benefits agreements between the Company and each Officer, each Officer must be employed by the Company through the end of the performance period to receive stock pursuant to the PRSUs under the 2021 PRSU Plan.

**2021 Target PRSUs**

Approved the target 2021 PRSUs for the Officers as follows:

| <b>Executive Officer</b> | <b>Title</b>                          | <b>2021 Target PRSUs</b> |
|--------------------------|---------------------------------------|--------------------------|
| Balu Balakrishnan        | President and Chief Executive Officer | 30,000                   |
| Sandeep Nayyar           | Chief Financial Officer               | 4,000                    |
| Radu Barsan              | Vice President, Technology            | 3,300                    |
| David "Mike" Matthews    | Vice President, Product Development   | 2,500                    |
| Ben Sutherland           | Vice President, Worldwide Sales       | 2,500                    |

The actual number of shares subject to the PRSUs is twice the target level shown in the table above to enable the payout of up to 200% of the target amount if actual net revenue equals or exceeds the established level to achieve the maximum amount of the 2021 PRSU Plan.

**2021 Salaries**

Approved the 2021 salaries for the Officers, to be effective at the end of March 2021, as follows:

| <b>Executive Officer</b> | <b>Title</b>                          | <b>2021 Salary</b> |
|--------------------------|---------------------------------------|--------------------|
| Balu Balakrishnan        | President and Chief Executive Officer | \$ 665,000         |
| Sandeep Nayyar           | Chief Financial Officer               | \$ 410,000         |
| Radu Barsan              | Vice President, Technology            | \$ 385,000         |
| David "Mike" Matthews    | Vice President, Product Development   | \$ 350,000         |
| Ben Sutherland           | Vice President, Worldwide Sales       | \$ 350,000         |

### PART III

#### **Item 10. Directors, Executive Officers and Corporate Governance.**

The names of our executive officers and their ages, titles and biographies as of the date hereof are set forth under the caption “Information About our Executive Officers” in Part I, Item 1, above.

The following information is included in our Notice of Annual Meeting of Stockholders and Proxy Statement to be filed within 120 days after our fiscal year end of December 31, 2020, or the Proxy Statement, and is incorporated herein by reference:

- Information regarding our directors and any persons nominated to become a director is set forth under the caption “Proposal 1 Election of Directors.”
- Information regarding our audit committee and our designated “audit committee financial expert” is set forth under the captions “Information Regarding the Board and its Committees” and “Audit Committee” under “Proposal 1 Election of Directors” and “Report of the Audit Committee of the Board.”
- Information on our code of business conduct and ethics for directors, officers and employees is set forth under the caption “Code of Business Conduct and Ethics” under “Proposal 1 Election of Directors.”
- Information regarding Section 16(a) beneficial ownership reporting compliance, if any, will be set forth under the caption “Delinquent Section 16(a) Reports.”
- Information regarding procedures by which stockholders may recommend nominees to our board of directors is set forth under the caption “Nominating and Governance Committee” under “Proposal 1 Election of Directors.”

#### **Item 11. Executive Compensation.**

Information regarding compensation of our named executive officers is set forth under the caption “Compensation of Executive Officers” in the Proxy Statement, which information is incorporated herein by reference.

Information regarding compensation of our directors is set forth under the caption “Compensation of Directors” in the Proxy Statement, which information is incorporated herein by reference.

Information relating to compensation policies and practices as they relate to risk management is set forth under the caption “Compensation Policies and Practices as They Relate to Risk Management” under “Proposal 1 Election of Directors” in the Proxy Statement, which information is incorporated herein by reference.

Information regarding compensation committee interlocks is set forth under the caption “Compensation Committee Interlocks and Insider Participation” in the Proxy Statement, which information is incorporated herein by reference.

The Compensation Committee Report is set forth under the caption “Compensation Committee Report” in the Proxy Statement, which report is incorporated herein by reference.

#### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

Information regarding security ownership of certain beneficial owners, directors and executive officers is set forth under the caption “Security Ownership of Certain Beneficial Owners and Management” in the Proxy Statement, which information is incorporated herein by reference.

Information regarding our equity compensation plans, including both stockholder approved plans and non-stockholder approved plans, is set forth under the caption “Equity Compensation Plan Information” in the Proxy Statement, which information is incorporated herein by reference.

#### **Item 13. Certain Relationships and Related Transactions, and Director Independence.**

Information regarding certain relationships and related transactions is set forth under the caption “Certain Relationships and Related Transactions” in the Proxy Statement, which information is incorporated herein by reference.

Information regarding director independence is set forth under the caption “Proposal 1 - Election of Directors” in the Proxy Statement, which information is incorporated herein by reference.

#### **Item 14. Principal Accounting Fees and Services.**

Information regarding principal auditor fees and services is set forth under “Principal Accountant Fees and Services” in the Proposal with the caption “Ratification of Selection of Independent Registered Public Accounting Firm” in the Proxy Statement, which information is incorporated herein by reference.

PART IV

**Item 15. Exhibits, Financial Statement Schedules**

(a)

1. The financial statements required by Item 15(a) are included in Item 8 of this Annual Report on Form 10-K.
2. The financial statement schedule required by Item 15(a) (Schedule II, Valuation and Qualifying Accounts) is included in Item 8 of this Annual Report on Form 10-K.

All other schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

(b) Exhibits

| Exhibit Number | Exhibit Description   | Incorporation by Reference |             |                            |             | Filed Herewith |
|----------------|---|----------------------------|-------------|----------------------------|-------------|----------------|
|                |   | Form                       | File Number | Exhibit/Appendix Reference | Filing Date |                |
| 3.1            | <a href="#">Restated Certificate of Incorporation</a>   | 10-K                       | 000-23441   | 3.1                        | 2/29/2012   |                |
| 3.2            | <a href="#">Amended and Restated Bylaws</a>   | 8-K                        | 000-23441   | 3.1                        | 4/26/2013   |                |
| 4.1            | <a href="#">Description of Power Integrations, Inc. Common Stock</a>                                | 10-K                       | 000-23441   | 4.1                        | 2/6/2020    |                |
| 4.2            | Reference is made to Exhibits 3.1 to 3.2  |                            |             |                            |             |                |
| 10.1*          | <a href="#">Form of Indemnity Agreement for directors and officers</a>                              | S-1                        | 333-35421   | 10.1                       | 9/11/1997   |                |
| 10.2*          | <a href="#">Power Integrations, Inc. Compliance Policy Regarding IRC Section 409A</a>               | 10-K                       | 000-23441   | 10.63                      | 3/2/2009    |                |
| 10.3*          | <a href="#">1997 Employee Stock Purchase Plan, as amended</a>                                       | 10-Q                       | 000-23441   | 10.1                       | 10/29/2020  |                |
| 10.4*          | <a href="#">Forms of agreement under 1997 Employee Stock Purchase Plan</a>                          | S-1                        | 333-35421   | 10.5                       | 9/11/1997   |                |
| 10.5*          | <a href="#">1997 Outside Directors Stock Option Plan</a>  | 10-Q                       | 000-23441   | 10.2                       | 10/29/2020  |                |
| 10.6*          | <a href="#">Forms of agreement under 1997 Outside Directors Stock Option Plan</a>                   | S-1                        | 333-35421   | 10.4                       | 9/11/1997   |                |
| 10.7*          | <a href="#">Form of Director Option Grant Agreement</a>   | 10-Q                       | 000-23441   | 10.9                       | 5/6/2009    |                |
| 10.8*          | <a href="#">Director Equity Compensation Program</a>  | 10-K                       | 000-23441   | 10.1                       | 2/7/2020    |                |
| 10.9*          | <a href="#">Forms of Stock Option Agreements to be used in Director Equity Compensation Program</a> | 10-Q                       | 000-23441   | 10.5                       | 11/7/2008   |                |
| 10.10*         | <a href="#">Outside Director Cash Compensation Arrangements</a>                                     | 10-K                       | 000-23441   | 10.12                      | 2/7/2020    |                |
| 10.11*         | <a href="#">2007 Equity Incentive Plan, as amended and restated</a>                                 | 10-Q                       | 000-23441   | 10.3                       | 10/29/2020  |                |
| 10.12*         | <a href="#">Forms of Option Agreements under the 2007 Equity Incentive Plan</a>                     | Schedule TO                | 000-23441   | 99.(D)(4)                  | 12/3/2008   |                |

## Table of Contents

|        |  |      |           |       |            |
|--------|--|------|-----------|-------|------------|
| 10.13* | <a href="#">Form of Restricted Stock Unit Grant Notice and Form of Restricted Stock Unit Award Agreement under the 2007 Equity Incentive Plan</a>  | 10-Q | 000-23441 | 10.1  | 5/6/2010   |
| 10.14* | <a href="#">Form of Performance Stock Unit Grant Notice and Performance Stock Unit Agreement (as used after to January 1, 2013) under the 2007 Equity Incentive Plan</a>                                   | 10-K | 000-23441 | 10.29 | 2/22/2013  |
| 10.15* | <a href="#">Form of Long Term Performance Stock Unit Notice and Agreement under the 2007 Equity Incentive Plan</a>   | 10-K | 000-23441 | 10.84 | 2/10/2015  |
| 10.16* | <a href="#">Power Integrations, Inc. Amended and Restated 2016 Incentive Award Plan</a>  | 10-Q | 000-23441 | 10.4  | 10/29/2020 |
| 10.17* | <a href="#">Form of Restricted Stock Unit Grant Notice and Agreement under the 2016 Incentive Award Plan</a>   | 10-K | 000-23441 | 10.25 | 2/8/2017   |
| 10.18* | <a href="#">Form of Performance Stock Unit Notice and Agreement under the 2007 Equity Incentive Plan</a>   | 10-K | 000-23441 | 10.26 | 2/8/2017   |
| 10.19* | <a href="#">Form of Long Term Performance Stock Unit Notice and Agreement under the 2007 Equity Incentive Plan</a>   | 10-K | 000-23441 | 10.27 | 2/8/2017   |
| 10.21† | <a href="#">Wafer Supply Agreement between us and ZMD Analog Mixed Signal Services GmbH &amp; Co. KG, dated as of May 23, 2003</a>   | 10-Q | 000-23441 | 10.32 | 8/7/2003   |
| 10.22† | <a href="#">Amended and Restated Wafer Supply Agreement between us and OKI Electric Industry Co., Ltd., dated as of April 1, 2003</a>  | 10-Q | 000-23441 | 10.31 | 8/7/2003   |
| 10.23† | <a href="#">Amendment Number One to the Amended and Restated Wafer Supply Agreement between us and OKI Electric Industry Co., Ltd., effective as of August 11, 2004</a>                                    | 8-K  | 000-23441 | 10.22 | 4/18/2006  |
| 10.24  | <a href="#">Amendment Number Two to the Amended and Restated Wafer Supply Agreement between Power Integrations International, Ltd. and OKI Electric Industry Co., Ltd., effective as of April 1, 2008</a>  | 10-Q | 000-23441 | 10.5  | 8/8/2008   |
| 10.25  | <a href="#">Amendment Number Three to the Amended and Restated Wafer Supply Agreement between Power Integrations International, Ltd. and OKI Electric Industry Co., Ltd., effective as of June 9, 2008</a> | 10-Q | 000-23441 | 10.6  | 8/8/2008   |
| 10.26† | <a href="#">Amendment Number Four to the Amended and Restated Wafer Supply Agreement between Power Integrations International, Ltd. and OKI Electric Industry Co., Ltd., dated September 15, 2008</a>      | 10-Q | 000-23441 | 10.2  | 11/7/2008  |





[Table of Contents](#)

|         |   |      |           |       |            |   |
|---------|---|------|-----------|-------|------------|---|
| 10.27†  | <a href="#">Amendment Number Five to the Amended and Restated Wafer Supply Agreement between Power Integrations International, Ltd. and OKI Semiconductor Co., Ltd., effective as of November 14, 2008</a>  | 10-K | 000-23441 | 10.61 | 3/2/2009   |   |
| 10.28†  | <a href="#">Amendment Number Six to the Amended and Restated Wafer Supply Agreement between Power Integrations International, Ltd. and OKI Semiconductor Co., Ltd., effective as of November 1, 2015</a>  | 10-K | 000-23441 | 10.32 | 2/11/2016  |   |
| 10.29†  | <a href="#">Amendment Number Seven to the Amended and Restated Wafer Supply Agreement between Power Integrations International, Ltd. and OKI Semiconductor Co., Ltd., effective as of August 8, 2016</a>  | 10-Q | 000-23441 | 10.1  | 11/1/2016  |   |
| 10.30†  | <a href="#">Amendment Number Eight to the Amended and Restated Wafer Supply Agreement between Power Integrations International, Ltd. and OKI Semiconductor Co., Ltd., effective as of July 26, 2017</a>   | 10-Q | 000-23441 | 10.1  | 10/26/2017 |   |
| 10.31†† | <a href="#">Amendment Number Nine to the Amended and Restated Wafer Supply Agreement, between Power Integrations International, Ltd. and Lapis Semiconductor Co., Ltd. (formerly OKI Semiconductor Co., Ltd.), effective as of February 6, 2019</a> | 10-Q | 000-23441 | 10.2  | 4/25/2019  |   |
| 10.32†  | <a href="#">Wafer Supply Agreement, between Seiko Epson Corporation and Power Integrations International, Ltd. effective as of April 1, 2005</a>  | 10-Q | 000-23441 | 10.1  | 11/7/2008  |   |
| 10.33†  | <a href="#">Amendment Number One to the Wafer Supply Agreement between Power Integrations International, Ltd. and Seiko Epson Corporation, with an effective date of December 19, 2008</a>  | 10-Q | 000-23441 | 10.1  | 5/6/2009   |   |
| 10.34†  | <a href="#">Amendment Number Two to Wafer Supply Agreement, between Seiko Epson Corporation and Power Integrations International, Ltd., entered into on January 5, 2011</a>   | 10-K | 000-23441 | 10.47 | 2/25/2011  |   |
| 10.35†  | <a href="#">Amendment Number Three to Wafer Supply Agreement, effective as of February 1, 2012, by Power Integrations International Ltd. and Seiko Epson Corporation</a>  |      |           |       |            | X |
| 10.36†  | <a href="#">Development Addendum to Wafer Supply Agreement, dated September 22, 2013, between Seiko Epson Corporation and Power Integrations International Ltd</a>  |      |           |       |            | X |

## Table of Contents

|        |  |        |           |       |           |   |
|--------|--|--------|-----------|-------|-----------|---|
| 10.37† | <a href="#">Amendment Number Four to Wafer Supply Agreement, effective as of April 1, 2015, by Power Integrations International Ltd. and Seiko Epson Corporation</a>   |        |           |       |           | X |
| 10.38† | <a href="#">Amendment Number Five to Wafer Supply Agreement, effective as of November 2, 2015, by Power Integrations International Ltd. and Seiko Epson Corporation</a>  |        |           |       |           | X |
| 10.39† | <a href="#">Amendment Number Six to Wafer Supply Agreement, effective as of December 8, 2015, by Power Integrations International Ltd. and Seiko Epson Corporation</a>   |        |           |       |           | X |
| 10.40† | <a href="#">Amendment Number Seven to Wafer Supply Agreement, effective as of October 3, 2016, by Power Integrations International Ltd. and Seiko Epson Corporation</a>  | 10-K   | 000-23441 | 10.46 | 2/8/2017  |   |
| 10.41† | <a href="#">Amendment Number Eight to Wafer Supply Agreement, effective as of November 8, 2016 by Power Integrations International Ltd. and Seiko Epson Corporation</a>  | 10-K   | 000-23441 | 10.47 | 2/8/2017  |   |
| 10.42† | <a href="#">Amendment Number One to the Amended and Restated Wafer Supply Agreement between Power Integrations International, Ltd. and XFAB Dresden GmbH &amp; Co. KG, effective as of July 20, 2005</a>                                 | 10-K   | 000-23441 | 10.66 | 2/26/2010 |   |
| 10.43† | <a href="#">Wafer Supply Agreement, made and entered into as of October 1, 2010, by and between Power Integrations International, Ltd., and X-FAB Semiconductor Foundries AG</a>   | 10-Q   | 000-23441 | 10.2  | 5/8/2012  |   |
| 10.44† | <a href="#">Amendment Number One to Wafer Supply Agreement, effective as of January 1, 2014, between Power Integrations International, Ltd., and X-FAB Semiconductor Foundries AG</a>  | 10-Q/A | 000-23441 | 10.2  | 9/19/2014 |   |
| 10.45† | <a href="#">Amendment Number Two to the Wafer Supply Agreement, effective as of December 1, 2018, between Power Integrations International, Ltd., and X-FAB Semiconductor Foundries GmbH (formerly X-FAB Semiconductor Foundries AG)</a> | 10-K   | 000-23441 | 10.52 | 2/13/2019 |   |
| 10.46  | <a href="#">Credit Agreement, dated July 27, 2016, by and between Power Integrations Inc. and Wells Fargo Bank, National Association</a>   | 10-Q   | 000-23441 | 10.1  | 7/29/2016 |   |
| 10.47  | <a href="#">First Amendment to Credit Agreement, dated April 30, 2018 by and between Power Integrations, Inc. and Wells Fargo Bank, National Association</a>   | 10-Q   | 000-23441 | 10.1  | 7/26/2018 |   |

## Table of Contents

|         |   |      |           |         |           |
|---------|---|------|-----------|---------|-----------|
| 10.48*  | <a href="#">2019 Executive Officer Compensation Arrangements and 2019 Performance Based Incentive Plan</a>  | 10-K | 000-23441 | Item 9B | 2/13/2019 |
| 10.49*  | <a href="#">2018 Executive Officer Cash Compensation Arrangements and 2018 Performance Based Incentive Plan</a>   | 10-K | 000-23441 | Item 9B | 2/14/2018 |
| 10.50*  | <a href="#">Form of Restricted Stock Unit Grant Notice and Form of Restricted Stock Unit Award Agreement for executive officers for use prior to January 2013</a> | 10-Q | 000-23441 | 10.6    | 8/6/2010  |
| 10.51*  | <a href="#">Form of Restricted Stock Unit Grant Notice and Form of Restricted Stock Unit Award Agreement for executive officers for use after January 2013</a>    | 10-K | 000-23441 | 10.48   | 2/22/2013 |
| 10.52*  | <a href="#">Amended and Restated Chief Executive Officer Benefits Agreement, dated as of May 1, 2014, between Power Integrations, Inc. and Balu Balakrishnan</a>  | 10-Q | 000-23441 | 10.3    | 5/5/2014  |
| 10.53*  | <a href="#">Amended and Restated Executive Officer Benefits Agreement, dated as of May 1, 2014, between Power Integrations, Inc. and Cliff Walker</a>             | 10-Q | 000-23441 | 10.5    | 5/5/2014  |
| 10.54*  | <a href="#">Amended and Restated Executive Officer Benefits Agreement, dated as of May 1, 2014, between Power Integrations, Inc. and Doug Bailey</a>              | 10-Q | 000-23441 | 10.6    | 5/5/2014  |
| 10.55*  | <a href="#">Amended and Restated Executive Officer Benefits Agreement, dated as of May 1, 2014, between Power Integrations, Inc. and Ben Sutherland</a>           | 10-Q | 000-23441 | 10.7    | 5/5/2014  |
| 10.56*  | <a href="#">Amended and Restated Executive Officer Benefits Agreement, dated as of May 1, 2014, between Power Integrations, Inc. and Sandeep Nayyar</a>           | 10-Q | 000-23441 | 10.8    | 5/5/2014  |
| 10.57*  | <a href="#">Amended and Restated Executive Officer Benefits Agreement, dated as of May 1, 2014, between Power Integrations, Inc. and Mike Matthews</a>            | 10-Q | 000-23441 | 10.10   | 5/5/2014  |
| 10.58*  | <a href="#">Amended and Restated Executive Officer Benefits Agreement, dated as of May 1, 2014, between Power Integrations, Inc. and Radu Barsan</a>              | 10-Q | 000-23441 | 10.11   | 5/5/2014  |
| 10.60†† | <a href="#">ON Semiconductor Corporation Settlement Agreement</a>   | 10-K | 000-23441 | 10.61   | 2/7/2020  |
| 10.61†† | <a href="#">ON Semiconductor Corporation Term Sheet</a>   | 10-K | 000-23441 | 10.62   | 2/7/2020  |
| 10.62†  | <a href="#">Amendment Number Ten to the Amended and Restated Wafer Supply Agreement</a>   | 10-Q | 000-23441 | 10.1    | 5/7/2020  |



[Table of Contents](#)

|        |  |      |           |         |           |
|--------|--|------|-----------|---------|-----------|
|        | <a href="#">between Power Integrations International, Ltd. and Lapis Semiconductor Co., Ltd. (formerly OKI Semiconductor Co., Ltd.), effective as of December 16, 2019</a>   |      |           |         |           |
| 10.63† | <a href="#">Amendment Number Eleven to the Amended and Restated Wafer Supply Agreement, between Power Integrations International, Ltd. and Lapis Semiconductor Co., Ltd. (formerly OKI Semiconductor Co., Ltd.), effective as of December 20, 2019</a> | 10-Q | 000-23441 | 10.2    | 5/7/2020  |
| 10.64† | <a href="#">Amendment Number Nine to Wafer Supply Agreement, effective as of November 1, 2017 by Power Integrations International Ltd. and Seiko Epson Corporation</a>   | 10-Q | 000-23441 | 10.3    | 5/7/2020  |
| 10.65* | <a href="#">2020 Compensation Arrangements with Named Executive Officers</a>   | 10-K | 000-23441 | Item 9B | 2/7/2020  |
| 10.66* | <a href="#">Amendment to the Amended and Restated Executive Officer Benefits Agreement, dated as of June 1, 2020, between Power Integrations, Inc. and Balu Balakrishnan</a>   | 10-Q | 000-23441 | 10.2    | 7/30/2020 |
| 10.67* | <a href="#">Amendment to the Amended and Restated Executive Officer Benefits Agreement, dated as of June 1, 2020, between Power Integrations, Inc. and Douglas Bailey</a>  | 10-Q | 000-23441 | 10.3    | 7/30/2020 |
| 10.68* | <a href="#">Amendment to the Amended and Restated Executive Officer Benefits Agreement, dated as of June 1, 2020, between Power Integrations, Inc. and Radu Barsan</a>   | 10-Q | 000-23441 | 10.4    | 7/30/2020 |
| 10.69* | <a href="#">Amendment to the Amended and Restated Executive Officer Benefits Agreement, dated as of June 1, 2020, between Power Integrations, Inc. and Ben Sutherland</a>  | 10-Q | 000-23441 | 10.5    | 7/30/2020 |
| 10.70* | <a href="#">Amendment to the Amended and Restated Executive Officer Benefits Agreement, dated as of June 1, 2020, between Power Integrations, Inc. and Mike Matthews</a>   | 10-Q | 000-23441 | 10.6    | 7/30/2020 |
| 10.71* | <a href="#">Amendment to the Amended and Restated Executive Officer Benefits Agreement, dated as of June 1, 2020, between Power Integrations, Inc. and Sandeep Nayyar</a>  | 10-Q | 000-23441 | 10.7    | 7/30/2020 |
| 10.72* | <a href="#">Amendment to the Amended and Restated Executive Officer Benefits Agreement, dated as of June 1, 2020, between Power Integrations, Inc. and Clifford Walker</a>   | 10-Q | 000-23441 | 10.9    | 7/30/2020 |
| 10.73* | <a href="#">Executive Officer Benefits Agreement, dated as of February 1, 2020, between Power Integrations, Inc. and Sunil Gupta</a>   |      |           |         | X         |

[Table of Contents](#)

|         |  |      |           |      |            |   |
|---------|--|------|-----------|------|------------|---|
| 10.74   | <a href="#">Amendment Number Ten to Wafer Supply Agreement, effective as of August 26, 2020 by Power Integrations International Ltd. and Seiko Epson Corporation</a> | 10-Q | 000-23441 | 10.5 | 10/29/2020 |   |
| 21.1    | <a href="#">List of subsidiaries</a>   |      |           |      |            | X |
| 23.1    | <a href="#">Consent of Independent Registered Public Accounting Firm</a>   |      |           |      |            | X |
| 24.1    | <a href="#">Power of Attorney (see signature page)</a>   |      |           |      |            | X |
| 31.1    | <a href="#">Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>   |      |           |      |            | X |
| 31.2    | <a href="#">Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>   |      |           |      |            | X |
| 32.1**  | <a href="#">Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>   |      |           |      |            | X |
| 32.2**  | <a href="#">Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>   |      |           |      |            | X |
| 101.INS | XBRL Instance Document   |      |           |      |            | X |
| 101.SCH | XBRL Taxonomy Extension Schema Document  |      |           |      |            | X |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document  |      |           |      |            | X |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document   |      |           |      |            | X |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document  |      |           |      |            | X |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document   |      |           |      |            | X |
| 104     | The cover page from this Annual Report on Form 10-K, formatted in Inline XBRL.   |      |           |      |            | X |

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

† This Exhibit has been filed separately with the Commission pursuant to an application for confidential treatment. The confidential portions of this Exhibit have been omitted and are marked by an asterisk.

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

\* Indicates a management contract or compensatory plan or arrangement.

\*\* The certifications attached as Exhibits 32.1 and 32.2 accompanying this Form 10-K, 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-K, irrespective of any general incorporation language contained in such filing.

**Item 16. Form 10-K Summary**

Not provided.

**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: February 5, 2021

By: /s/ SANDEEP NAYYAR

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

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**POWER OF ATTORNEY**

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Balu Balakrishnan and Sandeep Nayyar his or her true and lawful attorney-in-fact and agent, with full power of substitution and, for him or her and in his or her name, place and stead, in any and all capacities to sign any and all amendments to this Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BY THE FOLLOWING PERSONS ON BEHALF OF THE REGISTRANT AND IN THE CAPACITIES AND ON THE DATES INDICATED.

|                         |  |
|-------------------------|--|
| Dated: February 5, 2021 | By: <u>/s/ BALU BALAKRISHNAN</u><br>Balu Balakrishnan<br>President, Chief Executive Officer<br>(Principal Executive Officer)         |
| Dated: February 5, 2021 | By: <u>/s/ SANDEEP NAYYAR</u><br>Sandeep Nayyar<br>Chief Financial Officer<br>(Principal Financial and Principal Accounting Officer) |
| Dated: February 5, 2021 | By: <u>/s/ WILLIAM GEORGE</u><br>William George<br>Director and Chairman of the Board  |
| Dated: February 5, 2021 | By: <u>/s/ WENDY ARIENZO</u><br>Wendy Arienzo<br>Director  |
| Dated: February 5, 2021 | By: <u>/s/ NICHOLAS E. BRATHWAITE</u><br>Nicholas E. Brathwaite<br>Director  |
| Dated: February 5, 2021 | By: <u>/s/ ANITA GANTI</u><br>Anita Ganti<br>Director  |
| Dated: February 5, 2021 | By: <u>/s/ BALAKRISHNAN S. IYER</u><br>Balakrishnan S. Iyer<br>Director  |
| Dated: February 5, 2021 | By: <u>/s/ NECIP SAYINER</u><br>Necip Sayiner<br>Director  |
| Dated: February 5, 2021 | By: <u>/s/ STEVEN J. SHARP</u><br>Steven J. Sharp<br>Director  |



[\*] = Certain confidential information contained in this document, marked by brackets, is filed with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

**AMENDMENT NUMBER THREE**

**TO**

**WAFER SUPPLY AGREEMENT**

This Amendment Number Three (the "Amendment"), effective as of February 1, 2012 (the "Amendment Effective Date"), amends the Wafer Supply Agreement effective April 1, 2005. As amended by Amendment Number One effective December 19, 2008 and Amendment Number Two effective September 13, 2010, (as amended, the "Agreement") by and between:

(1) POWER INTEGRATIONS INTERNATIONAL LTD., a Cayman Islands corporation having a place of business at 4<sup>th</sup> Floor, Century Yard, Cricket Square, Elgin Avenue, P.O. Box 32322, Grand Cayman K Y 1-1209 ("Power Integrations")

and

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

**RECITALS**

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

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

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

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

**AGREEMENT**

- 1 Exhibit B of the Agreement is deleted in its entirety and replaced with Exhibit B in the form attached hereto.
- 2 Effective as of the Amendment Effective Date, all references in the Agreement to the "Agreement" or "this Agreement" shall mean the Agreement as amended by this Amendment. Except as expressly amended herein, the terms of the Agreement continue unchanged and shall remain in full force and effect. This Amendment may be executed in one or more counterparts, each of which shall be considered an original, but all of which counterparts together shall constitute one and the same instrument.

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

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SEIKO EPSON CORPORATION

POWER INTEGRATIONS INTERNATIONAL, LTD.

By: /s/ Kazuhzro Takenaka

By: /s/ John Tomlin

Name: Kazuhzro Takenaka

Name: John Tomlin

Title: Deputy COO, Microdevice

Title: President

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Exhibit B

WAFER PRICES FOR VOLUME PRODUCTION OF [\*] INCH WAFERS BY MONTHLY ORDER VOLUME

For [\*] and [\*] WAFERS in both PILOT PRODUCTION and VOLUME PRODUCTION:

| Monthly [*] WAFER Volume | [*] Price/[*] Price |
|--------------------------|---------------------|
| Less than [*]            | [*]                 |
| [*]                      | [*]                 |
| [*] and above            | [*]                 |

Pricing will be reviewed and mutually agreed to in writing on an annual basis.

For WAFERS in ENGINEERING PRODUCTION, the price for each entry of the above table will be multiplied by [\*].

The above prices are the WAFER'S BASE\_PRICE and are based on an exchange rate of [\*] ¥/\$. The fluctuation in foreign exchange rate, as supplied by the Wall Street Journal will be shared equally by each party as follows  $F/X\_BASE = [*] ¥/\$$

Initial  $F/X\_RATE = [*] ¥/\$$

A new  $F/X\_RATE$  is only established at the time of placing a PO for WAFERS if the [\*] is equal to or greater than [\*]¥ from the  $F/X\_BASE$ . The new  $F/X\_RATE$  will be set to the [\*] and will remain in effect for at least the [\*] it was established.

The actual  $PURCHASE\_PRICE$  for WAFERS, by WAFER TYPE, used at the time of order will be calculated by the following formula:

$PURCHASE\_PRICE =$   
[\*]

Examples: For DS WAFERS with a BASE PRICE of [\*]

1. Nominal F/X Rate Example:  $F/X\_RATE =$  in the range of [\*]¥ to [\*]¥:  
 $PURCHASE\_PRICE = BASE\_PRICE$
  2. Higher F/X Rate Example: New  $F/X\_RATE = [*]¥$ :  
 $PURCHASE\_PRICE = [*] = [*]$
  3. Lower F/X Rate Example: New  $F/X\_RATE = [*]¥$ :  
 $PURCHASE\_PRICE = [*] = [*]$ .
-

[\*] = Certain confidential information contained in this document, marked by brackets, is filed with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

**DEVELOPMENT ADDENDUM TO WAFER SUPPLY  
AGREEMENT**

This development addendum (this "ADDENDUM") supplementing the wafer supply agreement between the Parties effective April 1, 2005 (the "AGREEMENT") is made and entered into as of September 22, 2013, between:

- 1) SEIKO EPSON CORPORATION, a corporation organized and existing under the laws of Japan and having its principal office at 3-5, Owa 3-chome, Suwa-shi, Nagano-ken, 392-8502 Japan ("Epson") and
- 2) POWER INTEGRATIONS INTERNATIONAL LTD., a Cayman Islands corporation having a place of business at P.O. Box 219, Strathvale House, North Church Street, George Town, Grand Cayman, Cayman Islands ("PI").

Epson and PI are herein referred to collectively as "Parties" and individually as "Party".

WHEREAS the Parties desire to develop a semiconductor fabrication process referred to by the parties as the "[\*] Process" which shall be based on [\*] process and [\*] processes ("DEVELOPMENT"),

WHEREAS the Parties have had a commercial relationship pursuant to the AGREEMENT and amendments thereto,

now therefore Epson and PI hereby agree to supplement the AGREEMENT with the mutual covenants contained in this ADDENDUM.

I. DESIGNATIONS

- a) [\*] process shall be considered [\*] consistent with the terms of the AGREEMENT;
- b) [\*] processes shall be considered [\*] consistent with terms of the AGREEMENT;
- c) The fabrication of sample wafers during development of the [\*] Process shall be considered consistent with the terms for [\*] under the AGREEMENT.

II. SUMMARY OF THE DEVELOPMENT

- a) The DEVELOPMENT shall consist of three stages with milestone events for each stage as summarized in the Section IV of this ADDENDUM and detailed in a separate mutually agreed to [\*] Development Plan. Every time each one of such milestone event is completed to the satisfaction of the Parties, [\*] determine whether the DEVELOPMENT shall advance to the next stage or not. [\*] shall be entitled to decide not to move on to the next
-

stage of the DEVELOPMENT [\*] resulting from the decision not to move on to the next stage. [\*] may discontinue the DEVELOPMENT and terminate this ADDENDUM [\*] or [\*] if [\*] the results of the DEVELOPMENT.

- b) Decisions not to move on to the next stage or to discontinue the DEVELOPMENT shall also end the obligations of the Parties to perform the development tasks set forth in Section III of this ADDENDUM. Further, the DEVELOPMENT will be deemed unsuccessful if it is decided not to move on to the next stage or to discontinue the DEVELOPMENT. However, decisions not to move on to the next stage or to discontinue the DEVELOPMENT shall have no impact on the other obligations of the AGREEMENT and its amendments or on the non-disclosure and intellectual property provisions in Sections IX and X of this ADDENDUM.
- c) Notwithstanding the provisions of the preceding two paragraphs, [\*] shall not be released from the obligation to [\*] in the Section [\*] of this ADDENDUM.
- d) Epson will fabricate sample wafers required for the DEVELOPMENT.
- e) A complete set of technical documentation of the [\*] Process shall be included in the results of the DEVELOPMENT.

### III. DEVELOPMENT TASKS OF EACH PARTY

Development tasks of each of the Parties in the DEVELOPMENT shall include the following:

- a) Epson: [\*] and [\*] and [\*].
- b) PI: [\*] and [\*] and [\*] and [\*].

**THE PARTIES ACKNOWLEDGE AND AGREE THAT ALL TECHNICAL INFORMATION DISCLOSED DURING PERFORMANCE OF THE TASKS IN THIS ADDENDUM AND ALL SAMPLE WAFERS DELIVERED UNDER THIS ADDENDUM ARE ON AN "AS IS" BASIS WITHOUT WARRANTY OF ANY KIND. EXCEPT AS EXPRESSLY PROVIDED OTHERWISE HEREIN, NEITHER PARTY MAKES ANY REPRESENTATION OR WARRANTY, EXPRESS, IMPLIED OR STATUTORY, INCLUDING THE IMPLIED WARRANTIES OF MERCHANTABILITY, AND FITNESS FOR A PARTICULAR PURPOSE, TITLE, AND NON-INFRINGEMENT. FURTHERMORE, NEITHER PARTY MAKES ANY WARRANTY TO THE OTHER PARTY THAT ITS EFFORTS WILL YIELD ANY PARTICULAR RESULT.**

### IV. SUMMARY OF THE STAGES UNDER THE DEVELOPMENT

- a) First stage: [\*].
- b) Second stage: [\*].
- c) Third stage: [\*].

### V. RESULTS OF SUCCESSFUL DEVELOPMENT

- a) At the completion of the Third Stage, [\*] determine whether the DEVELOPMENT was successful or not. Should the DEVELOPMENT be deemed successful, PI shall entrust fabrication of wafers based on the [\*] Process with Epson until the cumulative number of wafers fabricated by Epson in mass production exceeds [\*] or [\*] have passed since commencement of mass production of wafers based on the results of the DEVELOPMENT of [\*] Process with Epson, whichever comes earlier (the "Production Exclusive Period"), and until then PI shall not entrust a fabrication of wafers based on a successful DEVELOPMENT of the [\*] Process with Epson with any party other than Epson, unless (a) Epson agrees in advance with PI's entrustment of the fabrication of wafers based on a successful DEVELOPMENT of the [\*] Process with Epson to the other party or (b) Epson is unable or unwilling to fulfill PI's requirements for such wafers.

### VI. DEVELOPMENT FEE

PI shall pay the development fee in three installments as follows to Epson, through Epson Electronics America, Inc.:

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- a) First payment: [\*] by [\*].
- b) Second payment: [\*] by [\*] subject to the condition that [\*].
- c) Third payment: [\*] by [\*] subject to the condition that [\*].
- d) Library Development Fee: [\*] by [\*] subject to the condition that [\*].

Epson shall separately inform PI of a bank account to which the installment payments are to be made. The Parties agree that such payments shall be non-refundable and that in any event Epson shall not be obligated to repay any amount once paid by PI.

The Parties agree that this development fee excludes all customs duties, port dues, and other charges and taxes in connection with the payment of development fee and/or sample wafers and that PI shall bear those, if levied.

#### VII. TREATMENT OF SAMPLE WAFERS TO BE DELIVERED BY EPSON

- a) [\*] for each sample wafer which PI requests and Epson delivers to PI. [\*] for each sample wafer shall be determined by Epson and PI separately.
- b) [\*] for sample wafers which PI has not requested, but Epson delivers to PI at [\*].

The Parties agree that all customs duties, port dues, and other charges and taxes in connection with delivery of such sample wafer shall be [\*], if levied.

#### VIII. RESPONSIBILITIES REGARDING THE [\*] PROCESS

The following outlines rules regarding responsibility when utilizing the [\*] Process in the fabrication and/or mass production of wafers based on the [\*] Process.

- a) Epson shall be responsible for any problem arising from its [\*] process.
- b) PI shall be responsible for any problem arising from its [\*] process and/or its design.

Notwithstanding the provision a) of this paragraph, if PI's entrusts the fabrication of wafers based on a successful DEVELOPMENT of the [\*] Process to any party other than Epson in accordance with Section V, EPSON shall [\*] regarding the wafers fabricated by such party using the [\*] PROCESS.

#### IX. INTELLECTUAL PROPERTY RIGHTS

- a) Each Party shall retain and/or obtain any and all intellectual property rights consistent with the terms of the AGREEMENT and designations above.
  - b) [\*] may utilize the [\*] Process for ICs for [\*] final products distributed under its own brand if [\*], provided, however, that, [\*] will not sell such ICs to any third party for any other purpose than incorporation into [\*]-branded finished products. [\*] anticipates that [\*] utilization by [\*] of the [\*] Process to fabricate [\*] ICs.
  - c) Upon completion of the Production Exclusive Period, PI may entrust the production of wafers using the [\*] Process with any entity whatsoever without any liability to Epson and Epson hereby grants PI a [\*] license (including license of necessary intellectual property rights), [\*], to exploit and use the [\*] Process (including, without limitation, the [\*] Process and all deliverables set forth in the SOW) in any manner. The Parties further agree that in the event PI entrusts fabrication of wafers based on the [\*] Process with any party other than Epson, Epson shall [\*] in connection with, [\*] such entrustment and/or wafer production, including [\*].
-

X. NON-DISCLOSURE

The Parties agree that by executing this ADDENDUM, the "Non-Disclosure Agreement" executed by and among Epson, PI th and Epson Electronics America, Inc. as of May 30 , 2011 ("NDA") shall be superseded by the AGREEMENT and any "Confidential Information" disclosed under the "Non-Disclosure Agreement" will be covered by the terms of the AGREEMENT.

XI. TERM

This ADDENDUM shall become effective on the date first above written and shall remain in force until the termination of the AGREEMENT. Sections I, IX, X and XII shall survive termination of this ADDENDUM.

XII. GOVERNING LAW

This ADDENDUM shall be solely and exclusively governed by, construed and interpreted in accordance with the laws of the State of California, USA, without giving effect to its conflicts of law provisions. Each Party hereby irrevocably agrees and expressly consents to the non-exclusive jurisdiction of, and venue in, the state and federal courts in Santa Clara County, California, for any dispute, difference or controversy arising from or relating to this Agreement. The Parties agree that the United Nations Convention on Contracts for the International Sale of Goods is specifically excluded from, and shall not apply to, this ADDENDUM.

IN WITNESS WHEREOF, the parties hereto have executed this ADDENDUM by authorized representative of the parties:

Seiko Epson Corporation

Power Integrations International LTD.

By: /s/ Kazuhiro Takenaka

By: /s/ John Tomlin

Name: Kazuhiro Takenaka

Name: John Tomlin

Title: Deputy COO of Microdevices

Title: President

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[\*] = Certain confidential information contained in this document, marked by brackets, is filed with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

**AMENDMENT NUMBER FOUR**

**TO**

**WAFER SUPPLY AGREEMENT**

This Amendment Number Four (the "Amendment"), effective as of April 1, 2015 (the "Amendment Effective Date"), amends the Wafer Supply Agreement effective April 1, 2005, as amended by Amendment Number One effective December 19, 2008, Amendment Number Two effective September 13, 2010, and Amendment number Three effective February 1, 2012 (as amended the Agreement") by and between:

(1) POWER INTEGRATIONS INTERNATIONAL LTD., a Cayman Islands corporation having a place of business at 4th Floor, Century Yard, Cricket Square, Elgin Avenue, P.O. Box 32322, Grand Cayman K Y 1-1209 ("Power Integrations")

and

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

**RECITALS**

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

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

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

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

---



**AGREEMENT**

During [ \* ] to [ \* ], the parties acknowledge that the parties have traded the WAFER under the following sheet.

| Monthly [ * ]<br>WAFER Volume | [ * ] Price/[ * ] Price |
|-------------------------------|-------------------------|
| [ * ]                         | [ * ]                   |
| [ * ]                         | [ * ]                   |
| [ * ]                         | [ * ]                   |
| [ * ]                         | [ * ]                   |

Exhibit B of the Agreement is deleted in its entirety and replaced with Exhibit B in the form attached hereto.

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

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

SEIKO EPSON CORPORATION

Power Integrations International Ltd.

By:  /s/ Kazuhiro Takenaka  
Name: Kazuhiro Takenaka  
Title: Deputy COO

Signature:  /s/ John Tomlin  
Name: John Tomlin  
Title: Vice President of Operations

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Exhibit B

WAFER PRICES FOR [ \* ] OF [ \* ] WAFERS BY MONTHLY ORDER VOLUME

For [ \* ] WAFERS in both [ \* ] and [ \* ]:

| Monthly [ * ]<br>Wafer Volume | [ * ] Price |
|-------------------------------|-------------|
| [ * ]                         | [ * ]       |
| [ * ]                         | [ * ]       |
| [ * ]                         | [ * ]       |
| [ * ]                         | [ * ]       |

Pricing will be reviewed and mutually agreed to in writing on an annual basis.

For WAFERS in [ \* ], the price for each entry of the above table will be multiplied by [ \* ].

The above prices are the [ \* ] and are based on an exchange rate of [ \* ]. The fluctuation in foreign exchange rate, as supplied by the Wall Street Journal will be shared equally by each party as follows  $F/X\_BASE = [ * ]$

Initial  $F/X\_RATE = [ * ]$

A new  $F/X\_RATE$  is only established at the time of placing a PO for WAFERS if the Previous Month's Average daily exchange rate is equal to or greater than [ \* ] from the [ \* ]. The new  $F/X\_RATE$  will be set to the Previous Month's Average exchange rate and will remain in effect for at least the month it was established.

The actual PURCHASE PRICE for WAFERS, by WAFER TYPE, used at the time of order will be calculated by the following formula:

$PURCHASE\ PRICE = [ * ]$

Examples: For [ \* ] WAFERS with a BASE PRICE of [ \* ]

1. Nominal  $F/X$  Rate Example:  $F/X\_RATE$  = in the range of [ \* ]:

$PURCHASE\ PRICE = BASE\ PRICE$

2. Higher  $F/X$  Rate Example: New  $F/X\_RATE = [ * ]$ :

$PURCHASE\ PRICE = [ * ]$

3. Lower  $F/X$  Rate Example: New  $F/X\_Rate = [ * ]$ :

$PURCHASE\ PRICE = [ * ]$ .

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[\*] = Certain confidential information contained in this document, marked by brackets, is filed with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

AMENDMENT NUMBER FIVE TO  
WAFER SUPPLY AGREEMENT

This Amendment Number Five (the "Amendment"), effective as of November 2nd, 2015 (the "Amendment Effective Date"), amends the Wafer Supply Agreement effective April 1, 2005, as amended by Amendment Number One effective December 19, 2008, Amendment Number Two effective September 13, 2010, Amendment number Three effective February 1, 2012, and Amendment number four effective April 1, 2015 (as amended the Agreement") by and between:

(1) POWER INTEGRATIONS INTERNATIONAL LTD., a Cayman Islands corporation having a place of business at, P.O. Box 219 Strathvale House, North Church Street, George Town, Grand Cayman, Cayman Islands ("Power Integrations")

and

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

**RECITALS**

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

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

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

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

**AGREEMENT**

**Addition of Exhibit C:** The Agreement is adding Exhibit C, which defines the terms for the addition of the [ \* ] process family to Seiko Epson's [ \* ] production line.

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

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

SEIKO EPSON CORPORATION

Power Integrations International Ltd.

By: /s/ Kazuhiro Takenaka

Signature: /s/ Raja Petrakian

Name: Kazuhiro Takenaka

Name: Raja Petrakian

Title: Deputy COO of SEIKO EPSON

Title: President, PIIL

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Exhibit C

[ \* ] process to Seiko Epson [ \* ] production lines

Seiko Epson will produce the [ \* ] process family, consisting of:

- [ \* ]
- [ \* ]
- [ \* ]
- [ \* ]

to Seiko Epson's production lines. The wafer prices for volume production of [ \* ] wafers are as follows:

| [ * ] Process | [ * ] | [ * ]           |                          |                          |
|---------------|-------|-----------------|--------------------------|--------------------------|
|               |       | Base price[ * ] | Base Price[ * ]          |                          |
|               |       |                 | Price-A<br>[ * ] wfs/Mo. | Price-B<br>[ * ] wfs/Mo. |
| [ * ]         | [ * ] | [ * ]           | [ * ]                    | [ * ]                    |
| [ * ]         | [ * ] | [ * ]           | [ * ]                    | [ * ]                    |
| [ * ]         | [ * ] | [ * ]           | [ * ]                    | [ * ]                    |
| [ * ]         | [ * ] | [ * ]           | [ * ]                    | [ * ]                    |

**Pricing:** Pricing will be reviewed and mutually agreed to in writing on an annual basis.

- The above prices are the Wafer's Base\_Price and are based on an exchange rate of [ \* ]. The fluctuation in foreign exchange rate, as supplied by the Wall Street Journal will be shared equally by each part as follows  
F/X\_Base=[ \* ]

Initial F/X\_RATE= [ \* ]

**Exchange rate adjustment program:**

A new F/X\_RATE is only established at the time of placing a PO for WAFERS if the Previous Month's Average daily exchange rate is equal to or greater than [ \* ] from the F/X\_Base. The new F/X Rate will be set to the previous Month's average exchange rate and will remain in effect for at least the month it was established.

The actual Purchase\_Price for WAFERS, by WAFER TYPE, used at the time of order will be calculated by the following formula:

Purchase\_Price = [ \* ] \* BASE\_PRICE

Examples: For [ \* ] WAFERS with a BASE PRICE of [ \* ]

1. Nominal F/X Rate Example: F/X\_Rate= in the range of [ \* ]:  
PURCHASE\_PRICE= BASE\_PRICE
2. Higher F/X Rate Example: New F/X\_RATE- [ \* ]:  
PURCHASE\_PRICE= [ \* ]
3. Lower F/X Rate Example: New F/X\_RATE= [ \* ]:  
PURCHASE\_PRICE= [ \* ]

**Additional terms for [ \* ] wafers**

Base price[ \* ] is applicable until the cumulative number of wafers purchased reaches [ \* ]. Base price[ \* ] is applicable after the cumulative number of wafers purchased exceeds [ \* ].

Seiko Epson is responsible for acquiring capital equipment to provide capacity with no additional investment from Power Integrations for the new processes, with the exception of the [ \* ].

Processes [ \* ] and [ \* ] require a [ \* ]. This Implanter will be provided by Power Integrations under a separate written agreement at such time as required to enable production of wafers in these processes. In addition , Power Integrations will cover the costs of 3rd party implant services, if required. The cost of the 3rd party implant service is [ \* ] per implant batch of up to [ \* ] wafers; in the event Power Integrations or Seiko Epson secure a lower cost service, the charge will be adjusted accordingly.

For Engineering wafers, until the first process is released to production, the price for each entry in the above table (i.e. the Base price) will be multiplied by [ \* ]. After the first process is released to production, the Engineering price will be determined by multiplying the Purchase Price (according to the above formula) by [ \* ].

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[\*] = Certain confidential information contained in this document, marked by brackets, is filed with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

AMENDMENT NUMBER SIX TO  
WAFER SUPPLY AGREEMENT

This Amendment Number Six (the "Amendment") effective as of December 8, 2015 (the "Amendment Effective Date") amends the Wafer Supply Agreement effective April 1, 2005, as amended by Amendment number one effective December 19, 2008, Amendment number two effective September 13, 2010, Amendment number three effective February 1, 2012, Amendment number four effective April 1, 2015, and Amendment number five effective November 2, 2015 (as amended the "Agreement") by and between:

- (1) POWER INTEGRATIONS INTERNATIONAL LTD., a Cayman Islands corporation having a place of business at P.O. Box 219 Strathvale House, North Church Street, George Town, Grand Cayman, Cayman Islands ("Power Integrations")

and

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

**RECITALS**

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

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

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

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

**AGREEMENT**

1. Section 13.1 of the Agreement is deleted in its entirety and replaced with the following:

13.1 This Agreement shall continue in full force and effect from the Effective Date until December 31, 2020, unless earlier terminated as provided herein ("Term"). After [ \* ], Seiko Epson may terminate the Agreement without cause at its convenience upon providing [ \* ] months prior written notice thereof to Power Integrations. If this Agreement has not been earlier terminated, the parties agree to negotiate in good faith, beginning one year prior to the end of the Term, for this Agreement's continuation for another [ \* ] year period, on mutually agreeable terms and conditions.

---

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

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

**SEIKO EPSON CORPORATION**

**POWER INTEGRATIONS INTERNATIONAL, LTD.**

By: /s/ Kazuhiro Takenaka

By: /s/ Raja Petrakian

Name: Kazuhiro Takenaka

Name: Raja Petrakian

Title: Deputy COO, MD

Title: President, PIIL

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Exhibit 10.73

**POWER INTEGRATIONS, INC.  
EXECUTIVE OFFICER BENEFITS AGREEMENT**

THIS EXECUTIVE OFFICER BENEFITS AGREEMENT (the “*Agreement*”) is made and entered into as of February 1, 2021 (the “*Effective Date*”), by and between POWER INTEGRATIONS, INC., a Delaware corporation, (the “*Company*”) and Sunil Gupta (“*Executive*”).

**RECITALS**

A. Executive is an Executive Officer of the Company and possesses valuable knowledge of the Company, its business and operations, and the markets in which the Company competes.

B. The Company draws upon the knowledge, experience and advice of Executive in order to manage its business for the benefit of the Company’s stockholders.

C. The Board of Directors desires to supplement Executive’s employment arrangements so as to provide additional compensation and benefits to the Executive to encourage Executive to continue to devote his attention and dedication to the Company and to create additional incentives to continue his employment with the Company.

**AGREEMENT**

**THEREFORE**, in consideration of the mutual agreements, covenants and considerations contained herein, the undersigned hereby agree and acknowledge as follows:

1. Pursuant to Sections 21(k) or 21(s) of Exhibit A hereto, Executive shall first be eligible for the benefits under this Agreement upon the completion of one year of continuous service as an Executive Officer of the Company, unless the Board of Directors or Compensation Committee determines otherwise.

2. For the purposes of this Agreement the “*Option Effective Date*” shall mean the Effective Date.

3. This Agreement may only be modified or amended by a supplemental written agreement signed by Executive and the Company.

\* \* \* \* \*

1.

---

IN WITNESS WHEREOF, the undersigned have executed this EXECUTIVE OFFICER BENEFITS AGREEMENT, intending to be legally bound as of the Effective Date.

**COMPANY:**

**POWER INTEGRATIONS, INC.**

By: /s/ BALU BALAKRISHNAN

Name: Balu Balakrishnan

Title: President and CEO

**EXECUTIVE:**

/s/ SUNIL GUPTA

Sunil Gupta

Address for Notice: Executive's home address as reflected in the records of the Company

## EXHIBIT A

### TERMS OF EXECUTIVE OFFICER BENEFITS AGREEMENT

**1. Position and Duties.** Executive shall continue to be an at-will employee of the Company employed in his/her current position at his/her then current salary rate. Executive shall also be entitled to continue to participate in and to receive benefits on the same basis as other executive or senior staff members under any of the Company's employee benefit plans as in effect from time to time. In addition, Executive shall be entitled to the benefits afforded to other employees similarly situated under the Company's employment policies. Executive agrees to devote the business time, energy and skill necessary to execute his/her duties at the Company. These duties shall include, but not be limited to, any duties consistent with his/her position which may be assigned to Executive from time to time.

**2. Acceleration of Vesting of Stock Awards Upon a Change of Control.** In the event of a Change of Control, and provided that Executive's employment with the Company has not terminated prior to such date, Executive shall be entitled to the following benefits:

**(a)** All Retention Stock Awards granted by the Company to the Executive prior to the Change of Control shall have their vesting accelerated such that 25% of the then unvested shares subject to each Retention Stock Award will be deemed vested and exercisable or issuable as of the consummation of the Change of Control. Notwithstanding the foregoing, if the Change of Control does not require the assumption or substitution by the acquiring entity (or parent thereof) of all of the Company's obligations of the then outstanding Retention Stock Awards, then (i) if Executive is a New Executive, 50% of the then unvested shares subject to each Retention Stock Awards will be accelerated and deemed vested and exercisable prior to the consummation of the Change of Control; or (ii) if Executive is a Senior Executive, 100% of the then unvested shares subject to any Retention Stock Awards will be accelerated and deemed vested and exercisable prior to the consummation of the Change of Control. The shares vesting pursuant to this Section 2(a) will be exercisable, issued or converted and paid in accordance with Sections 2(c) and 20(a). Except as otherwise provided in the applicable award agreement, the portion of any unvested Retention Stock Award that is not assumed (or an appropriate substitution provided) and that does not vest based on this Section 2(a) will be forfeited by Executive and will be of no further force or effect.

**(b)** All Performance Stock Awards granted by the Company to the Executive prior to the Change of Control shall have their vesting accelerated immediately prior to consummation of such Change of Control so that 100% of the then unvested shares will be deemed vested at the applicable maximum achievable Performance Level. The shares vesting pursuant to this Section 2(b) will be exercisable, issued or converted and paid in accordance with Sections 2(c) and 20(a).

**(c)** In the event of a Change of Control, the Company undertakes to facilitate Executive's receipt of any of the benefits set forth in this Agreement by providing written notice to Executive, at least ten (10) days in advance of the closing of such transaction, which (i) indicates the anticipated timing and material economic terms of the anticipated transaction and (ii)

references the Executive's rights under this Agreement. The Company shall also provide appropriate Stock Award exercise forms and instructions to assist Executive in exercising his or her rights to acquire securities of the Company on or prior to the consummation of the Change of Control. Executive is strongly encouraged to consult with his or her tax and financial advisor prior to electing to exercise any option pursuant to this Agreement.

### **3. Termination Upon Change of Control.**

**(a) Severance Benefits.** In the event of the Executive's Termination Upon Change of Control, Executive shall be entitled to the following separation benefits:

**(i) Salary and Accrued Benefits.** All salary and accrued but unused vacation earned through the date of Executive's termination.

**(ii) Annual Performance Bonus.** Payment of a Prorated Portion of the cash value of Executive's Annual Performance Bonus measured as of the date of termination for the year in which such termination occurs.

**(iii) Expenses.** Within fourteen (14) days of submission of proper expense reports by the Executive, reimbursement by the Company for all expenses reasonably and necessarily incurred by the Executive in connection with the business of the Company prior to his termination of employment.

**(iv) Severance Payment.**

**(1)** if Executive is a New Executive, payment of an amount equal to six (6) months of Executive's Highest Annual Salary from the Company and 50% of the cash value of Executive's Annual Performance Bonus measured as of the date of termination at the applicable maximum achievable Performance Level as in effect as of the date of such termination to be paid in a lump sum on the sixtieth (60<sup>th</sup>) day following such termination as provided in Section 14; or

**(2)** if Executive is a Senior Executive, payment of an amount equal to (a) six (6) months of Executive's Highest Annual Salary from the Company and 50% of the cash value of Executive's Annual Performance Bonus measured as of the date of termination at the applicable maximum achievable Performance Level as in effect as of the date of such termination to be paid in a lump sum on the sixtieth (60<sup>th</sup>) day following such termination as provided in Section 14 and (b) up to an additional six (6) months of Executive's Highest Annual Salary and 50% of such Annual Performance Bonus measured as of the date of termination at the applicable maximum achievable Performance Level, less applicable withholding, shall be paid beginning six months after termination, subject to Section 14, in ratable monthly installments for six months or until Executive secures new employment, whichever occurs earlier.

**(v) Stock Awards.**

**(1)** The ability to exercise any and all outstanding vested options granted after the Option Effective Date (and any vested options granted prior to the Option Effective Date but only to the extent that such extension of exercisability would not require the

Company to incur a compensation expense for financial statement purposes) for twelve (12) months from the date of termination of employment.

(2) The vesting of all Stock Awards (to the extent such Stock Award does not also constitute a portion of Executive's Annual Performance Bonus) granted by the Company to the Executive and outstanding immediately prior to such Termination Upon Change of Control shall have their vesting accelerated, such that (i) if Executive is a New Executive, 50% of the then unvested shares subject to such Stock Award will be deemed vested and exercisable as of the date of termination of employment; or (ii) if Executive is a Senior Executive, 100% of the then unvested shares subject to such Stock Award will be deemed vested and exercisable as of the date of termination of employment. Any shares vesting pursuant to this Section 3(a)(v)(2) subject to a Performance Stock Award shall vest at the applicable maximum achievable Performance Level. The shares vesting pursuant to this Section 3(a)(v)(2) will be issued in accordance with Section 20(a). Except as otherwise provided in the applicable Stock Award agreement, the portion of any unvested Stock Award that does not vest based on this Section 3(a)(v)(2) will be forfeited by Executive and will be of no further force or effect.

**(b) Benefits Continuation.**

(i) In the event of Executive's Termination Upon Change of Control, Executive shall be entitled to elect continued medical and dental insurance coverage in accordance with the applicable provisions of the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, ("COBRA") and the Company shall pay such COBRA premiums for (i) six (6) months from the date of termination of employment, if Executive is a New Executive; or (ii) twelve (12) months from the date of termination of employment, if Executive is a Senior Executive. Notwithstanding the above, in the event Executive becomes eligible to be covered under another employer's group health plan (other than a plan which imposes a preexisting condition exclusion unless the preexisting condition exclusion does not apply) during the period provided for herein, the Company shall cease payment of the COBRA premiums; and

(ii) Executive shall receive the benefits, if any, under the Company's 401(k) Plan and other Company benefit plans to which he may be entitled pursuant to the terms of such plans.

**4. Termination of Employment.**

(a) **Severance Benefits.** In the event of the Executive's Termination of Employment, Executive shall be entitled to all separation benefits provided in Section 3(a)(i) ("**Salary and Accrued Benefits**"), Section 3(a)(ii) ("**Annual Performance Bonus**") and 3(a)(iii) ("**Expenses**") above. In addition, Executive shall be entitled to six (6) months of Executive's Highest Annual Salary and 50% of the cash value of Executive's Annual Performance Bonus at the applicable maximum achievable Performance Level as in effect as of the date of such termination, all less applicable withholding, paid in a lump sum within sixty (60) days of such termination as provided in Section 14.

**(b) Performance Stock Awards.**

(i) A Prorated Portion of all shares subject to Performance Stock

Awards granted to the Executive by the Company and outstanding prior to such Termination of Employment with a performance period greater than one (1) year and granted other than in connection with Executive's Annual Performance Bonus shall vest at such Performance Level as determined by the Board of Directors or Compensation Committee on the date of such determination.

(ii) Immediately prior to the consummation of any Change of Control to occur after Executive's Termination of Employment, a Prorated Portion of Executive's outstanding Performance Stock Awards with a performance period greater than one (1) year and granted other than in connection with Executive's Annual Performance Bonus will be deemed vested at the applicable maximum achievable Performance Level. The shares vesting pursuant to this Section 4(b) (ii) will be exercisable, issued or converted and paid in accordance with Sections 2(c) and 20(a).

(c) **Benefits Continuation.**

(i) In the event of Executive's Termination of Employment, Executive shall be entitled to elect continued medical and dental insurance coverage in accordance with the applicable provisions of COBRA and the Company shall pay such COBRA premiums for six (6) months from the date of Termination of Employment. Notwithstanding the above, in the event Executive becomes eligible to be covered under another employer's group health plan (other than a plan which imposes a preexisting condition exclusion unless the preexisting condition exclusion does not apply) during the period provided for herein, the Company shall cease payment of the COBRA premiums; and

(ii) Executive shall receive the benefits, if any, under the Company's 401(k) Plan and other Company benefit plans to which he may be entitled pursuant to the terms of such plans.

**5. Retirement Benefits.**

(a) In order to be eligible for the Retirement Benefits described in Section 5(b) below, the Executive must meet both of the following criteria:

(i) At the time of Executive's termination of employment with the Company (other than in circumstances in which such termination (i) constitutes a termination with Cause or (ii) does not qualify as a Separation from Service), the Executive has (1) achieved the age of 50 and served the Company for at least 15 years; or (2) achieved the age of 55 and served the Company for at least 10 years; provided, however, if such termination of employment also constitutes a Termination of Employment or a Termination Upon Change of Control, Executive must elect within thirty (30) days of such termination to receive either the benefits provided in Section 3 or Section 4, as applicable, or the benefits provided in this Section 5; and

(ii) At any time during which the Executive is receiving Retirement Benefits, the Executive shall not (1) be employed or on contract full time by a third party (excluding a non-profit organization described in Section 501(c)(3) of the Code) or (2) engage in Competition. If the Executive engages in either (1) or (2), then all Retirement Benefits shall terminate immediately and permanently.

(b) If both conditions in Sections 5(a)(i) and 5(a)(ii) above are satisfied, the Executive shall be entitled, subject to Section 14, to receive the following “*Retirement Benefits*.”

(i) **Option Exercisability.** The ability to exercise any and all options granted after the Option Effective Date (and any options granted prior to the Option Effective Date but only to the extent that such extension of exercisability would not require the Company to incur a compensation expense for financial statement purposes) to the extent such options are vested as of the date of termination of employment for the earlier of: (i) the term of the option, (ii) the termination of the option in connection with any Change of Control, or (iii) five years;

(ii) **Performance Stock Awards.** The benefits provided under Section 4(b) (“*Performance Stock Awards*”); and

(iii) **Medical and Dental Coverage.** The Company shall pay the Executive’s medical and dental premiums until the Executive achieves the age of Medicare eligibility, and additionally, if the Executive’s medical and dental coverage on the date of termination included the Executive’s dependents, the premiums of such dependents until the Executive achieves the age of Medicare eligibility as follows:

(A) **COBRA Continuation Coverage.** Upon the termination of Executive’s active employment with the Company, Executive shall be entitled to elect continued medical and dental insurance coverage in accordance with the applicable provisions of COBRA and the Company shall pay such COBRA premiums.

(B) **Coverage After COBRA & Prior to Medicare Eligibility.** In the event the Executive is not eligible for Medicare coverage at the end of his maximum applicable COBRA coverage period, then, the Executive shall identify and locate either or both an individual conversion policy through the insurer providing insurance coverage in connection with the Company sponsored medical and dental plans available to active employees (the “*Conversion Policy*”), and/or a supplemental individual policy or an individual policy on the open market (the “*Individual Policy*”) to be effective upon the termination of his COBRA continuation coverage so that, when the coverages for Executive provided by the Conversion Policy and/or the Individual Policy are combined, such coverages provide substantially similar medical and dental benefits in the aggregate as those provided under the medical and dental plans sponsored by the Company at such time, or at any time after the termination of Executive’s employment, for active employees (the “*Comparable Coverage*”). The Company shall be responsible for the payment of any Conversion Policy premiums and/or Individual Policy premiums for the Comparable Coverage which payment shall not exceed the cost of premiums for medical and dental coverage for then active employees. If Executive is at such time eligible to participate under the Company Plans, Executive will be entitled to so participate.

(C) **Coverage After COBRA & Upon Medicare Eligibility.** In the event the Executive is eligible for Medicare coverage at the end of his maximum applicable COBRA coverage period, the Executive may identify and locate a Medicare supplemental policy, which may include, to the extent permitted, the medical and dental plans sponsored by the Company at such time for active employees (the “*Company Plans*”), that, when combined with the coverage provided by Medicare, provides Comparable Coverage. If Executive is at such time

eligible to participate under the Company Plans, Executive will be entitled to so participate; provided that Executive shall be solely responsible for the payment of any Medicare premiums and/or Medical supplemental policy premiums for the Comparable Coverage (including, if applicable, any premiums under the Company Plans).

**(D) Taxes, Coverage.** The Executive shall be responsible for any taxes that may be attributable to or result from the payments made by the Company in accordance with this Section 5(b)(iii) or receipt of medical and dental benefits attributable to or result from such payments. Notwithstanding Section 5(b)(iii)(A) or (B), in the event Executive becomes eligible to be covered under another employer's group health plan (other than a plan which imposes a preexisting condition exclusion to the extent permissible by law, unless the preexisting condition exclusion does not apply) during the period provided for herein, the Company shall cease payment of any premiums. The Company will use commercially reasonable efforts to provide that Executive will continue to be eligible for coverage as provided under this Section 5(b)(iii) under the Company Plans, unless the Board of Directors or Compensation Committee determines that such coverage would create an undue burden on the Company.

**6. Termination of Employment due to Death or Permanent Disability.**

**(a)** In the event of (i) the Executive's death during his employment with the Company and the Executive having satisfied the criteria provided at Section 5(a)(i) as of or prior to the date of his death or (ii) the Executive's death during the period while Executive was receiving Retirement Benefits as a result of compliance with the criteria provided at Section 5(a)(i) and 5(a)(ii), (1) the Executive's legal representative or any person empowered to act on his behalf under his will or under the then applicable laws of descent and distribution shall be entitled to the benefits pursuant to Section 5(b)(i) ("**Option Exercisability**") and Section 5(b)(ii) ("**Performance Stock Awards**") and (2) the Executive's dependents, to the extent applicable, shall be entitled to the benefits pursuant to Section 5(b)(iii)(A)-(D) ("**Medical and Dental Coverage**") for that period of time until the Executive would have achieved the age of Medicare eligibility if the Executive had lived.

**(b)** In the event of the Executive's Permanent Disability during his employment with the Company and the Executive having satisfied the criteria provided at Section 5(a)(i), the Executive, and to the extent applicable, his dependents, shall be entitled to the benefits provided in Section 5(b)(i) ("**Option Exercisability**"), Section 5(b)(ii) ("**Performance Stock Awards**") and 5(b)(iii)(A)-(D) ("**Medical and Dental Coverage**").

**7. Payment of Taxes.** All payments made to Executive under this Agreement shall be subject to all applicable federal and state income, employment and payroll taxes, including all withholding taxes.

**8. Parachute Payment.** Executive is strongly encouraged to review the following provision and consult with his or her tax and financial advisor concerning the application of any personal tax consequences related to any payments provided for under this Agreement and the following provision. In the event that any of the payments and benefits provided for in this Agreement or otherwise payable to the Executive (a "**280G Payment**") would (i) constitute a "parachute payment" within the meaning of Section 280G of the Code, and (ii) but for this



sentence, be subject to the excise tax imposed by Section 4999 of the Code (the “**Excise Tax**”), then any such 280G Payment pursuant to this Agreement (a “**Payment**”) shall be equal to the Reduced Amount. The “**Reduced Amount**” shall be either (i) the largest portion of the Payment that would result in no portion of the Payment (after reduction) being subject to the Excise Tax or (ii) the largest portion, up to and including the total, of the Payment, whichever amount (i.e., the amount determined by clause (i) or by clause (ii)), after taking into account all applicable federal, state and local employment taxes, income taxes, and the Excise Tax (all computed at the highest applicable marginal rate), results in the receipt by Executive, on an after-tax basis, of the greater economic benefit notwithstanding that all or some portion of the Payment may be subject to the Excise Tax. If a reduction in a Payment is required pursuant to the preceding sentence and the Reduced Amount is determined pursuant to clause (x) of the preceding sentence, the reduction shall occur in the manner (the “**Reduction Method**”) that results in the greatest economic benefit for Executive. If more than one method of reduction will result in the same economic benefit, the items so reduced will be reduced pro rata (the “**Pro Rata Reduction Method**”). Notwithstanding the foregoing, if the Reduction Method or the Pro Rata Reduction Method would result in any portion of the Payment being subject to taxes pursuant to Section 409A that would not otherwise be subject to taxes pursuant to Section 409A, then the Reduction Method and/or the Pro Rata Reduction Method, as the case may be, shall be modified so as to avoid the imposition of taxes pursuant to Section 409A as follows: (A) as a first priority, the modification shall preserve to the greatest extent possible, the greatest economic benefit for Executive as determined on an after-tax basis; (B) as a second priority, Payments that are contingent on future events (e.g., being terminated without cause), shall be reduced (or eliminated) before Payments that are not contingent on future events; and (C) as a third priority, Payments that are “deferred compensation” within the meaning of Section 409A shall be reduced (or eliminated) before Payments that are not deferred compensation within the meaning of Section 409A.

Unless the Company and the Executive otherwise agree in writing, any determination required under this Section 8 shall be made in writing by independent public accountants appointed by the Company and reasonably acceptable to the Executive (the “**Accountants**”), whose determination shall be conclusive and binding upon the Executive and the Company for all purposes. The Company shall bear all costs the Accountants may reasonably incur in connection with such determination, and the Company and the Executive shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section 8.

**9. Exclusive Remedy.** The payments and benefits provided for in Section 3, Section 4, Section 5 or Section 15 shall constitute the Executive’s sole and exclusive remedy for any alleged injury or other damages arising out of the cessation of the employment relationship between the Executive and the Company. The parties hereto agree that irreparable damage would occur if any of the provisions of this Agreement were not performed in accordance with these specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to enforce specifically the terms and provisions hereof, this being in addition to any other remedy to which they are entitled at law or in equity.

**10. Proprietary and Confidential Information.** The Executive agrees to continue to abide by the terms and conditions of any Company’s confidentiality and/or proprietary rights agreement between the Executive and the Company.

**11. Arbitration.** Any claim, dispute or controversy arising out of this Agreement, the

interpretation, validity or enforceability of this Agreement or the alleged breach thereof shall be submitted by the parties to binding arbitration by the American Arbitration Association in San Jose, California or elsewhere by mutual agreement. The selection of the arbitrator and the arbitration procedure shall be governed by the Commercial Arbitration Rules of the American Arbitration Association. All costs and expenses of arbitration or litigation, including but not limited to reasonable attorneys fees and other costs reasonably incurred by the Executive, shall be paid by the Company. Judgment may be entered on the award of the arbitration in any court having jurisdiction.

**12. Interpretation.** Executive and the Company agree that this Agreement shall be interpreted in accordance with and governed by the laws of the State of California, without regard to such state's conflict of laws rules.

**13. Conflict in Benefits.** This Agreement shall supersede all prior arrangements, whether written or oral, and understandings regarding the subject matter of this Agreement. To the extent Executive is entitled to severance or other benefits upon termination of employment under this Agreement and any other agreement, including any change in control agreement entered into by the Company and the Executive, entered into prior to the Effective Date, the benefits payable under this Agreement shall supersede and replace any other such agreement. However, this Agreement is not intended to and shall not affect, limit or terminate (i) any plans, programs, or arrangements of the Company that are regularly made available to a significant number of employees of the Company, (ii) the Company's equity incentive plans, (iii) any agreement or arrangement with the Executive that has been reduced to writing and which does not relate to the subject matter hereof, or (iv) any agreements or arrangements hereafter entered into by the parties in writing, except as otherwise expressly provided herein.

**14. Release of Claims.** Executive shall receive the severance benefits or the Retirement Benefits pursuant to this Agreement only if Executive executes and returns to the Company, within the applicable time period set forth therein but in no event more than sixty (60) days following the date of Executive's Separation from Service, a release of claims (the "**Release of Claims**") in favor of the Company in a form reasonably satisfactory to the Company, and permits such Release of Claims to become effective in accordance with its terms on or prior to such sixtieth day (the "**Release Agreement Deadline**"). If the Release of Claims does not become effective by the Release Agreement Deadline, the Executive will forfeit any right to severance benefits or Retirement Benefits pursuant to this Agreement. Regardless of whether the Release of Claims becomes effective prior to the Release Agreement Deadline, any severance benefits or Retirement Benefits payable prior to the Release Agreement Deadline shall be paid on the Release Agreement Deadline, with the remainder of the payments to be made as originally scheduled. Except to the minimum extent that payments must be delayed pursuant to Section 20(c) because Executive is a "specified employee" or until the effectiveness (or deemed effectiveness) of the Release of Claims, all amounts will be paid as soon as practicable in accordance with the Company's normal payroll practices following Executive's Separation from Service. Notwithstanding the foregoing, the Release of Claims shall not be construed to waive any right to indemnification or contribution otherwise available to Executive under law or rules of corporate governance with respect to claims by third parties for actions or omissions in Executive's role as an officer of the Company.

**15. Successors and Assigns.**

**(a) Successors of the Company.** The Company will require any successor or assign (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, expressly, absolutely and unconditionally to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession or assignment had taken place. Failure of the Company to obtain such agreement prior to the effectiveness of any such succession transaction shall be a breach of this Agreement and shall entitle the Executive to terminate his or her employment with the Company within three (3) months thereafter and to receive the benefits provided under Section 3 of this Agreement in the event of a Termination Upon Change of Control; provided, however, that (i) such termination of employment must be a Separation from Service and (ii) the Executive must deliver a Release of Claims as provided in Section 14. As used in this Agreement, "Company" shall mean the Company as defined above and any successor or assign to its business and/or assets as aforesaid which executes and delivers the agreement provided for in this Section 15 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

**(b) Heirs of Executive.** This Agreement shall inure to the benefit of and be enforceable by the Executive's personal and legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

**16. Notices.** For purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, as follows:

if to the Company:

Power Integrations, Inc.  
5245 Hellyer Avenue  
San Jose, California 95138  
Attn: Chief Executive Officer or Chief Financial Officer

and if to the Executive, at the address specified in this Agreement. Notice may also be given at such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

**17. No Representations.** Executive acknowledges that he/she is not relying and has not relied on any promise, representation or statement made by or on behalf of the Company which is not set forth in this Agreement.

**18. Validity.** If any one or more of the provisions (or any part thereof) of this Agreement shall be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions (or any part thereof) shall not in any way be affected or impaired thereby.

**19. Consultation with Legal and Financial Advisors.** Executive acknowledges that

his Agreement confers significant legal rights, and may also involve the waiver of rights under other agreements; that the Company has encouraged Executive to consult with Executive's personal legal and financial advisers; and that Executive has had adequate time to consult with Executive's advisers before signing this Agreement.

**20. Application of Section 409A and Other Limitations.** Executive is strongly encouraged to review the following provisions and consult with his or her tax and financial advisor concerning the application of any personal tax consequences related to any payments provided for under this Agreement and the following provisions.

**(a)** If any Stock Award (other than stock options) vesting pursuant to Section 2(a), Section 2(b), Section 3(a)(v)(2) or Section 4(b)(ii):

**(i)** does not constitute "deferred compensation" within the meaning of Section 409A, the shares vesting pursuant to such events will be issued (1) in respect of Section 2(a), Section 2(b) and Section 4(b)(ii) immediately prior to the consummation of the Change of Control, and (2) in respect of Section 3(a)(v)(2) on the sixtieth (60<sup>th</sup>) day following the Termination Upon Change of Control as further provided in Section 14 hereof.

**(ii)** does constitute "deferred compensation" within the meaning of Section 409A, the shares vesting pursuant to such events will be issued (1) in respect of Section 2(a), Section 2(b) and Section 4(b)(ii) immediately prior to the Change of Control, provided such payment can be made without adverse personal tax consequences to the Executive, or else the shares vesting pursuant to Section 2(a), Section 2(b) and Section 4(b)(ii) will be converted into the same consideration received by the holders of the Company's common stock pursuant to the Change of Control, and such consideration will be issued in accordance with the delivery schedule for such Stock Award in effect immediately prior to the Change of Control and (2) in respect of Section 3(a)(v)(2) will be issued in accordance with the delivery schedule for such Stock Award in effect immediately prior to the Termination Upon Change of Control.

**(b) Extension of Stock Option Exercise Period.** Notwithstanding anything to the contrary in this Agreement, in the event any extended exercise period provided for in this Agreement shall result in a portion of a stock option becoming subject to the provisions of Section 409A, the extended exercise period of such portion of such stock option shall be automatically shortened by the minimum extent necessary to prevent such portion of such option from becoming subject to Section 409A. In no event will any provisions in this Agreement providing for an extended exercise period result in the extension of the exercise period of any stock option beyond the maximum permitted term of such stock option as provided under the applicable equity incentive plan and stock option award agreement in effect for such stock option, assuming for the purposes of this Section 20(b) no termination of Executive's employment with the Company.

**(c) Other Benefits.** Notwithstanding anything to the contrary herein, the following provisions apply to the extent any benefits ("**Benefits**") provided herein other than those described in Section 20(b) are subject to Section 409A: (A) The Benefits are intended to qualify for an exemption from application of Section 409A or comply with the requirements of Section 409A to the extent necessary to avoid adverse personal tax consequences under Section 409A, and any ambiguities herein shall be interpreted accordingly. (B) Benefits contingent on a termination

of employment shall not commence until Executive has a Separation from Service. (C) Each installment of a Benefit is a separate “payment” for purposes of Treas. Reg. Section 1.409A-2(b)(2) (i). (D) Each Benefit is intended to satisfy the exemptions from application of Section 409A provided under Treasury Regulations Sections 1.409A-1(b)(4), 1.409A-1(b)(5) and 1.409A-1(b)(9) to the maximum extent available. However, if such exemptions are not available and Executive is, upon Executive’s Separation from Service, a “specified employee” for the purposes of Section 409A, then, solely to the extent necessary to avoid adverse personal tax consequences under Section 409A, the timing of the Benefit payments otherwise payable prior to such date shall be delayed until the earlier of (x) six (6) months and one day after Executive’s Separation from Service, or (y) Executive’s death, and any payments otherwise scheduled to be made after such date shall be paid as originally scheduled. (E) To the extent that any reimbursements payable to Executive pursuant to Section 3(a) (iii) are subject to the provisions of Section 409A, the following provisions will apply in addition to the provisions of any applicable expense reimbursement policy: (a) to be eligible to obtain reimbursement for such expenses Executive must submit expense reports within 45 days after the expense is incurred, (b) any such reimbursements will be paid no later than the earlier of (x) thirty (30) days after the date Executive submits receipts for the expenses or (y) December 31 of the year following the year in which the expense was incurred, (c) the amount of expenses reimbursed in one year will not affect the amount eligible for reimbursement in any subsequent year, and (d) the right to reimbursement under this Agreement will not be subject to liquidation or exchange for another benefit.

**(d) Payment of Health Care Benefits.** Notwithstanding anything to the contrary set forth herein, if the Company determines, in its sole discretion, that it cannot provide the COBRA premium, Conversion Policy premium, Individual Policy premium, or other medical and dental coverage premiums (together the “*Health Care Benefits*”) contemplated under this Agreement without potentially incurring financial costs or penalties under applicable law (including, without limitation, Section 2716 of the Public Health Service Act), the Company shall in lieu thereof pay Executive a taxable cash amount, which payment shall be made regardless of whether Executive or Executive’s eligible family members elect health care continuation coverage (the “*Health Care Benefit Payment*”). Subject to any further delay in payment required by Section 14 of this Agreement, the Health Care Benefit Payment shall be paid in monthly installments on the same schedule that such amounts would otherwise have been paid to the insurer. The Health Care Benefit Payment shall be equal to (a) the amount that the Company would have otherwise paid to provide the Health Care Benefits for the duration of the applicable severance period (which amount shall be calculated based on the premium for the first month of coverage), plus (b) an additional amount such that after payment of all taxes, Executive retains an amount equal to the Company’s aggregate cost of otherwise providing the Health Care Benefits. For purposes of calculating the “additional amount” in clause (b) of the preceding sentence, Executive shall be deemed to have: paid federal income taxes at the highest marginal rate of federal income and employment taxation for the calendar year in which the Health Care Benefit Payment is to be made, and paid applicable state and local income taxes at the highest rate of taxation for the calendar year in which the Health Care Benefit Payment is to be made, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes.

**21. Definitions.** As used in this Agreement, unless the context requires a different meaning, the following terms shall have the meanings set forth herein:

(a) “**2007 Equity Incentive Plan**” means that certain 2007 Equity Incentive Plan, as amended, as originally adopted by the Board of Directors on September 10, 2007, and any successor plan thereto.

(b) “**Annual Performance Bonus**” means the Executive’s current annual performance incentive bonus at the applicable maximum achievable Performance Level, whether consisting of cash or Stock Awards, as determined by the Board of Directors or Compensation Committee on an annual basis.

(c) “**Cause**” means:

(i) A material act of theft, dishonesty, fraud, intentional falsification of any employment or Company records or the commission of any criminal act which impairs Executive’s ability to perform his/her duties under this Agreement;

(ii) A material improper disclosure of the Company’s confidential, business or proprietary information by Executive;

(iii) Any action by Executive intentionally causing or expected to cause material harm to the reputation and standing of the Company, or gross negligence or willful misconduct in the performance of Executive’s assigned duties (but not mere unsatisfactory performance); or

(iv) The Executive’s conviction (including any plea of guilty or nolo contendere) for a felony causing material harm to the reputation and standing of the Company, as determined by the Company in good faith.

(d) “**Change of Control**” means:

(i) Any “**person**” (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), other than a trustee or other fiduciary holding securities of the Company under an employee benefit plan of the Company becomes the “beneficial owner” (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of (A) the outstanding shares of common stock of the Company or (B) the combined voting power of the Company’s then-outstanding securities;

(ii) The Company is party to a merger or consolidation which results in the holders of voting securities of the Company outstanding immediately prior thereto failing to continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 50% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation;

(iii) There occurs a change in the Board of Directors of the Company within a two-year period, as a result of which fewer than a majority of the Directors are Incumbent Directors. For purposes of this Agreement, an “Incumbent Director” is any director who is either:

(A) A director of the Company as of January 1, 2013; or

**(B)** A director who is elected or nominated for election to the Board of Directors of the Company with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but shall not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Company).

**(iv)** The sale or disposition of 50% or more of the Company's assets (or consummation of any transaction having similar effect); or

**(v)** The dissolution or liquidation of the Company.

**(e)** "**Code**" means the Internal Revenue Code of 1986, as amended.

**(f)** "**Company**" shall mean Power Integrations, Inc., and following a Change of Control, any successor or assign to its business and/or assets that agrees or otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

**(g)** "**Competition**" shall mean rendering services for any organization or engaging in any business directly competitive with the Company or materially contrary or harmful to the interests of the Company, including, but not limited to (i) accepting employment with, or serving as a consultant, advisor or in any other capacity to, the division or other portion of the business of any employer which competes directly with the Company; (ii) materially acting against the interest of the Company or (iii) personally recruiting, directly or indirectly, any person who is then an employee of the Company.

**(h)** "**Executive Officer**" means any employee of the Company designated an executive officer by the Board of Directors or Compensation Committee.

**(i)** "**Good Reason**" means the occurrence of any of the following conditions, without Executive's written consent, which condition(s) remain(s) in effect 20 days after written notice to the Board of Directors from Executive of such condition(s), if such notice is given within one year of the occurrence of such condition(s):

**(i)** A material decrease or planned decrease in Executive's annual salary, the cash value of Executive's Annual Performance Bonus or employee benefits following a Change of Control;

**(ii)** A demotion, a material reduction in Executive's position, responsibilities or duties or a material, adverse change in Executive's substantive functional responsibilities or duties, provided, however, that in the event of a Change of Control, Executive will be deemed demoted and his position, responsibilities or duties materially reduced or his substantive functional responsibilities or duties materially adversely changed if Executive is not responsible for at least substantially the same function that Executive had in the Company prior to the Change of Control.

**(iii)** The relocation of Executive's work place for the Company to a location more than fifty (50) miles from the current location of Executive's work place or a material adverse change in the working conditions or established working hours which persist for

a period of six continuous months; or

(iv) Any material breach of this Agreement by the Company.

(j) “**Highest Annual Salary**” means Executive’s highest annual salary in any of the three years preceding the applicable date of determination, provided, however, that if the Executive’s then effective annual salary would be Executive’s highest annual salary upon completion of the current year of service, then Highest Annual Salary shall mean Executive’s then effective annual salary.

(k) “**New Executive**” means an Executive who has served as an executive of the Company for fewer than five years. Executive’s service to the Company as an executive will be deemed to begin upon the date of commencement of employment as an Executive Officer or upon the date of promotion to an Executive Officer position. A New Executive will be first eligible for the benefits under this Agreement upon the completion of one year of continuous service as an Executive Officer of the Company, unless the Board of Directors or Compensation Committee determines otherwise.

(l) “**Performance Level**” means the pay out amounts (whether in cash or Stock Awards) based upon the satisfaction of one or more performance criteria as determined by the Board of Directors or Compensation Committee.

(m) “**Performance Stock Award**” means any Stock Award subject to vesting upon the achievement of any Performance Level regardless of the length of any performance period.

(n) “**Permanent Disability**” means that:

(i) The Executive has been incapacitated by bodily injury or disease so as to be prevented thereby from engaging in the performance of the Executive’s duties;

(ii) Such total incapacity shall have continued for a period of six consecutive months;

(iii) Such incapacity will, in the opinion of a qualified physician, be permanent and continuous during the remainder of the Executive’s life; and

(iv) Such incapacity results in Executive’s Separation from Service.

(o) “**Prorated Portion**” means a fraction the numerator of which is the number of days in an applicable performance period prior to such Executive’s termination of employment and the denominator of which is the total number of days in an applicable performance period.

(p) “**Release of Claims**” means the release of claims required by Section 14 of this Agreement.

(q) “**Retention Stock Award**” means any Stock Award subject to vesting upon the completion of time-based vesting criteria.



(r) “**Section 409A**” means Section 409A of the Code and the regulations and other guidance thereunder and any state law of similar effect.

(s) “**Senior Executive**” means an Executive who has served continuously as an executive of the Company for at least five years. Executive’s service to the Company as an executive will be deemed to begin upon the date of commencement of employment as an Executive Officer or upon the date of promotion to an Executive Officer position, unless the Board of Directors or Compensation Committee determines otherwise.

(t) “**Separation from Service**” means a “separation from service” for the purposes of Section 409A with respect to the Company.

(u) “**Stock Award**” shall (i) 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 (ii) 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.

(v) “**Termination of Employment**” means Executive’s Separation from Service that results from:

(i) Any termination of employment of the Executive by the Company without Cause; or

(ii) Any resignation by the Executive for Good Reason.

“Termination of Employment” shall not include any termination of the employment of the Executive (a) by the Company for Cause; (b) as a result of Permanent Disability of the Executive; (c) as a result of the death of the Executive; (d) as a result of the voluntary termination of employment by the Executive for reasons other than Good Reason; or (e) a Termination Upon Change of Control.

(w) “**Termination Upon Change of Control**” means Executive’s Separation from Service that results from:

(i) Any termination of the employment of the Executive by the Company without Cause on or within eighteen (18) months after (i) the occurrence of a Change of Control; or (ii) the date that the person serving as of the Effective Date as Chief Executive Officer of the Company ceases to serve in such office; or

(ii) Any resignation by the Executive for Good Reason within eighteen (18) months after (i) the occurrence of a Change of Control or (ii) the date that the person serving as of the Effective Date as Chief Executive Officer of the Company ceases to serve in such office.

“Termination Upon Change of Control” shall not include any termination of the employment of the Executive (a) by the Company for Cause; (b) as a result of the Permanent Disability of the Executive; (c) as a result of the death of the Executive; or (d) as a result of the voluntary termination of employment by the Executive for reasons other than Good Reason.

\* \* \* \* \*

**LIST OF SUBSIDIARIES****Jurisdiction of Incorporation**

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|   |                |
|---|----------------|
| Power Integrations KK                                     | Japan          |
| Power Integrations Limited                                | Cayman Islands |
| Power Integrations Malaysia SDN. BHD.                     | Malaysia       |
| Power Integrations Singapore Pte. Limited                 | Singapore      |
| Power Integrations Netherlands B.V.                       | Netherlands    |
| Power Integrations GmbH                                   | Germany        |
| Power Integrations Italy S.r.l                            | Italy          |
| Power Integrations (Europe) Limited                       | United Kingdom |
| Power Integrations Switzerland GmbH                       | Switzerland    |
| Power Integrations India Private Limited                  | India          |
| Power Integrations Canada Unlimited Liability Corporation | Canada         |
| Power Integrations U.K. Limited                           | United Kingdom |

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**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement Nos. 333-232803, 333-214240, 333-183126, 333-152455, 333-146025, 333-122370, 333-119015, 333-112135, 333-102676, 333-86270, 333-59564, 333-42194, 333-83083, 333-69871 and 333-56381 on Form S-8 of our reports dated February 5, 2021, relating to the financial statements of Power Integrations, Inc. and the effectiveness of Power Integrations, Inc.'s internal control over financial reporting appearing in this Annual Report on Form 10-K for the year ended December 31, 2020.

/s/ DELOITTE & TOUCHE LLP

San Jose, California  
February 5, 2021

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**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

I, Balu Balakrishnan certify that:

1. I have reviewed this Form 10-K 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: February 5, 2021

By: /s/ BALU BALAKRISHNAN

Balu Balakrishnan  
Chief Executive Officer

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**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

I, Sandeep Nayyar, certify that:

1. I have reviewed this Form 10-K 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: February 5, 2021

By: /s/ SANDEEP NAYYAR  
Sandeep Nayyar  
Chief Financial Officer

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

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

Dated: February 5, 2021

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.*

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

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

Dated: February 5, 2021

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.*

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