POWER INTEGRATIONS INC
Form 10-Q
July 26, 2018
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)
x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2018
or
o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ______ to ______
Commission File Number 000-23441

POWER INTEGRATIONS, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	94-3065014
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)

5245 Hellyer Avenue, San Jose, California, 95138
(Address of principal executive offices) (Zip code)
(408) 414-9200
(Registrant's telephone number, including area code)

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 x NO o

Indicate by check mark whether the registrant submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO o

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 x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o
	Emerging growth company o

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. o

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

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

Class	Shares Outstanding at July 16, 2018
Common Stock, $0.001 par value	29,407,488

Table of Contents

POWER INTEGRATIONS, INC.
TABLE OF CONTENTS

Table of Contents

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q includes a number of forward-looking statements that involve many risks and uncertainties. Forward-looking statements are identified by the use of the words “would,” “could,” “will,” “may,” “expect,” “believe,” “should,” “anticipate,” “if,” “future,” “intend,” “plan,” “estimate,” “potential,” “target,” “seek,” or “continue” and si phrases, including the negatives of these terms, or other variations of these terms, that denote future events. These statements reflect our current views with respect to future events and our potential financial performance and are subject to risks and uncertainties that could cause our actual results and financial position to differ materially and adversely from what is projected or implied in any forward-looking statements included in this Form 10-Q. These factors include, but are not limited to, the risks described under the caption “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2017, and in Item 2 of Part I — “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Quarterly Report on Form 10-Q, including, but not limited to: our quarterly operating results are volatile and difficult to predict, and if we fail to meet the expectations of public market analysts or investors, the market price of our common stock may decrease significantly; if demand for our products declines in our major end markets, our net revenues will decrease; our products are sold through distributors, which limits our direct interaction with our end customers, therefore reducing our ability to forecast sales and increasing the complexity of our business; we depend on third-party suppliers to provide us with wafers for our products, and if they fail to provide us sufficient quantities of wafers, our business may suffer; intense competition may lead to a decrease in our average selling price and reduced sales volume of our products; if our products do not penetrate additional markets, our business will not grow as we expect; we do not have long-term contracts with any of our customers and if they fail to place, or if they cancel or reschedule orders for our products, our operating results and our business may suffer; if we are unable to adequately protect or enforce our intellectual property rights, we could lose market share, incur costly litigation expenses, suffer incremental price erosion or lose valuable assets, any of which could harm our operations and negatively impact our profitability. We make these forward-looking statements based upon information available on the date of this Form 10-Q, and we expressly disclaim any obligation to update or alter any forward-looking statements, whether as a result of new information or otherwise, except as required by laws.

Table of Contents

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

(In thousands)	June 30, 2018	December 31, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$148,187	$ 93,655
Short-term marketable securities	98,494	189,236
Accounts receivable, net of allowances for doubtful accounts of $751 and $734 in 2018 and 2017, respectively	6,843	16,798
Inventories	68,824	57,087
Prepaid expenses and other current assets	10,619	7,758
Total current assets	332,967	364,534
PROPERTY AND EQUIPMENT, net	111,063	111,705
INTANGIBLE ASSETS, net	23,751	25,419
GOODWILL	91,849	91,849
DEFERRED TAX ASSETS	3,181	2,364
OTHER ASSETS	25,216	25,203
Total assets	$588,027	$ 621,074
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$26,518	$ 33,211
Accrued payroll and related expenses	12,053	12,064
Taxes payable	1,254	1,767
Other accrued liabilities	4,588	4,009
Total current liabilities	44,413	51,051
LONG-TERM INCOME TAXES PAYABLE	17,635	18,259
DEFERRED TAX LIABILITIES	55	138
OTHER LIABILITIES	4,095	3,944
Total liabilities	66,198	73,392
COMMITMENTS AND CONTINGENCIES (Notes 11, 12 and 13)		
STOCKHOLDERS' EQUITY:		
Common stock	28	29
Additional paid-in capital	152,380	198,384
Accumulated other comprehensive loss	(2,088)	(2,139)
Retained earnings	371,509	351,408
Total stockholders' equity	521,829	547,682
Total liabilities and stockholders' equity	$588,027	$ 621,074

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

Table of Contents

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(In thousands, except per share amounts)	2018	2017	2018	2017
NET REVENUES	$109,482	$107,563	$212,563	$212,251
COST OF REVENUES	53,248	54,116	102,785	108,328
GROSS PROFIT	56,234	53,447	109,778	103,923
OPERATING EXPENSES:				
Research and development	17,898	17,341	35,379	33,981
Sales and marketing	13,497	13,144	26,585	25,360
General and administrative	9,220	8,765	18,234	17,469
Total operating expenses	40,615	39,250	80,198	76,810
INCOME FROM OPERATIONS	15,619	14,197	29,580	27,113
OTHER INCOME	885	465	1,721	971
INCOME BEFORE INCOME TAXES	16,504	14,662	31,301	28,084
PROVISION FOR INCOME TAXES	1,123	760	1,720	83
NET INCOME	$15,381	$13,902	$29,581	$28,001
EARNINGS PER SHARE:				
Basic	$0.52	$0.47	$1.00	$0.95
Diluted	$0.51	$0.46	$0.97	$0.92
SHARES USED IN PER SHARE CALCULATION:				
Basic	29,505	29,720	29,651	29,589
Diluted	30,183	30,454	30,387	30,370

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

Table of Contents

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(In thousands)	2018	2017	2018	2017
NET INCOME	$15,381	$13,902	$29,581	$28,001
Other comprehensive income, net of tax:				
Foreign currency translation adjustments, net of $0 tax in each of the three and six months ended June 30, 2018 and 2017	37	31	—	95
Unrealized gain (loss) on marketable securities, net of $0 tax in each of the three and six months ended June 30, 2018 and 2017	226	15	(12)	98
Amortization of defined benefit pension items, net of tax of $9 and $18 in the three and six months ended June 30, 2018, respectively, and $14 and $27 in the three and six months ended June 30, 2017, respectively	31	49	63	98
Total other comprehensive income	294	95	51	291
TOTAL COMPREHENSIVE INCOME	$15,675	$13,997	$29,632	$28,292

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

Table of Contents

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

	Six Months Ended June 30,	
(In thousands)	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$29,581	$28,001
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	9,691	8,469
Amortization of intangibles	2,668	3,178
Loss on disposal of property and equipment	60	38
Stock-based compensation expense	11,740	11,296
Amortization of premium on marketable securities	376	508
Deferred income taxes	(900)	(648)
Increase in accounts receivable allowances	17	80
Change in operating assets and liabilities:		
Accounts receivable	9,938	(12,249)
Inventories	(11,737)	132
Prepaid expenses and other assets	(1,388)	(8,349)
Accounts payable	(7,276)	(3,629)
Taxes payable and accrued liabilities	(344)	3,208
Net cash provided by operating activities	42,426	30,035
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(10,513)	(22,876)
Acquisition of technology licenses	(500)	—
Purchases of marketable securities	—	(111,574)
Proceeds from sales and maturities of marketable securities	90,353	78,140
Net cash provided by (used in) investing activities	79,340	(56,310)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock under employee stock plans	5,635	5,089
Repurchase of common stock	(63,389)	—
Payments of dividends to stockholders	(9,480)	(8,299)
Proceeds from draw on line of credit	8,000	—
Payments on line of credit	(8,000)	—
Net cash used in financing activities	(67,234)	(3,210)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	54,532	(29,485)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	93,655	62,134
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$148,187	$32,649
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Unpaid property and equipment	$4,996	$5,851
Unpaid technology licenses	$500	$—
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid (refund) for income taxes, net	$4,178	$(1,775)

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

7

Table of Contents

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

1. BASIS OF PRESENTATION:
The condensed consolidated financial statements include the accounts of Power Integrations, Inc., a Delaware corporation (the “Company”), and its wholly owned subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation.
While the financial information furnished is unaudited, the condensed consolidated financial statements included in this report reflect all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for the fair presentation of the results of operations for the interim periods covered and the financial condition of the Company at the date of the interim balance sheet in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The results for interim periods are not necessarily indicative of the results for the entire year. The condensed consolidated financial statements should be read in conjunction with the Power Integrations, Inc. consolidated financial statements and the notes thereto for the year ended December 31, 2017, included in its Form 10-K filed on February 14, 2018, with the Securities and Exchange Commission.

2. SIGNIFICANT ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS:
Significant Accounting Policies and Estimates
No material changes have been made to the Company's significant accounting policies disclosed in Note 2, Significant Accounting Policies and Recent Accounting Pronouncements, in its Annual Report on Form 10-K, filed on February 14, 2018, for the year ended December 31, 2017.
Recent Accounting Pronouncements
In February 2016, the FASB amended the existing accounting standards for leases, ASU 2016-02, Leases. The amendments require lessees to recognize, on the balance sheet, assets and liabilities for the rights and obligations created by leases of greater than twelve months. The accounting by lessors will remain largely unchanged from that applied under previous U.S. GAAP. The Company is required to adopt the amendments in the first quarter of fiscal 2019, with early adoption permitted. The amendments require a modified retrospective transition approach to recognize and measure leases at the beginning of the earliest period presented. The Company is currently evaluating the impact of these amendments and the transition alternatives on its condensed consolidated financial statements.

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

(In thousands)	June 30, 2018	December 31, 2017
Accounts receivable trade	$55,128	$ 58,718
Allowances for ship and debit	(44,660)	(39,486)
Allowances for stock rotation and rebate	(2,874)	(1,700)
Allowances for doubtful accounts	(751)	(734)
Total	$6,843	$ 16,798

Inventories

(In thousands)	June 30, 2018	December 31, 2017
Raw materials	$25,421	$ 15,517
Work-in-process	15,403	16,765
Finished goods	28,000	24,805
Total	$68,824	$ 57,087

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

Prepaid Expenses and Other Current Assets

(In thousands)	June 30, 2018	December 31, 2017
Prepaid legal fees	$151	$ 213
Prepaid income tax	864	460
Prepaid maintenance agreements	1,695	856
Interest receivable	690	1,195
Advance to suppliers	2,546	1,211
Other	4,673	3,823
Total	$10,619	$ 7,758

Intangible Assets

	June 30, 2018			December 31, 2017		
(In thousands)	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Domain name	$1,261	$ —	$1,261	$1,261	$ —	$1,261
In-process research and development	4,690	—	4,690	4,690	—	4,690
Developed technology	33,270	(20,838)	12,432	33,270	(19,211)	14,059
Customer relationships	20,030	(15,610)	4,420	20,030	(14,621)	5,409
Technology licenses	1,000	(52)	948	—	—	—
In-place leases	—	—	—	660	(660)	—
Total	$60,251	$ (36,500)	$23,751	$59,911	$ (34,492)	$25,419

The estimated future amortization expense related to finite-lived intangible assets at June 30, 2018, is as follows:

Fiscal Year	Estimated Amortization (In thousands)
2018 (remaining six months)	$ 2,599
2019	4,878
2020	3,653
2021	2,787
2022	1,709
Thereafter	2,174
Total (1)	$ 17,800

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

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

Accumulated Other Comprehensive Loss
Changes in accumulated other comprehensive loss for the three and six months ended June 30, 2018 and 2017, were as follows:

	Unrealized Gains and Losses on Marketable Securities		Defined Benefit Pension Items		Foreign Currency Items		Total	
	Three Months Ended June 30,		Three Months Ended June 30,		Three Months Ended June 30,		Three Months Ended June 30,	
(In thousands)	2018	2017	2018	2017	2018	2017	2018	2017
Beginning balance	$(665)	$(137)	$(1,205)	$(1,887)	$(512)	$(490)	$(2,382)	$(2,514)
Other comprehensive income before reclassifications	226	15	—	—	37	31	263	46
Amounts reclassified from accumulated other comprehensive loss	—	—	31 (1)	49 (1)	—	—	31	49
Net-current period other comprehensive income	226	15	31	49	37	31	294	95
Ending balance	$(439)	$(122)	$(1,174)	$(1,838)	$(475)	$(459)	$(2,088)	$(2,419)

(1) This component of accumulated other comprehensive income (loss) is included in the computation of net periodic pension cost for the three months ended June 30, 2018 and 2017.

	Unrealized Gains and Losses on Marketable Securities		Defined Benefit Pension Items		Foreign Currency Items		Total	
	Six Months Ended June 30,		Six Months Ended June 30,		Six Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2018	2017	2018	2017	2018	2017	2018	2017
Beginning balance	$(427)	$(220)	$(1,237)	$(1,936)	$(475)	$(554)	$(2,139)	$(2,710)
Other comprehensive income (loss) before reclassifications	(12)	98	—	—	—	95	(12)	193
Amounts reclassified from accumulated other comprehensive loss	—	—	63 (1)	98 (1)	—	—	63	98
Net-current period other comprehensive income (loss)	(12)	98	63	98	—	95	51	291
Ending balance	$(439)	$(122)	$(1,174)	$(1,838)	$(475)	$(459)	$(2,088)	$(2,419)

(1) This component of accumulated other comprehensive income (loss) is included in the computation of net periodic pension cost for the six months ended June 30, 2018 and 2017.

4. FAIR VALUE MEASUREMENTS:

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

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

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

The fair-value hierarchy of the Company's cash equivalents and marketable securities at June 30, 2018, and December 31, 2017, was as follows:

	Fair Value Measurement at June 30, 2018		
(In thousands)	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Corporate securities	$89,265	$ —	$ 89,265
Commercial paper	128,809	—	128,809
Government securities	9,229	—	9,229
Money market funds	467	467	—
Total	$227,770	$ 467	$ 227,303

	Fair Value Measurement at December 31, 2017		
(In thousands)	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Corporate securities	$179,951	$ —	$ 179,951
Commercial paper	51,122	—	51,122
Government securities	9,285	—	9,285
Money market funds	195	195	—
Total	$240,553	$ 195	$ 240,358

The Company did not transfer any investments between Level 1 and Level 2 of the fair-value hierarchy in the six months ended June 30, 2018, and the twelve months ended December 31, 2017.

5. MARKETABLE SECURITIES:
Amortized cost and estimated fair market value of marketable securities classified as available-for-sale (excluding cash equivalents) at June 30, 2018, were as follows:

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value
Investments due in 3 months or less:				
Government securities	$ 9,234	$ —	$ (5)	$ 9,229
Corporate securities	47,926	—	(58)	47,868
Total	57,160	—	(63)	57,097
Investments due in 4-12 months:				

Corporate securities	21,981	—	(133)	21,848
Total	21,981	—	(133)	21,848
Investments due in 12 months or greater:				
Corporate securities	19,792	—	(243)	19,549
Total	19,792	—	(243)	19,549
Total marketable securities	$ 98,933	$ —	$ (439)	$ 98,494

Amortized cost and estimated fair market value of marketable securities classified as available-for-sale (excluding cash equivalents) at December 31, 2017, were as follows:

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value
Investments due in 3 months or less:				
Corporate securities	$ 38,485	$ —	$ (16)	$ 38,469
Total	38,485	—	(16)	38,469
Investments due in 4-12 months:				
Corporate securities	104,440	—	(199)	104,241
Government securities	9,302	—	(17)	9,285
Total	113,742	—	(216)	113,526
Investments due in 12 months or greater:				
Corporate securities	37,436	—	(195)	37,241
Total	37,436	—	(195)	37,241
Total marketable securities	$ 189,663	$ —	$ (427)	$ 189,236

As of June 30, 2018, and December 31, 2017, the Company evaluated the nature of the investments with a loss position, which were primarily high-quality corporate securities, and determined the unrealized losses were not other-than-temporary.

6. STOCK-BASED COMPENSATION:

The following table summarizes the stock-based compensation expense recognized in accordance with ASC 718-10 for the three and six months ended June 30, 2018, and June 30, 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2018	2017	2018	2017
Cost of revenues	$ 292	$ 351	$ 541	$ 494
Research and development	2,271	2,351	4,110	3,985
Sales and marketing	1,126	1,189	2,402	2,286
General and administrative	2,426	2,436	4,687	4,531
Total stock-based compensation expense	$ 6,115	$ 6,327	$ 11,740	$ 11,296

Stock-based compensation expense in the three months ended June 30, 2018, was approximately $6.1 million (comprising approximately $3.9 million related to restricted stock unit (RSU) awards, $1.8 million related to performance-based (PSU) awards and long-term performance-based (PRSU) awards and $0.4 million related to the Company's employee stock purchase plan). In the six months ended June 30, 2018, stock-based compensation expense was approximately $11.7 million (comprising approximately $8.2 million related to restricted stock unit (RSU) awards, $2.7 million related to performance-based (PSU) awards and long-term performance-based (PRSU) awards and $0.8 million related to the Company's employee stock purchase plan).

Stock-based compensation expense in the three months ended June 30, 2017, was approximately $6.3 million (comprising approximately $3.7 million related to RSUs, $2.3 million related to PSUs and PRSUs and $0.3 million related to the Company's employee stock purchase plan). In the six months ended June 30, 2017, stock-based compensation expense was approximately $11.3 million (comprising approximately $7.2 million related to RSUs, $3.5 million related to PSUs and PRSUs and $0.6 million related to the Company's employee stock purchase plan).

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

Stock Options
A summary of stock options outstanding as of June 30, 2018, and activity during the six months then ended, is presented below:

	Shares (In thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at January 1, 2018	511	$ 29.03		
Granted	—	—		
Exercised	(126)	$ 23.29		
Forfeited or expired	—	—		
Outstanding at June 30, 2018	385	$ 30.92	1.87	$ 16,220
Vested and exercisable at June 30, 2018	385		1.87	$ 16,220

PSU Awards
Under the performance-based awards program, the Company grants awards in the performance year in an amount equal to twice the target number of shares to be issued if the maximum performance metrics are met. The number of shares that are released at the end of the performance year can range from zero to 200% of the target number depending on the Company’s performance. The performance metrics of this program are annual targets consisting of a combination of net revenue, non-GAAP operating income and strategic goals.
As the net revenue, non-GAAP operating income and strategic goals are considered performance conditions, expense associated with these awards, net of estimated forfeitures, is recognized over the service period based on an assessment of the achievement of the performance targets. The fair value of these PSUs is determined using the fair value of the Company’s common stock on the date of the grant, reduced by the discounted present value of dividends expected to be declared before the awards vest. If the performance conditions are not achieved, no compensation cost is recognized and any previously recognized compensation is reversed.
In January 2018, it was determined that approximately 79,000 shares of the PSUs granted in 2017, vested in aggregate and were released to the Company’s employees and executives in the first quarter of 2018.
A summary of PSUs outstanding as of June 30, 2018, and activity during the six months then ended, is presented below:

	Shares (In thousands)	Weighted-Average Grant Date Fair Value Per Share	Weighted-Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at January 1, 2018	79	$ 63.99		
Granted	88	$ 62.82		
Vested	(79)	$ 63.99		
Forfeited	—	—		
Outstanding at June 30, 2018	88	$ 62.82	0.50	$ 6,458
Outstanding and expected to vest at June 30, 2018	47		0.50	$ 3,398

PRSU Awards
The Company's PRSU program provides for the issuance of PRSUs which will vest based on the Company's performance measured against the PRSU program's established revenue targets. PRSUs are granted in an amount equal to twice the target number of shares to be issued if the maximum performance metrics are met. The actual

number of shares the recipient receives is determined at the end of a three-year performance period based on results achieved versus the Company's performance goals, and may range from zero to 200% of the target number. The performance goals for PRSUs granted in fiscal 2016, 2017 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 depending on the number of shares expected to vest based on progress toward the performance target. If the performance conditions are not achieved, no compensation cost is recognized and any previously recognized compensation is reversed.

In January 2018, it was determined that approximately 38,000 shares of the PRSUs granted in 2015, vested in aggregate and were released to the Company’s executives in the first quarter of 2018.

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

A summary of PRSUs outstanding as of June 30, 2018, and activity during the six months then ended, is presented below:

	Shares (In thousands)	Weighted-Average Grant Date Fair Value Per Share	Weighted-Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at January 1, 2018	184	$ 52.80		
Granted	72	$ 59.90		
Vested	(38)	$ 52.45		
Forfeited	—	—		
Outstanding at June 30, 2018	218	$ 55.20	1.49	$ 15,896
Outstanding and expected to vest at June 30, 2018	214		1.45	$ 15,637

RSU Awards

A summary of RSUs outstanding as of June 30, 2018, and activity during the six months then ended, is presented below:

	Shares (In thousands)	Weighted-Average Grant Date Fair Value Per Share	Weighted-Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at January 1, 2018	948	$ 55.51		
Granted	251	$ 62.31		
Vested	(282)	$ 53.80		
Forfeited	(16)	$ 58.66		
Outstanding at June 30, 2018	901	$ 57.88	2.23	$ 65,818
Outstanding and expected to vest at June 30, 2018	815		2.11	$ 59,552

7. SIGNIFICANT CUSTOMERS AND GEOGRAPHIC NET REVENUES:

Segment Reporting

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

Customer Concentration

The Company's top ten customers accounted for approximately 59% and 58% of net revenues for the three and six months ended June 30, 2018, respectively, and approximately 57% of net revenues in the corresponding periods of 2017. 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 were $83.0 million and $162.1 million for the three and six months ended June 30, 2018, respectively, and $85.5 million and $166.1 million, respectively, for the corresponding periods of 2017. Direct sales to OEMs and power-supply manufacturers accounted for the remainder.

In each of the three and six months ended June 30, 2018 and 2017, one customer, a distributor of the Company's products, accounted for more than 10% of the Company’s net revenues.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
Customer	2018	2017	2018	2017
Avnet	14%	16%	15%	17%

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

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash investments and trade receivables. The Company does not have any off-balance-sheet credit exposure related to its customers. As

Table of Contents

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of June 30, 2018, and December 31, 2017, 65% and 64%, respectively, of accounts receivable were concentrated with the Company's top 10 customers. As of June 30, 2018, and December 31, 2017, one customer, a distributor of the Company's products, represented 10% or more of the Company's accounts receivable.

The following table discloses this customer's percentage of accounts receivable as of the respective dates:

Customer	June 30, 2018	December 31, 2017
Avnet	21 %	18 %

No other customer represented 10% or more of the Company's accounts receivable as of the dates presented.

Geographic Net Revenues

The Company markets its products globally through its sales personnel and a worldwide network of independent sales representatives and distributors. Geographic net revenues, based on "bill to" customer locations, for the three and six months ended June 30, 2018, and June 30, 2017, were as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(In thousands)	2018	2017	2018	2017
United States of America	$3,729	$4,474	$7,596	$8,303
Hong Kong/China	58,614	56,547	109,971	111,392
Taiwan	12,914	10,762	24,800	23,796
Korea	8,229	9,678	17,878	19,184
Western Europe (excluding Germany)	11,476	12,751	25,068	24,722
Japan	5,647	5,837	10,198	10,485
Germany	3,705	2,915	7,009	5,711
Other	5,168	4,599	10,043	8,658
Total net revenues	$109,482	$107,563	$212,563	$212,251

8. COMMON STOCK REPURCHASES AND CASH DIVIDENDS:

Common Stock Repurchases

As of December 31, 2017, the Company had approximately $44.4 million available under its stock-repurchase program. In January 2018, the Company's board of directors authorized the use of an additional $30.0 million for the repurchase of the Company's common stock, with repurchases to be executed according to pre-defined price/volume guidelines. In the six months ended June 30, 2018, the Company repurchased approximately 0.9 million shares of its common stock for approximately $63.4 million. As of June 30, 2018, the Company had approximately $11.0 million remaining under its current repurchase program, which has no expiration date. Authorization of future repurchase programs is at the discretion of the board of directors and will depend on the Company's financial condition, results of operations, capital requirements, business conditions and other factors.

Cash Dividends

In January 2018, the Company's board of directors declared four quarterly cash dividends in the amount of $0.16 per share to be paid to stockholders of record at the end of each quarter in 2018. For the three and six months ended June 30, 2018, and June 30, 2017, cash dividends declared and paid were as follows:

	Three Months Ended		Six Months Ended	
(In thousands, except per share amounts)	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Dividends declared and paid	$4,705	$4,162	$9,480	$8,299
Dividends declared and paid per common share	$0.16	$0.14	$0.32	$0.28

9. EARNINGS PER SHARE:

Basic earnings per share are calculated by dividing net income by the weighted-average shares of common stock outstanding during the period. Diluted earnings per share are calculated by dividing net income by the weighted-average shares of common stock

15

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

and dilutive common equivalent shares outstanding during the period. Dilutive common equivalent shares included in this calculation consist of dilutive shares issuable upon the assumed exercise of outstanding common stock options, the assumed vesting of outstanding restricted stock units, the assumed issuance of awards under the stock purchase plan and contingently issuable performance-based awards, as computed using the treasury stock method.
A summary of the earnings per share calculation is as follows:

(In thousands, except per share amounts)	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
Basic earnings per share:				
Net income	$15,381	$13,902	$29,581	$28,001
Weighted-average common shares	29,505	29,720	29,651	29,589
Basic earnings per share	$0.52	$0.47	$1.00	$0.95
Diluted earnings per share: (1)				
Net income	$15,381	$13,902	$29,581	$28,001
Weighted-average common shares	29,505	29,720	29,651	29,589
Effect of dilutive awards:				
Employee stock plans	678	734	736	781
Diluted weighted-average common shares	30,183	30,454	30,387	30,370
Diluted earnings per share	$0.51	$0.46	$0.97	$0.92

(1) The Company includes the shares underlying performance-based awards in the calculation of diluted earnings per share if the performance conditions have been satisfied as of the end of the reporting period and excludes such shares when the necessary conditions have not been met. The Company has excluded the shares underlying the outstanding performance-based awards in the 2018 and 2017 calculations as the shares were not contingently issuable as of the end of the reporting periods.

In the three and six months ended June 30, 2018 and 2017, no outstanding stock awards were determined to be anti-dilutive and therefore excluded from the computation of diluted earnings per share.

10. PROVISION FOR INCOME TAXES:

U.S. Tax Reform

The Tax Cuts and Jobs Act (Tax Act) was enacted on December 22, 2017. The Act reduced the U.S. federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings. The Company has not completed the accounting for the tax effects of enactment of the Tax Act; however, in certain cases, as described below, the Company has made a reasonable estimate of the effects on existing deferred tax balances and the one-time transition tax. In other cases, the Company has not been able to make a reasonable estimate. The Company has not recorded any additional measurement-period adjustments during the six months ended June 30, 2018. However, the Company continues to evaluate the provisions of the Tax Act, including the recently issued IRS notices, and expects to complete the accounting within the prescribed measurement period.
The SEC staff issued Staff Accounting Bulletin 118 (SAB 118), which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company’s accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to

apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

The items for which the Company was able to determine a reasonable estimate includes a provisional one-time transition tax of $35.3 million, which was included as a component of the income tax provision for the year-ended December 31, 2017. This one-time transition tax was based on the Company's estimated total post-1986 earnings and profits (E&P) previously deferred from U.S. income taxes. As of December 31, 2017, the Company had no additional undistributed foreign earnings that would be subject to the transition tax; although, this amount may change upon finalization of the total post-1986 foreign E&P balances and local foreign tax returns filed in the current year.

The Company also re-measured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in future periods, which is generally 21%. In the year ended December 31, 2017, the Company recorded a provisional amount of $4.9 million related to the re-measurement of the Company's deferred tax assets and liabilities. As the Company is still analyzing certain aspects of the Tax Act and refining calculations, the measurement of these balances may potentially change or give rise to new deferred tax amounts.

The Act also includes provisions for Global Intangible Low-Taxed Income ("GILTI") wherein taxes on foreign income are imposed in excess of a deemed return on tangible assets of foreign corporations. Due to the complexity of the GILTI tax rules and lack of IRS guidance, the Company continues to evaluate this provision of the Tax Act and the application of ASC 740. The Company is allowed to make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the "period cost method") or (2) factoring such amounts into the Company's measurement of deferred taxes (the "deferred method"). The Company's selection of an accounting policy with respect to the new GILTI tax rules will depend, in part, on analyzing the Company's global income to determine whether the Company expects to have future U.S. inclusions in taxable income related to GILTI and, if so, what the impact is expected to be. Whether the Company expects to have future U.S. inclusions in taxable income related to GILTI depends on not only the Company's current structure and estimated future results of global operations but also the Company's intent and ability to modify the Company's structure and/or business. The Company has not made any provisional adjustments related to potential GILTI deferred taxes in the Company's financial statements and has not made a policy decision regarding whether to record deferred taxes on GILTI. However, the Company has included a current estimate of the 2018 GILTI impact in the computation of the annual effective tax rate.

Income Taxes

Income-tax expense includes a provision for federal, state and foreign taxes based on the annual estimated effective tax rate applicable to the Company and its subsidiaries, adjusted for certain discrete items which are fully recognized in the period they occur.

The Company's effective tax rates for the three and six months ended June 30, 2018, were 6.8% and 5.5%, respectively, and 5.2% and 0.3% for the corresponding periods of 2017. In the three and six months ended June 30, 2018 and 2017, the effective tax rates for these periods were lower than the then statutory federal income-tax rates of 21% and 35%, respectively, due to the geographic distribution of the Company's world-wide earnings in lower tax jurisdictions, federal research tax credits, as well as the recognition of excess tax benefits related to share-based payments. These benefits were offset in part by the estimated 2018 GILTI tax for both the three and six months ended June 30, 2018.

As of June 30, 2018, the Company maintained a valuation allowance on its California deferred tax assets, New Jersey deferred tax assets, and capital losses for federal purposes, and a valuation allowance with respect to its deferred tax assets relating to tax credits in Canada.

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

11. COMMITMENTS:

Supplier Agreements

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

12. LEGAL PROCEEDINGS AND CONTINGENCIES:

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

On October 20, 2004, the Company filed a complaint against Fairchild Semiconductor International, Inc. and Fairchild Semiconductor Corporation (referred to collectively as “Fairchild”) in the United States District Court for the District of Delaware.

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

On May 23, 2008, the Company filed a complaint against Fairchild Semiconductor International, Inc., Fairchild Semiconductor Corporation, and Fairchild's wholly owned subsidiary System General Corporation (referred to collectively as "Fairchild"), in the United States District Court for the District of Delaware. In its complaint, the Company alleged that Fairchild has infringed and is infringing three patents pertaining to power supply controller integrated circuit devices. Fairchild answered the Company's complaint on November 7, 2008, denying infringement and asking for a declaration from the Court that it does not infringe any Power Integrations patent and that the patents are invalid and unenforceable. Fairchild's answer also included counterclaims accusing the Company of infringing three patents pertaining to primary side power conversion integrated circuit devices. Fairchild had earlier brought these same claims in a separate suit against the Company, also in Delaware, which Fairchild dismissed in favor of adding its claims to the Company's already pending suit against Fairchild. The Company has answered Fairchild's counterclaims, denying infringement and asking for a declaration from the Court that it does not infringe any Fairchild patent and that the Fairchild patents are invalid. Fairchild also filed a motion to stay the case, but the Court denied that motion on December 19, 2008. On March 5, 2009, Fairchild filed a motion for summary judgment to preclude any recovery for post-verdict sales of parts found to infringe in the parties' other ongoing litigation, described above, and the Company filed its opposition and a cross-motion to preclude Fairchild from re-litigating the issues of infringement and damages for those same products. On June 26, 2009, the Court held a hearing on the parties' motions, and on July 9, 2009 the Court issued an order denying the parties' motions but staying proceedings with respect to the products that were found to infringe and which are subject to the injunction in the other Delaware case between the parties pending the entry of final judgment in that case; those products are expected to be addressed in the context of the parties' remand proceedings following the appeal in their earlier litigation in Delaware, and the remainder of the case is proceeding. On December 18, 2009, the Court issued an order construing certain terms in the asserted claims of the Company's and Fairchild's patents in suit. Following the Court's ruling on claim construction, Fairchild withdrew its claim related to one of its patents and significantly reduced the number of claims asserted for the remaining two patents. The parties thereafter filed and argued a number of motions for summary judgment, and the Court denied the majority of the parties' motions but granted the Company's motion to preclude Fairchild from re-arguing validity positions that were rejected in the prior case between the parties. Because the

Table of Contents

assigned Judge retired at the end of July 2010, the case was re-assigned to a different Judge, and the Court vacated the trial schedule and had the parties provide their input on the appropriate course of action. The Court thereafter set a trial schedule with the jury trial on infringement and validity to begin in July 2011. On April 18, 2011, the Court rescheduled the trial to begin in January 2012, and on June 2, 2011, the Court moved the trial date to April 2012 to permit the parties to address another patent the Company accused Fairchild of infringing. Following a trial in April 2012, the jury returned a verdict finding that Fairchild infringes two of the Company's patents, that Fairchild has induced others to infringe the Company's patents, and also upheld the validity of the infringed patents. Of the two remaining counterclaim patents Fairchild asserted in the case, one was found not to be infringed, but the jury found the second patent to be infringed by a limited number of the Company's products, although the jury further found the Company did not induce infringement by any customers, including customers outside the United States. On March 29, 2013, the District Court denied most of the parties' post-trial motions on liability but granted the Company's motion for judgment as a matter of law finding that Fairchild infringed another of the Company's patents. On April 25, 2013, the Court denied both parties' motions regarding the unenforceability of each other's patents. The Company challenged adverse findings on appeal; nevertheless, the Company estimated that even if the verdict on Fairchild's patent had ultimately been upheld, the sales potentially impacted would have amounted to less than 0.5% of the Company's revenues. The Company requested an injunction preventing further infringement of its own patents by Fairchild, and Fairchild requested an injunction as well. Following a hearing on the issue in June 2014, the Court denied Fairchild's request for an injunction against the Company and granted the Company's request for an injunction against Fairchild. On January 13, 2015, the District Court entered final judgment on the liability and validity issues discussed above, and both parties filed appeals with the Federal Circuit. After briefing was completed, oral argument on the appeal took place in early July 2016, and on December 12, 2016, the Federal Circuit issued its opinion in the appeal, overturning the lone infringement verdict against the Company, finding one of the Company's patents invalid, and overturning the District Court's jury instruction on inducement. In view of the Federal Circuit's rejection of the District Court's jury instruction on inducement, the Court also vacated the inducement findings and associated injunction against Fairchild and remanded the case for a retrial on inducement, but the underlying validity and infringement findings against Fairchild on those two patents remain intact. On remand, the Company will also be seeking financial damages as well as enhanced damages for Fairchild's willful infringement.

On June 28, 2004, the Company filed a complaint for patent infringement in the U.S. District Court, Northern District of California, against System General Corporation (SG), a Taiwanese company, and its U.S. subsidiary. The Company's complaint alleged that certain integrated circuits produced by SG infringed and continue to infringe certain of its patents. On June 10, 2005, in response to the initiation of an International Trade Commission (ITC) investigation on the patents asserted in the District Court lawsuit, the District Court stayed all proceedings. Subsequent to the completion of the ITC proceedings, the District Court temporarily lifted the stay and scheduled a case management conference. On December 6, 2006, SG filed a notice of appeal of the ITC decision. In response, and by agreement of the parties, the District Court vacated the scheduled case management conference and renewed the stay of proceedings pending the outcome of the Federal Circuit appeal of the ITC determination. On November 19, 2007, the Federal Circuit affirmed the ITC's findings in all respects, and SG did not file a petition for review. The parties subsequently filed a motion to dismiss the District Court case without prejudice. On November 4, 2009, the Company re-filed its complaint for patent infringement against SG and its parent corporations, Fairchild Semiconductor International, Inc. and Fairchild Semiconductor Corporation, to address their continued infringement of patents at issue in the original suit that recently emerged from SG requested reexamination proceedings before the U.S. Patent and Trademark Office (USPTO). The Company seeks, among other things, an order enjoining SG and Fairchild from infringing the Company's patents and an award of damages resulting from the alleged infringement. Fairchild has denied infringement and asked for a declaration from the Court that it does not infringe any Power Integrations patent, that the patents are invalid, and that one of the two of the Company's patents now at issue in the case is unenforceable. On May 5, 2010, SG and Fairchild filed an amended answer including counterclaims accusing the Company of infringing two patents, and later Fairchild withdrew its claim for infringement of one of the patents it originally asserted against the Company but added another patent to the case over the Company's objections. Both parties filed summary judgment motions and challenges to each other's experts' testimony, and the Court granted the Company's motion for summary judgment of non-infringement with respect to one of Fairchild's two patents. Following a trial on the remaining claims in February 2014, the jury returned a verdict in the Company's favor, affirming the validity of the asserted claims of the Company's patents-in-suit, finding that SG and Fairchild infringed the Company's asserted patents and induced infringement by others, and awarding $105.0 million in damages. The Jury also rejected Fairchild's remaining counterclaims for infringement against the Company. Fairchild challenged these rulings in post-trial motions, but the judge confirmed the jury's determinations on infringement and damages, although the Court declined to find Fairchild's infringement willful. Fairchild also pressed its unenforceability claim with respect to one of the two patents it was found to infringe in post-trial briefing, but the Court rejected Fairchild's unenforceability claim. Fairchild also requested reconsideration of the damages determinations, and the Court granted a new trial with respect to damages but none of the other issues addressed in the previous trial, with the retrial scheduled for December 2015. Thereafter, the parties completed pretrial proceedings challenging each other's experts, and the Court granted portions of each party's motions limiting the scope of expert testimony for purposes of the damages retrial, but neither party was successful in their efforts to prevent the other side's experts from testifying at trial. Following a retrial on the issue of damages in December 2015, the jury returned a verdict in the Company's favor, finding that the Company's patented technology created the basis for customer demand for the infringing Fairchild products and awarding $139.8 million in damages. Although the jury awarded