POWER INTEGRATIONS INC
Form 10-Q
July 31, 2015
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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, 2015

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 (State or other jurisdiction of Incorporation or organization)	94-3065014 (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 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 x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company 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 17, 2015

Common Stock, $0.001 par value	29,107,811

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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 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 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, 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; 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 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)

	June 30, 2015	December 31, 2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$75,941	$60,708
Short-term marketable securities	94,944	114,575
Accounts receivable, net of allowances of $106 and $191 in 2015 and 2014, respectively (Note 2)	13,212	10,186
Inventories	64,231	64,025
Deferred tax assets	38	39
Prepaid expenses and other current assets	9,444	16,379
Total current assets	257,810	265,912
PROPERTY AND EQUIPMENT, net	92,913	95,823
INTANGIBLE ASSETS, net	41,028	35,524
GOODWILL	91,849	80,599
DEFERRED TAX ASSETS	11,025	11,562
OTHER ASSETS	4,894	4,243
Total assets	$499,519	$493,663
LIABILITIES AND STOCKHOLDERS’ EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$30,792	$21,980
Accrued payroll and related expenses	9,539	9,071
Taxes payable	2,237	2,963
Deferred tax liabilities	2,085	2,193
Deferred income on sales to distributors	16,457	15,223
Other accrued liabilities	3,381	3,730
Total current liabilities	64,491	55,160
LONG-TERM INCOME TAXES PAYABLE	746	743
DEFERRED TAX LIABILITIES	3,928	4,272
OTHER LIABILITIES	2,673	2,812
Total liabilities	71,838	62,987
COMMITMENTS AND CONTINGENCIES (Notes 9, 11, 12 and 15)		
STOCKHOLDERS’ EQUITY:		
Common stock	29	29
Additional paid-in capital	161,089	171,938
Accumulated other comprehensive loss	(1,167)	(1,136)
Retained earnings	267,730	259,845
Total stockholders’ equity	427,681	430,676
Total liabilities and stockholders’ equity	$499,519	$493,663

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)
(In thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
NET REVENUES	$85,265	$88,985	$167,822	$172,058
COST OF REVENUES	41,247	40,249	81,512	77,345
GROSS PROFIT	44,018	48,736	86,310	94,713
OPERATING EXPENSES:				
Research and development	14,864	14,366	29,805	27,856
Sales and marketing	12,459	12,232	24,572	24,342
General and administrative	7,491	7,813	15,772	15,459
Total operating expenses	34,814	34,411	70,149	67,657
INCOME FROM OPERATIONS	9,204	14,325	16,161	27,056
OTHER INCOME (EXPENSE)				
Other income (expense), net	14	198	(209)	455
Total other income (expense)	14	198	(209)	455
INCOME BEFORE INCOME TAXES	9,218	14,523	15,952	27,511
PROVISION FOR (BENEFIT FROM) INCOME TAXES	628	(2,193)	1,019	(1,568)
NET INCOME	$8,590	$16,716	$14,933	$29,079
EARNINGS PER SHARE:				
Basic	$0.29	$0.55	$0.51	$0.96
Diluted	$0.29	$0.54	$0.50	$0.93
SHARES USED IN PER SHARE CALCULATION:				
Basic	29,368	30,310	29,339	30,275
Diluted	30,034	31,110	30,075	31,150

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)
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	$8,590	$16,716	$14,933	$29,079
Other comprehensive income, net of tax:				
Foreign currency translation adjustments, net of $0 tax in the three and six months ended June 30, 2015 and 2014 (Note 2)	(57)	17	(22)	11
Unrealized gain (loss) on marketable securities, net of $0 tax in the three and six months ended June 30, 2015 and 2014 (Note 2)	(93)	92	(37)	239
Amortization of defined benefit pension items, net of tax of $4 and $8 in the three and six months ended June 30, 2015 and 2014, respectively (Note 2)	14	16	28	30
Total other comprehensive income (loss)	(136)	125	(31)	280
Total comprehensive income	$8,454	$16,841	$14,902	$29,359

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

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

	Six Months Ended June 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$14,933	$29,079
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	8,067	7,847
Amortization of intangibles	3,515	3,374
Loss on sale of property and equipment	—	159
Stock-based compensation expense	8,141	8,090
Amortization of premium on marketable securities	551	815
Deferred income taxes	86	135
Reduction in accounts receivable allowances	(85)	(15)
Excess tax benefit from employee stock plans	—	(213)
Tax benefit (deficiency) associated with employee stock plans	(189)	364
Change in operating assets and liabilities:		
Accounts receivable	(1,050)	(4,039)
Inventories	1,203	(8,946)
Prepaid expenses and other assets	1,850	5,300
Accounts payable	6,303	1,870
Taxes payable and accrued liabilities	(1,827)	(4,743)
Deferred income on sales to distributors	1,235	3,401
Net cash provided by operating activities	42,733	42,478
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(5,144)	(9,885)
Payment for acquisition, net of cash acquired (Note 10)	(15,549)	—
Purchases of marketable securities	(9,993)	(24,751)
Proceeds from sales and maturities of marketable securities	29,035	—
Net cash used in investing activities	(1,651)	(34,636)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock under employee stock plans	4,375	9,867
Repurchase of common stock	(23,176)	(25,731)
Payments of dividends to stockholders	(7,048)	(6,059)
Excess tax benefit from employee stock plans	—	213
Net cash used in financing activities	(25,849)	(21,710)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	15,233	(13,868)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	60,708	92,928
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$75,941	$79,060
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Unpaid property and equipment	$2,411	$3,022
Loan applied to CamSemi purchase price (Note 10)	$6,600	$—
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid (refund) for income taxes, net	$2,065	$(1,148)

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, 2014, included in its Form 10-K filed on February 10, 2015, with the Securities and Exchange Commission.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

No material changes have been made to the Company's significant accounting policies disclosed in Note 2, Summary of Significant Accounting Policies, in its Annual Report on Form 10-K, filed on February 10, 2015, for the year ended December 31, 2014. The accounting policy information below is to aid in the understanding of the financial information disclosed.

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, stock repurchases and other strategic investments. As a result the Company classifies its investment portfolio as available-for-sale. The Company classifies all investments with a maturity date greater than three months at the date of purchase as short-term marketable securities in its Condensed Consolidated Balance Sheets. As of June 30, 2015, and December 31, 2014, the Company's marketable securities consisted primarily of highly liquid corporate securities, commercial paper and other high-quality commercial securities.

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

Amortized cost and estimated fair market value of cash equivalents and marketable securities classified as available-for-sale at June 30, 2015, were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value
Investments due in less than 3 months:				
Commercial paper [1]	$34,984	$—	$—	$34,984
Corporate securities [2]	2,808	—	—	2,808
Total	37,792	—	—	37,792
Investments due in 4-12 months:				
Commercial paper [2]	7,488	—	—	7,488
Corporate securities [2]	68,522	53	(11)	68,564
Total	76,010	53	(11)	76,052
Investments due between 12 months and 5-years:				
Corporate securities [2]	16,080	11	(7)	16,084
Total	16,080	11	(7)	16,084
Total marketable securities	$129,882	$64	$(18)	$129,928

(1) Included within cash and cash equivalents on the condensed consolidated balance sheet.
(2) Included within short-term marketable securities on the condensed consolidated balance sheet.

Amortized cost and estimated fair market value of marketable securities classified as available-for-sale at December 31, 2014, were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value
Investments due in 4-12 months:				
Corporate securities	$30,233	$36	$—	$30,269
Total	30,233	36	—	30,269
Investments due between 12 months and 5-years:				
Corporate securities	84,259	92	(45)	84,306
Total	84,259	92	(45)	84,306
Total marketable securities	$114,492	$128	$(45)	$114,575

As of June 30, 2015, and December 31, 2014, 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.

Revenue Recognition

Product revenues consist of sales to original equipment manufacturers ("OEMs"), merchant power supply manufacturers and distributors. Approximately 77% of the Company's net product sales were made to distributors in the six months ended June 30, 2015, and 75% in the twelve months ended December 31, 2014. The Company applies the provisions of Accounting Standard Codification ("ASC") 605-10 ("ASC 605-10") and all related appropriate guidance. Revenue is recognized when all of the following criteria have been met: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred, (3) the price is fixed or determinable, and (4) collectability is reasonably assured. Customer purchase orders are generally used to determine the existence of an arrangement. Delivery is considered to have occurred when title and risk of loss have transferred to the Company's customer. The Company evaluates whether the

price is fixed or determinable based on the payment terms associated with the transaction and whether the sales price is subject to refund or adjustment. With respect to

collectability, the Company performs credit checks for new customers and performs ongoing evaluations of its existing customers' financial condition and requires letters of credit whenever deemed necessary.

Sales to international OEM customers and merchant power supply manufacturers that are shipped from the Company's facility in California are pursuant to “delivered at frontier” (“DAF”) shipping terms. As such, title to 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. Sales to international OEMs and merchant power supply manufacturers for shipments from the Company's facility outside of the United States are pursuant to “EX Works” ("EXW") shipping terms, meaning that title to the product transfers to the customer upon shipment from the Company's foreign warehouse. Shipments to OEMs and merchant power supply manufacturers in the Americas are pursuant to “free on board” (“FOB”) point of origin shipping terms, meaning that title is passed to the customer upon shipment. Revenue is recognized upon title transfer for sales to OEMs and merchant power supply manufacturers, assuming all other criteria for revenue recognition are met.

Sales to most of the Company's distributors are made under terms allowing certain price adjustments and rights of return on the Company's products held by its distributors. As a result of these rights, the Company defers the recognition of revenue and the costs of revenues derived from sales to distributors until the Company's distributors report that they have sold the Company's products to their customers. The Company's recognition of such distributor revenue is based on point of sale reports received from the distributors, at which time the price is no longer subject to adjustment and is fixed, and the products are no longer subject to return to the Company except pursuant to warranty terms. The gross profit that is deferred as a result of this policy is reflected as “deferred income on sales to distributors” in the accompanying condensed consolidated balance sheets. The total deferred revenue as of June 30, 2015, and December 31, 2014, was approximately $28.3 million and $25.0 million, respectively. The total deferred cost as of June 30, 2015, and December 31, 2014, was approximately $11.8 million and $9.8 million, respectively.

Frequently, distributors need to sell at a price lower than the standard distribution price in order to win business. At or soon after the distributor invoices its customer, 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 verification by the Company, a credit memo is issued to the distributor for the ship and debit claim. The Company maintains a reserve for unprocessed claims and future ship and debit price adjustments. The reserve appears as a reduction to accounts receivable in the Company's accompanying consolidated balance sheets. To the extent future ship and debit claims significantly exceed amounts estimated, there could be a material impact on the deferred revenue and deferred margin ultimately recognized. To evaluate the adequacy of its reserves, the Company analyzes historical ship and debit payments and levels of inventory in the distributor channels.

Sales to certain of the Company's distributors are made under terms that do not include rights of return or price concessions after the product is shipped to the distributor. Accordingly, product revenue is recognized upon shipment and title transfer assuming all other revenue recognition criteria are met.

Common Stock Repurchases and Cash Dividend

In October 2012, the Company's board of directors authorized the use of $50.0 million for the repurchase of the Company's common stock, and in the year ended December 31, 2014, the Company's board of directors authorized the use of an additional $75.0 million, for this purpose, with repurchases to be executed according to pre-defined price/volume guidelines. In the year ended December 31, 2014, the Company purchased 1.6 million shares for $80.8 million, and in the six months ended June 30, 2015, the Company purchased approximately 0.5 million shares for $23.2 million. As of June 30, 2015, the Company had $0.6 million remaining on its repurchase authorization.

In July 2015, the Company's board of directors authorized the use of an additional $30.0 million for the repurchase of the Company's common stock. 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.

In October 2013, the Company's board of directors declared four quarterly cash dividends in the amount of $0.10 per share to be paid to stockholders of record at the end of each quarter in 2014. Dividend payouts totaling approximately $3.0

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million each were paid on March 31, 2014 and June 30, 2014. In April 2014, the Company's board of directors increased the quarterly dividends for the third and fourth quarters of 2014 to $0.12 per share. Dividend payouts totaling approximately $3.6 million and $3.5 million were paid on September 30, 2014 and December 31, 2014, respectively.

In January 2015, the Company's board of directors extended the $0.12 quarterly dividend through each quarter in 2015. Dividend payouts totaling $3.5 million each were paid on March 31, 2015 and June 30, 2015. The declaration of any future cash dividend 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, as well as a determination that cash dividends are in the best interests of the Company's stockholders.

Use of Estimates

The preparation of financial statements in conformity with 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. Actual results could differ from those estimates. On an ongoing basis, the Company evaluates its estimates, including those related to revenue recognition, income tax, stock-based compensation and inventories. These estimates are based on historical facts and various other assumptions that the Company believes to be reasonable at the time the estimates are made.

Components of the Company's Condensed Consolidated Balance Sheet

Accounts Receivable (in thousands):

	June 30, 2015	December 31, 2014
Accounts receivable trade	$46,960	$38,344
Accrued ship and debit and rebate claims	(33,642)	(27,967)
Allowance for doubtful accounts	(106)	(191)
Total	$13,212	$10,186

Prepaid Expenses and Other Current Assets (in thousands):

	June 30, 2015	December 31, 2014
Prepaid legal fees	$60	$1,506
Loan to Cambridge Semiconductor (Note 10)	—	6,600
Prepaid income tax	3,206	3,208
Prepaid maintenance agreements	865	1,023
Interest receivable	530	664
VAT receivable	657	987
Supplier prepayment	534	800
Other	3,592	1,591
Total	$9,444	$16,379

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

Changes in accumulated other comprehensive income (loss) for the three months ended June 30, 2015 and 2014 (in thousands):

	Unrealized Gains and Losses on Marketable Securities		Defined Benefit Pension Items		Foreign Currency Items		Total	
	Three Months Ended June 30,		Three Months Ended June 30,		Three Months Ended June 30,		Three Months Ended June 30,	
	2015	2014	2015	2014	2015	2014	2015	2014
Beginning balance at April 1,	$139	$357	$(1,226)	$(766)	$56	$94	$(1,031)	$(315)
Other comprehensive income (loss) before reclassifications	(93)	92	—	—	(57)	17	(150)	109
Amounts reclassified from accumulated other comprehensive income	—	—	14 (1)	16 (1)	—	—	14	16
Net-current period other comprehensive income (loss)	(93)	92	14	16	(57)	17	(136)	125
Ending balance at June 30,	$46	$449	$(1,212)	$(750)	$(1)	$111	$(1,167)	$(190)

(1) This component of accumulated other comprehensive income is included in the computation of net periodic pension cost for the three months ended June 30, 2015 and 2014.

Changes in accumulated other comprehensive income (loss) for the six months ended June 30, 2015 and 2014 (in thousands):

	Unrealized Gains and Losses on Marketable Securities		Defined Benefit Pension Items		Foreign Currency Items		Total	
	Six Months Ended June 30,		Six Months Ended June 30,		Six Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014	2015	2014	2015	2014
Beginning balance at January 1,	$83	$210	$(1,240)	$(780)	$21	$100	$(1,136)	$(470)
Other comprehensive income (loss) before reclassifications	(37)	239	—	—	(22)	11	(59)	250
Amounts reclassified from accumulated other comprehensive income	—	—	28 (1)	30 (1)	—	—	28	30
Net-current period other comprehensive income (loss)	(37)	239	28	30	(22)	11	(31)	280
Ending balance at June 30,	$46	$449	$(1,212)	$(750)	$(1)	$111	$(1,167)	$(190)

(1) This component of accumulated other comprehensive income is included in the computation of net periodic pension cost for the six months ended June 30, 2015 and 2014.

3. STOCK PLANS AND SHARE-BASED COMPENSATION:

Stock Plans

As of June 30, 2015, the Company had two stock-based compensation plans (the “Plans”) which are described below.

2007 Equity Incentive Plan

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

The 2007 Equity Incentive Plan (the "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 (the "1997 Plan"). The 2007 Plan provides for the grant of incentive stock options, non-statutory stock options, restricted stock awards, restricted stock unit awards ("RSUs"), stock appreciation rights, performance-based awards ("PSUs"), long-term performance based awards ("PRSUs") and other stock awards to employees, directors and consultants. As of June 30, 2015, the maximum remaining number of shares that may be issued under the 2007 Plan was 6,338,020 shares, which includes options granted but not exercised and awards granted but unvested and shares remaining available for issuance under the 1997 Plan, including shares subject to outstanding options and stock awards under the 1997 Plan. 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.

Beginning January 27, 2009, grants pursuant to the Directors Equity Compensation Program (which was adopted by the board of directors on January 27, 2009) to non-employee directors have been made primarily under the 2007 Plan. The Directors Equity Compensation Program provides for grants to outside directors as follows: effective annually, upon the first trading day of July, each outside director receives a grant of an equity award with an aggregate value of $100,000, which will become exercisable or vest immediately prior to the Company's next annual meeting of stockholders, subject to the director's continued service. At each outside director's election, such award may consist entirely of RSUs or entirely of stock options. The quantity of options would be calculated by dividing $100,000 by the Black-Scholes value on the date of grant. The quantity of RSUs issued would be calculated by dividing $100,000 by the grant-date fair value. Further, on the date of election of a new outside director, such new director would receive such grant as continuing outside directors receive on the first trading day of July; provided, however, that such grant is prorated for the portion of the year that such new outside director will serve until the next first trading day of July. The Directors Equity Compensation Program will remain in effect at the discretion of the board of directors or the compensation committee of the board.

On July 28, 2009, the 2007 Plan was amended generally to prohibit outstanding options or stock appreciation rights from being canceled in exchange for cash without stockholder approval.

1997 Employee Stock Purchase Plan

Under the 1997 Employee Stock Purchase Plan (the “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 3,000,000 shares of common stock were reserved for issuance to employees under the Purchase Plan. As of June 30, 2015, 2,747,784 shares had been purchased and 252,216 shares were reserved for future issuance under the Purchase Plan.

Stock-Based Compensation

The Company applies the provisions of ASC 718-10. Under the provisions of ASC 718-10, the Company recognizes the fair value of stock-based compensation in 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, and uses historical data to estimate pre-vesting forfeitures, recognizing expense only for those awards that are expected to vest.

Determining Fair Value of Stock Options

The Company uses the Black-Scholes valuation model for valuing stock option grants using the following assumptions and estimates:

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Expected Volatility. The Company calculates expected volatility based on the historical price volatility of the Company's stock.

Expected Term. The Company utilizes a model which uses historical exercise, cancellation and outstanding option data to calculate the expected term of stock option grants.

Risk-Free Interest Rate. The Company bases the risk-free interest rate used in the Black-Scholes valuation model on the implied yield available on a U.S. Treasury note with a term approximately equal to the expected term of the underlying grants.

Dividend Yield. The dividend yield was calculated by dividing the annual dividend by the average closing price of the Company's common stock on a quarterly basis.

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, 2015, and June 30, 2014 (in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Cost of revenues	$257	$298	$506	$517
Research and development	1,306	1,339	2,697	2,551
Sales and marketing	878	864	1,890	1,799
General and administrative	1,309	1,674	3,048	3,223
Total stock-based compensation expense	$3,750	$4,175	$8,141	$8,090

Stock-based compensation expense in the three months ended June 30, 2015 was $3.8 million (comprising approximately $0.2 million related to stock options, $0.2 million related to annual and long-term performance awards, $3.1 million related to RSUs and $0.3 million related to the Purchase Plan). In the six months ended June 30, 2015, stock compensation expense was $8.1 million (comprising approximately $0.4 million related to stock options, $0.8 million related to annual and long-term performance-based awards, $6.3 million related to RSUs and $0.6 million related to the Purchase Plan).

Stock-based compensation expense in the three months ended June 30, 2014, was $4.2 million (comprising approximately $0.5 million related to stock options, $0.7 million related to annual and long-term performance-based awards, $2.7 million related to RSUs and $0.3 million related to the Purchase Plan). In the six months ended June 30, 2014, stock compensation expense was $8.1 million (comprising approximately $1.0 million related to stock options, $1.3 million related to annual and long-term performance awards, $5.2 million related to RSUs and $0.6 million related to the Purchase Plan).

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 June 30, 2015.

	June 30, 2015	
	Unrecognized Compensation Expense for Unvested Awards	Weighted Average Remaining Recognition Period (in years)

	(in thousands)	
Options	$424	0.79
Performance-based awards	429	0.50
Long-term performance-based awards	2,778	2.04
Restricted stock units	26,855	2.70
Purchase plan	110	0.50
Total unrecognized compensation expense	$30,596	

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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:

	*Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Risk-free interest rates	—%	—%	0.07%	0.07%
Expected volatility rates	—%	—%	34%	30%
Expected dividend yield	—%	—%	0.89%	0.66%
Expected term of purchase right (in years)	0	0	0.5	0.5
Weighted-average estimated fair value of purchase rights	$—	$—	$12.89	$13.31

*There were no employee stock purchase rights granted in the three months ended June 30, 2015 and 2014.

The Company did not grant stock options in the three and six months ended June 30, 2015, or June 30, 2014, and therefore no fair-value assumptions were reported.

A summary of stock option activity under the Plans, excluding performance-based awards and restricted stock units, as of June 30, 2015, and changes 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, 2015	1,344	$27.27		
Granted	—	—		
Exercised	(74)	$25.45		
Forfeited or expired	—	—		
Outstanding at June 30, 2015	1,270	$27.37	3.15	$22,627
Exercisable at June 30, 2015	1,243	$27.03	3.07	$22,559
Vested and expected to vest at June 30, 2015	1,270	$27.36	3.15	$22,626

The Company did not grant stock options in the three and six months ended June 30, 2015, and June 30, 2014. Beginning in 2010 the Company's equity grants to new hires and its annual incentive grants to non-executive employees have been primarily in the form of RSUs. The total intrinsic value of options exercised during the three and six months ended June 30, 2015, was approximately $0.4 million and $2.0 million, respectively, and the total intrinsic value of options exercised during the three and six months ended June 30, 2014, was approximately $1.2 million and $7.0 million, respectively.

Performance-based Awards ("PSUs")

Under the performance-based awards program, the Company grants awards in the first half of the performance year in an amount equal to twice the target number of shares to be issued if the target 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 targeted number depending on the Company's performance. In 2015, the performance metrics of this program are annual targets consisting of net revenue, non-GAAP operating income and strategic goals. Each performance-based award granted from the 2007 Plan will reduce the number of shares available for issuance under the 2007 Plan by two shares.

During the six months ended June 30, 2015, the Company granted approximately 88,000 annual performance-based awards to the Company's employees and executives. As the net revenue, non-GAAP operating earnings and strategic goals are considered performance conditions, expenses associated with these awards, net of estimated forfeitures, are recorded throughout the year depending on the number of shares expected to vest based on progress toward the performance targets. The fair value of performance-based awards is determined using the fair value of the Company's common stock on the grant date,

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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 2015, it was determined that the Company had not reached the minimum level of the established 2014 performance targets (consisting of revenue and non-GAAP operating income). Accordingly, no shares subject to performance-based awards granted in connection with the 2014 performance based incentive plan were released to the Company's employees and executives in 2015.

A summary of performance-based awards outstanding as of June 30, 2015, 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, 2015	—	—		
Granted	88	$52.45		
Vested	—	—		
Change in units due to performance achievement for PSUs vested in the year	—	—		
Forfeited or expired	—	—		
Outstanding at June 30, 2015	88	$52.45	0.50	$3,980
Outstanding and expected to vest at June 30, 2015	14		0.50	$637

The weighted-average grant-date fair value per share of performance-based awards granted in the three and six months ended June 30, 2015 was approximately $50.75 and $52.45, respectively, and $48.89 and $53.93, respectively, in the corresponding periods of the previous year. There were no awards released in the three and six months ended June 30, 2015. The grant-date fair value of awards released, which were fully vested, in the six months ended June 30, 2014, was approximately $3.2 million. No awards were released in the three months ended June 30, 2014.

Long-Term Performance-based Awards ("PRSUs")

In the first quarter of 2014 the Company began granting long-term performance-based 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 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 target 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 targeted number. The performance goals for PRSUs granted in fiscal 2015 and 2014 were based on the Company's annual revenue growth. Each long-term performance-based award granted from the 2007 Plan will reduce the number of shares available for issuance under the 2007 Plan by two shares.

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. Expenses associated with these awards, net of estimated forfeitures, are recorded throughout the year depending on the number of shares expected to vest based on progress toward the performance target. The fair value of long-term

performance-based awards is determined using the fair value of the Company's common stock on the grant date, 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 long-term performance-based awards outstanding as of June 30, 2015, 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, 2015	61	$55.51		
Granted	72	$52.47		
Vested	—	—		
Forfeited or expired	—	—		
Outstanding at June 30, 2015	133	$53.87	2.04	$5,995
Outstanding and expected to vest at June 30, 2015	76		2.03	$3,440

The weighted-average grant-date fair value per share of long-term performance-based awards granted in the three and six months ended June 30, 2015, was approximately $49.40 and $52.47, respectively, and $47.95 and $56.15, respectively, in the corresponding periods of the previous year. No PRSUs vested in the three and six months ended June 30, 2015, or June 30, 2014.

Restricted Stock Units ("RSUs")

The Company grants restricted stock units to employees under the 2007 Plan. 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 with 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. Each RSU award granted from the 2007 plan will reduce the number of shares available for issuance under the 2007 Plan by two shares.
A summary of RSUs outstanding as of June 30, 2015, and changes during the six months then ended, are as follows:

	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, 2015	692	$43.86		
Granted	282	$50.43		
Vested	(248)	$42.53		
Forfeited or expired	(19)	$44.33		
Outstanding at June 30, 2015	707	$46.93	1.69	$31,938
Outstanding and expected to vest at June 30, 2015	649		1.63	$29,317

The weighted-average grant-date fair value per share of RSUs awarded in the three and six months ended June 30, 2015, was approximately $49.37 and $50.43, respectively, and $47.81 and $50.97, respectively, in the corresponding periods of the previous year. The grant-date fair value of RSUs vested in the three and six months ended June 30, 2015, was approximately $7.8 million and $10.6 million, respectively, and $7.8 million and $9.5 million, respectively,

in the corresponding periods of the previous year.

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

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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 and short-term marketable securities are classified within Level 1 or Level 2 of the fair-value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. The 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) generally include investment-grade corporate bonds and government, state, municipal and provincial obligations. 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's investments classified as Level 1 and Level 2 are available-for-sale investments, and were recorded at fair market value.
The fair-value hierarchy of the Company's marketable securities at June 30, 2015, and December 31, 2014, was as follows (in thousands):

	Fair Value Measurement at June 30, 2015		
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Commercial paper	$42,472	$—	$42,472
Money market funds	3,554	3,554	—
Corporate securities	87,456	—	87,456
Total	$133,482	$3,554	$129,928

	Fair Value Measurement at December 31, 2014		
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Money market funds	$3,370	$3,370	$—
Corporate securities	114,575	—	114,575
Total	$117,945	$3,370	$114,575

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, 2015, and the twelve months ended December 31, 2014.

5. 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 excess and obsolete inventories to their estimated net realizable values.

Inventories consist of the following (in thousands):

	June 30, 2015	December 31, 2014
Raw materials	$24,346	$21,127
Work-in-process	13,680	14,643
Finished goods	26,205	28,255
Total	$64,231	$64,025

6. GOODWILL AND INTANGIBLE ASSETS:

Goodwill increased during the six months ended June 30, 2015, due to the Company's acquisition of Cambridge Semiconductor Limited, or CamSemi (refer to Note 10, Acquisition, for details on the Company's CamSemi acquisition). Changes in the carrying amount of goodwill during the six months ended June 30, 2015, are as follows (in thousands):

	Goodwill
Balance at December 31, 2014	$80,599
Goodwill acquired during the period	11,250
Ending balance at June 30, 2015	$91,849

Intangible assets consist primarily of developed technology, acquired licenses, customer relationships, trade name, in-process research and development and patent rights, and are reported net of accumulated amortization. In January 2015, the Company acquired CamSemi, resulting in the addition of the following intangible assets: developed technology of $6.6 million, which will be amortized over a period of 3 - 7 years; and customer relationships of $2.4 million, which will be amortized over a period of 5 years. The Company amortizes the cost of all intangible assets over the shorter of the estimated useful life or the term of the developed technology, acquired licenses, customer relationships, trade name and patent rights, which range from 2 to 12 years, with the exception of $1.3 million for the purchase of an internet 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), and $4.7 million of in-process research and development. In-process research and development is assessed for impairment until the development is completed and products are available for sale, at which time the Company will begin to amortize the in-process research and development. The Company does not expect the amortization of in-process research and development to begin in 2015. Amortization for acquired intangible assets was approximately $1.7 million and $3.5 million in the three and six months ended June 30, 2015, respectively, and $1.5 million and $3.4 million, respectively, in the corresponding periods of the previous year. The Company does not believe there is any significant residual value associated with its finite-lived intangible assets:

	June 30, 2015			December 31, 2014		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
	(in thousands)					
Domain name	$1,261	$—	$1,261	$1,261	$—	$1,261
In-process research and development	4,690	—	4,690	4,690	—	4,690
Technology licenses	3,000	(2,775)	225	3,000	(2,625)	375
Patent rights	1,949	(1,949)	—	1,949	(1,949)	—
Developed technology	33,270	(9,752)	23,518	26,670	(7,828)	18,842
Customer relationships	20,030	(8,696)	11,334	17,610	(7,254)	10,356
Trade name	3,600	(3,600)	—	3,600	(3,600)	—
Total intangible assets	$67,800	$(26,772)	$41,028	$58,780	$(23,256)	$35,524

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The estimated future amortization expense related to finite-lived intangible assets at June 30, 2015, is as follows:

Fiscal Year	Estimated Amortization (in thousands)
2015 (remaining 6 months)	$3,403
2016	6,303
2017	5,904
2018	5,152
2019	4,753
Thereafter	9,562
Total (1)	$35,077

(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.

7. SIGNIFICANT CUSTOMERS AND INTERNATIONAL SALES:

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 62% and 60% of net revenues for the three and six months ended June 30, 2015, respectively, and approximately 61% and 60% of net revenues, respectively, in the corresponding periods of the previous year. A significant portion of these revenues are attributable to sales of the Company’s products to distributors of electronic components. These distributors sell the Company’s products to a broad, diverse range of end users, including OEMs and merchant power supply manufacturers.

One customer, a distributor of the Company's products, accounted for more than 10% of the Company's net revenues in the three and six months ended June 30, 2015, and in the corresponding periods of 2014. The following table discloses that customer's percentage of revenues for the respective periods:

	Three Months Ended June 30,		Six Months Ended June 30,	
Customer	2015	2014	2015	2014
Avnet	22 %	20 %	22 %	20 %

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

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash investments and trade receivables. The Company has cash investment policies that limit cash investments to low-risk investments. With respect to trade receivables, the Company performs ongoing evaluations of its customers' financial

conditions and requires letters of credit whenever deemed necessary. Additionally, the Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends related to past write-offs and other relevant information. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit

exposure related to its customers. As of June 30, 2015, and December 31, 2014, 65% and 66%, respectively, of accounts receivable were concentrated with the Company's top 10 customers.
The following customers represented 10% or more of accounts receivable:

Customer	June 30, 2015		December 31, 2014	
Avnet	25	%	22	%
Burnon International LTD.	*		11	%

*Total customer accounts receivable was less than 10%.

The above-mentioned customers are distributors of the Company’s products. No other customers accounted for 10% or more of the Company’s accounts receivable on these dates.

International Sales

The Company markets its products globally through its sales personnel and a worldwide network of independent sales representatives and distributors. As a percentage of total net revenues, international sales, which consist of sales to distributors and direct customers outside of the United States of America, comprise the following:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2015		2014		2015		2014	
Hong Kong/China	51	%	48	%	49	%	46	%
Taiwan	14	%	16	%	13	%	16	%
Korea	8	%	10	%	10	%	10	%
Western Europe (excluding Germany)	11	%	10	%	11	%	11	%
Japan	6	%	5	%	6	%	6	%
Germany	2	%	2	%	2	%	2	%
Other	3	%	4	%	4	%	4	%
Total foreign revenue	95	%	95	%	95	%	95	%

The remainder of the Company’s sales is to customers within the United States of America.

Product Sales

Net revenues consist primarily of sales of the Company's high-voltage integrated-circuit products, IGBT drivers and high-voltage silicon diodes. When evaluating the Company's net revenues, the Company categorizes its sales into the following four end-market groupings: communications, computer, consumer and industrial. The table below provides the percentage of net sales activity by end market for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended June 30,				Six Months Ended June 30,			
End Market	2015		2014		2015		2014	
Communications	21	%	15	%	21	%	17	%
Computer	7	%	12	%	7	%	11	%
Consumer	36	%	38	%	37	%	37	%
Industrial	36	%	35	%	35	%	35	%

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8. 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 and both short- and long-term performance-based awards, and the assumed issuance of awards under the stock purchase plan, 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,		Six Months Ended June 30,	
	2015	2014	2015	2014
Basic earnings per share:				
Net income	$8,590	$16,716	$14,933	$29,079
Weighted-average common shares	29,368	30,310	29,339	30,275
Basic earnings per share	$0.29	$0.55	$0.51	$0.96
Diluted earnings per share: (1)				
Net income	$8,590	$16,716	$14,933	$29,079
Weighted-average common shares	29,368	30,310	29,339	30,275
Effect of dilutive awards:				
Employee stock plans	666	800	736	875
Diluted weighted-average common shares	30,034	31,110	30,075	31,150
Diluted earnings per share	$0.29	$0.54	$0.50	$0.93

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(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 2015 and 2014 awards in the 2015 and 2014 calculations, respectively, as those shares were not contingently issuable as of the end of the period.

In the three and six months ended June 30, 2015 and 2014, no outstanding stock awards were determined to be anti-dilutive, and therefore no stock awards were excluded in the computation of diluted earnings per share.

9. PROVISION FOR INCOME TAXES:

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

The Company's effective tax rates for the three and six month ended June 30, 2015, were 6.8% and 6.4%, respectively. The difference between the expected statutory rate of 35% and the Company's effective tax rates for the three and six months ended June 30, 2015, was due primarily to the beneficial impact of the geographic distribution of the Company's world-wide earnings. The Company's effective tax rates for the three and six months ended June 30, 2014, were (15.1)% and (5.7)%, respectively. The primary difference between the expected statutory rate of 35% and the effective tax rates was the Company's 2014 settlement with the IRS. The provision for income tax for the three and six months ended June 30, 2014, includes a one-time benefit of $3.3 million comprising $2.8 million in federal income

taxes and interest, and state income taxes of approximately $0.5 million. The one-time benefit includes the reversal of $4.1 million of related unrecognized tax benefits that had been recorded as non-current liabilities in the Company's consolidated balance sheets. The Company has now concluded all U.S. federal income-tax matters for the years through 2009.

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The Company accounts for income taxes under the provisions of ASC 740. 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.

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 June 30, 2015, the Company maintains a valuation allowance on its California deferred tax assets, New Jersey deferred tax assets, capital losses for federal purposes and a valuation allowance with respect to its deferred tax assets relating to tax credits in Canada.

To ensure an additional source of U.S. cash, the Company plans to repatriate a portion of its current year offshore earnings to the U.S. for domestic operations and accordingly has provided for estimated federal and state income taxes on such portion of its current year offshore earnings. If circumstances change and it becomes apparent that some or all of the undistributed earnings of the Company's offshore subsidiary will be remitted in the foreseeable future but income taxes have not been recognized, the Company will accrue income taxes attributable to such undistributed earnings.

Determining the consolidated provision for (benefit from) 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.

10. ACQUISITION:

Cambridge Semiconductor Limited

In December 2014, the Company entered into a loan agreement with Cambridge Semiconductor Limited ("CamSemi"), a UK company, in which $6.6 million was outstanding as of December 31, 2014. The estimated fair value of the loan approximated the carrying value of $6.6 million, as the loan was outstanding for less than a month and the interest rate approximated a market rate for such a loan. The loan was in anticipation of a definitive agreement the Company entered into to acquire CamSemi in January 2015.

On January 2, 2015, the Company acquired 100% of the shares outstanding of CamSemi for total consideration of approximately $23.3 million, of which $16.7 million was paid in cash and $6.6 million was applied against the outstanding loan owed to the Company. The acquisition-related costs for the purchase of CamSemi were $0.2 million in the six months ended June 30, 2015, and $0.8 million in the three months ended December 31, 2014. The

acquisition has been accounted for using the acquisition method of accounting in accordance with ASC 805 - Business Combinations. Goodwill is not expected to be deductible for tax purposes.

CamSemi was acquired to accelerate the Company's product-development efforts for the low-power market. The acquisition also broadens the Company's technology and product portfolio for low-power applications, particularly in the mobility and LED lighting markets. The purchase price allocated to goodwill in the acquisition (as noted in the purchase price allocation below) is related largely to synergies and economies of scale expected from combining the operations of CamSemi with those of the Company.

The following table summarizes the purchase price and preliminary estimated fair values of the assets acquired and the liabilities assumed as of January 2, 2015. The allocation of the purchase price is preliminary as certain pre-acquisition liabilities and corporate taxes are still being finalized and may be adjusted should further information regarding events or circumstances existing as of the acquisition date become available.

	Total Amount (in thousands)
Assets Acquired	
Cash	$1,134
Accounts receivable	1,891
Inventories	1,409
Prepaid expenses and other current assets	408
Tax receivable	1,093
Intangible assets:	
Developed technology	6,600
Customer relationships	2,420
Goodwill	11,250
Total assets acquired	26,205
Liabilities Assumed	
Current liabilities	1,832
Taxes payable	1,090
Total liabilities assumed	2,922
Total purchase price	$23,283

The following table represents details of the purchased intangible assets:

	Fair Value Amount (in thousands)	Estimated Useful Life (in years)
Developed technology	$6,600	3 - 7
Customer relationships	2,420	5
Total acquired CamSemi intangibles	$9,020	

The fair value of the identifiable intangible assets, developed technology and customer relationships, were determined based on the following approach.

Developed Technology. The income approach was used to value the acquired developed technology. Revenue attributable to the Company's technology was estimated based on expected evolution of the technology over time. Expenses were assumed to reflect the costs necessary to support the developed technology. The present value was capitalized as developed technology as of the acquisition date and is being amortized using a straight-line method to cost of revenues over the estimated life of 3 - 7 years.

Customer Relationships. An intangible customer relationship asset was recognized to the extent that the Company was expected to benefit from future revenues reasonably anticipated given the historical customer relationships and operating practices of CamSemi. In order to determine the fair value of the customer relationships, the Company's analysis assumed that the Company would immediately benefit from the economics generated by CamSemi's existing customer relationships. This amount was reduced by the potential impact given no past customer relationships and the assumption that the Company could reacquire the customer relationships and ramp up to a similar level of revenue

within two years. The fair value of customer relationships was capitalized as of the acquisition date and is being amortized on a straight line basis to sales and marketing expenses over the estimated life of 5 years.

Pro forma results of operations for this acquisition have not been presented because it is not material to the Company's condensed consolidated financial statements.

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11. COMMITMENTS:

Supplier Agreements

Under the terms of the Company's wafer-supply agreements with Seiko Epson Corporation, or Epson, and ROHM Lapis Semiconductor Co., Ltd., or 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, 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 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 Company intends to pursue its claim for financial compensation based on Fairchild's infringement.

On May 9, 2005, the Company filed a Complaint with the U.S. International Trade Commission (“ITC”) under section 337 of the Tariff Act of 1930, as amended, 19 U.S.C. section 1337 against System General (“SG”). The Company filed a supplement to the complaint on May 24, 2005. The Company alleged infringement of its patents pertaining to pulse width modulation (“PWM”) integrated circuit devices produced by SG, which are used in power conversion applications such as power supplies for computer monitors. The Commission instituted an investigation on June 8, 2005 in response to the Company's complaint. SG filed a response to the ITC complaint asserting that the patents-in-suit were invalid and not infringed. The Company subsequently and voluntarily narrowed the number of patents and claims in suit, which proceeded to a hearing. The hearing on the investigation was held before the Administrative Law Judge (“ALJ”) from January 18 to January 24, 2006. Post-hearing briefs were submitted and briefing concluded February 24, 2006. The ALJ's initial determination was issued on May 15, 2006. The ALJ found all remaining asserted claims valid and infringed, and recommended the exclusion of the infringing products as well as certain downstream products that contain the infringing products. After further briefing, on June 30, 2006, the Commission decided not to review the initial determination on liability, but did invite briefs on remedy, bonding and the public interest. On August 11, 2006, the Commission issued an order excluding from entry into the United States the infringing SG PWM chips, and any LCD computer monitors, AC printer adapters and sample/demonstration circuit boards containing an infringing SG chip. The U.S. Customs Service is authorized to enforce the exclusion order. On October 11, 2006, the presidential review period expired without any action from the President, and the ITC exclusion order is now in full effect. SG appealed the ITC decision, and on November 19, 2007, the Federal Circuit affirmed the ITC's findings in all respects. On October 27, 2008, SG filed a petition to modify the exclusion order in view of a recent Federal Circuit opinion in an unrelated case, and the Company responded to oppose any modification, but the Commission modified the exclusion order on February 27, 2009. Nevertheless, the exclusion order still prohibits SG and related entities from importing the infringing SG chips and any LCD computer monitors, AC printer adapters, and sample/demonstration circuit boards containing an infringing SG chip.

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 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 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 intends to challenge adverse findings on appeal; nevertheless, the Company estimates that even if the verdict on Fairchild's patent were ultimately upheld, the sales potentially impacted would amount to only about 0.3% 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, for which briefings should be completed later this year. The Company is also seeking financial damages, as well as enhanced damages for willful infringement, issues to be decided in separate proceedings at a later date.

On June 28, 2004, the Company filed a complaint for patent infringement in the U.S. District Court, Northern District of California, against SG Corporation, 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 the International Trade Commission (ITC) investigation discussed above, 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 as discussed above. 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 Fairchild and SG 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, Fairchild and SG filed an amended answer including counterclaims accusing the Company of infringing two patents, and since that time Fairchild has withdrawn 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; the Company contests these claims vigorously. 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 Fairchild and SG infringed the Company’s asserted patents and induced infringement by others, and awarding $105.0 million in damages. Although the jury awarded damages, at this stage of the proceedings the Company cannot state the amount, if any, it might ultimately recover from Fairchild, and no benefits have been recorded in the Company’s condensed consolidated financial statements as a result of the damages verdict. 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; further proceedings with respect to the damages retrial will take place over the coming months, with the retrial scheduled for December 2015.

In February 2010, Fairchild and System General (“SG”) filed suits for patent infringement against the Company, Power Integrations Netherlands B.V., and representative offices of Power Integrations Netherlands in Shanghai and Shenzhen

with the Suzhou Intermediate Court in the People's Republic of China. The suits assert four Chinese patents and seek an injunction and damages of approximately $19.0 million. Power Integrations Netherlands filed invalidation proceedings for all four asserted SG patents in the People's Republic of China Patent Reexamination Board (PRB) of the State Intellectual Property Office (SIPO), and all four challenges were accepted by the PRB, with hearings conducted in September 2010. In early January 2012, the Company received rulings from the PRB invalidating the majority of the claims Fairchild asserted in litigation. The Suzhou Court conducted evidentiary hearings in 2012 and issued rulings in late December 2012, finding that the Company did not infringe any of the asserted patents. Fairchild filed appeals challenging the Suzhou Court's non-infringement rulings, and the appeals court in Nanjing held further hearings in the infringement proceedings, but Fairchild has since dismissed its appeals, bringing the infringement proceedings to a close in the first quarter of 2015.

On July 11, 2011, the Company filed a complaint in the U.S. District Court, District of Columbia, against David Kappos in his capacity as Director of the United States Patent and Trademark Office (“PTO”) as part of the ongoing reexamination proceedings related to one of the patents asserted against Fairchild and SG in the Delaware litigation described above. The Company filed a motion for summary judgment on a preliminary jurisdictional issue, and the PTO filed a cross-motion to dismiss on this same issue; briefing on those motions was completed in October, 2011. On November 18, 2013, the Court granted the PTO’s motion and transferred the case to the Federal Circuit, where additional briefing has taken place and a hearing took place in May 2015, with rulings expected in the coming months.

On May 1, 2012, Fairchild Semiconductor Corporation and Fairchild's wholly-owned subsidiary, System General Corporation (referred to collectively as “Fairchild”), filed a complaint against the Company in the United States District Court for the District of Delaware. In its complaint, Fairchild alleges that the Company has infringed and is infringing four patents pertaining to power conversion integrated circuit devices. The Company answered Fairchild's complaint, 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, and the Company also asserted counterclaims against Fairchild for infringement of five of the Company's patents. Fairchild has withdrawn its claim for infringement of one of the patents it asserted against the Company after the Company's preliminary challenge. The parties streamlined their contentions in view of the Court's pretrial rulings, and following a trial in late May and early June 2015, a jury returned a verdict finding that Fairchild infringed one of the Company's patents, that Fairchild has induced and contributed to others' infringement of the Company's patent, and that the Company induced infringement of a Fairchild patent that was previously found infringed in the 2012 trial described above, with a damages award of $2.4 million in favor of Fairchild. Both parties have indicated that they will be filing post-trial motions and challenges to various portions of the jury verdicts, and briefing will take place over the coming months. The Company believes it has valid defenses against the $2.4 million award in favor of Fairchild, and therefore has not recorded a loss in its financial statements at this time.

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.

13. RECENT ACCOUNTING PRONOUNCEMENTS:

In May 2014, the Financial Accounting Standards Board ("FASB") amended the existing accounting standards for revenue recognition, ASU 2014-09, Revenue from Contracts with Customers. The amendments are based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company is required to adopt the amendments in the first quarter of 2018. Early adoption is permitted; however, the Company is not permitted to adopt the standard earlier than January 1, 2017. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Company is currently evaluating the impact of these amendments and the transition alternatives on its consolidated financial statements.

14. BANK LINE OF CREDIT:

On July 5, 2012, the Company entered into a Credit Agreement (the "Credit Agreement") with Bonanza Creek provided Grant Thornton with a copy of disclosures it is making in this proxy statement.

The Audit Committee of the Board has selected Grant Thornton as the independent registered public accounting firm of the Company for the year ending December 31, 2019. Grant Thornton has audited the Company's consolidated financial statements since the Company's emergence from bankruptcy on April 28, 2017. The Board is submitting the selection of Grant Thornton for ratification at the 2019 Annual Meeting. The submission of this matter for approval by stockholders is not legally required, but the Board and the Audit Committee believe the submission provides an opportunity for stockholders, through their vote, to communicate with the Board and the Audit Committee about an important aspect of corporate governance. If the stockholders do not ratify the selection of Grant Thornton, the Audit Committee will reconsider the selection of that firm as the Company's auditors.

The Audit Committee has the sole authority and responsibility to retain, evaluate and replace the Company's auditors. The stockholders' ratification of the appointment of Grant Thornton does not limit the

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authority of the Audit Committee to change auditors at any time, if it determines that such a change would be in the best interests of the Company or our stockholders. Notwithstanding the Company's selection of Grant Thornton for the year ending December 31, 2019, the Company is considering soliciting proposals from other registered public accounting firms for the audit of that year.

Audit and Other Fees

The table below sets forth the aggregate fees paid by the Company to its principal accountant, Grant Thornton, for audit and other services during 2017 and 2018:

Description	**2017 ($)[(1)]**	**2018 ($)**
Audit Fees[(2)]	1,087,658	801,128
Audit-Related Fees[(3)]	57,850	46,725
Tax Fees[(4)]		
All Other Fees		
Total	1,145,508	847,853

(1) This amount has been changed from the previously filed 2017 fees to reflect invoices that were received after the 2018 proxy was filed.

(2) Services rendered in 2017 and 2018 include auditing our financial statements included in the Company's Annual Report filed on Form 10-K and our internal controls over financial reporting and quarterly reviews of our interim financial statements filed on Form 10-Q. Includes administrative and travel expenses of $61,800 and $126,130 for the years ended 2017 and 2018, respectively.

(3) Includes fees for audits of, and related to, comfort letters, employee benefit plans, attest engagements and similar items.

The charter of the Audit Committee requires that the Audit Committee review and pre-approve the plan and scope of Grant Thornton's audit, tax and other services. The Audit Committee pre-approved 100% of the services described above under the captions "*Audit Fees*", "*Audit-Related Fees",* "*Tax Fees*" and "*All Other Fees*" incurred during 2017 and 2018.

The Company expects that representatives of Grant Thornton will be present at the 2019 Annual Meeting to respond to appropriate questions and to make a statement if they desire to do so.

The Board unanimously recommends that stockholders vote "FOR" Proposal Two and approve the ratification of the selection of Grant Thornton as the independent registered public accountant of the Company for 2019.

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PROPOSAL THREE:

ADVISORY VOTE ON EXECUTIVE COMPENSATION

We are asking our stockholders to provide advisory, non-binding approval of the compensation paid to our named executive officers, as described in the "*Compensation Discussion and Analysis*" section of this proxy statement. Our Board recognizes that executive compensation is an important matter for our stockholders. As described in detail in the CD&A section of this proxy statement, the Compensation Committee is tasked with the implementation of our executive compensation philosophy. In particular, the Compensation Committee strives to attract, retain and motivate the best executives we can identify and recruit, to reward past performance measured against established goals and provide incentives for future performance and to align executives' long-term interests with the interests of our stockholders. To do so, the Compensation Committee uses a combination of short-term and long-term incentive compensation to reward excellent performance and to encourage executives' commitment to our long-range, strategic business goals. It is the intention of the Compensation Committee that our named executive officers be compensated competitively with the market and consistently with our strategy, sound corporate governance principles and stockholder interests and concerns.

As described in the CD&A, we believe our compensation program is effective, appropriate and strongly aligned with the long-term interests of our stockholders and that the total compensation packages provided to our named executive officers (including potential payouts upon a termination or change in control) are reasonable and not excessive. As you consider this Proposal Three, we urge you to read the CD&A section of this proxy statement for additional details on executive compensation, including information about our compensation philosophy and objectives and the past compensation of our named executive officers, and to review the tabular disclosures regarding named executive officer compensation together with the accompanying narrative disclosures in this proxy statement. Some of the program features incorporated by the Compensation Committee to align our executive compensation program with our executive compensation philosophy include:

- performance-based and time-based equity awards incorporating a three-year vesting period to emphasize long-term performance and named executive officer commitment and retention;

- annual performance-based cash awards incorporating operational, financial and performance metrics in order to properly balance risk with the incentives needed to drive our key annual initiatives such awards impose maximum payouts to further manage risk and mitigate the possibility of excessive payments;

- double-trigger requirement for any acceleration of vesting of equity upon a change in control (i.e., a termination without cause or resignation for good reason is required in connection with a change in control);

- stock ownership guidelines to further align the interests of our named executive officers with the interests of our stockholders; and

- a policy requiring recoupment of certain incentive compensation paid to named executive officers under circumstances wherein named executive officers' conduct constitutes "Detrimental Conduct" under the policy.

This vote is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers and the philosophy, policies and practices described in this proxy statement. As an advisory vote, Proposal Three is not binding on our Board or the Compensation Committee, will not overrule any decisions made by our Board or the Compensation Committee and will not require our Board or the Compensation Committee to take any specific action. Although the vote is non-binding, our Board and the

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Compensation Committee value the opinions of our stockholders and will carefully consider the outcome of the vote when making future compensation decisions for our named executive officers.

We are asking stockholders to vote "FOR" the following resolution:

> "RESOLVED, that the stockholders approve, on an advisory basis, the compensation philosophy, policies and procedures and the compensation of the named executive officers as disclosed in the proxy statement pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the compensation discussion and analysis, the compensation tables and any related material disclosed in the proxy statement."

The affirmative vote of stockholders holding at least a majority of the shares present and entitled to be voted on the proposal is required for approval of Proposal Three. If you own shares through a bank, broker or other holder of record, you must instruct your bank, broker or other holder of record how to vote in order for them to vote your shares so that your vote can be counted on this proposal.

The Board unanimously recommends that the stockholders vote "FOR" Proposal Three and approve the compensation of the named executive officers of the Company on an advisory basis, as disclosed in this proxy statement pursuant to the compensation disclosure rules of the SEC.

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OTHER MATTERS

Stockholder Proposals; Identification of Director Candidates

Any stockholder of the Company who desires to submit a proposal for action at the 2020 Annual Meeting of Stockholders and wishes to have such proposal (a "Rule 14a-8 Proposal") included in the Company's proxy materials, must submit such Rule 14a-8 Proposal to the Company at its principal executive offices no later than December 26, 2019, unless the Company notifies the stockholders otherwise. Only those Rule 14a-8 Proposals that are timely received by the Company and proper for stockholder action (and otherwise proper) will be included in the Company's proxy materials.

A stockholder proposal, including a stockholder nominating a person for election as a director, not included in our proxy statement for the 2019 Annual Meeting of Stockholders will be ineligible for presentation at the 2019 Annual Meeting of Stockholders unless the stockholder gives timely notice of the proposal in writing to our Secretary at our principal executive offices. Under our bylaws, in order for a matter to be deemed properly presented by a stockholder, a stockholder's notice must be delivered to and received by the Secretary at the principal executive offices of the Company not less than 120 days and not more than 150 days in advance of the first anniversary of the date of the Company's proxy statement release to stockholders for the preceding year's annual meeting; provided, however, that in the event the date of the annual meeting has been changed by more than 30 days from the date of the previous year's annual meeting or if no annual meeting was held during the previous year, delivery of such proposal by the stockholder, to be timely, must be so delivered not later than the close of business on the tenth day following the day on which public announcement of the date of such meeting is first made. Accordingly, with respect to the 2019 Annual Meeting of Stockholders, such proposal must be received by the Secretary at the Company's principal executive office by the tenth day following the day on which public announcement of the date of such meeting is first made. In no event shall the public announcement of an adjournment or postponement of an annual meeting commence a new time period for the giving of a stockholder's notice as described above. For purposes of our bylaws, "public announcement" means disclosure in a press release reported by Dow Jones News Service, Associated Press or a comparable national news service, in a document publicly filed by the Company with the SEC or in a notice pursuant to the applicable rules of an exchange on which the Company's securities are then listed.

To be in proper form, a stockholder's notice shall be in writing and shall set forth (a) the name and address of the stockholder, as set forth in the Company's books and records, who intends to make the nomination(s) or propose the business and the beneficial owner, if any, on whose behalf the proposal is made, (b) the number of the Company's shares that are owned beneficially by such stockholder as of the date of submission, (c) the full name of the proposed candidate, (d) complete biographical information for the proposed candidate, including a description of the proposed candidate's business experience for at least the previous five years, (e) a description of the proposed candidate's qualifications as a director, (f) in the case of a nomination of director(s), (i) a description of all agreements, arrangements or understandings between the stockholder and each nominee or any other person or persons (naming such person or persons) pursuant to which the nomination(s) are to be made, (ii) any other information relating to such nominee(s) that would be required to be included in a proxy statement filed under the current rules of the SEC, and (iii) the nominee(s)' written consent to serve as a director if elected, and (g) in the case of other business proposed to be brought before the annual meeting (i) a brief description of such business, (ii) the reasons for conducting such business at the annual meeting, (iii) any material interest the stockholder has in such business and (iv) any other information that is required to be provided by the stockholder under the current rules of the SEC with respect to stockholder proposals. The Board, a committee thereof, the Chief Executive Officer or the President may refuse to acknowledge the nomination of any person or the proposal of any business not made in compliance with the foregoing procedures.

It is the responsibility of the Nominating and Corporate Governance Committee to identify, evaluate and recommend to the Board the director nominees for election at the annual meeting of stockholders, as well as to

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fill vacancies or additions on the Board that may occur between annual meetings. The Nominating and Corporate Governance Committee endeavors to recommend only director candidates who possess the highest personal values and integrity; who have experience and have exhibited achievements in one or more of the key professional, business, financial, legal and other challenges that face a U.S. independent oil and gas company; who exhibit sound judgment, intelligence, personal character and the ability to make independent analytical inquiries; who demonstrate a willingness to devote adequate time to Board duties; and who are likely to be able to serve on the Board for a sustained period. The Board is committed to actively seeking women and minority candidates as well as individuals with diverse backgrounds, skills and experiences. In general, the Nominating and Corporate Governance Committee will use the same process to evaluate candidates recommended by stockholders as it uses to evaluate all other director candidates. However, if a candidate is recommended by a stockholder or a group of stockholders, the Governance Committee also will review the information required of such nominees pursuant to our bylaws.

The Nominating and Corporate Governance Committee's charter includes consideration of diversity of viewpoint on the Board. In that regard, the Nominating and Corporate Governance Committee endeavors to achieve an overall balance of diversity of experiences, skills, attributes and viewpoints among our directors. The Nominating and Corporate Governance Committee believes it has achieved that balance through the representation on the Board of members having experience in the oil and gas industry, finance and accounting and investment analysis, among other areas. The Nominating and Corporate Governance Committee does not discriminate based upon race, religion, sex, national origin, age, disability, citizenship or any other legally protected status.

In identifying potential director candidates, the Nominating and Corporate Governance Committee will rely on any source available for the identification and recommendation of candidates, including current directors and officers. In addition, the Nominating and Corporate Governance Committee from time to time may engage a third party search firm to identify or evaluate, or assist in identifying or evaluating potential candidates, for which the third party search firm will be paid a fee.

Written requests for inclusion of any stockholder proposal, including with respect to any director candidates recommended by stockholders, should be addressed to Bonanza Creek Energy, Inc., 410 17th Street, Suite 1400, Denver, Colorado 80202, Attention: Secretary. The Company suggests that any such proposal be sent by certified mail, return receipt requested.

Solicitation of Proxies

Solicitation of proxies on behalf of the Company may be made via the Internet, by mail or by personal interview or telephone by officers, directors and employees of the Company. The Company may also request banking institutions, brokerage firms, custodians, nominees and fiduciaries to forward solicitation material to the beneficial owners of the common stock that those companies or persons hold of record, and the Company will reimburse the forwarding expenses. The Company will bear all costs of solicitation.

Stockholder List

In accordance with the Delaware General Corporation Law and the Company's bylaws, the Company will maintain at its corporate offices in Denver, Colorado, a list of the stockholders entitled to vote at the 2019 Annual Meeting. The list will be open to the examination of any stockholder, for purposes germane to the 2019 Annual Meeting, during ordinary business hours for ten days before the 2019 Annual Meeting.

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Proxy Materials, Annual Report and Householding

The Company's Annual Report to Stockholders for the year ended December 31, 2018, is being sent to stockholders of record concurrently with this proxy statement and does not form part of the proxy solicitation material.

The SEC has adopted rules that permit companies and intermediaries (such as brokers) to satisfy the delivery requirements for proxy statements with respect to two or more security holders sharing the same address by delivering a single proxy statement addressed to those security holders. This process, which is commonly referred to as "householding," potentially means extra convenience for security holders and cost savings for companies. This year, a number of brokers with account holders who are our stockholders will be householding our proxy materials. A single proxy statement will be delivered to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholder. Once you have received notice from your broker that they will be householding communications to your address, householding will continue until you are notified otherwise or until you revoke your consent. If you would prefer to receive a separate copy of the proxy materials or if you are receiving multiple copies and would like to receive a single copy, please notify your broker or direct your request to us as follows: 410 17th Street, Suite 1400, Denver, Colorado, 80202, Attention: Investor Relations, 720.440.6100. We will promptly deliver a separate copy to you upon request.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE 2019 ANNUAL MEETING TO BE HELD ON JUNE 4, 2019:

A COPY OF THE PROXY STATEMENT, THE FORM OF PROXY, AND THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2018 ARE AVAILABLE FREE OF CHARGE UPON REQUEST TO THE COMPANY AT 410 17th STREET, SUITE 1400, DENVER, COLORADO, 80202, ATTENTION: INVESTOR RELATIONS.

Internet and Phone Voting

For shares of stock that are registered in your name, you may vote by Internet or phone by following the instructions set forth on the enclosed proxy card. Votes submitted by Internet or phone must be received by 11:59 p.m., Eastern Time, on Monday, June 3, 2019. The giving of such a proxy will not affect your right to vote in person should you decide to attend the 2019 Annual Meeting.

The Internet and phone voting procedures are designed to authenticate stockholder identities, to allow stockholders to give their voting instructions and to confirm that stockholders' instructions have been recorded properly. Stockholders voting by Internet should remember that the stockholder must bear costs associated with electronic access, such as usage charges from Internet access providers and telephone companies.

Forward-Looking Statements

This proxy statement may include "forward-looking statements" (as defined in the Private Securities Litigation Reform Act of 1995). The forward-looking statements include matters to be presented at the 2019 Annual Meeting; amount and allocation of forecasted capital expenditures; executive sessions of the Board; director attendance at the 2019 Annual Meeting; potential payments upon termination or change in control; statements regarding Section 162(m), Section 409A and Section 280G of the Code and ASC Topic 718; and impact of the compensation program on the Company. These statements are based on our current expectations and involve risks and uncertainties that may cause actual results to differ materially from those set forth in the statements, including changes in governmental regulations and interpretations thereunder and other risks identified in the Risk Factors section of the Company's Annual Report on Form 10-K for the fiscal year ended

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December 31, 2018. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise. Forward-looking statements should be evaluated together with the many uncertainties that affect our business, particularly those mentioned in the Risk Factors section in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, and in our quarterly reports on Form 10-Q and current reports on Form 8-K.

IT IS IMPORTANT THAT PROXIES BE RETURNED PROMPTLY. WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING IN PERSON, YOU ARE URGED TO VOTE BY INTERNET, BY PHONE OR IF YOU HAVE RECEIVED PAPER COPIES OF THE PROXY MATERIAL, BY COMPLETING, SIGNING AND RETURNING THE PROXY IN THE ENCLOSED POSTAGE-PAID, ADDRESSED ENVELOPE.

By Order of the Board,

Cyrus D. Marter IV
Secretary

Denver, Colorado
April 24, 2019