

POWER INTEGRATIONS INC
Form 10-Q
April 25, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2019

or

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

Commission File Number 000-23441

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

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

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

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

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

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Class	Shares Outstanding at April 18, 2019
Common Stock, \$0.001 par value	29,270,669

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Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q includes a number of forward-looking statements that involve many risks and uncertainties. Forward-looking statements are identified by the use of the words “would,” “could,” “will,” “may,” “expect,” “believe,” “should,” “anticipate,” “if,” “future,” “intend,” “plan,” “estimate,” “potential,” “target,” “seek,” or “continue” and similar phrases, including the negatives of these terms, or other variations of these terms, that denote future events. These statements reflect our current views with respect to future events and our potential financial performance and are subject to risks and uncertainties that could cause our actual results and financial position to differ materially and adversely from what is projected or implied in any forward-looking statements included in this Form 10-Q. These factors include, but are not limited to, the risks described under the caption “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2018, and in Item 2 of Part I — “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Quarterly Report on Form 10-Q, including, but not limited to: our quarterly operating results are volatile and difficult to predict, and if we fail to meet the expectations of public market analysts or investors, the market price of our common stock may decrease significantly; if demand for our products declines in our major end markets, our net revenues will decrease; our products are sold through distributors, which limits our direct interaction with our end customers, therefore reducing our ability to forecast sales and increasing the complexity of our business; we depend on third-party suppliers to provide us with wafers for our products, and if they fail to provide us sufficient quantities of wafers, our business may suffer; intense competition may lead to a decrease in our average selling price and reduced sales volume of our products; if our products do not penetrate additional markets, our business will not grow as we expect; we do not have long-term contracts with any of our customers and if they fail to place, or if they cancel or reschedule orders for our products, our operating results and our business may suffer; if we are unable to adequately protect or enforce our intellectual property rights, we could lose market share, incur costly litigation expenses, suffer incremental price erosion or lose valuable assets, any of which could harm our operations and negatively impact our profitability. We make these forward-looking statements based upon information available on the date of this Form 10-Q, and we expressly disclaim any obligation to update or alter any forward-looking statements, whether as a result of new information or otherwise, except as required by laws.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (Unaudited)

POWER INTEGRATIONS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands)	March 31, 2019	December 31, 2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 125,795	\$ 134,137
Short-term marketable securities	92,901	94,451
Accounts receivable, net of allowances for doubtful accounts of \$526 and \$706 in 2019 and 2018, respectively	20,545	11,072
Inventories	85,080	80,857
Prepaid expenses and other current assets	16,798	11,915
Total current assets	341,119	332,432
PROPERTY AND EQUIPMENT, net	113,713	114,117
INTANGIBLE ASSETS, net	20,073	21,152
GOODWILL	91,849	91,849
DEFERRED TAX ASSETS	5,733	6,906
OTHER ASSETS	28,018	22,241
Total assets	\$ 600,505	\$ 588,697
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 33,432	\$ 31,552
Accrued payroll and related expenses	11,512	12,131
Taxes payable	706	933
Other accrued liabilities	5,271	3,750
Total current liabilities	50,921	48,366
LONG-TERM INCOME TAXES PAYABLE	8,789	8,652
DEFERRED TAX LIABILITIES	204	216
OTHER LIABILITIES	9,290	4,391
Total liabilities	69,204	61,625
COMMITMENTS AND CONTINGENCIES (Notes 11, 12, 13 and 14)		
STOCKHOLDERS' EQUITY:		
Common stock	28	28
Additional paid-in capital	127,769	126,164
Accumulated other comprehensive loss	(1,361)	(1,689)
Retained earnings	404,865	402,569
Total stockholders' equity	531,301	527,072
Total liabilities and stockholders' equity	\$ 600,505	\$ 588,697

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

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

	Three Months Ended March 31,	
(In thousands, except per share amounts)	2019	2018
NET REVENUES	\$89,188	\$103,081
COST OF REVENUES	43,714	49,537
GROSS PROFIT	45,474	53,544
OPERATING EXPENSES:		
Research and development	17,946	17,481
Sales and marketing	13,017	13,088
General and administrative	8,390	9,014
Total operating expenses	39,353	39,583
INCOME FROM OPERATIONS	6,121	13,961
OTHER INCOME	1,152	836
INCOME BEFORE INCOME TAXES	7,273	14,797
PROVISION FOR INCOME TAXES	40	597
NET INCOME	\$7,233	\$14,200
EARNINGS PER SHARE:		
Basic	\$0.25	\$0.48
Diluted	\$0.25	\$0.46
SHARES USED IN PER SHARE CALCULATION:		
Basic	28,951	29,799
Diluted	29,446	30,552

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

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

	Three Months Ended March 31,	
(In thousands)	2019	2018
NET INCOME	\$7,233	\$14,200
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments, net of \$0 tax in each of the three months ended March 31, 2019 and 2018	(22)	(37)
Unrealized gain (loss) on marketable securities, net of \$0 tax in each of the three months ended March 31, 2019 and 2018	334	(238)
Amortization of defined benefit pension items, net of tax of \$5 and \$9 in the three months ended March 31, 2019 and 2018, respectively	16	32
Total other comprehensive income (loss)	328	(243)
TOTAL COMPREHENSIVE INCOME	\$7,561	\$13,957

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

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POWER INTEGRATIONS, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
 (Unaudited)

(In thousands)	Three Months Ended	
	March 31,	
	2019	2018
Common stock		
Beginning balance	\$28	\$29
Common stock issued under employee stock plans	—	—
Repurchase of common stock	—	—
Ending balance	28	29
Additional paid-in capital		
Beginning balance	126,164	198,384
Common stock issued under employee stock plans	4,500	4,657
Repurchase of common stock	(7,302)	(33,314)
Stock-based compensation expense	4,407	5,625
Ending balance	127,769	175,352
Accumulated other comprehensive income (loss)		
Beginning balance	(1,689)	(2,139)
Other comprehensive income (loss)	328	(243)
Ending balance	(1,361)	(2,382)
Retained earnings		
Beginning balance	402,569	351,408
Net income	7,233	14,200
Payment of dividends to stockholders	(4,937)	(4,775)
Ending balance	404,865	360,833
Total stockholders' equity	\$531,301	\$533,832

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

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POWER INTEGRATIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended March 31,	
(In thousands)	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$7,233	\$14,200
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,610	4,931
Amortization of intangibles	1,255	1,348
Loss on disposal of property and equipment	96	38
Stock-based compensation expense	4,407	5,625
Amortization of premium (accretion of discount) on marketable securities	(110)	) 262
Deferred income taxes	1,161	(140)
Increase (decrease) in accounts receivable allowances	(180)	) 5
Change in operating assets and liabilities:		
Accounts receivable	(9,293)	) (934)
Inventories	(4,223)	) (6,121)
Prepaid expenses and other assets	(4,229)	) (3,141)
Accounts payable	1,220	233
Taxes payable and accrued liabilities	(871)	) (577)
Net cash provided by operating activities	1,076	15,729
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(3,459)	) (6,491)
Acquisition of technology licenses	(214)	) (500)
Purchases of marketable securities	(4,793)) —
Proceeds from sales and maturities of marketable securities	6,787	52,366
Net cash provided by (used in) investing activities	(1,679)	) 45,375
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock under employee stock plans	4,500	4,657
Repurchase of common stock	(7,302)	) (33,314)
Payments of dividends to stockholders	(4,937)	) (4,775)
Proceeds from draw on line of credit	—	8,000
Payments on line of credit	—	(8,000)
Net cash used in financing activities	(7,739)	) (33,432)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(8,342)	) 27,672
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	134,137	93,655
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$125,795	\$121,327
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Unpaid property and equipment	\$2,533	\$1,961
Unpaid technology licenses	\$100	\$500
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for income taxes, net	\$378	\$273

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

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POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION:

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

While the financial information furnished is unaudited, the condensed consolidated financial statements included in this report reflect all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for the fair presentation of the results of operations for the interim periods covered and the financial condition of the Company at the date of the interim balance sheet in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The results for interim periods are not necessarily indicative of the results for the entire year. The condensed consolidated financial statements should be read in conjunction with the Power Integrations, Inc. consolidated financial statements and the notes thereto for the year ended December 31, 2018, included in its Form 10-K filed on February 13, 2019, with the Securities and Exchange Commission.

2. SIGNIFICANT ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS:

Significant Accounting Policies and Estimates

Except for the adoption of the new accounting standards for leases mentioned below, no material changes have been made to the Company's significant accounting policies disclosed in Note 2, Significant Accounting Policies and Recent Accounting Pronouncements, in its Annual Report on Form 10-K, filed on February 13, 2019, for the year ended December 31, 2018.

Adoption of New Accounting Standards

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

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

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

Accounts Receivable

(In thousands)	March 31, 2019	December 31, 2018
Accounts receivable trade	\$ 63,340	\$ 54,055
Allowances for ship and debit	(39,168)	(40,118)
Allowances for stock rotation and rebate	(3,101)	(2,159)
Allowances for doubtful accounts	(526)	(706)

Total

\$