

POWER INTEGRATIONS INC
Form 10-Q
October 31, 2012
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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 September 30, 2012

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 0-23441

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

DELAWARE (State or other jurisdiction of Incorporation or organization) 5245 Hellyer Avenue, San Jose, California, 95138 (Address of principal executive offices) (Zip code) (408) 414-9200 (Registrant's telephone number, including area code)	94-3065014 (I.R.S. Employer Identification No.)
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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 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 NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting 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"/>

(Do not check if a smaller reporting company)

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

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

Class	Shares Outstanding at October 19, 2012
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Common Stock, \$.001 par value

28,969,549

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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”, “outlook”, “if”, “future”, “intend”, “plan”, “estimate”, “predict”, “potential”, “targets”, “seek”, 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 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 Item 1A of Part II — “Risk Factors,” 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: 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; 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 demand for our products declines in our major end markets, our net revenues will decrease; 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; 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; and our international sales activities account for a substantial portion of our net revenues, which subjects us to substantial risks. We make these forward-looking statements based upon information available on the date of this Form 10-Q, and we have no obligation (and expressly disclaim any obligation) to update or alter any forward-looking statements, whether as a result of new information or otherwise except as otherwise required by securities regulations.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

POWER INTEGRATIONS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

(In thousands)

	September 30, 2012	December 31, 2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$74,747	\$139,836
Short-term marketable securities	35,605	40,899
Accounts receivable, net of allowances of \$292 and \$215 in 2012 and 2011, respectively (Note 2)	11,106	9,396
Inventories	46,928	52,010
Deferred tax assets	892	892
Prepaid expenses and other current assets	17,659	7,068
Total current assets	186,937	250,101
LONG-TERM MARKETABLE SECURITIES	—	32,041
PROPERTY AND EQUIPMENT, net	90,355	88,241
INTANGIBLE ASSETS, net	49,580	8,852
GOODWILL	78,278	14,786
DEFERRED TAX ASSETS	7,410	12,387
OTHER ASSETS	4,042	26,511
Total assets	\$416,602	\$432,919
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$19,697	\$16,532
Accrued payroll and related expenses	6,258	5,911
Taxes payable	1,168	—
Deferred tax liabilities	1,634	—
Deferred income on sales to distributors	10,437	7,883
Other accrued liabilities	17,583	2,305
Total current liabilities	56,777	32,631
LONG-TERM INCOME TAXES PAYABLE	7,560	34,368
DEFERRED TAX LIABILITIES	3,926	—
PENSION LIABILITY	663	—
Total liabilities	68,926	66,999
COMMITMENTS AND CONTINGENCIES (Notes 9, 11 and 12)		
STOCKHOLDERS' EQUITY:		
Common stock	29	28
Additional paid-in capital	188,587	158,646
Accumulated other comprehensive income	287	50
Retained earnings	158,773	207,196
Total stockholders' equity	347,676	365,920
Total liabilities and stockholders' equity	\$416,602	\$432,919
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 (LOSS)
(unaudited)
(In thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
NET REVENUES	\$78,045	\$75,063	\$226,200	\$232,009
COST OF REVENUES	39,294	40,020	115,101	122,917
GROSS PROFIT	38,751	35,043	111,099	109,092
OPERATING EXPENSES:				
Research and development	11,428	10,345	34,134	30,563
Sales and marketing	10,329	7,990	27,643	24,342
General and administrative	7,941	6,145	22,135	18,761
Charge related to SemiSouth (Note 15)	25,300	—	25,300	—
Total operating expenses	54,998	24,480	109,212	73,666
INCOME (LOSS) FROM OPERATIONS	(16,247)	10,563	1,887	35,426
OTHER INCOME (EXPENSE)				
Charge related to SemiSouth (Note 15)	(33,937)	—	(33,937)	—
Other income, net	837	552	1,647	1,455
Total other income (expense)	(33,100)	552	(32,290)	1,455
INCOME (LOSS) BEFORE PROVISION (BENEFIT) FOR INCOME TAXES	(49,347)	11,115	(30,403)	36,881
PROVISION (BENEFIT) FOR INCOME TAXES	(4,941)	3,603	13,718	8,916
NET INCOME (LOSS)	\$(44,406)	\$7,512	\$(44,121)	\$27,965
EARNINGS (LOSS) PER SHARE:				
Basic	\$(1.54)	\$0.26	\$(1.54)	\$0.97
Diluted	\$(1.54)	\$0.25	\$(1.54)	\$0.93
SHARES USED IN PER SHARE CALCULATION:				
Basic	28,908	28,799	28,586	28,789
Diluted	28,908	29,879	28,586	30,195

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 (LOSS)
 (unaudited)
 (In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income (loss)	\$ (44,406) \$ 7,512		\$ (44,121) \$ 27,965	
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	114	(78)	47	(5)
Unrealized gain on marketable securities	28	—	190	—
Total other comprehensive income (loss)	142	(78)	237	(5)
Total comprehensive income (loss)	\$ (44,264) \$ 7,434		\$ (43,884) \$ 27,960	

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)
 (In thousands)

	Nine Months Ended September 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$(44,121	) \$27,965
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	11,426	11,337
Amortization of intangibles	3,322	729
Charge related to SemiSouth (Note 15)	59,237	—
Gain on sale of property and equipment	(1	) (41
Stock-based compensation expense	10,520	6,617
Amortization of premium on marketable securities	738	1,255
Non-cash interest income from SemiSouth note	(1,445) —
Deferred income taxes	4,089	779
Provision for (reduction in) accounts receivable allowances	21	(74
Excess tax benefit from stock options exercised	(560	) (729
Tax benefit associated with employee stock plans	1,413	1,826
Change in operating assets and liabilities:		
Accounts receivable	1,489	(4,542
Inventories	15,745	10,184
Prepaid expenses and other assets	(11,335	) 2,823
Accounts payable	4,842	(1,090
Taxes payable and accrued liabilities	(28,255	) 4,891
Deferred income on sales to distributors	2,554	(1,904
Net cash provided by operating activities	29,679	60,026
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(12,181	) (16,229
Proceeds from sale of property and equipment	2	2,249
Acquisitions	(115,720	) (6,914
Other assets	—	(1,271
Increase in financing lease receivable	(420	) (7,978
Collections of financing lease receivable	527	314
Loan to SemiSouth	(18,000	) (3,000
Collection of note to SemiSouth	—	3,000
Purchases of marketable securities	—	(31,269
Proceeds from maturities of marketable securities	36,788	15,175
Net cash used in investing activities	(109,004	) (45,923
CASH FLOWS FROM FINANCING ACTIVITIES:		