

MONOLITHIC POWER SYSTEMS INC  
Form 10-K  
February 29, 2016

---

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

---

**FORM 10-K**

---

**(Mark One)**

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

**For the fiscal year ended December 31, 2015**

**or**

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

**Commission file number: 000-51026**

---

**Monolithic Power Systems, Inc.**

(Exact name of registrant as specified in its charter)

---

**Delaware**                      **77-0466789**  
(State or other jurisdiction of    (I.R.S. Employer)

incorporation or organization) Identification Number)

**79 Great Oaks Boulevard, San Jose, CA 95119 (408) 826-0600**

(Address of principal executive offices, including zip code and telephone number)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class                    | Name of each exchange on which registered |
|--|---|
| <b>Common Stock, \$0.001 Par Value</b> | <b>The NASDAQ Global Select Market</b>    |

Securities registered pursuant to Section 12(g) of the Act:

**None**

---

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Accelerated filer Non-accelerated filer Smaller reporting company

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

The number of shares of the registrant's stock outstanding as of June 30, 2015 was 39,617,037. The closing price of the registrant's common stock on the Nasdaq Global Select Market on June 30, 2015 was \$50.71. The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant based upon the closing price of the Common Stock on the Nasdaq Global Select Market on June 30, 2015 was \$1.3 billion.\*

There were 40,199,618 shares of the registrant's common stock issued and outstanding as of February 22, 2016.

---

## DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the registrant's 2016 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K to the extent stated herein. The Proxy Statement will be filed within 120 days of the registrant's fiscal year ended December 31, 2015.

Excludes 14,609,199 shares of the registrant's common stock held by executive officers, directors and stockholders whose ownership exceeds 5% ("affiliates") of the Common Stock outstanding at June 30, 2015. Exclusion of such \*shares should not be construed to indicate that any such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the registrant or that such person is controlled by or under common control with the registrant.

**MONOLITHIC POWER SYSTEMS, INC.**

**TABLE OF CONTENTS**

|  | <b>Page</b> |
|--|-------------|
| <br><b>PART I</b>  |             |
| Item 1. Business   | 5           |
| Executive Officers of the Registrant   | 9           |
| Item 1A Risk Factors   | 10          |
| Item 1B Unresolved Staff Comments  | 24          |
| Item 2. Properties   | 24          |
| Item 3. Legal Proceedings  | 24          |
| Item 4. Mine Safety Disclosures  | 25          |
| <br><b>PART II</b>   |             |
| Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities | 26          |
| Item 6. Selected Financial Data  | 28          |
| Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations                        | 29          |
| Item 7A. Quantitative and Qualitative Disclosures About Market Risk  | 38          |
| Item 8. Financial Statements and Supplementary Data  | 40          |
| Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure                         | 73          |
| Item 9A. Controls and Procedures   | 73          |
| Item 9B. Other Information   | 75          |
| <br><b>PART III</b>  |             |
| Item 10. Directors, Executive Officers and Corporate Governance  | 75          |
| Item 11. Executive Compensation  | 75          |
| Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters              | 75          |
| Item 13. Certain Relationships and Related Transactions, and Director Independence                                   | 75          |
| Item 14. Principal Accounting Fees and Services  | 75          |
| <br><b>PART IV</b>   |             |
| Item 15. Exhibits and Financial Statement Schedules  | 76          |
| Signatures   | 79          |

Except as the context otherwise requires, the terms “Monolithic Power Systems”, “MPS”, “Registrant”, “Company”, “we”, “us” “our” as used herein are references to Monolithic Power Systems, Inc. and its consolidated subsidiaries.



## FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that have been made pursuant to and in reliance on the provisions of the Private Securities Litigation Reform Act of 1995. These statements include among other things, statements concerning:

- the above-average industry growth of product and market areas that we have targeted,
- our plan to increase our revenue through the introduction of new products within our existing product families as well as in new product categories and families,
- our belief that we will continue to incur significant legal expenses that vary with the level of activity in each of our legal proceedings,
- the effect that liquidity of our investments has on our capital resources,
- the continuing application of our products in the communications, storage and computing, consumer and industrial markets, which account for a majority of our revenue,
- estimates of our future liquidity requirements,
- the cyclical nature of the semiconductor industry,
- protection of our proprietary technology,
- near-term business outlook for 2016 and beyond,
- the factors that we believe will impact our ability to achieve revenue growth,
- the percentage of our total revenue from various market segments,
- our ability to identify, acquire and integrate acquisitions and achieve the anticipated benefits from such acquisitions,
- our intention and ability to continue our stock repurchase program and pay future cash dividends, and
- the factors that differentiate us from our competitors.

In some cases, words such as “would,” “could,” “may,” “should,” “predict,” “potential,” “targets,” “continue,” “anticipate,” “intend,” “plan,” “believe,” “seek,” “estimate,” “project,” “forecast,” “will,” the negative of these terms or other variations of these terms and similar expressions relating to the future identify forward-looking statements. All forward-looking statements are based on our current outlook, expectations, estimates, projections, beliefs and plans or objectives about our business and our industry. These statements are not guarantees of future performance and are subject to risks and

uncertainties. Actual events or results could differ materially and adversely from those expressed in any such forward-looking statements. Risks and uncertainties that could cause actual results to differ materially include those set forth throughout this Annual Report on Form 10-K and, in particular, in the section entitled “Item 1A. Risk Factors.” Except as required by law, we disclaim any duty to and undertake no obligation to update any forward-looking statements, whether as a result of new information relating to existing conditions, future events or otherwise or to release publicly the results of any future revisions we may make to forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Readers are cautioned not to place undue reliance on such statements, which speak only as of the date of this Annual Report on Form 10-K. Readers should carefully review future reports and documents that we file from time to time with the Securities and Exchange Commission, such as our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and any Current Reports on Form 8-K.



## PART I

### ITEM 1. BUSINESS

#### General

Monolithic Power Systems (“MPS”) is a leading company in high performance power solutions. Founded in 1997, MPS designs and provides small, highly energy efficient, easy-to-use power solutions for systems found in industrial applications, telecommunication infrastructures, cloud computing, automotive, and consumer applications. MPS's mission is to reduce total energy consumption in its customers' systems with green, practical, compact solutions. MPS is headquartered in San Jose, California and has over 1,200 employees worldwide, with locations in the United States, China, Taiwan, Korea, Japan, Singapore and across Europe.

#### Industry Overview

Semiconductors comprise the basic building blocks of electronic systems and equipment. Within the semiconductor industry, components can be classified either as discrete devices, such as individual transistors, or as ICs, in which a number of transistors and other elements are combined to form a more complicated electronic circuit. ICs can be further divided into three primary categories: digital, analog, and mixed-signal. Digital ICs, such as memory devices and microprocessors, can store or perform arithmetic functions on data that is represented by a series of ones and zeroes. Analog ICs, in contrast, handle real world signals such as temperature, pressure, light, sound, or speed. In addition, analog ICs also perform power management functions, such as regulating or converting voltages, for electronic devices. Mixed-signal ICs combine digital and analog functions onto a single chip and play an important role in bridging real world phenomena to digital systems.

***Analog and Mixed-Signal Markets.*** We focus on the market for ‘high performance’ analog and mixed-signal ICs. ‘High performance’ products generally are differentiated by functionality and performance factors which include integration of higher levels of functionality onto a single chip, greater precision, higher speed and lower heat and noise. There are several key factors that distinguish analog and mixed-signal IC markets, and in particular the high performance portion of the analog and mixed signal IC market, from digital IC markets. These factors include longer product life cycles, numerous market segments, technology that is difficult to replicate, relative complexity of design and process technology, importance of experienced design engineers, lower capital requirements and diversity of end markets. We have, however, targeted product and market areas that we believe have the ability to offer above average industry growth over the long term.

## Acquisition

In July 2014, we completed the acquisition of Sensima Technology SA (“Sensima”), a company based in Switzerland that develops magnetic sensors for angle measurement as well as three-dimensional magnetic field sensing. Sensima became a subsidiary of MPS and changed its name to MPS Tech Switzerland Sarl. Sensima’s products are based on Hall devices that are directly integrated with the signal treatment and instantaneously detect and deliver the angle value in digital format. Sensima’s angle sensors are used in rotary encoders, electronically commutated motors and a broad range of products. By combining Sensima’s real time precision magnetic angle sensing with our motor control technologies, we are creating new opportunities with customers by offering enhanced solutions, such as our integrated e.Motion solutions, in power management for a wide array of end products such as cars, robots, and security cameras in automotive, industrial and cloud computing industries.

For a detailed discussion of the terms of the acquisition, please refer to Note 2 to our consolidated financial statements under Item 8 of this Annual Report on Form 10-K.

## Products and Applications

We currently have two primary product families that address multiple applications within the communications, storage and computing, consumer and industrial markets. Our products are differentiated with respect to their high degree of integration and strong levels of accuracy and efficiency, making them cost-effective relative to many competing solutions. These product families include:

***Direct Current (DC) to DC Products.*** DC to DC ICs are used to convert and control voltages within a broad range of electronic systems, such as portable electronic devices, wireless LAN access points, computers, and monitors, automobiles and medical equipment. We believe that our DC to DC products are differentiated in the market, particularly with respect to their high degree of integration, high voltage operation, high load current, high switching speed and small footprint. These features are important to our customers as they result in fewer components, a smaller form factor, more accurate regulation of voltages, and, ultimately, lower system cost and increased reliability through the elimination of many discrete components and power devices. The DC to DC product family accounted for 90%, 90% and 89% of our total revenue in 2015, 2014 and 2013, respectively.

***Lighting Control Products and AC/DC Offline Solutions.*** Lighting control ICs are used in backlighting and general illumination products. Lighting control ICs for backlighting are used in systems that provide the light source for LCD panels typically found in notebook computers, LCD monitors, car navigation systems, and LCD televisions. Backlighting solutions are typically either white light emitting diode (WLED) lighting sources or cold cathode fluorescent lamps (CCFL). In addition to AC/DC offline solutions for lighting illumination applications, we also offer AC/DC power conversion solutions for a diverse number of end products that plug into a wall outlet. The Lighting Control product family accounted for 10%, 10% and 11% of our total revenue in 2015, 2014 and 2013, respectively.

We currently target our products at the communications, storage and computing, consumer and industrial markets, with the consumer market representing the largest portion of our revenue. The following is a summary of our products for various applications:

**Communications:**

Networking and telecommunication infrastructure, routers and modems, wireless access points and voice over IP.

**Storage and Computing:**

Storage networks, computers and notebooks, printers, servers and workstations.

**Consumer:**

Set-top boxes, televisions, monitors, gaming, lighting, chargers, home appliances, cellular handsets, digital video players, GPS and infotainment systems, stereos and cameras.

**Industrial:**

Automotive, power sources, security, point-of-sale systems and industrial meters.

We derive a majority of our revenue from our DC to DC IC product family sold to these market segments. In the future, we will continue to introduce additional new products within our existing product families, such as high current, high voltage, small form factor switching voltage regulators, as well as expand our newer product families in battery chargers, voltage references and low dropout regulators. Our ability to achieve revenue growth will depend in part upon our ability to enter new market segments, gain market share, grow in regions outside of China, Taiwan and other Asian markets, expand our customer base and successfully secure manufacturing capacity.

For a detailed discussion of our revenue by product family, please refer to Note 16 to our consolidated financial statements under Item 8 of this Annual Report on Form 10-K.

## **Customers, Sales and Marketing**

We sell our products through third party distributors, value-added resellers and directly to original equipment manufacturers (OEMs), original design manufacturers (ODMs), and electronic manufacturing service (EMS) providers. Our third party distributors are subject to distribution agreements with us which allow the distributor to sell our products to end customers and other resellers. Distributors may distribute our products to end customers which include OEMs, ODMs or EMS providers. Our value-added resellers may second source our products and provide other services to customers. ODMs typically design and manufacture electronic products on behalf of OEMs, and EMS providers typically provide manufacturing services for OEMs and other electronic product suppliers.

Sales to our largest distributor accounted for approximately 24% of revenue in 2015, 26% of revenue in 2014, and 32% of revenue in 2013. In addition, one other distributor accounted for 10% of revenue in 2013. No other customers accounted for more than 10% of revenue in any of the periods presented.

Current distribution agreements with several of our major distributors provide that each distributor shall have the non-exclusive right to sell and use its best efforts to promote and develop a market for our products. These agreements provide that payment for purchases from us will generally occur within 30 to 45 days from the date of invoice. In addition, we allow for limited stock rotation in certain agreements.

We have sales offices located in the United States, Taiwan, China, Korea and Japan and have marketing representatives in Europe and Singapore. Our products typically require a highly technical sales and applications engineering effort where we assist our customers in the design and use of our products in their application. We maintain a staff of applications engineers who work directly with our customers' engineers in the development of their systems' electronics containing our products.

Because our sales are primarily billed and payable in United States dollars, our sales are generally not subject to fluctuating currency exchange rates. However, because a majority of our revenue is attributable to direct or indirect sales to customers in Asia, changes in the relative value of the dollar may create pricing pressures for our products. For the years ended December 31, 2015, 2014 and 2013, approximately 91%, 91% and 90% of our revenue was from customers in Asia, respectively.

Our sales are made primarily pursuant to standard individual purchase orders. Our backlog consists of orders that we have received from customers which have not yet shipped. Our manufacturing lead times are generally 8 to 16 weeks and we often build inventory in advance of customer orders based on our forecast of future customer orders. This subjects us to certain risks, most notably the possibility that sales will not meet our forecast, which could lead to inventories in excess of demand. If excess inventory exists, it may be necessary for us to sell it at a substantial discount, take a significant write-down or dispose of it altogether, either of which would negatively affect our profit margins.

We operate in the cyclical semiconductor industry where there is seasonal demand for certain of our products. While we are not and will not be immune from current and future industry downturns, we have targeted product and market areas that we believe have the ability to offer above average industry performance over the long term.

## **Research and Development**

We have assembled a qualified team of engineers in the United States and China with core competencies in analog and mixed-signal design. Through our research and development efforts, we have developed a collection of intellectual property and know-how that we are able to leverage across our products and markets. These include the development of high efficiency power devices, the design of precision analog circuits, expertise in mixed-signal integration and the development of proprietary semiconductor process technologies.

Our research and development efforts are generally targeted at three areas: systems architecture, circuit design and implementation, and process technology. In the area of systems architecture, we are exploring new ways of solving our customers' system design challenges and are investing in the development of systems expertise in new markets and applications that align well with our core capabilities. In the area of circuit design and implementation, our initiatives include expanding our portfolio of products and adding new features to our products. In the area of process technology, we are investing research and development resources to provide leading-edge analog power processes for our next generation of integrated circuits. Process technology is a key strategic component to our future growth.

Our research and development expenses totaled \$65.8 million, \$58.6 million and \$49.7 million for the years ended December 31, 2015, 2014 and 2013, respectively.

## Patents and Intellectual Property Matters

We rely on our proprietary technologies, which include both our proprietary circuit designs for our products and our proprietary manufacturing process technologies. Our future success and competitive position depend in part upon our ability to obtain and maintain protection of our proprietary technologies.

In general, we have elected to pursue patent protection for aspects of our circuit and device designs that we believe are patentable and to protect our manufacturing process technologies by maintaining those process technologies as trade secrets. As of December 31, 2015, we had approximately 1,142 patents/applications issued or pending, of which 244 patents have been issued in the United States. Our issued patents are scheduled to expire at various times through December 2035. Our patents are material to our business, but we do not rely on any one particular patent for our success. We also rely on a combination of nondisclosure agreements and other contractual provisions, as well as our employees' commitment to confidentiality and loyalty, to protect our technology, know-how, and processes. We also seek to register certain of our trademarks as we deem appropriate. We have not registered any of our copyrights and do not believe registration of copyrights is material to our business. Despite precautions that we take, it may be possible for unauthorized third parties to copy aspects of our current or future technology or products or to obtain and use information that we regard as proprietary. There can be no assurance that the steps we take will be adequate to protect our proprietary rights, that our patent applications will lead to issued patents, that others will not develop or patent similar or superior products or technologies, or that our patents will not be challenged, invalidated, or circumvented by others. Furthermore, the laws of the countries in which our products are or may be developed, manufactured or sold may not protect our products and intellectual property rights to the same extent as laws in the United States. Our failure to adequately protect our proprietary technologies could materially harm our business.

The semiconductor industry is characterized by frequent claims of infringement and litigation regarding patent and other intellectual property rights. For a more complete description of our legal matters, please read Note 13 to our consolidated financial statements under Item 8 of this Annual Report on Form 10-K. Patent infringement is an ongoing risk, in part because other companies in our industry could have patent rights that may not be identifiable when we initiate development efforts. Litigation may be necessary to enforce our intellectual property rights, and we may have to defend ourselves against infringement claims. Any such litigation could be very costly and may divert our management resources. Further, we have agreed to indemnify certain of our customers and suppliers in some circumstances against liability from infringement by our products. In the event any third party were to make an infringement claim against us or our customers, we could be enjoined from selling selected products or could be required to indemnify our customers or suppliers or pay royalties or other damages to third parties. If any of our products is found to infringe and we are unable to obtain necessary licenses or other rights on acceptable terms, we would either have to change our product so that it does not infringe or stop making the infringing product, which could have a material adverse effect on our operating results, financial condition and cash flows.

## **Manufacturing**

We utilize a fabless business model, working with third parties to manufacture and assemble our integrated circuits. This fabless approach allows us to focus our engineering and design resources on our strengths and to reduce our fixed costs and capital expenditures. In contrast to many fabless semiconductor companies, who utilize standard process technologies and design rules established by their foundry partners, we have developed our own proprietary process technology and collaborate with our foundry partners to install our technologies on their equipment in their facilities for use solely on our behalf. This close collaboration and control over the manufacturing process has historically resulted in favorable yields and product performance for our integrated circuits.

We currently contract with three suppliers to manufacture our wafers in foundries located in China. Once our silicon wafers have been produced, they are shipped to our facility in Chengdu, China for wafer sort. Our semiconductor products are then assembled and packaged by independent subcontractors in China and Malaysia. The assembled ICs are then sent for final testing at our Chengdu facility and other turnkey providers prior to shipping to our customers.

In September 2004, we entered into a lease arrangement for a 60,000 square-foot manufacturing facility located in Chengdu, China. In September 2015, we exercised our option to acquire the facility and expect to close the transaction in the first half of 2016. The facility has been fully operational since 2006 and we have benefitted from shorter manufacturing cycle times and lower labor and overhead costs. We have expanded our product testing capabilities in our China facility and are able to take advantage of the rich pool of local engineering talent to expand our manufacturing support and engineering operations.

In addition, we constructed a 150,000 square-foot research and development facility in Chengdu, China which was put into operation in October 2010.

## **Key Personnel and Employees**

Our performance is substantially dependent on the performance of our executive officers and key employees. Due to the relative complexity of the design of our analog and mixed-signal ICs, our engineers generally have more years of experience and greater circuit design aptitude than the more prevalent digital circuit design engineer. Analog engineers with advanced skills are limited in number and difficult to replace. The loss of the services of key officers, managers, engineers and other technical personnel would materially harm our business. Our future success will depend, in part, on our ability to attract, train, retain, and motivate highly qualified technical and managerial personnel. We may not be successful in attracting and retaining such personnel. Our employees are not represented by a collective bargaining organization, and we have never experienced a work stoppage or strike. Our management considers employee relations to be good. As of December 31, 2015, we employed 1,260 employees located in China,

Europe, Japan, Korea, Singapore, Taiwan and the United States, compared with 1,178 employees as of December 31, 2014.

## **Competition**

The analog and mixed-signal semiconductor industry is highly competitive, and we expect competitive pressures to continue. Our ability to compete effectively and to expand our business will depend on our ability to continue to recruit both applications engineering and design engineering personnel, our ability to introduce new products, and our ability to maintain the rate at which we introduce these new products. Our industry is characterized by decreasing unit selling prices over the life of a product. We compete with domestic and international semiconductor companies, many of which have substantially greater financial and other resources with which to pursue engineering, manufacturing, marketing, and distribution of their products. We are in direct and active competition, with respect to one or more of our product lines, with at least 10 manufacturers of such products, of varying size and financial strength. We consider our primary competitors to include Analog Devices, Fairchild Semiconductor, Intersil Corporation, Linear Technology, Maxim Integrated Products, Microchip Technology, Microsemi Corporation, O2 Micro International, ON Semiconductor, Power Integrations, Inc., Richtek Technology Corporation, Rohm Co., Ltd., Semtech Corporation, STMicroelectronics N.V., and Texas Instruments Inc.



We expect continued competition from existing competitors as well as competition from new entrants into the semiconductor market. We believe that we are competitive in the markets in which we sell, particularly because our ICs typically are smaller in size, are highly integrated, possess higher levels of power management functionalities and achieve high performance specifications at lower price points than most of our competition. However, we cannot assure you that our products will continue to compete favorably or that we will be successful in the face of increasing competition from new products and enhancements introduced by existing competitors or new companies entering this market.

### **Geographical and Segment Information**

Please refer to the geographical and segment information in Note 16 to our consolidated financial statements in the section entitled “Item 8. Financial Statements and Supplemental Data.”

Please refer to the discussion of risks related to our foreign operations in the section entitled “Item 1A: Risk Factors.”

### **Available Information**

We were incorporated in California in 1997 and reincorporated in Delaware in November 2004. Our executive offices are located at 79 Great Oaks Boulevard, San Jose, California 95119. Our telephone number is (408) 826-0600. Our e-mail address is investors@monolithicpower.com, and our website is www.monolithicpower.com. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K, and amendments to those filed or furnished pursuant to Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge. They may be obtained from our website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission, or at the SEC website at www.sec.gov. Information contained on our website is not a part of this Annual Report on Form 10-K.

### **Executive Officers of the Registrant**

Information regarding our executive officers as of February 29, 2016 is as follows:

| <b>Name</b>      | <b>Age</b> | <b>Position</b>             |
|------------------|------------|-----------------------------|
| Michael R. Hsing | 56         | President, CEO and Director |

|                  |    |  |
|------------------|----|--|
| Meera P. Rao (1) | 55 | CFO and Principal Financial and Accounting Officer                                       |
| Deming Xiao      | 53 | President of Asia Operations   |
| Maurice Sciammas | 56 | Senior Vice President of Worldwide Sales and Marketing                                   |
| Saria Tseng      | 45 | Vice President, Strategic Corporate Development, General Counsel and Corporate Secretary |

---

On February 23, 2016, we announced that Ms. Rao has informed us of her intention to retire from MPS as CFO (1) and Principal Financial and Accounting Officer, effective March 31, 2016. Ms. Rao will remain available in an advisory capacity until a successor is secured and the transition is complete.

*Michael R. Hsing* has served on our board of directors and has served as our President and Chief Executive Officer since founding MPS in August 1997. Prior to founding MPS, Mr. Hsing was a Senior Silicon Technology Developer at several analog IC companies, where he developed and patented key technologies, which set new standards in the power electronics industry. Mr. Hsing is an inventor on numerous patents related to the process development of bipolar mixed-signal semiconductor manufacturing. Mr. Hsing holds a B.S.E.E. from the University of Florida.

*Meera P. Rao* has served as our Chief Financial Officer since January 2011. Ms. Rao joined MPS in January 2009 and served as our Vice President of Finance and Corporate Controller. Prior to joining MPS, she was the principal in her own consulting practice, working with various semiconductor companies, including MPS, where she set up our business operations in Chengdu, China in 2006. Ms. Rao has more than 20 years of experience with semiconductor and high technology companies and has held various senior executive positions, including CFO of Integration Associates, Vice President of Finance and Interim CFO at Atrica, Vice President of Finance at Raza Foundries, Corporate Controller and Interim CFO at nVIDIA, as well as various positions at Advanced Micro Devices. Ms. Rao is a CPA and holds an MBA from the University of Rochester.

*Maurice Sciammas* has served as our Senior Vice President of Worldwide Sales and Marketing since 2007. Mr. Sciammas joined MPS in July 1999 and served as Vice President of Products and Vice President of Sales (excluding greater China) until he was appointed to his current position. Before joining MPS, he was Director of IC Products at Supertex from 1990 to 1999. He has also held positions at Micrel, Inc. He holds a B.S.E.E. degree from San Jose State University.

*Deming Xiao* has served as our President of Asia Operations since January 2008. Since joining us in May 2001, Mr. Xiao has held several executive positions, including Foundry Manager and Senior Vice President of Operations. Before joining MPS, from June 2000 to May 2001, Mr. Xiao was Engineering Account Manager at Chartered Semiconductor Manufacturing, Inc. Prior to that, Mr. Xiao spent six years as the Manager of Process Integration Engineering at Fairchild Imaging Sensors. Mr. Xiao holds a B.S. in Semiconductor Physics from Sichuan University, Chengdu, China and an M.S.E.E. from Wayne State University.

*Saria Tseng* has served as our Vice President, General Counsel and Corporate Secretary since 2004 and additionally as our Vice President, Strategic Corporate Development since 2009. Ms. Tseng joined MPS from MaXXan Systems, Inc. where she was Vice President and General Counsel from 2001 to 2004. Previously, Ms. Tseng was an attorney at Gray Cary Ware & Freidenrich LLP and Jones, Day, Reavis & Pogue. Ms. Tseng is a member of the state bar in both California and New York and is a member of the bar association of the Republic of China (Taiwan). She holds Masters of Law degrees from the University of California at Berkeley and the Chinese Culture University in Taipei.

## **ITEM 1A. RISK FACTORS**

Our business involves risks and uncertainties. You should carefully consider the risks described below, together with all of the other information in this Annual Report on Form 10-K and other filings with the Securities and Exchange Commission in evaluating our business. If any of the following risks actually occur, our business, financial condition, operating results, and growth prospects would likely be materially and adversely affected. In such an event, the trading price of our common stock could decline, and you could lose all or part of your investment in our common stock. Our past financial performance should not be considered to be a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods. These risks involve forward-looking statements and our actual results may differ substantially from those discussed in these forward-looking statements.

### **The future trading price of our common stock could be subject to wide fluctuations in response to a variety of factors.**

The future trading price of our common stock is likely to be highly volatile and could be subject to wide fluctuations in response to various factors, many of which are beyond our control, including:

- our results of operations and financial performance;
- general economic, industry and market conditions worldwide;
- our ability to outperform the market, and outperform at a level that meets or exceeds our investors' expectations;
- whether our forward guidance meets the expectations of our investors;
- the depth and liquidity of the market for our common stock;
- developments generally affecting the semiconductor industry;

- commencement of or developments relating to our involvement in litigation;
- investor perceptions of us and our business strategies;
- changes in securities analysts' expectations or our failure to meet those expectations;
- actions by institutional or other large stockholders;
- terrorist acts or acts of war;
- actual or anticipated fluctuations in our results of operations;
- actual or anticipated manufacturing capacity limitations;
- developments with respect to intellectual property rights;
- introduction of new products by us or our competitors;
- our sale of common stock or other securities in the future;
- conditions and trends in technology industries;
- our loss of key customers;
- changes in market valuation or earnings of our competitors;

- any mergers, acquisitions or divestitures of assets undertaken by us;
- government debt default;
- our ability to develop new products, enter new market segments, gain market share, manage litigation risk, diversify our customer base and successfully secure manufacturing capacity;
- our ability to increase our gross margins;
- market reactions to guidance from other semiconductor companies or third-party research groups;
- market reactions to merger and acquisition activities in the semiconductor industry, and rumors or expectations of further consolidation in the industry;
- investments in sales and marketing resources to enter new markets;
- costs of increasing wafer capacity and qualifying additional third-party wafer fabrication facilities;
- our ability to continue the stock repurchase program and pay quarterly cash dividends to stockholders; and
- changes in the estimation of the future size and growth rate of our markets.

In addition, the stock market often experiences substantial volatility that is seemingly unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock.

**We expect our operating results to fluctuate from quarter to quarter and year to year, which may make it difficult to predict our future performance and could cause our stock price to decline and be volatile.**

Our revenue, expenses, and results of operations are difficult to predict, have varied significantly in the past and will continue to fluctuate significantly in the future due to a number of factors, many of which are beyond our control. We expect fluctuations to continue for a number of reasons, including:

- changes in general demand for electronic products as a result of worldwide macroeconomic conditions;
- changes in business conditions at our distributors, value-added resellers and/or end-customers;
- changes in general economic conditions in the countries where our products are sold or used;
- the timing of developments and related expenses in our litigation matters;

- the loss of key customers or our inability to attract new customers due to customer and prospective customer concerns about being litigation targets;
- continued dependence on turns business (orders received and shipped within the same fiscal quarter);
- continued dependence on the Asian markets for our customer base;
- increases in assembly costs due to commodity price increases, such as the price of gold;
- the timing of new product introductions by us and our competitors;
- changes in our revenue mix between original equipment manufacturers (“OEMs”), original design manufacturers (“ODMs”), distributors and value-added resellers;
- changes in product mix, product returns, and actual and potential product liability;
- the acceptance of our new products in the marketplace;
- our ability to develop new process technologies and achieve volume production;
- our ability to meet customer product demand in a timely manner;

- the scheduling, rescheduling, or cancellation of orders by our customers;
- the cyclical nature of demand for our customers' products;
- fluctuations in our estimate for stock rotation reserves;
- our ability to manage our inventory levels, including the levels of inventory held by our distributors;
- product obsolescence;
- seasonality and variability in the communications, storage and computing, consumer and industrial markets;
- the availability of adequate manufacturing capacity from our outside suppliers;
- increases in prices for finished wafers due to general capacity shortages;
- the potential loss of future business resulting from capacity issues;
- changes in manufacturing yields;
- movements in foreign exchange rates, interest rates or tax rates; and
- stock-based compensation charges primarily resulting from performance and market-based equity awards granted to our employees.

Due to the factors noted above and other risks described in this section, many of which are beyond our control, you should not rely on quarter-to-quarter or year-over-year comparisons to predict our future financial performance. Unfavorable changes in any of the above factors may seriously harm our business and results of operations, and may cause our stock price to decline and be volatile.

**Our business has been and may continue to be significantly impacted by worldwide economic conditions, and uncertainty in the outlook for the global economy makes it more likely that our actual results will differ materially from expectations.**

In recent years, global credit and financial markets experienced disruptions, and may continue to experience disruptions in the future, including diminished liquidity and credit availability, declines in consumer confidence, declines in economic growth, increases in unemployment rates, and continued uncertainty about economic stability. These economic uncertainties affect businesses such as ours in a number of ways, making it difficult to accurately forecast and plan our future business activities. The continued or further tightening of credit in financial markets may lead consumers and businesses to postpone spending, which may cause our customers to cancel, decrease or delay their existing and future orders with us. In addition, financial difficulties experienced by our suppliers or distributors could result in product delays, increased accounts receivable defaults and inventory challenges. Volatility in the credit markets could severely diminish liquidity and capital availability. Demand for our products is a function of the health

of the economies in the United States, Europe, China and the rest of the world. We cannot predict the timing, strength or duration of any economic disruption or subsequent economic recovery worldwide, in the United States, in our industry, or in the different markets that we serve. These and other economic factors have had, and may in the future have, a material adverse effect on demand for our products and on our financial condition and operating results.

**We may not be profitable on a quarterly or annual basis.**

Our profitability is dependent on many factors, including:

- our sales, which because of our turns business (i.e., orders received and shipped within the same fiscal quarter), are difficult to accurately forecast;
- the cancellation or rescheduling of our customers' orders, which may occur without significant penalty to our customers;
- changes in general demand for electronic products as a result of worldwide macroeconomic conditions;
- changes in revenue mix between OEMs, ODMs, distributors and value-added resellers;
- changes in product mix, and actual and potential product liability;
- changes in revenue mix between end market segments (i.e. communications, storage and computing, consumer and industrial);



- our competition, which could adversely impact our selling prices and our potential sales;
  - our manufacturing costs, including our ability to negotiate with our vendors and our ability to efficiently run our test facility in China;
  - manufacturing capacity constraints;
  - stock-based compensation charges primarily resulting from performance and market-based equity awards granted to our employees; and
- our operating expenses, including general and administrative expenses, selling and marketing expenses, and
- research and development expenses relating to products that will not be introduced and will not generate revenue until later periods, if at all.

We may not achieve profitability on a quarterly or annual basis in the future. Unfavorable changes in our operations, including any of the factors noted above, may have a material adverse effect on our quarterly or annual profitability.

**We may not experience growth rates comparable to past years.**

In the past, our revenue increased significantly in certain years due to increased sales of certain of our products. Due to various factors, including increased competition, loss of certain of our customers, unfavorable changes in our operations, reduced global electronics demand, end-customer market downturn, market acceptance and penetration of our current and future products and ongoing litigation, we may not experience growth rates comparable to past periods, which could materially and adversely affect our stock price and results of operations.

**There can be no assurance that we will continue to declare cash dividends at all or in any particular amounts.**

In June 2014, the Board of Directors approved a dividend program pursuant to which we intend to pay quarterly cash dividends on our common stock. We anticipate the cash used for future dividends will come from our current domestic cash and cash generated from ongoing U.S. operations. If cash held by our international subsidiaries is needed for the payment of dividends, we may be required to accrue and pay U.S. taxes to repatriate these funds, which may have a material adverse effect on our financial condition and results of operations.

The declaration of any future cash dividends is at the discretion of our Board of Directors and will depend on, among other things, our financial condition, results of operations, capital requirements, business conditions, statutory requirements of Delaware law, compliance with the terms of future indebtedness and credit facilities and other factors that our Board of Directors may deem relevant, as well as a determination that cash dividends are in the best interests

of our stockholders. Our dividend payments may change from time to time, and we cannot provide assurance that we will continue to declare dividends at all or in any particular amounts. A reduction in or elimination of our dividend payments could have a negative effect on the price of our common stock.

**We may be unsuccessful in developing and selling new products with margins similar to or better than what we have experienced in the past, which would impact our overall gross margin and financial performance.**

Our success depends on products that are differentiated in the market, which result in gross margins that have historically been above industry averages. Should we fail to improve our gross margin in the future, and accordingly develop and introduce sufficiently differentiated products that result in higher gross margins than industry averages, our financial condition and results of operations could be materially and adversely affected.

**The highly cyclical nature of the semiconductor industry, which has produced significant and sometimes prolonged downturns, could materially adversely affect our operating results, financial condition and cash flows.**

Historically, the semiconductor industry has been highly cyclical and, at various times, has experienced significant downturns and wide fluctuations in supply and demand. These conditions have caused significant variances in product demand and production capacity, as well as rapid erosion of average selling prices. The industry may experience severe or prolonged downturns in the future, which could result in downward pressure on the price of our products as well as lower demand for our products. Because significant portions of our expenses are fixed in the short term or incurred in advance of anticipated sales, we may not be able to decrease our expenses in a timely manner to offset any sales shortfall. These conditions could have a material adverse effect on our operating results, financial condition and cash flows.

**If demand for our products declines in the major end markets that we serve, our revenue will decrease and our results of operations and financial condition would be materially and adversely affected.**

We believe that the application of our products in the storage and computer, consumer electronics, communications and industrial markets will continue to account for the majority of our revenue. If the demand for our products declines in the major end markets that we serve, our revenue will decrease and our results of operations and financial condition would be materially and adversely affected. In addition, as technology evolves, the ability to integrate the functionalities of various components, including our discrete semiconductor products, onto a single chip and/or onto other components of systems containing our products increases. Should our customers require integrated solutions that we do not offer, demand for our products could decrease, and our business and results of operations would be materially and adversely affected.

**We may be unsuccessful in developing and selling new products or in penetrating new markets required to maintain or expand our business.**

Our competitiveness and future success depend on our ability to design, develop, manufacture, assemble, test, market, and support new products and enhancements on a timely and cost-effective basis. A fundamental shift in technologies in any of our product markets could have a material adverse effect on our competitive position within these markets. Our failure to timely develop new technologies or to react quickly to changes in existing technologies could materially delay our development of new products, which could result in product obsolescence, decreased revenue, and/or a loss of market share to competitors.

As we develop new product lines, we must adapt to market conditions that are unfamiliar to us, such as competitors and distribution channels that are different from those we have known in the past. Some of our new product lines require us to re-equip our labs to test parameters we have not tested in the past. If we are unable to adapt rapidly to these new and additional conditions, we may not be able to successfully penetrate new markets.

The success of a new product depends on accurate forecasts of long-term market demand and future technological developments, as well as on a variety of specific implementation factors, including:

- timely and efficient completion of process design and device structure improvements;
- timely and efficient implementation of manufacturing, assembly, and test processes;
- the ability to secure and effectively utilize fabrication capacity in different geometries;

- product performance;
- product availability;
- product quality and reliability; and
- effective marketing, sales and service.

To the extent that we fail to timely introduce new products or to quickly penetrate new markets, our revenue and financial condition could be materially adversely affected.

**We derive most of our revenue from direct or indirect sales to customers in Asia and have significant operations in Asia, which may expose us to political, cultural, regulatory, economic, foreign exchange, and operational risks.**

We derive most of our revenue from customers located in Asia through direct sales or indirect sales through distribution arrangements and value-added reseller agreements with parties located in Asia. As a result, we are subject to increased risks due to this geographic concentration of business and operations. For the year ended December 31, 2015, approximately 91% of our revenue was from customers in Asia. There are risks inherent in doing business in Asia, and internationally in general, including:

- changes in, or impositions of, legislative or regulatory requirements, including tax laws in the United States and in the countries in which we manufacture or sell our products;
- trade restrictions, including restrictions imposed by the United States on trading with parties in foreign countries;
- currency exchange rate fluctuations impacting intra-company transactions;
- the fluctuations in the value of the U.S. Dollar relative to other foreign currencies, which could affect the competitiveness of our products;

transportation delays;

changes in tax regulations in China that may impact our tax status in Chengdu, where we have significant operations;

multi-tiered distribution channels that lack visibility to end customer pricing and purchase patterns;

- international political relationships and threats of war;

terrorism and threats of terrorism;

epidemics and illnesses;

work stoppages and infrastructure problems due to adverse weather conditions or natural disasters;

work stoppages related to employee dissatisfaction;

economic, social and political instability;

longer accounts receivable collection cycles and difficulties in collecting accounts receivables;

enforcing contracts generally; and

less effective protection of intellectual property and contractual arrangements.

If we fail to expand our customer base and significantly reduce the geographic concentration of our customers, we will continue to be subject to the foregoing risks, which could materially and adversely affect our revenue and financial condition.

**We depend on a limited number of customers, including distributors, for a significant percentage of our revenue.**

Historically, we have generated most of our revenue from a limited number of customers, including distributors. For example, sales to our largest distributor accounted for approximately 24% of our total revenue for the year ended December 31, 2015. We continue to rely on a limited number of customers for a significant portion of our revenue. Because we rely on a limited number of customers for significant percentages of our revenue, a decrease in demand for our products from any of our major customers for any reason (including due to market conditions, catastrophic events or otherwise) could have a materially adverse impact on our financial conditions and results of operations.

**We are subject to anti-corruption laws in the jurisdictions in which we operate, including the U.S. Foreign Corrupt Practices Act, or the FCPA. Our failure to comply with these laws could result in penalties which could harm our reputation and have a material adverse effect on our business, results of operations and financial condition.**

We are subject to the FCPA, which generally prohibits companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or keeping business and/or other benefits, along with various other anti-corruption laws. Although we have implemented policies and procedures designed to ensure that we, our employees and other intermediaries comply with the FCPA and other anti-corruption laws to which we are subject, there is no assurance that such policies or procedures will work effectively all of the time or protect us against liability under the FCPA or other laws for actions taken by our employees and other intermediaries with respect to our business or any businesses that we may acquire. We have significant operations in Asia, which places us in frequent contact with persons who may be considered “foreign officials” under the FCPA, resulting in an elevated risk of potential FCPA violations. If we are not in compliance with the FCPA and other laws governing the conduct of business with government entities (including local laws), we may be subject to criminal and civil penalties and other remedial measures, which could have an adverse impact on our business, financial condition, results of operations and liquidity. Any investigation of any potential violations of the FCPA or other anti-corruption laws by U.S. or foreign authorities could harm our reputation and have an adverse impact on our business, financial condition and results of operations.

**We receive a significant portion of our revenue from distribution arrangements, value-added resellers and direct customers, and the loss of any one of these distributors, value-added resellers or direct customers or failure to collect a receivable from them could adversely affect our operations and financial position.**

We market our products through distribution arrangements and value-added resellers and through our direct sales and applications support organization to customers that include OEMs, ODMs and electronic manufacturing service providers (“EMSs”). Receivables from our customers are generally not secured by any type of collateral and are subject to the risk of being uncollectible. Sales to our largest distributor accounted for approximately 24% of our total revenue for the year ended December 31, 2015. Significant deterioration in the liquidity or financial condition of any of our major customers or any group of our customers could have a material adverse impact on the collectability of our accounts receivable and our future operating results. We primarily conduct our sales on a purchase order basis, and we do not have any long-term supply commitments.



Moreover, we believe a high percentage of our products are eventually sold to a number of OEMs. Although we communicate with OEMs in an attempt to achieve “design wins,” which are decisions by OEMs and/or ODMs to incorporate our products, we do not have purchase commitments from these end users. Therefore, there can be no assurance that the OEMs and/or ODMs will continue to incorporate our ICs into their products. OEM technical specifications and requirements can change rapidly, and we may not have products that fit new specifications from an end-customer for whom we have had previous design wins. We cannot be certain that we will continue to achieve design wins from large OEMs, that our direct customers will continue to be successful in selling to the OEMs, or that the OEMs will be successful in selling products which incorporate our ICs. The loss of any significant customer, any material reduction in orders by any of our significant customers or by their OEM customers, the cancellation of a significant customer order, or the cancellation or delay of a customer’s or an OEM’s significant program or product could reduce our revenue and adversely affect our results of operations and financial condition.

**Due to the nature of our business as a component supplier, we may have difficulty both in accurately predicting our future revenue and appropriately managing our expenses.**

Because we provide components for end products and systems, demand for our products is influenced by our customers’ end product demand. As a result, we may have difficulty in accurately forecasting our revenue and expenses. Our revenue depends on the timing, size, and speed of commercial introductions of end products and systems that incorporate our products, all of which are inherently difficult to forecast, as well as the ongoing demand for previously introduced end products and systems. In addition, demand for our products is influenced by our customers’ ability to manage their inventory. Our sales to distributors are subject to higher volatility because they service demand from multiple levels of the supply chain which, in itself, is inherently difficult to forecast. If our customers, including distributors, do not manage their inventory correctly or misjudge their customers’ demand, our shipments to and orders from our customers may vary significantly on a quarterly basis.

**Our ability to increase product sales and revenue may be constrained by the manufacturing capacity of our suppliers.**

Although we provide our suppliers with rolling forecasts of our production requirements, their ability to provide wafers to us is limited by the available capacity, particularly capacity in the geometries we require, at the facilities in which they manufacture wafers for us. As a result, this lack of capacity has at times constrained our product sales and revenue growth. In addition, an increased need for capacity to meet internal demands or demands of other customers could cause our suppliers to reduce capacity available to us. Our suppliers may also require us to pay amounts in excess of contracted or anticipated amounts for wafer deliveries or require us to make other concessions in order to acquire the wafer supply necessary to meet our customer requirements. If our suppliers extend lead times, limit supplies or the types of capacity we require, or increase prices due to capacity constraints or other factors, our revenue and gross margin may materially decline. In addition, if we experience supply delays or limitations, our customers may reduce their purchase levels with us and/or seek alternative solutions to meet their demand, which could materially and adversely impact our business and results of operations. Delays in increasing third-party manufacturing capacity may also limit our ability to meet customer demand.



**We currently depend on third-party suppliers to provide us with wafers for our products. If any of our wafer suppliers become insolvent or capacity constrained and are unable and/or fail to provide us sufficient wafers at acceptable yields and at anticipated costs, our revenue and gross margin may decline or we may not be able to fulfill our customer orders.**

We have a supply arrangement with certain suppliers for the production of wafers. Should any of our suppliers become insolvent or capacity constrained, we may not be able to fulfill our customer orders, which would likely cause a decline in our revenue.

While certain aspects of our relationship with these suppliers are contractual, many important aspects of this relationship depend on our suppliers' continued cooperation and our management of relationships. In addition, the fabrication of ICs is a highly complex and precise process. Problems in the fabrication process can cause a substantial percentage of wafers to be rejected or numerous ICs on each wafer to be non-functional. This could potentially reduce yields. The failure of our suppliers to supply us wafers at acceptable yields could prevent us from fulfilling our customer orders for our products and would likely cause a decline in our revenue.

Further, as is common in the semiconductor industry, our customers may reschedule or cancel orders on relatively short notice. If our customers cancel orders after we submit a committed forecast to our suppliers for the corresponding wafers, we may be required to purchase wafers that we may not be able to resell, which would adversely affect our operating results, financial condition and cash flows.

**We might not be able to deliver our products on a timely basis if our relationships with our assembly and test subcontractors are disrupted or terminated.**

We do not have direct control over product delivery schedules or product quality because all of our products are assembled by third-party subcontractors and a portion of our testing is currently performed by third-party subcontractors. Also, due to the amount of time typically required to qualify assembly and test subcontractors, we could experience delays in the shipment of our products if we were forced to find alternate third parties to assemble or test our products. In addition, events such as global economic crises may materially impact our assembly suppliers' ability to operate. Any future product delivery delays or disruptions in our relationships with our subcontractors could have a material adverse effect on our operating results, financial condition and cash flows.

**There may be unanticipated costs associated with adding to or supplementing our third-party suppliers' manufacturing capacity.**

We anticipate that future growth of our business will require increased manufacturing capacity on the part of third-party supply foundries, assembly shops, and testing facilities for our products. In order to facilitate such growth, we may need to enter into strategic transactions, investments and other activities. Such activities are subject to a number of risks, including:

• the costs and expense associated with such activities;

• the availability of modern foundries to be developed, acquired, leased or otherwise made available to us or our third-party suppliers;

• the ability of foundries and our third-party suppliers to obtain the advanced equipment used in the production of our products;

• delays in bringing new foundry operations online to meet increased product demand; and

- unforeseen environmental, engineering or manufacturing qualification problems relating to existing or new foundry facilities, including delays in qualification of new foundries by our customers.

These and other risks may affect the ultimate cost and timing of any expansion of our third-party suppliers' capacity.

**We purchase inventory in advance based on expected demand for our products, and if demand is not as expected, we may have insufficient or excess inventory, which could adversely impact our financial position.**

As a fabless semiconductor company, we purchase our inventory from third party manufacturers in advance of selling our product. We place orders with our manufacturers based on existing and expected orders from our customers for particular products. While most of our contracts with our customers and distributors include lead time requirements and cancellation penalties that are designed to protect us from misalignment between customer orders and inventory levels, we must nonetheless make some predictions when we place orders with our manufacturers. In the event that our predictions are inaccurate due to unexpected increases in orders or unavailability of product within the timeframe that is required, we may have insufficient inventory to meet our customer demands. In the event that we order products that we are unable to sell due to a decrease in orders, unexpected order cancellations, injunctions due to patent litigation, or product returns, we may have excess inventory which, if not sold, may need to be disposed of or

would result in a decrease in our revenue in future periods as the excess inventory at our distributors is sold. If any of these situations were to arise, it could have a material impact on our business and financial position.

**Changes in effective tax rates or adverse outcomes resulting from examination of our income tax returns could adversely affect our results.**

Our future effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates, by changes in the valuation of our deferred tax assets and liabilities, or by changes in tax laws, regulations, accounting principles or interpretations thereof and discrete items such as future exercises or dispositions of stock options and restricted stock releases. In addition, we are subject to the continuous examination of our income tax returns by the IRS and other tax authorities. For example, our U.S. federal income tax returns for the years ended December 31, 2005 through December 31, 2007 were examined by the IRS. We reached a resolution on the audits in April 2015 and recorded a one-time net charge of \$2.7 million to our income tax provision in the second quarter of 2015. We assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from any examinations will not have an adverse effect on our operating results and financial condition.

**The complexity of calculating our tax provision may result in errors that could result in restatements of our financial statements.**

Due to the complexity associated with the calculation of our tax provision, we have hired independent tax advisors to assist us in the calculation. If we or our independent tax advisors fail to resolve or fully understand certain issues that we may have had in the past and issues that may arise in the future, we could be subject to errors, which, if material, would result in us having to restate our financial statements. Restatements are generally costly and could adversely impact our results of operations and/or have a negative impact on the trading price of our common stock.

**If we experience security breaches of our information technology systems that materially damage sensitive information on our networks, our business partner and customer relationships may be harmed, and our business and operating results may be adversely impacted.**

In the ordinary course of business, we store sensitive data on our internal systems, network and servers, such as proprietary business and financial information, and confidential data pertaining to our customers, suppliers and business partners. The secure maintenance of sensitive information on our networks and the protection features of our solutions are both critical to our operations and business strategy. We devote significant resources to network security, data encryption, and other security measures to protect our systems and data. However, these security measures cannot provide absolute security. Although we make significant efforts to maintain the security and integrity of our systems and solutions, any destructive or intrusive breach could compromise our networks, creating system disruptions or slowdowns, and the information stored on our networks could be accessed, publicly disclosed, lost or stolen. If any of these types of security breaches were to occur and we were unable to protect sensitive data, our relationships with our business partners and customers could be materially damaged, our reputation could be materially harmed, and we could be exposed to a risk of litigation and possible significant liability.

**If we are unsuccessful in legal proceedings brought against us or any of our customers, we could be prevented from selling many of our products and/or be required to pay substantial damages. An unfavorable outcome or an additional award of damages, attorneys' fees or an injunction could cause our revenue to decline significantly and could severely harm our business and operating results.**

From time to time we are party to various legal proceedings. If we are not successful in litigation that could be brought against us or our customers, we could be ordered to pay monetary fines and/or damages. If we are found liable for willful patent infringement, damages could be significant. We and/or our customers could also be prevented from selling some or all of our products. Moreover, our customers and end-users could decide not to use our products, and our products and our customers' accounts payable to us could be seized. Finally, interim developments in these proceedings could increase the volatility in our stock price as the market assesses the impact of such developments on the likelihood that we will or will not ultimately prevail in these proceedings.

**Given our inability to control the timing and nature of significant events in our legal proceedings that either have arisen or may arise, our legal expenses are difficult to forecast and may vary substantially from our publicly disclosed forecasts with respect to any given quarter, which could contribute to increased volatility in our stock price and financial condition.**

Historically, we have incurred significant expenses in connection with various legal proceedings that vary with the level of activity in the proceeding. It is difficult for us to forecast our legal expenses for any given quarter, which adversely affects our ability to forecast our expected results of operations in general. We may also be subject to unanticipated legal proceedings, which would result in us incurring unexpected legal expenses. If we fail to meet the

expectations of securities or industry analysts as a result of unexpected changes in our legal expenses, our stock price could be materially impacted.

**Future legal proceedings may divert our financial and management resources.**

The semiconductor industry is characterized by frequent claims of infringement and litigation regarding patent and other intellectual property rights. Patent infringement is an ongoing risk, in part because other companies in our industry could have patent rights that may not be identifiable when we initiate development efforts. Litigation may be necessary to enforce our intellectual property rights, and we may have to defend ourselves against additional infringement claims. Such litigation is very costly. In the event any third party makes a new infringement claim against us or our customers, we could incur additional ongoing legal expenses. In addition, in connection with these legal proceedings, we may be required to post bonds to defend our intellectual property rights in certain countries for an indefinite period of time, until such dispute is resolved. If our legal expenses materially increase or exceed anticipated amounts, our capital resources and financial condition could be adversely affected. Further, if we are not successful in any of our intellectual property defenses, our financial condition could be adversely affected and our business could be harmed. Our management team may also be required to devote a great deal of time, effort and energy to these legal proceedings, which could divert management's attention from focusing on our operations and adversely affect our business.

**We will continue to vigorously defend and enforce our intellectual property rights around the world, especially as it relates to patent litigation.**

From time to time, we are faced with having to defend our intellectual property rights throughout the world. Should we become engaged in such proceedings, it could divert management's attention from focusing on and implementing our business strategy. Further, should we not be successful in any of our intellectual property enforcement actions, our revenue may be affected and our business could be harmed.

**Failure to protect our proprietary technologies or maintain the right to certain technologies may negatively affect our ability to compete.**

We rely heavily on our proprietary technologies. Our future success and competitive position depend in part upon our ability to obtain and maintain protection of certain proprietary technologies used in our products. We pursue patents for some of our new products and unique technologies, and we also rely on a combination of nondisclosure agreements and other contractual provisions, as well as our employees' commitment to confidentiality and loyalty, to protect our technology, know-how, and processes. Despite the precautions we take, it may be possible for unauthorized third parties to copy aspects of our current or future technologies or products or to obtain and use information that we regard as proprietary. We intend to continue to protect our proprietary technologies, including through patents. However, there can be no assurance that the steps we take will be adequate to protect our proprietary rights, that our patent applications will lead to issued patents, that others will not develop or patent similar or superior products or technologies, or that our patents will not be challenged, invalidated, or circumvented by others. Furthermore, the laws of the countries in which our products are or may be developed, manufactured, or sold may not protect our products and intellectual property rights to the same extent as laws in the United States. Our failure to adequately protect our proprietary technologies would materially harm our business.

**The market for government-backed student loan auction-rate securities has suffered a decline in liquidity which may impact the liquidity and potential value of our investment portfolio.**

The market for government-backed student loan auction-rate securities with interest rates that reset through a Dutch auction every 7 to 35 days became illiquid in 2008. We experienced our first failed auction in mid-February 2008. Since 2008, we have redeemed 87% of the original portfolio at par. At December 31, 2015, \$5.6 million of our auction-rate securities have failed to reset through successful auctions and it is unclear as to when these investments will regain their liquidity. The underlying maturity of these auction-rate securities is up to 32 years.

We recorded temporary and other-than-temporary impairment charges on these investments. The valuation is subject to fluctuations in the future, which will depend on many factors, including the quality of underlying collateral, estimated time for liquidity including potential to be called or restructured, underlying final maturity, insurance guaranty and market conditions, among others.

Should there be further deterioration in the market for auction-rate securities, the value of our portfolio may decline, which may have an adverse impact on our cash position and our earnings. If the accounting rules for these securities change, there may be an adverse impact on our earnings.



**We face risks in connection with our internal control over financial reporting.**

Effective internal control over financial reporting is necessary for us to provide reliable and accurate financial reports. If we cannot provide reliable financial reports or prevent fraud or other financial misconduct, our business and operating results could be harmed. Our failure to implement and maintain effective internal control over financial reporting could result in a material misstatement of our financial statements or otherwise cause us to fail to meet our financial reporting obligations. This, in turn, could result in a loss of investor confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our results of operations and/or have a negative impact on the trading price of our common stock, and could subject us to stockholder litigation. In addition, we cannot assure you that we will not in the future identify material weaknesses in our internal control over financial reporting that we have not discovered to date, which may impact the reliability of our financial reporting and financial statements.

**Our products must meet specifications, and undetected defects and failures may occur, which may cause customers to return or stop buying our products and may expose us to product liability risk.**

Our customers generally establish demanding specifications for quality, performance, and reliability that our products must meet. Integrated circuits as complex as ours often encounter development delays and may contain undetected defects or failures when first introduced or after commencement of commercial shipments, which might require product replacement or recall. Further, our third-party manufacturing processes or changes thereof, or raw material used in the manufacturing processes may cause our products to fail. We have from time to time in the past experienced product quality, performance or reliability problems. Our standard warranty period is generally one to two years, which exposes us to significant risks of claims for defects and failures. If defects and failures occur in our products, we could experience lost revenue, increased costs, including warranty expense and costs associated with customer support, cancellations or rescheduling of orders or shipments, and product returns or discounts, any of which would harm our operating results.

In addition, product liability claims may be asserted with respect to our technology or products. Although we currently have insurance, there can be no assurance that we have obtained a sufficient amount of insurance coverage, that asserted claims will be within the scope of coverage of the insurance, or that we will have sufficient resources to satisfy any asserted claims.

**The price and availability of commodities (e.g., gold, copper and silicon) may adversely impact our ability to deliver our products in a timely and cost-effective manner, and may adversely affect our business and results of operations.**



Our products incorporate commodities such as gold, copper and silicon. An increase in the price or a decrease in the availability of these commodities and similar commodities that we use could negatively impact our business and results of operations.

**Fluctuations in the value of the U.S. Dollar relative to other foreign currencies, including the Renminbi, may adversely affect results of operations.**

Our manufacturing and packaging suppliers are and will continue to be primarily located in China for the foreseeable future. If the value of the Renminbi rises against the U.S. Dollar, there could be an increase in our manufacturing costs relative to competitors who have manufacturing facilities located in the U.S., which could adversely affect our operations. In addition, our sales are primarily denominated in the U.S. Dollar. If the value of the U.S. Dollar rises against other currencies, it may adversely affect the demand for our products in international markets, which could negatively impact our business and results of operations.

We incur foreign currency exchange gains or losses related to the timing of payments for transactions between the U.S. and our foreign subsidiaries, which are reported in interest and other income in the statements of operations. Fluctuations in the value of the U.S. Dollar relative to the foreign currencies could increase the amount of foreign currency exchange losses we record, which could have an adverse impact on our results of operations.

**We and our manufacturing partners are or will be subject to extensive Chinese government regulation, and the benefit of various incentives from Chinese governments that we and our manufacturing partners receive may be reduced or eliminated, which could increase our costs or limit our ability to sell products and conduct activities in China.**

Most of our manufacturing partners are located in China. In addition, we have established manufacturing and testing facilities in China. The Chinese government has broad discretion and authority to regulate the technology industry in China. China's government has implemented policies from time-to-time to regulate economic expansion in China. It also exercises significant control over China's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. New regulations or the readjustment of previously implemented regulations could require us and our manufacturing partners to change our business plans, increase our costs, or limit our ability to sell products and conduct activities in China, which could adversely affect our business and operating results.

In addition, the Chinese government and provincial and local governments have provided, and continue to provide, various incentives to encourage the development of the semiconductor industry in China. Such incentives include tax rebates, reduced tax rates, favorable lending policies and other measures, some or all of which may be available to our manufacturing partners and to us with respect to our facilities in China. Any of these incentives could be reduced or eliminated by governmental authorities at any time. Any such reduction or elimination of incentives currently provided to our manufacturing partners could adversely affect our business and operating results.

**There are inherent risks associated with the operation of our manufacturing and testing facilities in China, which could increase product costs or cause a delay in product shipments.**

We have manufacturing and testing facilities in China that began operations in 2006. We face the following risks, among others, with respect to our operations in China:

- inability to hire and maintain a qualified workforce;
- inability to maintain appropriate and acceptable manufacturing controls; and
- higher than anticipated overhead and other costs of operation.

If we are unable to maintain our facilities in China at fully operational status with qualified workers, appropriate manufacturing controls and reasonable cost levels, we may incur higher costs than our current expense levels, which would affect our gross margins. In addition, if capacity restraints result in significant delays in product shipments, our business and results of operations would be adversely affected.

**The average selling prices of products in our markets have historically decreased over time and will likely do so in the future, which could harm our revenue and gross profits.**

Average selling prices of semiconductor products in the markets we serve have historically decreased over time. Our gross profits and financial results will suffer if we are unable to offset any reductions in our average selling prices by reducing our costs, developing new or enhanced products on a timely basis with higher selling prices or gross profits, or increasing our sales volumes. Additionally, because we do not operate our own wafer manufacturing or assembly facilities, we may not be able to reduce our costs as rapidly as companies that operate their own facilities, and our costs may even increase, which could also reduce our profit margins.

**Because of the lengthy sales cycles for our products and the fixed nature of a significant portion of our expenses, we may incur substantial expenses before we earn associated revenue and may not ultimately achieve our forecasted sales for our products.**

The introduction of new products presents significant business challenges because product development plans and expenditures may be made up to two years or more in advance of any sales. It generally takes us up to 12 months or more to design and manufacture a new product prototype. Only after we have a prototype do we introduce the product to the market and begin selling efforts in an attempt to achieve design wins. This sales process requires us to expend significant sales and marketing resources without any assurance of success. Volume production of products that use our ICs, if any, may not be achieved for an additional period of time after an initial sale. Sales cycles for our products are lengthy for a number of reasons, including:

- our customers usually complete an in-depth technical evaluation of our products before they place a purchase order;
- the commercial adoption of our products by OEMs and ODMs is typically limited during the initial release of their product to evaluate product performance and consumer demand;
- our products must be designed into our customers' products or systems; and
- the development and commercial introduction of our customers' products incorporating new technologies frequently are delayed.

As a result of our lengthy sales cycles, we may incur substantial expenses before we earn associated revenue because a significant portion of our operating expenses is relatively fixed and based on expected revenue. The lengthy sales cycles of our products also make forecasting the volume and timing of orders difficult. In addition, the delays inherent in lengthy sales cycles raise additional risks that customers may cancel or change their orders. Our sales are made by purchase orders. Because industry practice allows customers to reschedule or cancel orders on relatively short notice, backlog is not always a good indicator of our future sales. If customer cancellations or product changes occur, we could lose anticipated sales and not have sufficient time to reduce our inventory and operating expenses.

**Our success depends on our investment of significant resources in research and development. We may have to invest more resources in research and development than anticipated, which could increase our operating expenses and negatively impact our operating results.**

Our success depends on us investing significant amounts of resources into research and development. We expect to have to continue to invest heavily in research and development in the future in order to continue to innovate and come to market with new products in a timely manner and increase our revenue and profitability. If we have to invest more resources in research and development than we anticipate, we could see an increase in our operating expenses which may negatively impact our operating results. Also, if we are unable to properly manage and effectively utilize our research and development resources, we could see material adverse effects on our business, financial condition and operating results.

In addition, if new competitors, technological advances by existing competitors, our entry into new markets, or other competitive factors require us to invest significantly greater resources than anticipated in our research and development efforts, our operating expenses would increase. If we are required to invest significantly greater resources than anticipated in research and development efforts without a corresponding increase in revenue, our operating results could decline. Research and development expenses are likely to fluctuate from time to time to the extent we make periodic incremental investments in research and development and these investments may be independent of our level of revenue, which could negatively impact our financial results. In order to remain competitive, we anticipate that we will continue to devote substantial resources to research and development, and we expect these expenses to increase in absolute dollars in the foreseeable future due to the increased complexity and the greater number of products under development.

**The loss of any of our key personnel or the failure to attract or retain specialized technical and management personnel could affect our operations or impair our ability to grow our business.**

Our future success depends upon our ability to attract and retain highly qualified technical and managerial personnel. We are particularly dependent on the continued services of our key executives, including Michael Hsing, our President and Chief Executive Officer, who founded our company and developed our proprietary process technology. In addition, personnel with highly skilled analog and mixed-signal design engineering expertise are scarce and competition for personnel with these skills is intense. There can be no assurance that we will be able to retain existing key employees or that we will be successful in attracting, integrating or retaining other highly qualified personnel with critical capabilities in the future. If we are unable to retain the services of existing key employees or are unsuccessful in attracting new highly qualified employees quickly enough to meet the demands of our business, including design cycles, our business could be harmed. Furthermore, if we experience loss of a member of key personnel, the search for a qualified replacement and the transition could cause interruptions to our operations as it could take us longer than expected on the search and divert management resources, or the newly hired member could take longer than expected to integrate into the team.

**If we fail to retain key employees in our sales, applications, finance and legal staff or to make continued improvements to our internal systems, particularly in the accounting and finance area, our business may suffer.**

If we fail to continue to adequately staff our sales, applications, financial and legal staff, maintain or upgrade our business systems and maintain internal control that meet the demands of our business, our ability to operate effectively will suffer. The operation of our business also depends upon our ability to retain these employees, as these employees hold a significant amount of institutional knowledge about us and our products, and, if they were to terminate their employment, our sales and internal control over financial reporting could be adversely affected.

**We intend to continue to expand our operations, which may strain our resources and increase our operating expenses.**

We plan to continue to expand our domestic and foreign operations through internal growth, strategic relationships, and/or acquisitions. We expect that any such expansion will strain our systems and operational and financial controls. In addition, we are likely to incur significantly higher operating costs. To manage our growth effectively, we must continue to improve and expand our systems and controls, as well as hire experienced administrative and financial personnel. If we fail to do so, our growth will be limited. If we fail to effectively manage our planned expansion of operations, our business and operating results may be harmed.

**We may not realize the anticipated benefits of any company or business that we acquire. In addition, acquisitions could result in diluting the ownership interests of our stockholders, reduce our cash balances, and cause us to incur debt or to assume contingent liabilities, which could adversely affect our business.**

As a part of our business strategy, from time to time we review acquisition prospects that would complement our current product offerings, enhance our design capability or offer other competitive opportunities. For example, we completed our acquisition of Sensima Technology SA in July 2014 to further our diversification strategy and create new opportunities with key customers. As a result of completing acquisitions, we could use a significant portion of our available cash, cash equivalents and short-term investments, issue equity securities that would dilute current stockholders' percentage ownership, incur substantial debt or contingent liabilities, and incur impairment charges related to goodwill or other acquisition-related intangibles. Such actions could impact our operating results and the price of our common stock. For example, as part of the contingent consideration arrangement that was part of our acquisition of Sensima, we may have to pay up to an additional \$8.9 million to former Sensima shareholders if Sensima achieves a new product introduction as well as certain product revenue and direct margin targets in 2016. The fair value of the contingent consideration at the acquisition date of \$2.5 million was recorded in other long-term liabilities in our financial statements and is remeasured at the end of each reporting period. During the fourth quarter of 2015, we determined the fair value of the contingent consideration was \$0 and released the liability of \$2.5 million, as we currently do not expect the milestones will be achieved. We will continue to assess the probability of former Sensima shareholders earning the contingent consideration in 2016 and may record additional adjustment to the fair value.

In addition, we may be unable to identify or complete prospective acquisitions for various reasons, including competition from other companies in the semiconductor industry, the valuation expectations of acquisition candidates and applicable antitrust laws or related regulations. If we are unable to identify and complete acquisitions, we may not be able to successfully expand our business and product offerings.

We cannot guarantee that the Sensima acquisition or any future acquisitions will improve our results of operations or that we will otherwise realize the anticipated benefits of any acquisitions. In addition, if we are unsuccessful in integrating any acquired company or business into our operations or if integration is more difficult than anticipated, we may experience disruptions that could harm our business and result in our failure to realize the anticipated benefits of the acquisitions. Some of the risks that may adversely affect our ability to integrate or realize any anticipated benefits from the acquired companies, businesses or assets include those associated with:

- unexpected losses of key employees or customers of the acquired companies or businesses;
- conforming the acquired company's standards, processes, procedures and controls with our operations;
- coordinating new product and process development;

- hiring additional management and other critical personnel;
- increasing the scope, geographic diversity and complexity of our operations;
- difficulties in consolidating facilities and transferring processes and know-how;
- difficulties in the assimilation of acquired operations, technologies or products;
- the risk of undisclosed liabilities of the acquired businesses and potential legal disputes with founders or stockholders of acquired companies;
- our inability to commercialize acquired technologies;
- the risk that the future business potential as projected is not realized and as a result, we may be required to take a charge to earnings that would impact our profitability;
- the need to take impairment charges or write-downs with respect to acquired assets and technologies;
- difficulties in assessing the fair value of earn-out arrangements;
- diversion of management's attention from other business concerns; and
- adverse effects on existing business relationships with customers.

**We compete against many companies with substantially greater financial and other resources, and our market share may be reduced if we are unable to respond to our competitors effectively.**

The analog and mixed-signal semiconductor industry is highly competitive, and we expect competitive pressures to continue. Our ability to compete effectively and to expand our business will depend on our ability to continue to recruit applications and design talent, our ability to introduce new products, and our ability to maintain the rate at which we introduce these new products. We compete with domestic and non-domestic semiconductor companies, many of which have substantially greater financial and other resources with which to pursue engineering, manufacturing, marketing, and distribution of their products. We are in direct and active competition, with respect to one or more of our product lines, with many manufacturers of such products, of varying size and financial strength. The number of our competitors has grown due to the expansion of the market segments in which we participate.





We cannot assure you that our products will continue to compete favorably, or that we will be successful in the face of increasing competition from new products and enhancements introduced by existing competitors or new companies entering this market, which would materially and adversely affect our results of operations and our financial condition.

**If securities or industry analysts downgrade our stock or do not continue to publish research or reports about our business, our stock price and trading volume could decline.**

The trading market for our common stock will depend, in part, on the research and reports that industry or securities analysts publish about us or our business. We do not have any control over these analysts. If one or more of the analysts who cover us downgrade our stock, our stock price would likely decline. If one or more of these analysts cease coverage of us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

**Major earthquakes or other natural disasters and resulting systems outages may cause us significant losses.**

Our corporate headquarters, the production facilities of our third-party wafer suppliers, our IC testing and manufacturing facilities, a portion of our assembly and research and development activities, and certain other critical business operations are located in or near seismically active regions and are subject to periodic earthquakes. We do not maintain earthquake insurance and could be materially and adversely affected in the event of a major earthquake. Much of our revenue, as well as our manufacturers and assemblers, are concentrated in Asia, particularly in China. Such concentration increases the risk that other natural disasters, labor strikes, terrorism, war, political unrest, epidemics, and/or health advisories could disrupt our operations. In addition, we rely heavily on our internal information and communications systems and on systems or support services from third parties to manage our operations efficiently and effectively. Any of these are subject to failure due to a natural disaster or other disruption. System-wide or local failures that affect our information processing could have material adverse effects on our business, financial condition, operating results and cash flows.

#### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

#### **ITEM 2. PROPERTIES**

Our primary operations are located in San Jose, California and Chengdu, China. We occupy an owned facility located at 79 Great Oaks Boulevard in San Jose, California, which serves as our corporate headquarters, and research and development and sales offices. The property consists of a building with approximately 106,000 square feet and 5.5 acres of land.

We lease a facility with approximately 60,000 square feet in Chengdu, China, which serves as our test facility and manufacturing hub. In September 2015, we exercised our option to purchase this facility and expect to close the transaction in the first half of 2016. In addition, we constructed a 150,000 square-foot research and development facility in Chengdu, China, which was put into operation in October 2010. We also lease a warehouse facility with approximately 42,000 square feet in Chengdu, China, which is primarily used for inventory storage.

In November 2015, we entered into an agreement to purchase three units of an office building with approximately 6,600 square feet in Shanghai, China. The space is primarily used for sales and marketing and research and development functions. The transaction was closed in January 2016.

We also lease other sales and research and development offices in China, Europe, Japan, Korea, Singapore, Taiwan and the United States. We believe that our existing facilities are adequate for our current operations.

### **ITEM 3. LEGAL PROCEEDINGS**

We are a party to actions and proceedings in the ordinary course of business, including litigation regarding our shareholders and our intellectual property, challenges to the enforceability or validity of our intellectual property, claims that our products infringe on the intellectual property rights of others, and employment matters. These proceedings often involve complex questions of fact and law and may require the expenditure of significant funds and the diversion of other resources to prosecute and defend. We defend ourselves vigorously against any such claims.

As of December 31, 2015, there were no material pending legal proceedings to which we were a party.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

25

---

**PART II****ITEM 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.****Market Price of Our Common Stock**

Our common stock is traded on the Nasdaq Global Select Market under the symbol “MPWR.” The following table sets forth the high and low closing sales price per share of our common stock:

|                     | <b>High</b> | <b>Low</b> |
|---------------------|-------------|------------|
| <b><u>2015</u></b>  |             |            |
| First quarter       | \$56.12     | \$45.80    |
| Second quarter      | \$54.95     | \$49.96    |
| Third quarter       | \$52.12     | \$45.28    |
| Fourth quarter      | \$68.88     | \$50.42    |
| <b><u>2014:</u></b> |             |            |
| First quarter       | \$38.86     | \$31.36    |
| Second quarter      | \$42.48     | \$35.14    |
| Third quarter       | \$47.78     | \$40.77    |
| Fourth quarter      | \$50.44     | \$34.47    |

**Holders of Our Common Stock**

As of February 22, 2016, there were 11 registered holders of record of our common stock. A substantially greater number of holders of our common stock are “street name” or beneficial holders, whose shares are held by banks, brokers and other financial institutions.

**Dividend Policy**

In June 2014, our Board of Directors approved a dividend program pursuant to which we intend to pay quarterly cash dividends on our common stock. Stockholders of record as of the last day of the quarter are entitled to receive the

quarterly cash dividends when and if declared by our Board of Directors, which are generally payable on the 15th of the following month. Our Board of Directors declared the following cash dividends (in thousands, except per-share amounts):

|                     | <b>Dividend<br/>Declared</b> | <b>Total</b>  |
|---------------------|------------------------------|---------------|
|                     | <b>per<br/>Share</b>         | <b>Amount</b> |
| <b><u>2015:</u></b> |                              |               |
| First quarter       | \$ 0.20                      | \$ 7,854      |
| Second quarter      | \$ 0.20                      | \$ 7,925      |
| Third quarter       | \$ 0.20                      | \$ 7,901      |
| Fourth quarter      | \$ 0.20                      | \$ 7,938      |
| <b><u>2014:</u></b> |                              |               |
| Second quarter      | \$ 0.15                      | \$ 5,817      |
| Third quarter       | \$ 0.15                      | \$ 5,823      |
| Fourth quarter      | \$ 0.15                      | \$ 5,826      |

The declaration of any future cash dividends is at the discretion of our Board of Directors and will depend on, among other things, our financial condition, results of operations, capital requirements, business conditions, statutory requirements of Delaware law, compliance with the terms of future indebtedness and credit facilities and other factors that our Board of Directors may deem relevant, as well as a determination that cash dividends are in the best interests of our stockholders. We anticipate that the cash used for future dividends will come from our current domestic cash and cash generated from ongoing U.S. operations. If cash held by our international subsidiaries is needed for the payment of dividends, we may be required to accrue and pay U.S. taxes to repatriate the funds.

### **Performance of Our Common Stock**

The following graph compares the cumulative five-year total return on our common stock relative to the cumulative total returns of the Nasdaq Composite Index, the S&P 500 Index and the Philadelphia Semiconductor Index. An investment of \$100 (with reinvestment of all dividends) is assumed to have been made in our common stock on December 31, 2010 and its relative performance is tracked through December 31, 2015.

The information contained in the stock performance graph section shall not be deemed to be “soliciting material” or “filed” or incorporated by reference in future filings with the SEC, or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that the Company specifically incorporates it by reference into a document filed under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

### **Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

Stock repurchase activity during the three months ended December 31, 2015 was as follows (in thousands, except per-share amount):

|                          | <b>Total<br/>Number of<br/>Shares<br/>Purchased<br/>(a)</b> | <b>Average<br/>Price<br/>Paid<br/>per<br/>Share</b> | <b>Total<br/>Number of<br/>Shares<br/>Purchased<br/>as Part of<br/>Publicly<br/>Announced<br/>Program</b> | <b>Dollar<br/>Value of<br/>Shares<br/>That May<br/>Be<br/>Purchased<br/>Under<br/>the<br/>Program<br/>(b)</b> |
|--------------------------|---|---|---|---|
| October 1 - October 31   | 11  | \$ 52.14  | 11  |   |
| November 1 - November 30 | -   | \$ -  | -   |   |
| December 1 - December 31 | -   | \$ -  | -   |   |
| Total                    | 11  | \$ -  | 11  | \$ -  |

In July 2013, the Board of Directors approved a stock repurchase program that authorized us to repurchase up to \$100 million in the aggregate of our common stock through June 30, 2015. In April 2015, the Board of Directors (a) approved an extension of the program through December 31, 2015. Under the program, shares may be repurchased in privately negotiated or open market transactions, including under a Rule 10b5-1 plan. Shares were retired upon repurchase.

The stock repurchase program expired on December 31, 2015, with a remaining balance of \$5.9 million. In (b) February 2016, the Board of Directors approved a new stock repurchase program that authorizes us to repurchase up to \$50 million in the aggregate of our common stock through December 31, 2016.

**ITEM 6. SELECTED FINANCIAL DATA**

The following selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and the notes thereto included elsewhere in this Annual Report on Form 10-K to fully understand factors that may affect the comparability of the information presented below. We derived the selected consolidated balance sheet data as of December 31, 2015 and 2014, and the consolidated statement of operations data for the years ended December 31, 2015, 2014 and 2013 from our audited consolidated financial statements and accompanying notes included in this Annual Report on Form 10-K. The consolidated balance sheet data as of December 31, 2013, 2012 and 2011, and the consolidated statement of operations data for each of the years ended December 31, 2012 and 2011 are derived from our audited consolidated financial statements which are not included in this report. Operating results for any year are not necessarily indicative of results to be expected for any future periods.

**Consolidated Statement of Operations Data:**

|  | <b>Year Ended December 31,</b>           |             |             |             |             |
|--|--|-------------|-------------|-------------|-------------|
|  | <b>2015</b>                              | <b>2014</b> | <b>2013</b> | <b>2012</b> | <b>2011</b> |
|  | (in thousands, except per share amounts) |             |             |             |             |
| Revenue                                  | \$333,067                                | \$282,535   | \$238,091   | \$213,813   | \$196,519   |
| Cost of revenue                          | 152,898                                  | 129,917     | 110,190     | 100,665     | 94,925      |
| Gross profit                             | 180,169                                  | 152,618     | 127,901     | 113,148     | 101,594     |
| Operating expenses:                      |  |             |             |             |             |
| Research and development                 | 65,787                                   | 58,590      | 49,733      | 48,796      | 44,518      |
| Selling, general and administrative      | 72,312                                   | 66,755      | 54,624      | 50,018      | 40,280      |
| Litigation expense (benefit), net        | 1,000                                    | (8,027 )    | (371 )      | (2,945 )    | 3,379       |
| Total operating expenses                 | 139,099                                  | 117,318     | 103,986     | 95,869      | 88,177      |
| Income from operations                   | 41,070                                   | 35,300      | 23,915      | 17,279      | 13,417      |
| Interest and other income, net           | 1,421                                    | 1,092       | 92          | 611         | 309         |
| Income before income taxes               | 42,491                                   | 36,392      | 24,007      | 17,890      | 13,726      |
| Income tax provision                     | 7,319                                    | 897         | 1,109       | 2,134       | 425         |
| Net income                               | \$35,172                                 | \$35,495    | \$22,898    | \$15,756    | \$13,301    |
| Net income per share:                    |  |             |             |             |             |
| Basic                                    | \$0.89                                   | \$0.92      | \$0.61      | \$0.45      | \$0.39      |
| Diluted                                  | \$0.86                                   | \$0.89      | \$0.59      | \$0.43      | \$0.38      |
| Weighted-average shares outstanding:     |  |             |             |             |             |
| Basic                                    | 39,470                                   | 38,686      | 37,387      | 34,871      | 34,050      |
| Diluted                                  | 40,869                                   | 39,793      | 38,620      | 36,247      | 35,160      |
| Cash dividends declared per common share | \$0.80                                   | \$0.45      | \$-         | \$1.00      | \$-         |



**Consolidated Balance Sheet Data:**

|                            | <b>December 31,</b> |             |             |             |             |
|----------------------------|---------------------|-------------|-------------|-------------|-------------|
|                            | <b>2015</b>         | <b>2014</b> | <b>2013</b> | <b>2012</b> | <b>2011</b> |
|                            | (in thousands)      |             |             |             |             |
| Cash and cash equivalents  | \$90,860            | \$126,266   | \$101,213   | \$75,104    | \$96,371    |
| Short-term investments     | \$144,103           | \$112,452   | \$125,126   | \$85,521    | \$77,827    |
| Long-term investments      | \$5,361             | \$5,389     | \$9,860     | \$11,755    | \$13,675    |
| Total assets               | \$431,285           | \$399,366   | \$368,908   | \$287,162   | \$273,867   |
| Common stock               | \$265,763           | \$240,500   | \$234,201   | \$194,079   | \$159,336   |
| Total stockholders' equity | \$368,516           | \$346,425   | \$323,399   | \$258,294   | \$242,877   |
| Working capital (1)        | \$288,645           | \$271,051   | \$253,304   | \$190,840   | \$185,014   |

---

In November 2015, the Financial Accounting Standards Board issued Accounting Standards Update No. 2015-17, *Balance Sheet Classification of Deferred Taxes*, which requires that all deferred tax assets and liabilities, (1) including related valuation allowance, be classified as non-current on the balance sheets. We early adopted this standard retrospectively and reclassified the current deferred tax assets to non-current deferred tax assets on our consolidated balance sheets data for all periods presented.

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion should be read in conjunction with the consolidated financial statements and related notes which appear under Item 8 in this Annual Report on Form 10-K.

### **Overview**

We are a leading company in high performance power solutions. Founded in 1997, we design and provide small, highly energy efficient, easy-to-use power solutions for systems found in industrial applications, telecommunication infrastructures, cloud computing, automotive, and consumer applications. Our mission is to reduce total energy consumption in our customers' systems with green, practical, compact solutions. We believe that we differentiate ourselves by offering solutions that are more highly integrated, smaller in size, more energy efficient, more accurate with respect to performance specifications and, consequently, more cost-effective than many competing solutions. We plan to continue to introduce new products within our existing product families, as well as in new innovative product categories.

We operate in the cyclical semiconductor industry where there is seasonal demand for certain products. We are not and will not be immune from current and future industry downturns, but we have targeted product and market areas that we believe have the ability to offer above average industry performance.

We work with third parties to manufacture and assemble our integrated circuits ("ICs"). This has enabled us to limit our capital expenditures and fixed costs, while focusing our engineering and design resources on our core strengths.

Following the introduction of a product, our sales cycle generally takes a number of quarters after we receive an initial customer order for a new product to ramp up. Typical lead time for orders is fewer than 90 days. These factors, combined with the fact that orders in the semiconductor industry can typically be cancelled or rescheduled without significant penalty to the customer, make the forecasting of our orders and revenue difficult.

We derive most of our revenue from sales through distribution arrangements and direct sales to customers in Asia, where the products we produce are incorporated into end-user products. Our revenue from direct or indirect sales to customers in Asia was 91%, 91% and 90% for the years ended December 31, 2015, 2014 and 2013, respectively. We derive a majority of our revenue from the sales of our DC to DC converter product family which serves the communications, storage and computing, consumer and industrial markets. We believe our ability to achieve revenue

growth will depend, in part, on our ability to develop new products, enter new market segments, gain market share, manage litigation risk, diversify our customer base and successfully secure manufacturing capacity.

In July 2014, we completed the acquisition of Sensima Technology SA (“Sensima”), a company located in Switzerland that develops magnetic sensors for angle measurements as well as three-dimensional magnetic field sensing. Sensima became a subsidiary of MPS and changed its name to MPS Tech Switzerland Sarl. The acquisition creates new opportunities with customers by offering enhanced solutions in power management for key industries such as automotive, industrial and cloud computing. The purchase consideration consisted of an upfront cash payment of \$11.7 million and additional consideration that is contingent upon Sensima achieving a new product introduction and certain revenue and direct margin goals in 2016, with a fair value of \$2.5 million at the date of acquisition. In addition, key employees received \$1.7 million of time-based restricted stock units and up to \$8.0 million of performance-based restricted stock units in connection with the transaction. These equity awards are considered arrangements for post-acquisition services and the related compensation expense is recognized over the requisite service period if it is probable that the performance goals will be met. The results of operations of Sensima have been included in our consolidated financial statements subsequent to the acquisition date.

### **Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the U.S. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. We evaluate our estimates on an on-going basis, including those related to revenue recognition, stock-based compensation, inventories, income taxes, valuation of goodwill and intangible assets, and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Estimates and judgments used in the preparation of our financial statements are, by their nature, uncertain and unpredictable, and depend upon, among other things, many factors outside of our control, such as demand for our products and economic conditions. Accordingly, our estimates and judgments may prove to be incorrect and actual results may differ, perhaps significantly, from these estimates.

We believe the following critical accounting policies reflect our more significant judgments used in the preparation of our consolidated financial statements.

### ***Revenue Recognition***

We recognize revenue when the following four basic criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the fee is fixed or determinable; and (4) collectability is reasonably assured. Determination of criteria (3) and (4) are based on management's judgment regarding the fixed nature of the fees charged for products delivered and the collectability of those fees. The application of these criteria has resulted in us generally recognizing revenue upon shipment (when title and risk of loss have transferred to customers), including distributors, original equipment manufacturers and electronic manufacturing service providers.

Our revenue consists primarily of sales of assembled and tested finished goods. We also sell die in wafer form to our customers and value-added resellers, and we receive royalty revenue from third parties and value-added resellers.

For the years ended December 31, 2015, 2014 and 2013, approximately 96%, 92% and 91% of our distributor sales, respectively, including sales to our value-added resellers, were made through distribution arrangements with third parties. These arrangements generally do not include any special payment terms (our normal payment terms are 30-45 days for our distributors), price protection or exchange rights. Returns are limited to our standard product warranty. Certain of our large distributors have contracts that include limited stock rotation rights that permit the return of a small percentage of the previous six months' purchases.

For the years ended December 31, 2015, 2014 and 2013, approximately 4%, 8% and 9% of our distributor sales, respectively, were made through small distributors primarily based on purchase orders. These distributors typically have no stock rotation rights.

We generally recognize revenue upon shipment of products to the distributors based on the following considerations:

- (1) The price is fixed or determinable at the date of sale. We do not offer special payment terms, price protection or price adjustments to distributors when we recognize revenue upon shipment.
- (2) The distributors are obligated to pay us and this obligation is not contingent on the resale of our products.
- (3) The distributors' obligation is unchanged in the event of theft or physical destruction or damage to the products.
- (4) The distributors have stand-alone economic substance apart from our relationship.

(5) We do not have any obligations for future performance to directly bring about the resale of our products by the distributors.

The amount of future returns can be reasonably estimated. We have the ability and the information necessary to (6) track inventory sold to and held at our distributors. We maintain a history of returns and have the ability to estimate the stock rotation returns on a quarterly basis.

We maintain a sales reserve for stock rotation rights, which is based on historical experience of actual stock rotation returns on a per distributor basis, where available, and information related to products in the distribution channel. This reserve is recorded at the time of sale. Historically, these returns were not material to our consolidated financial statements.

If we enter into arrangements that have rights of return that are not estimable, we recognize revenue under such arrangements only after the distributors have sold the products to end customers. Four of our distributors have distribution agreements where revenue is recognized upon sale by these distributors to their end customers because these distributors have certain rights of return which management believes are not estimable. The deferred revenue balance from these distributors as of December 31, 2015 and 2014 was \$2.8 million and \$2.0 million, respectively. The deferred costs as of December 31, 2015 and 2014 were \$0.2 million.

### *Inventory Valuation*

We value our inventory at the lower of the standard cost (which approximates actual cost on a first-in, first-out basis) or its current estimated market value. We write down inventory for obsolescence or lack of demand, based on assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required. Conversely, if market conditions are more favorable, inventory may be sold that was previously reserved.

### ***Valuation of Goodwill and Acquisition-Related Intangible Assets***

We evaluate intangible assets with finite lives for impairment whenever events or changes in circumstances indicate that an impairment may exist. We perform an annual impairment assessment for goodwill and intangible assets with indefinite lives in the fourth quarter, or more frequently if indicators of potential impairment exist. Impairment of intangible assets is recognized based on the difference between the fair value of the assets and their carrying value. Impairment for goodwill occurs if the fair value of a reporting unit including goodwill is less than its carrying value and is recognized based on the difference between the implied fair value of the reporting unit's goodwill and the carrying value of the goodwill. The assumptions and estimates used to determine future value of goodwill and intangible assets are complex and subjective. They can be affected by various factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy and revenue forecasts. If there is a significant adverse change in our business in the future, including macroeconomic and market conditions, we may be required to record impairment charges on our goodwill and acquisition-related intangible assets.

### ***Accounting for Income Taxes***

We recognize federal, state and foreign current tax liabilities or assets based on our estimate of taxes payable or refundable in the current fiscal year by tax jurisdiction. We also recognize federal, state and foreign deferred tax assets or liabilities for our estimate of future tax effects attributable to temporary differences and carryforwards. We record a valuation allowance to reduce any deferred tax assets by the amount of any tax benefits that, based on available evidence and judgment, are not expected to be realized.

Our calculation of current and deferred tax assets and liabilities is based on certain estimates and judgments and involves dealing with uncertainties in the application of complex tax laws. Our estimates of current and deferred tax assets and liabilities may change based, in part, on added certainty or finality or uncertainty to an anticipated outcome, changes in accounting or tax laws in the U.S. or foreign jurisdictions where we operate, or changes in other facts or circumstances. In addition, we recognize liabilities for potential U.S. and foreign income tax for uncertain income tax positions taken on our tax returns if it has less than a 50% likelihood of being sustained. If we determine that payment of these amounts is unnecessary or if the recorded tax liability is less than our current assessment, we may be required to recognize an income tax benefit or additional income tax expense in our financial statements in the period such determination is made. We have calculated our uncertain tax positions which were attributable to certain estimates and judgments primarily related to transfer pricing, cost sharing and our international tax structure exposure.

As of December 31, 2015 and 2014, we had a valuation allowance of \$18.6 million and \$19.1 million, respectively, attributable to management's determination that it is more likely than not that most of the deferred tax assets in the U.S. will not be realized. Should it be determined that additional amounts of the net deferred tax asset will not be realized in the future, an adjustment to increase the deferred tax asset valuation allowance will be charged to income in the period such determination is made. Likewise, in the event we were to determine that it is more likely than not

that we would be able to realize our deferred tax assets in the future in excess of our net recorded amount, an adjustment to the valuation allowance for the deferred tax asset would increase income in the period such determination was made.

As a result of the cost sharing arrangements with our international subsidiaries (cost share arrangements), relatively small changes in costs that are not subject to sharing under the cost share arrangements can significantly impact the overall profitability of the U.S. entity. Because of the U.S. entity's inconsistent earnings history and uncertainty of future earnings, we have determined that it is more likely than not that the U.S. deferred tax benefits will not be realized.

### *Contingencies*

We are a party to actions and proceedings in the ordinary course of business, including litigation regarding our shareholders and our intellectual property, challenges to the enforceability or validity of our intellectual property, claims that our products infringe on the intellectual property rights of others, and employment matters. The pending proceedings involve complex questions of fact and law and will require the expenditure of significant funds and the diversion of other resources to prosecute and defend. In addition, from time to time, we become aware that we are subject to other contingent liabilities. When this occurs, we will evaluate the appropriate accounting for the potential contingent liabilities to determine whether a contingent liability should be recorded. In making this determination, management may, depending on the nature of the matter, consult with internal and external legal counsel and technical experts. Based on the facts and circumstances in each matter, we use our judgment to determine whether it is probable that a contingent loss has occurred and whether the amount of such loss can be estimated. If we determine a loss is probable and estimable, we record a contingent loss. In determining the amount of a contingent loss, we take into account advice received from experts for each specific matter regarding the status of legal proceedings, settlement negotiations, prior case history and other factors. Should the judgments and estimates made by management need to be adjusted as additional information becomes available, we may need to record additional contingent losses that could materially and adversely impact our results of operations. Alternatively, if the judgments and estimates made by management are adjusted, for example, if a particular contingent loss does not occur, the contingent loss recorded would be reversed which could result in a favorable impact on our results of operations.

### ***Stock-Based Compensation***

We measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The fair value of restricted stock units with service conditions or performance conditions is based on the grant date share price. The fair value of restricted stock units with market conditions, as well as restricted stock units with both market conditions and performance conditions, is estimated using a Monte Carlo simulation model. The fair value of options and shares issued under the employee stock purchase plan is estimated using the Black-Scholes model.

We recognize compensation expense equal to the grant-date fair value for all share-based payment awards that are expected to vest. This expense is recorded on a straight-line basis over the requisite service period of the entire awards, unless the awards are subject to market conditions or performance conditions, in which case we recognize compensation expense over the requisite service period for each separately vesting tranche. For awards with performance conditions, as well as awards with both market conditions and performance conditions, we recognize compensation expense when it becomes probable that the performance criteria set by the Board of Directors will be achieved. This assessment is performed on a quarterly basis and requires significant assumptions and estimates made by management related to the projected achievement of the performance goals, which can be affected by external factors, such as macroeconomic conditions and the analog industry forecasts, and internal factors, such as our business and operations strategy, product roadmaps and revenue forecasts. Changes in the probability assessment of achieving the performance conditions are accounted for in the period of change by recording a cumulative catch-up adjustment as if the new estimate had been applied since the service inception date. If the actual performance targets achieved differ significantly from those projected by management, additional compensation expense may be recorded for the performance-based awards due to the cumulative catch-up adjustment, which could have an adverse impact on our results of operations. Furthermore, the amount of compensation expense that we recognize is based on an expected forfeiture rate. If there is a difference between the forfeiture assumptions used in determining stock-based compensation costs and the actual forfeitures which become known over time, we may change the forfeiture rate, which could have a significant impact on our stock-based compensation expense.

### **Recent Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The standard's core principle is that an entity will recognize revenue when it transfers 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. In July 2015, the FASB approved a one-year deferral of the effective date. The standard will be effective for annual reporting periods beginning after December 15, 2017. Early adoption is permitted for reporting periods beginning after December 15, 2016. The standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. We are evaluating the impact of the adoption on our consolidated financial position, results of operations, cash flows and disclosures.



In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes*, which requires that all deferred tax assets and liabilities, including related valuation allowance, be classified as non-current on the balance sheets. We have elected to early adopt the standard as of December 31, 2015 on a retrospective basis. As of December 31, 2014, we reclassified \$0.2 million of current deferred tax assets to non-current deferred tax assets on the Consolidated Balance Sheet. The adoption did not affect our operating results, comprehensive income or cash flows for the periods presented.

## Results of Operations

The following table summarizes our results of operations:

|                                     | <b>Year Ended December 31,</b>     |        |             |        |             |        |
|-------------------------------------|------------------------------------|--------|-------------|--------|-------------|--------|
|                                     | <b>2015</b>                        |        | <b>2014</b> |        | <b>2013</b> |        |
|                                     | (in thousands, except percentages) |        |             |        |             |        |
| Revenue                             | \$333,067                          | 100.0% | \$282,535   | 100.0% | \$238,091   | 100.0% |
| Cost of revenue                     | 152,898                            | 45.9   | 129,917     | 46.0   | 110,190     | 46.3   |
| Gross profit                        | 180,169                            | 54.1   | 152,618     | 54.0   | 127,901     | 53.7   |
| Operating expenses:                 |                                    |        |             |        |             |        |
| Research and development            | 65,787                             | 19.8   | 58,590      | 20.7   | 49,733      | 20.9   |
| Selling, general and administrative | 72,312                             | 21.7   | 66,755      | 23.6   | 54,624      | 22.9   |
| Litigation expense (benefit), net   | 1,000                              | 0.3    | (8,027 )    | (2.8 ) | (371 )      | (0.2 ) |
| Total operating expenses            | 139,099                            | 41.8   | 117,318     | 41.5   | 103,986     | 43.6   |
| Income from operations              | 41,070                             | 12.3   | 35,300      | 12.5   | 23,915      | 10.1   |
| Interest and other income, net      | 1,421                              | 0.5    | 1,092       | 0.4    | 92          | 0.0    |
| Income before income taxes          | 42,491                             | 12.8   | 36,392      | 12.9   | 24,007      | 10.1   |
| Income tax provision                | 7,319                              | 2.2    | 897         | 0.3    | 1,109       | 0.5    |
| Net income                          | \$35,172                           | 10.6 % | \$35,495    | 12.6 % | \$22,898    | 9.6 %  |

**Revenue**

The following table summarizes our revenue by product family:

| Product Family            | Year Ended December 31,            |                 |             |                 |             |                 | Change             |                    |
|---------------------------|------------------------------------|-----------------|-------------|-----------------|-------------|-----------------|--------------------|--------------------|
|                           | 2015                               | % of<br>Revenue | 2014        | % of<br>Revenue | 2013        | % of<br>Revenue | 2014<br>to<br>2015 | 2013<br>to<br>2014 |
|                           | (In thousands, except percentages) |                 |             |                 |             |                 |                    |                    |
| DC to DC products         | \$299,726                          | 90.0            | % \$253,083 | 89.6            | % \$211,337 | 88.8            | % 18.4%            | 19.8 %             |
| Lighting control products | 33,341                             | 10.0            | % 29,452    | 10.4            | % 26,754    | 11.2            | % 13.2%            | 10.1 %             |
| Total                     | \$333,067                          | 100.0           | % \$282,535 | 100.0           | % \$238,091 | 100.0           | % 17.9%            | 18.7 %             |

Revenue for the year ended December 31, 2015 was \$333.1 million, an increase of \$50.6 million, or 17.9%, from \$282.5 million for the year ended December 31, 2014. This increase was due to higher sales of both DC to DC and lighting control products, as unit shipments increased 17% due to higher market demand with current customers and additional design wins with new customers, coupled with an increase of 1% in average sales prices. Revenue from our DC to DC products was \$299.7 million for the year ended December 31, 2015, an increase of \$46.6 million, or 18.4%, from the same period in 2014. This increase was primarily due to higher sales of our DC to DC converters and battery chargers, which were offset in part by lower sales of our Mini-Monsters products. Revenue from our lighting control products was \$33.3 million for the year ended December 31, 2015, an increase of \$3.9 million, or 13.2%, compared with the same period in 2014.

Revenue for the year ended December 31, 2014 was \$282.5 million, an increase of \$44.4 million, or 18.7%, from \$238.1 million for the year ended December 31, 2013. This increase was due to higher sales of both DC to DC and lighting control products, as unit shipments increased 37% due to higher market demand with current customers and additional design wins with new customers, which were offset in part by a 13% decrease in average sales prices. Revenue from our DC to DC products was \$253.1 million for the year ended December 31, 2014, an increase of \$41.7 million, or 19.8%, from the same period in 2013. This increase was primarily due to higher sales of our DC to DC converters, offset in part by lower sales of our Mini-Monsters products. Revenue from our lighting control products was \$29.5 million for the year ended December 31, 2014, an increase of \$2.7 million, or 10.1%, compared with the same period in 2013.

**Cost of Revenue and Gross Margin**

Cost of revenue primarily consists of costs incurred to manufacture, assemble and test our products, as well as warranty costs, inventory-related and other overhead costs, and stock-based compensation expenses. In addition, cost of revenue includes amortization of intangible assets from the Sensima acquisition beginning in the third quarter of 2014.

|  | Year Ended December 31,            |           |           | Change            |                   |
|--|------------------------------------|-----------|-----------|-------------------|-------------------|
|  | 2015                               | 2014      | 2013      | From 2014 to 2015 | From 2013 to 2014 |
|  | (in thousands, except percentages) |           |           |                   |                   |
| Cost of revenue                            | \$152,898                          | \$129,917 | \$110,190 | 17.7%             | 17.9%             |
| Cost of revenue as a percentage of revenue | 45.9%                              | 46.0%     | 46.3%     |                   |                   |
| Gross profit                               | \$180,169                          | \$152,618 | \$127,901 | 18.1%             | 19.3%             |
| Gross margin                               | 54.1%                              | 54.0%     | 53.7%     |                   |                   |

Cost of revenue was \$152.9 million, or 45.9% of revenue, for the year ended December 31, 2015, and \$129.9 million, or 46.0% of revenue, for the year ended December 31, 2014. The \$23.0 million increase in cost of revenue was primarily due to a 17% increase in unit shipments, coupled with a 4% increase in the average direct cost of units shipped. The increase in cost of revenue was also driven by additional amortization of intangible assets of \$1.1 million.

Gross margin was 54.1% for the year ended December 31, 2015, compared with 54.0% for the year ended December 31, 2014. For the year ended December 31, 2015, gross margin was favorably impacted by lower labor and overhead costs as a percentage of revenue, partially offset by increased sales of lower margin products and higher amortization of intangible assets compared to the same period in 2014.

Cost of revenue was \$129.9 million, or 46.0% of revenue, for the year ended December 31, 2014, and \$110.2 million, or 46.3% of revenue, for the year ended December 31, 2013. The \$19.7 million increase in cost of revenue was primarily due to a 37% increase in unit shipments, which was partially offset by a 14% decrease in the average direct cost of units shipped. The increase in cost of revenue was also driven by an increase of \$0.8 million in the provision for inventory reserve and additional amortization of intangible assets of \$0.7 million.

Gross margin was 54.0% for the year ended December 31, 2014, compared to 53.7% for the year ended December 31, 2013. The increase in gross margin was primarily due to lower labor and overhead costs as a percentage of revenue compared to the same period in 2013. This increase was partially offset by an increase in the provision for inventory reserve and higher amortization of intangible assets.

### ***Research and Development***

Research and development (“R&D”) expenses primarily consist of salary and benefit expenses, bonuses and stock-based compensation expenses for design and product engineers, expenses related to new product development and supplies, and facility costs.

|                            | <b>Year Ended December 31,</b>     |             |             | <b>Change</b> |             |
|----------------------------|------------------------------------|-------------|-------------|---------------|-------------|
|                            | <b>2015</b>                        | <b>2014</b> | <b>2013</b> | <b>From</b>   | <b>From</b> |
|                            |                                    |             |             | <b>2014</b>   | <b>2013</b> |
|                            |                                    |             |             | <b>to</b>     | <b>to</b>   |
|                            |                                    |             |             | <b>2015</b>   | <b>2014</b> |
|                            | (in thousands, except percentages) |             |             |               |             |
| R&D expenses               | \$65,787                           | \$58,590    | \$49,733    | 12.3%         | 17.8%       |
| As a percentage of revenue | 19.8%                              | 20.7%       | 20.9%       |               |             |

R&D expenses were \$65.8 million, or 19.8% of revenue, for the year ended December 31, 2015 and \$58.6 million, or 20.7% of revenue, for the year ended December 31, 2014. The \$7.2 million increase in R&D expenses was primarily due to an increase of \$3.7 million in cash compensation expenses, which include salary, benefits and bonuses, an increase of \$2.1 million in stock-based compensation expenses primarily associated with the performance-based equity awards, an increase of \$0.5 million in new product development expenses, and an increase of \$0.3 million in manufacturing and laboratory supplies. These increases were partially offset by a decrease of \$0.2 million related to the changes in the value of the employee deferred compensation plan liabilities. Our R&D headcount was 506 employees as of December 31, 2015, compared with 476 employees as of December 31, 2014.

R&D expenses were \$58.6 million, or 20.7% of revenue, for the year ended December 31, 2014 and \$49.7 million, or 20.9% of revenue, for the year ended December 31, 2013. The \$8.9 million increase in R&D expenses was primarily due to an increase of \$2.8 million in stock-based compensation expenses primarily associated with the performance-based and market-based equity awards, an increase of \$2.4 million in new product development expenses, an increase of \$2.0 million in cash compensation expenses, which include salary, benefits and bonuses, and an increase of \$0.6 million in manufacturing and laboratory supplies. Our R&D headcount was 476 employees as of December 31, 2014, compared with 449 employees as of December 31, 2013.

***Selling, General and Administrative***

Selling, general and administrative (“SG&A”) expenses primarily include salary and benefit expenses, bonuses and stock-based compensation expenses for sales, marketing and administrative personnel, sales commissions, travel expenses, facilities costs, and professional service fees.

|                            | Year Ended December 31,            |          |          | Change            |                   |
|----------------------------|------------------------------------|----------|----------|-------------------|-------------------|
|                            | 2015                               | 2014     | 2013     | From 2014 to 2015 | From 2013 to 2014 |
|                            | (in thousands, except percentages) |          |          |                   |                   |
| SG&A expenses              | \$72,312                           | \$66,755 | \$54,624 | 8.3%              | 22.2%             |
| As a percentage of revenue | 21.7%                              | 23.6%    | 22.9%    |                   |                   |

SG&A expenses were \$72.3 million, or 21.7% of revenue, for the year ended December 31, 2015 and \$66.8 million, or 23.6% of revenue, for the year ended December 31, 2014. The \$5.5 million increase in SG&A expenses was primarily due to an increase of \$5.7 million in stock-based compensation expenses primarily associated with the performance-based equity awards, an increase of \$2.0 million in cash compensation expenses, which include salary, benefits and bonuses, and an increase of \$0.6 million in commission expenses due to higher revenue. These increases were partially offset by a credit of \$2.5 million related to the release of a contingent consideration liability (see below), a decrease of \$0.6 million in professional service fees due to the transaction costs incurred in the Sensima acquisition in 2014 but not in 2015, and a gain of \$0.3 million from sales of certain operating equipment. Our SG&A headcount was 306 employees as of December 31, 2015, compared with 274 employees as of December 31, 2014.

Our acquisition of Senisma in July 2014 included a contingent consideration arrangement which requires us to pay up to \$8.9 million to certain former Sensima shareholders if Sensima achieves a new product introduction as well as certain product revenue and direct margin targets in 2016. The fair value of the contingent consideration at the acquisition date was \$2.5 million, which was estimated based on a probability-weighted analysis of possible future revenue outcomes. As part of the quarterly assessment in the fourth quarter of 2015, management reviewed the sales forecast for the products and concluded that the projected product revenue in 2016 will not likely meet the minimum target required to earn the contingent consideration, primarily because the product adoption process by customers will take longer than we had originally anticipated. Accordingly, the fair value of the contingent consideration was deemed to be \$0 as of December 31, 2015, and we recorded the release of the liability of \$2.5 million as a credit to SG&A expenses. We will continue to assess the probability of former Sensima shareholders earning the contingent consideration in 2016 and may record additional adjustment to the fair value.

SG&A expenses were \$66.8 million, or 23.6% of revenue, for the year ended December 31, 2014 and \$54.6 million, or 22.9% of revenue, for the year ended December 31, 2013. The \$12.2 million increase in SG&A expenses was primarily due to an increase of \$9.7 million in stock-based compensation expenses primarily associated with the performance-based and market-based equity awards, an increase of \$0.9 million in professional service fees primarily due to the transaction costs of \$0.6 million incurred in the Sensima acquisition, an increase of \$0.5 million in cash compensation expenses, which include salary, benefits and bonuses, and an increase of \$0.3 million in commission expenses due to higher revenue. Our SG&A headcount was 274 employees as of December 31, 2014, compared to 249 employees as of December 31, 2013.

#### ***Litigation Expense (Benefit), Net***

Litigation expense was \$1.0 million for the year ended December 31, 2015, compared with a litigation benefit, net, of \$(8.0) million for the year ended December 31, 2014. The net litigation benefit for the year ended December 31, 2014 included the recognition of a \$9.5 million award from the O2 Micro litigation, partially offset by \$0.5 million of additional legal fees incurred in connection with the final resolution of the litigation.

Litigation benefit, net, was \$(8.0) million for the year ended December 31, 2014, compared with a litigation benefit, net, of \$(0.4) million for the year ended December 31, 2013. The net litigation benefit for the year ended December 31, 2014 included the recognition of a \$9.5 million award from the O2 Micro litigation, partially offset by \$0.5 million of additional legal fees incurred in connection with the final resolution of the litigation. The net litigation benefit for the year ended December 31, 2013 included \$0.8 million of proceeds received in connection with the legal settlement with Silergy Corporation. The increase in net litigation benefit for the year ended December 31, 2014 was partially offset by higher expenses we incurred in other litigation matters, compared to the same period in 2013.

For a complete description of our material litigation matters, see Note 13 "Litigation" of the Notes to Consolidated Financial Statements.

***Interest and Other Income, Net***

Interest and other income, net, was \$1.4 million for the year ended December 31, 2015, compared with \$1.1 million for the year ended December 31, 2014. The increase was primarily due to higher foreign currency exchange gains and higher interest income, partially offset by higher expenses related to the changes in the value of the employee deferred compensation plan assets.

Interest and other income, net, was \$1.1 million for the year ended December 31, 2014, compared with \$0.1 million for the year ended December 31, 2013. The increase was primarily due to higher foreign currency exchange gains and higher interest income.

***Income Tax Provision***

The income tax provision for the year ended December 31, 2015 was \$7.3 million, or 17.2% of pre-tax income. We recorded a one-time net charge of \$2.7 million to the income tax provision related to the resolution of the income tax audits in the second quarter of 2015. In addition to the impact of this charge, the effective tax rate differed from the federal statutory rate primarily because foreign income was taxed at lower rates, and because of the benefit that we realized from stock option exercises and the release of RSUs, and from the release of an income tax reserve where the statute of limitations expired. In addition, the effective tax rate was impacted by changes in the valuation allowance.

The income tax provision for the year ended December 31, 2014 was \$0.9 million, or 2.5% of pre-tax income. The income tax provision for the year ended December 31, 2013 was \$1.1 million, or 4.6% of pre-tax income. The effective tax rate differed from the federal statutory rate in both 2014 and 2013 primarily because our foreign income was taxed at lower rates, and because of the benefit that we realized from stock options exercises and the release of RSUs, and changes in our valuation allowance during the year.

For additional information on the income tax provision and the resolution of the income tax audits, see Note 11 “Income Taxes” of the Notes to Consolidated Financial Statements.

## Liquidity and Capital Resources

|   | <b>December 31,</b>                |             |      |   |
|---|------------------------------------|-------------|------|---|
|   | <b>2015</b>                        | <b>2014</b> |      |   |
|   | (in thousands, except percentages) |             |      |   |
| Cash and cash equivalents                               | \$90,860                           | \$126,266   |      |   |
| Short-term investments                                  | 144,103                            | 112,452     |      |   |
| Total cash, cash equivalents and short-term investments | \$234,963                          | \$238,718   |      |   |
| Percentage of total assets                              | 54.5                               | %           | 59.8 | % |
| <br>  |                                    |             |      |   |
| Total current assets (1)                                | \$331,928                          | \$307,912   |      |   |
| Total current liabilities                               | (43,283 )                          | (36,861 )   |      |   |
| Working capital   | \$288,645                          | \$271,051   |      |   |

In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes*, which requires that all deferred tax assets and liabilities, including related valuation allowance, be classified as (1) non-current on the balance sheets. We early adopted this standard retrospectively and reclassified \$0.2 million of the current deferred tax assets to non-current deferred tax assets on our consolidated balance sheet as of December 31, 2014.

As of December 31, 2015, we had cash and cash equivalents of \$90.9 million and short-term investments of \$144.1 million, compared with cash and cash equivalents of \$126.3 million and short-term investments of \$112.5 million as of December 31, 2014. As of December 31, 2015, \$55.5 million of cash and cash equivalents and \$36.8 million of short-term investments were held by our international subsidiaries. If these funds are needed for our operations in the U.S., we may be required to accrue and pay U.S. taxes to repatriate these funds. However, our intent is to indefinitely reinvest these funds outside of the U.S. and our current plans do not demonstrate a need to repatriate them to fund the U.S. operations.

The significant components of our working capital are cash and cash equivalents, short-term investments, accounts receivable, inventories, prepaid expenses and other current assets, reduced by accounts payable, accrued compensation and related benefits, and other accrued liabilities. As of December 31, 2015, we had working capital of \$288.6 million, compared with working capital of \$271.1 million as of December 31, 2014. The \$17.5 million increase in working capital was due to a \$24.0 million increase in current assets, partially offset by a \$6.5 million increase in current liabilities. The increase in current assets was primarily due to an increase in short-term investments, accounts receivable and inventories, partially offset by a decrease in cash and cash equivalents. The increase in current liabilities was primarily due to an increase in other accrued liabilities.



*Summary of Cash Flows*

The following table summarizes our cash flow activities:

|  | <b>Year Ended December 31,</b> |             |             |
|--|--------------------------------|-------------|-------------|
|  | <b>2015</b>                    | <b>2014</b> | <b>2013</b> |
|  | (in thousands)                 |             |             |
| Net cash provided by operating activities                    | \$69,736                       | \$74,133    | \$60,686    |
| Net cash used in investing activities                        | (57,197)                       | (9,367 )    | (54,324)    |
| Net cash provided by (used in) financing activities          | (46,652)                       | (39,227)    | 18,850      |
| Effect of exchange rate changes on cash and cash equivalents | (1,293 )                       | (486 )      | 897         |
| Net increase (decrease) in cash and cash equivalents         | \$(35,406)                     | \$25,053    | \$26,109    |

For the year ended December 31, 2015, net cash provided by operating activities was \$69.7 million, primarily due to our net income adjusted for certain non-cash items, including depreciation and amortization, stock-based compensation, change in fair value of contingent consideration and a net decrease of \$12.6 million from the changes in our operating assets and liabilities. The increase in accounts receivable was primarily driven by increased sales. The increase in inventories was primarily due to an increase in strategic wafer and die bank inventories as well as an increase in finished goods to meet future demand. The increase in accrued liabilities was primarily driven by an increase in employee contributions to the deferred compensation plan.

For the year ended December 31, 2014, net cash provided by operating activities was \$74.1 million, primarily due to our net income adjusted for certain non-cash items, including depreciation and amortization and stock-based compensation, and a net decrease of \$8.0 million from the changes in our operating assets and liabilities. The increase in accounts receivable was primarily due to increased sales and higher shipments in the fourth quarter of 2014. The increase in accounts payable was primarily driven by increased inventory and capital asset purchases to meet future growth. The decrease in accrued liabilities was primarily driven by the release of a liability related to the O2 Micro litigation, partially offset by an increase in employee contributions to the deferred compensation plan.

For the year ended December 31, 2013, net cash provided by operating activities was \$60.7 million, primarily due to our net income adjusted for certain non-cash items, including depreciation and amortization and stock-based compensation, and a net increase of \$4.5 million from the changes in our operating assets and liabilities. The increase in accounts receivable resulted primarily from an increase in shipments. The increase in inventories was primarily due to an increase in strategic wafer and die bank inventories as well as an increase in finished goods to meet future demand. The increase in accrued liabilities was primarily due to a cash award received in connection with the O2 Micro litigation that was recorded as a liability as of December 31, 2013.

For the year ended December 31, 2015, net cash used in investing activities was \$57.2 million, primarily due to net purchases of investments of \$33.5 million, purchases of property and equipment of \$16.0 million, and net contributions to the employee deferred compensation plan of \$8.0 million.

For the year ended December 31, 2015, we spent \$5.4 million to purchase three units of an office building located in Shanghai, China. We also exercised the option to purchase a leased manufacturing facility in Chengdu, China for approximately \$1.7 million, which we expect to close in the first half of 2016. In addition, our Board of Directors approved a plan to spend up to \$17 million to purchase additional office space in China in 2016 to accommodate future growth.

For the year ended December 31, 2014, net cash used in investing activities was \$9.4 million, primarily due to net cash of \$11.6 million paid to acquire Sensima, purchases of property and equipment of \$9.5 million, and net contributions to the employee deferred compensation plan of \$5.3 million, partially offset by net proceeds from sales of investments of \$12.4 million and proceeds of \$4.7 million from the redemption of auction-rate securities. For the year ended December 31, 2013, net cash used in investing activities was \$54.3 million, primarily due to net purchases of investments of \$40.1 million and purchases of property and equipment of \$15.8 million, partially offset by proceeds from the redemption of auction-rate securities of \$2.0 million.

For the year ended December 31, 2015, net cash used in financing activities was \$46.7 million, primarily reflecting \$32.3 million used in repurchases of our common stock pursuant to our stock repurchase program and \$30.0 million used to pay dividends to our stockholders and dividend equivalents to our employees who hold RSUs, partially offset by \$10.0 million of cash proceeds from stock option exercises and issuance of shares through our employee stock

purchase plan. For the year ended December 31, 2014, net cash used in financing activities was \$39.2 million, primarily reflecting \$41.2 million used in repurchases of our common stock pursuant to our stock repurchase program and \$11.7 million used to pay dividends to our stockholders and dividend equivalents to our employees who hold RSUs, partially offset by \$14.0 million of cash proceeds from stock option exercises and issuance of shares through our employee stock purchase plan. For the year ended December 31, 2013, net cash provided by financing activities was \$18.9 million, primarily reflecting \$40.0 million of cash proceeds from stock option exercises and issuance of shares through our employee stock purchase plan, partially offset by \$20.6 million used in repurchases of our common stock pursuant to our stock repurchase program.

In July 2013, our Board of Directors approved a stock repurchase program that authorized us to repurchase up to \$100 million in the aggregate of our common stock through June 30, 2015. In April 2015, our Board of Directors approved an extension of the program through December 31, 2015. All shares were retired upon repurchase. For the year ended December 31, 2015, we repurchased a total of 0.6 million shares for \$32.3 million, at an average price of \$50.05 per share. For the year ended December 31, 2014, we repurchased a total of 1.1 million shares for \$41.2 million, at an average price of \$39.19 per share. For the year ended December 31, 2013, we repurchased a total of 0.7 million shares for \$20.6 million, at an average price of \$31.06 per share. In February 2016, our Board of Directors approved a new stock repurchase program that authorizes us to repurchase up to \$50 million in the aggregate of our common stock through December 31, 2016.

In June 2014, our Board of Directors approved a dividend program pursuant to which we intend to pay quarterly cash dividends on our common stock, beginning in July 2014. In addition, outstanding RSU awards contain rights to receive dividend equivalents, which entitle employees who hold RSUs to the same dividend value per share as holders of common stock. The dividend equivalents are accumulated quarterly during the vesting periods of the RSUs and are payable to the employees when the awards vest. Dividend equivalents accumulated on the RSUs are forfeited if the employees do not fulfill their service requirement during the vesting periods. For the year ended December 31, 2015, we paid dividends and dividend equivalents totaling \$30.0 million. For the year ended December 31, 2014, we paid dividends and dividend equivalents totaling \$11.7 million.

Although cash requirements will fluctuate based on the timing and extent of many factors such as those discussed above, we believe that cash generated from operations, together with the liquidity provided by existing cash balances and short-term investments, will be sufficient to satisfy our liquidity requirements for the next 12 months. We anticipate the cash used for future dividends, dividend equivalents and the stock repurchase program will come from our current domestic cash and cash generated from ongoing U.S. operations. If cash held by our international subsidiaries is needed for these payments, we may be required to accrue and pay U.S. taxes to repatriate these funds.

In the future, in order to strengthen our financial position, respond to unforeseen circumstances, or fund our growth in future financial periods, we may need to raise additional funds by any one or a combination of the following: issuing equity securities, issuing debt or convertible debt securities, incurring indebtedness secured by our assets, or selling certain product lines and/or portions of our business. There can be no guarantee that we will be able to raise additional funds on terms acceptable to us, or at all.

From time to time, we have engaged in discussions with third parties concerning potential acquisitions of product lines, technologies, businesses and companies, and we continue to consider potential acquisition candidates. Any such transactions could involve the issuance of a significant number of new equity securities, assumptions of debt, and/or payment of cash consideration. We may also be required to raise additional funds to complete any such acquisitions, through either the issuance of equity and debt securities or incurring indebtedness secured by our assets. If we raise additional funds or acquire businesses or technologies through the issuance of equity securities or convertible debt securities, our existing stockholders may experience significant dilution.

### Contractual Obligations

The following table summarizes our contractual obligations at December 31, 2015:

|                                      | <b>Total</b>    | <b>Payment Due by Period</b> |                    |                    | <b>More Than 5 years</b> |
|--------------------------------------|-----------------|------------------------------|--------------------|--------------------|--------------------------|
|                                      |                 | <b>Less Than 1 Year</b>      | <b>1 - 3 Years</b> | <b>3 - 5 Years</b> |                          |
|                                      | (in thousands)  |                              |                    |                    |                          |
| Operating leases                     | \$2,528         | \$1,354                      | \$889              | \$285              | \$-                      |
| Outstanding purchase commitments (1) | 32,705          | 30,875                       | 380                | 300                | 1,150                    |
| Other long-term obligations (2)      | 15,843          | -                            | 1,738              | 5,503              | 8,602                    |
| <b>Total</b>                         | <b>\$51,076</b> | <b>\$32,229</b>              | <b>\$3,007</b>     | <b>\$6,088</b>     | <b>\$9,752</b>           |

Outstanding purchase commitments primarily consist of wafer purchases from our foundries, assembly services and license arrangements. In addition, the amounts include the estimated purchase price of \$1.7 million for a manufacturing facility in Chengdu, China. We exercised the option to purchase this leased facility in September 2015 and expect to close the transaction in the first half of 2016.

Other long-term obligations include long-term liabilities reflected on our Consolidated Balance Sheets, which primarily consist of employee deferred compensation plan liabilities and accrued dividend equivalents. Because of the uncertainty as to the timing of distributions related to a portion of the employee deferred compensation plan liabilities, we have excluded estimated obligations of \$0.7 million from the table above. In addition, because of the uncertainty as to the timing of payments related to our liabilities for unrecognized tax benefits, we have excluded estimated obligations of \$2.9 million from the table above.

### **Off Balance Sheet Arrangements**

As of December 31, 2015, we had no off-balance sheet arrangements as defined in Item 303(a)(4) of the Securities and Exchange Commission's Regulation S-K.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### **Interest Rate Risk**

Our cash equivalents and investments are subject to market risk, primarily interest rate and credit risk. Our investments are managed by outside professional managers within investment guidelines set by us. Such guidelines include security type, credit quality and maturity and are intended to limit market risk by restricting our investments to high quality debt instruments with relatively short-term maturities. Fluctuations in interest rates of 10% would not have a material impact on our results of operations.

We do not use derivative financial instruments in our investment portfolio. Investments in debt securities are classified as available-for-sale. For available-for-sale investments, no gains or losses are recognized by us in our results of operations due to changes in interest rates unless such securities are sold prior to maturity or are determined to be other-than-temporarily impaired. Available-for-sale investments are reported at fair value with the related unrealized gains or losses being included in accumulated other comprehensive income, a component of stockholders' equity.

### **Long-Term Investments**

As of December 31, 2015, all of our holdings in auction-rate securities, which have a face value of \$5.6 million, have failed to reset as a result of current market conditions. Should these auctions continue to fail and if the credit rating for these securities decline, a 10% decline in the fair value could impact our results of operations by approximately \$0.5 million if we determine the decline in value to be other-than-temporary.

### **Foreign Currency Exchange Risk**

Our sales outside the United States are primarily transacted in U.S. dollars. Accordingly, our sales are not generally impacted by foreign currency rate changes. The functional currency of the Company's offshore operations is the local currency, primarily the Renminbi, the New Taiwan Dollar and the Euro. In addition, we incur foreign currency exchange gains or losses related to the timing of payments for transactions between the U.S. and our foreign subsidiaries, which are reported in interest and other income. To date, fluctuations in foreign currency exchange rates have not had a material impact on our results of operations.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**MONOLITHIC POWER SYSTEMS, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**Contents**

|   | <b>Page</b> |
|---|-------------|
| Report of Independent Registered Public Accounting Firm | 41          |
| Consolidated Balance Sheets                             | 42          |
| Consolidated Statements of Operations                   | 43          |
| Consolidated Statements of Comprehensive Income         | 44          |
| Consolidated Statements of Stockholders' Equity         | 45          |
| Consolidated Statements of Cash Flows                   | 46          |
| Notes to Consolidated Financial Statements              | 47          |

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of

Monolithic Power Systems, Inc.

San Jose, California

We have audited the accompanying consolidated balance sheets of Monolithic Power Systems, Inc. and subsidiaries (the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Monolithic Power Systems, Inc. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2015, based on the criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 29, 2016 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP



San Jose, California

February 29, 2016

41

---

**MONOLITHIC POWER SYSTEMS, INC.****CONSOLIDATED BALANCE SHEETS**

(in thousands, except par value)

|  | <b>December 31,</b> |             |
|--|---------------------|-------------|
|  | <b>2015</b>         | <b>2014</b> |
| <b>ASSETS</b>  |                     |             |
| Current assets:  |                     |             |
| Cash and cash equivalents  | \$90,860            | \$126,266   |
| Short-term investments   | 144,103             | 112,452     |
| Accounts receivable, net   | 30,830              | 25,630      |
| Inventories  | 63,209              | 40,918      |
| Prepaid expenses and other current assets  | 2,926               | 2,646       |
| Total current assets   | 331,928             | 307,912     |
| Property and equipment, net  | 65,359              | 62,942      |
| Long-term investments  | 5,361               | 5,389       |
| Goodwill   | 6,571               | 6,571       |
| Acquisition-related intangible assets, net   | 5,053               | 6,812       |
| Deferred tax assets, net   | 672                 | 1,283       |
| Other long-term assets   | 16,341              | 8,457       |
| Total assets   | \$431,285           | \$399,366   |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                     |             |
| Current liabilities:   |                     |             |
| Accounts payable   | \$13,487            | \$13,138    |
| Accrued compensation and related benefits  | 9,812               | 9,020       |
| Accrued liabilities  | 19,984              | 14,703      |
| Total current liabilities  | 43,283              | 36,861      |
| Income tax liabilities   | 2,941               | 5,876       |
| Other long-term liabilities  | 16,545              | 10,204      |
| Total liabilities  | 62,769              | 52,941      |
| Commitments and contingencies (notes 11, 12 and 13)  |                     |             |
| Stockholders' equity:  |                     |             |
| Common stock and additional paid-in capital, \$0.001 par value; shares authorized: 150,000; shares issued and outstanding: 39,689 and 38,832 as of December 31, 2015 and December 31, 2014, respectively | 265,763             | 240,500     |
| Retained earnings  | 101,287             | 100,114     |
| Accumulated other comprehensive income   | 1,466               | 5,811       |
| Total stockholders' equity   | 368,516             | 346,425     |
| Total liabilities and stockholders' equity   | \$431,285           | \$399,366   |

See accompanying notes to consolidated financial statements.



**MONOLITHIC POWER SYSTEMS, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except per share amounts)

|  | <b>Year Ended December 31,</b> |             |             |
|--|--------------------------------|-------------|-------------|
|  | <b>2015</b>                    | <b>2014</b> | <b>2013</b> |
| Revenue                                  | \$333,067                      | \$282,535   | \$238,091   |
| Cost of revenue                          | 152,898                        | 129,917     | 110,190     |
| Gross profit                             | 180,169                        | 152,618     | 127,901     |
| Operating expenses:                      |                                |             |             |
| Research and development                 | 65,787                         | 58,590      | 49,733      |
| Selling, general and administrative      | 72,312                         | 66,755      | 54,624      |
| Litigation expense (benefit), net        | 1,000                          | (8,027 )    | (371 )      |
| Total operating expenses                 | 139,099                        | 117,318     | 103,986     |
| Income from operations                   | 41,070                         | 35,300      | 23,915      |
| Interest and other income, net           | 1,421                          | 1,092       | 92          |
| Income before income taxes               | 42,491                         | 36,392      | 24,007      |
| Income tax provision                     | 7,319                          | 897         | 1,109       |
| Net income                               | \$35,172                       | \$35,495    | \$22,898    |
| Net income per share:                    |                                |             |             |
| Basic                                    | \$0.89                         | \$0.92      | \$0.61      |
| Diluted                                  | \$0.86                         | \$0.89      | \$0.59      |
| Weighted-average shares outstanding:     |                                |             |             |
| Basic                                    | 39,470                         | 38,686      | 37,387      |
| Diluted                                  | 40,869                         | 39,793      | 38,620      |
| Cash dividends declared per common share | \$0.80                         | \$0.45      | \$-         |

See accompanying notes to consolidated financial statements.

**MONOLITHIC POWER SYSTEMS, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(in thousands)

|   | <b>Year Ended December 31,</b> |             |             |
|---|--------------------------------|-------------|-------------|
|   | <b>2015</b>                    | <b>2014</b> | <b>2013</b> |
| Net income  | \$35,172                       | \$35,495    | \$22,898    |
| Other comprehensive income (loss), net of tax:  |                                |             |             |
| Change in unrealized losses on auction-rate securities, net of \$0 tax in 2015, 2014 and 2013                   | (28 )                          | 179         | 130         |
| Change in unrealized gains/losses on other available-for-sale securities, net of \$0 tax in 2015, 2014 and 2013 | (151 )                         | (19 )       | (33 )       |
| Foreign currency translation adjustments  | (4,166 )                       | (609 )      | 1,988       |
| Total other comprehensive income (loss), net of tax   | (4,345 )                       | (449 )      | 2,085       |
| Comprehensive income  | \$30,827                       | \$35,046    | \$24,983    |

See accompanying notes to consolidated financial statements.

## MONOLITHIC POWER SYSTEMS, INC.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)

|  | Common Stock<br>and<br>Additional<br>Paid-in Capital |           | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Total<br>Stockholders'<br>Equity |
|--|--|-----------|----------------------|---|----------------------------------|
|  | Shares   | Amount    | Earnings             | Income  | Equity                           |
| <b>Balance as of January 1, 2013</b>                 | 35,673   | \$194,079 | \$60,040             | \$ 4,175  | \$ 258,294                       |
| Net income   | -  | -         | 22,898               | -   | 22,898                           |
| Other comprehensive income                           | -  | -         | -                    | 2,085   | 2,085                            |
| Exercise of stock options                            | 2,446  | 37,877    | -                    | -   | 37,877                           |
| Repurchase of common shares                          | (664 )   | (20,615 ) | -                    | -   | (20,615 )                        |
| Shares issued under the employee stock purchase plan | 111  | 2,145     | -                    | -   | 2,145                            |
| Stock-based compensation expense                     | -  | 20,715    | -                    | -   | 20,715                           |
| Release of restricted stock                          | 725  | -         | -                    | -   | -                                |
| <b>Balance as of December 31, 2013</b>               | 38,291   | 234,201   | 82,938               | 6,260   | 323,399                          |
| Net income   | -  | -         | 35,495               | -   | 35,495                           |
| Other comprehensive loss                             | -  | -         | -                    | (449 )  | (449 )                           |
| Dividends and dividend equivalents declared          | -  | -         | (18,319 )            | -   | (18,319 )                        |
| Exercise of stock options                            | 742  | 11,941    | -                    | -   | 11,941                           |
| Repurchase of common shares                          | (1,051 )   | (41,198 ) | -                    | -   | (41,198 )                        |
| Shares issued under the employee stock purchase plan | 78   | 2,078     | -                    | -   | 2,078                            |
| Stock-based compensation expense                     | -  | 33,459    | -                    | -   | 33,459                           |
| Tax benefits from equity awards                      | -  | 19        | -                    | -   | 19                               |
| Release of restricted stock                          | 772  | -         | -                    | -   | -                                |
| <b>Balance as of December 31, 2014</b>               | 38,832   | 240,500   | 100,114              | 5,811   | 346,425                          |
| Net income   | -  | -         | 35,172               | -   | 35,172                           |
| Other comprehensive loss                             | -  | -         | -                    | (4,345 )  | (4,345 )                         |
| Dividends and dividend equivalents declared          | -  | -         | (33,999 )            | -   | (33,999 )                        |
| Exercise of stock options                            | 498  | 7,744     | -                    | -   | 7,744                            |
| Repurchase of common shares                          | (645 )   | (32,286 ) | -                    | -   | (32,286 )                        |
| Shares issued under the employee stock purchase plan | 56   | 2,227     | -                    | -   | 2,227                            |
| Stock-based compensation expense                     | -  | 41,650    | -                    | -   | 41,650                           |
| Tax benefits from equity awards                      | -  | 5,928     | -                    | -   | 5,928                            |
| Release of restricted stock                          | 948  | -         | -                    | -   | -                                |
| <b>Balance as of December 31, 2015</b>               | 39,689   | \$265,763 | \$101,287            | \$ 1,466  | \$ 368,516                       |

See accompanying notes to consolidated financial statements.

**MONOLITHIC POWER SYSTEMS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

|   | <b>Year Ended December 31,</b> |             |             |
|---|--------------------------------|-------------|-------------|
|   | <b>2015</b>                    | <b>2014</b> | <b>2013</b> |
| <b>Cash flows from operating activities:</b>                                      |                                |             |             |
| Net income  | \$35,172                       | \$35,495    | \$22,898    |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                |             |             |
| Depreciation and amortization of intangible assets                                | 13,783                         | 13,130      | 12,160      |
| Loss (gain) on sales of property and equipment                                    | (339 )                         | -           | 31          |
| Premium amortization and loss on investments                                      | 596                            | 96          | 443         |
| Change in fair value of contingent consideration                                  | (2,507 )                       | -           | -           |
| Deferred taxes, net   | 42                             | 17          | (81 )       |
| Stock-based compensation expense  | 41,563                         | 33,454      | 20,701      |
| Excess tax benefit from equity awards   | (5,928 )                       | (10 )       | -           |
| Changes in operating assets and liabilities, net of effects of an acquisition:    |                                |             |             |
| Accounts receivable   | (5,201 )                       | (1,870 )    | (4,347 )    |
| Inventories   | (22,210 )                      | (1,142 )    | (7,606 )    |
| Prepaid expenses and other assets   | (390 )                         | (2,029 )    | 121         |
| Accounts payable  | 147                            | 1,632       | 1,440       |
| Accrued liabilities   | 9,942                          | (3,102 )    | 12,149      |
| Income tax liabilities  | 3,998                          | (248 )      | 86          |
| Accrued compensation and related benefits   | 1,068                          | (1,290 )    | 2,691       |
| Net cash provided by operating activities   | 69,736                         | 74,133      | 60,686      |
| <b>Cash flows from investing activities:</b>                                      |                                |             |             |
| Property and equipment purchases  | (16,024 )                      | (9,511 )    | (15,764 )   |
| Proceeds from sales of property and equipment                                     | 340                            | -           | 88          |
| Purchases of short-term investments   | (223,018)                      | (136,872)   | (125,756)   |
| Proceeds from sales of short-term investments                                     | 189,549                        | 149,291     | 85,700      |
| Proceeds from sales of long-term investments                                      | -                              | 4,650       | 2,025       |
| Contributions to employee deferred compensation plan, net                         | (8,044 )                       | (5,335 )    | (617 )      |
| Cash paid for an acquisition, net of cash acquired                                | -                              | (11,590 )   | -           |
| Net cash used in investing activities   | (57,197 )                      | (9,367 )    | (54,324 )   |
| <b>Cash flows from financing activities:</b>                                      |                                |             |             |
| Property and equipment purchased on extended payment terms                        | (300 )                         | (400 )      | (557 )      |
| Proceeds from exercise of stock options   | 7,744                          | 11,941      | 37,877      |
| Proceeds from shares issued under the employee stock purchase plan                | 2,227                          | 2,078       | 2,145       |
| Repurchases of common shares  | (32,286 )                      | (41,198 )   | (20,615 )   |
| Dividends and dividend equivalents paid   | (29,965 )                      | (11,658 )   | -           |
| Excess tax benefit from equity awards   | 5,928                          | 10          | -           |
| Net cash provided by (used in) financing activities                               | (46,652 )                      | (39,227 )   | 18,850      |
| Effect of change in exchange rates  | (1,293 )                       | (486 )      | 897         |



Edgar Filing: MONOLITHIC POWER SYSTEMS INC - Form 10-K

|  |           |           |           |
|--|-----------|-----------|-----------|
| Net increase (decrease) in cash and cash equivalents                     | (35,406 ) | 25,053    | 26,109    |
| Cash and cash equivalents, beginning of period                           | 126,266   | 101,213   | 75,104    |
| Cash and cash equivalents, end of period                                 | \$90,860  | \$126,266 | \$101,213 |
| Supplemental disclosures for cash flow information:                      |           |           |           |
| Cash paid for taxes and interest   | \$3,322   | \$1,235   | \$1,116   |
| Supplemental disclosures of non-cash investing and financing activities: |           |           |           |
| Liability accrued for property and equipment purchases                   | \$2,184   | \$1,487   | \$1,941   |
| Liability accrued for dividends and dividend equivalents                 | \$10,109  | \$6,660   | \$-       |
| Fair value of contingent consideration related to an acquisition         | \$-       | \$2,507   | \$-       |

See accompanying notes to consolidated financial statements.

**MONOLITHIC POWER SYSTEMS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Business*

Monolithic Power Systems, Inc. (“MPS” or the “Company”) was incorporated in the State of California on August 22, 1997. On November 17, 2004, the Company was reincorporated in the State of Delaware. MPS designs, develops and markets integrated power semiconductor solutions and power delivery architectures. MPS's mission is to provide innovative power solutions in communications, storage and computing, consumer and industrial market segments.

*Basis of Presentation*

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenue and expenses during the reporting period. Significant estimates and assumptions used in these consolidated financial statements primarily include those related to revenue recognition, inventory valuation, valuation of share-based awards, valuation of goodwill and acquisition-related intangible assets, contingencies and tax valuation allowances. Actual results could differ from those estimates.

*Certain Significant Risks and Uncertainties*

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, short-term and long-term investments and accounts receivable. The Company's cash consists of checking and savings accounts. The Company's cash equivalents include short-term, highly liquid investments purchased with remaining maturities at the date of purchase of three months or less. The Company's short-term investments consist of certificates of deposit, government agency bonds and treasuries, and the long-term investments consist of government-backed student loan auction-rate securities. The Company generally does not require its customers to provide collateral or other security to support accounts receivable. To manage credit risk, management performs ongoing credit evaluations of its customers' financial condition. The Company requires cash in advance for certain customers in addition to ongoing credit evaluations for those where credit has been extended. Accounts receivable allowances were not material in any of the periods presented.

The Company participates in the dynamic high technology industry and believes that changes in any of the following areas could have a material adverse effect on its future financial position, results of operations or cash flows: advances and trends in new technologies and industry standards; competitive pressures in the form of new products or price reductions on current products; changes in product mix; changes in the overall demand for products offered by the Company; changes in third-party manufacturers; changes in key suppliers; changes in certain strategic relationships or customer relationships; litigation or claims against the Company based on intellectual property, patent, product, regulatory or other factors; fluctuations in foreign currency exchange rates; risk associated with changes in domestic and international economic and/or political regulations; availability of necessary components or sub-assemblies; availability of foundry capacity; ability to integrate acquired companies; and the Company's ability to attract and retain employees necessary to support its growth.

### *Foreign Currency*

The functional currency of the Company's international subsidiaries is generally the local currency. The primary subsidiaries are located in China and Taiwan, which utilize the Renminbi and the New Taiwan Dollar as their currencies, respectively. Accordingly, assets and liabilities of the foreign subsidiaries are translated using exchange rates in effect at the end of the period. Revenue and costs are translated using average exchange rates for the period. The resulting translation adjustments are presented as a separate component of accumulated other comprehensive income in stockholders' equity in the Consolidated Balance Sheets. In addition, the Company incurs foreign currency exchange gains or losses related to the timing of payments for transactions between the U.S. and its foreign subsidiaries. Foreign currency transaction gains (losses) are reported in interest and other income, net, in the Consolidated Statements of Operations and totaled \$0.6 million, \$0.1 million and \$(0.6) million for the years ended December 31, 2015, 2014 and 2013, respectively.

### *Cash and Cash Equivalents*

The Company classifies all highly liquid investments with stated maturities of three months or less from date of purchase as cash equivalents.

### *Fair Value of Financial Instruments*

Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets

Level 2: Inputs other than the quoted prices in active markets that are observable either directly or indirectly

Level 3: Significant unobservable inputs

The Company's financial instruments include cash and cash equivalents, and short-term and long-term investments. Cash equivalents are stated at cost, which approximates fair market value. The Company's short-term and long-term investments are classified as available-for-sale securities and are stated at their fair market value.

The Company determines whether an impairment is temporary or other-than temporary. Unrealized gains or losses that are deemed to be temporary are recorded as a component of accumulated other comprehensive income in stockholders' equity in the Consolidated Balance Sheets, and changes in unrealized gains or losses are recorded in the Consolidated Statements of Comprehensive Income. The Company records an impairment charge in interest and other income, net, in the Consolidated Statements of Operations when an available-for-sale investment has experienced a decline in value that is deemed to be other-than-temporary. Other-than-temporary impairment exists when the Company either has the intent to sell the security, it will more likely than not be required to sell the security before anticipated recovery, or it does not expect to recover the entire amortized cost basis of the security.

As of December 31, 2015 and 2014, the fair value of the Company's holdings in auction-rate securities was \$5.4 million, all of which was classified as long-term available-for-sale investments. The valuation of the auction-rate securities is subject to fluctuations in the future, which will depend on many factors, including the quality of the underlying collateral, estimated time to liquidity including potential to be called or restructured, underlying final

maturity, insurance guaranty and market conditions, among others.

### ***Inventories***

Inventories are stated at the lower of standard cost (which approximates actual cost determined on a first-in first-out basis) or current market value. Market is based on estimated net realizable value. The Company writes down excess and obsolete inventory based on its age and forecasted demand, which includes estimates taking into consideration the Company's outlook on market and economic conditions, technology changes, new product introductions and changes in strategic direction. Actual demand may differ from forecasted demand, and such differences may have a material effect on recorded inventory values. When the Company records a write-down on inventory, it establishes a new, lower cost basis for that inventory, and subsequent changes in facts and circumstances will not result in the restoration or increase in that newly established cost basis.

### ***Property and Equipment***

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Buildings and building improvements have estimated useful lives of 30 to 40 years. Leasehold improvements are amortized over the shorter of the estimated useful lives or the lease period. Computer, software and production equipment have estimated useful lives of three to seven years. Transportation equipment has estimated useful lives of 5 to 15 years. Furniture and fixtures have estimated useful lives of three to five years.

### ***Goodwill and Acquisition-Related Intangible Assets***

Goodwill represents the excess of the fair value of purchase consideration over the fair value of net tangible and identified intangible assets as of the date of acquisition. In-process research and development ("IPR&D") assets represent the fair value of incomplete R&D projects that had not reached technological feasibility as of the date of acquisition. The IPR&D assets are initially capitalized at fair value as intangible assets with indefinite lives and assessed for impairment at each reporting period. When the IPR&D projects are completed, they are reclassified as amortizable intangible assets and are amortized over their estimated useful lives. Alternatively, if the IPR&D projects are abandoned, they are impaired and expensed to research and development.

Acquisition-related intangible assets with finite lives consist of know-how and developed technologies. These assets are amortized on a straight-line basis over the estimated useful lives of three to five years and the amortization expense is recorded in cost of revenue in the Consolidated Statements of Operations.

### ***Other Long-Term Assets***

Other assets primarily consist of intangible assets for the land use rights in Chengdu, China, purchased patents, long-term lease deposits and investments related to the employee deferred compensation plan. The Company amortizes the land use rights over 50 years and the purchased patents over five years.

### ***Impairment of Long-Lived Assets***

The Company evaluates long-lived assets, other than goodwill and acquisition-related intangible assets with indefinite useful lives, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when the sum of the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. Such impairment loss would be measured as the difference between the carrying amount of the asset and its fair value based on the present value of estimated future cash flows.

The Company tests goodwill for impairment at least annually in the fourth quarter of the year, or whenever events or changes in circumstances indicate that goodwill may be impaired. The Company has elected to first assess the qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. If the Company determines that it is more likely than not that its fair value is less than the carrying amount, then the two-step goodwill impairment test is performed. The first step compares the fair value of the reporting unit with its carrying amount. If the carrying amount exceeds its fair value, the second step measures the impairment loss by comparing the implied fair value of the goodwill with the carrying amount. No impairment of goodwill has been identified in any of the periods presented.

### ***Deferred Compensation Plan***

The Company has a non-qualified, unfunded deferred compensation plan, which provides certain key employees, including executive management, with the ability to defer the receipt of compensation in order to accumulate funds for retirement on a tax deferred basis. The Company does not make contributions to the plan or guarantee returns on the investments. The Company is responsible for the plan's administrative expenses. Participants' deferrals and

investment gains and losses remain as the Company's liabilities and the underlying assets are subject to claims of general creditors.

The liabilities for compensation deferred under the plan are recorded at fair value in each reporting period and are included in other long-term liabilities in the Consolidated Balance Sheets. Changes in the fair value of the liabilities are recorded as an operating expense (credit) in the Consolidated Statements of Operations. The Company manages the risk of changes in the fair value of the liabilities by electing to match the liabilities with investments in corporate-owned life insurance policies and mutual funds that offset a substantial portion of the exposure. The investments are recorded in other long-term assets in the Consolidated Balance Sheets at the cash surrender value of the corporate-owned life insurance policies and the fair value of the mutual funds, which are classified as trading securities. Changes in the cash surrender value of the corporate-owned life insurance policies and the fair value of mutual fund investments are included in interest and other income, net in the Consolidated Statements of Operations. As of December 31, 2015 and 2014, the plan assets totaled \$14.0 million and \$6.1 million, and the plan liabilities totaled \$14.1 million and \$6.2 million, respectively.

### ***Warranty Reserves***

The Company generally provides a one to two-year warranty against defects in materials and workmanship and will either repair the goods or provide replacement products at no charge to the customer for defective products. Reserve requirements are recorded in the period of sale and are based on an assessment of the products sold with warranty and historical warranty costs incurred. Historically, the warranty expenses have not been material to the Company's consolidated financial statements.

### ***Revenue Recognition***

The Company recognizes revenue when the following four basic criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the fee is fixed or determinable; and (4) collectability is reasonably assured. Determination of criteria (3) and (4) are based on management's judgment regarding the fixed nature of the fees charged for products delivered and the collectability of those fees. The application of these criteria has resulted in the Company generally recognizing revenue upon shipment (when title and risk of loss have transferred to customers), including distributors, original equipment manufacturers and electronic manufacturing service providers.

The Company's revenue consists primarily of sales of assembled and tested finished goods. The Company also sells die in wafer form to its customers and value-added resellers, and the Company receives royalty revenue from third parties and value-added resellers.

For the years ended December 31, 2015, 2014 and 2013, approximately 96%, 92% and 91% of the Company's distributor sales, respectively, including sales to the Company's value-added resellers, were made through distribution arrangements with third parties. These arrangements generally do not include any special payment terms (the Company's normal payment terms are 30-45 days for its distributors), price protection or exchange rights. Returns are limited to the Company's standard product warranty. Certain of the Company's large distributors have contracts that include limited stock rotation rights that permit the return of a small percentage of the previous six months' purchases.

For the years ended December 31, 2015, 2014 and 2013, approximately 4%, 8% and 9% of the Company's distributor sales, respectively, were made through small distributors primarily based on purchase orders. These distributors typically have no stock rotation rights.

The Company generally recognizes revenue upon shipment of products to the distributors based on the following considerations:

- (1) The price is fixed or determinable at the date of sale. The Company does not offer special payment terms, price protection or price adjustments to distributors when the Company recognizes revenue upon shipment.
- (2) The distributors are obligated to pay the Company and this obligation is not contingent on the resale of the Company's products.
- (3) The distributors' obligation is unchanged in the event of theft or physical destruction or damage to the products.
- (4) The distributors have stand-alone economic substance apart from the Company's relationship.
- (5) The Company does not have any obligations for future performance to directly bring about the resale of its products by the distributors.  
The amount of future returns can be reasonably estimated. The Company has the ability and the information
- (6) necessary to track inventory sold to and held at its distributors. The Company maintains a history of returns and has the ability to estimate the stock rotation returns on a quarterly basis.

The Company maintains a sales reserve for stock rotation rights, which is based on historical experience of actual stock rotation returns on a per distributor basis, where available, and information related to products in the distribution channel. This reserve is recorded at the time of sale. Historically, these returns were not material to the Company's consolidated financial statements.

If the Company enters into arrangements that have rights of return that are not estimable, the Company recognizes revenue under such arrangements only after the distributors have sold the products to end customers. Four of the



Company's distributors have distribution agreements where revenue is recognized upon sale by these distributors to their end customers because these distributors have certain rights of return which management believes are not estimable. The deferred revenue balance from these distributors as of December 31, 2015 and 2014 was \$2.8 million and \$2.0 million, respectively. The deferred costs as of December 31, 2015 and 2014 were \$0.2 million.

### *Stock-Based Compensation*

The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The fair value of restricted stock units with service conditions or performance conditions is based on the grant date share price. The fair value of restricted stock units with market conditions, as well as restricted stock units containing both market conditions and performance conditions, is estimated using a Monte Carlo simulation model. The fair value of options and shares issued under the employee stock purchase plan is estimated using the Black-Scholes model.

The Company recognizes compensation expense equal to the grant-date fair value for all share-based payment awards that are expected to vest. Compensation expense related to awards with service conditions is recorded on a straight-line basis over the requisite service period. Compensation expense related to awards subject to market conditions or performance conditions is recognized over the requisite service period for each separately vesting tranche.

For awards with performance conditions, as well as awards containing both market conditions and performance conditions, the Company recognizes compensation expense when it becomes probable that the performance criteria set by the Board of Directors will be achieved. Management performs the probability assessment on a quarterly basis by reviewing external factors, such as macroeconomic conditions and the analog industry forecasts, and internal factors, such as the Company's business and operations strategy, product roadmaps and revenue forecasts. Changes in the probability assessment of achieving the performance conditions are accounted for in the period of change by recording a cumulative catch-up adjustment as if the new estimate had been applied since the service inception date. Any previously recognized compensation expense is reversed if the performance conditions are not expected to be satisfied. For awards with only market conditions, compensation expense is not reversed if the market conditions are not satisfied. The amount of compensation expense that the Company recognizes is based on an expected forfeiture rate. If there is a difference between the forfeiture assumptions used in determining stock-based compensation costs and the actual forfeitures which become known over time, the Company may change the forfeiture rate, which could have a significant impact on its stock-based compensation expense.

### ***Research and Development***

Costs incurred in research and development are expensed as incurred.

### ***Accounting for Income Taxes***

The Company recognizes federal, state and foreign current tax liabilities or assets based on its estimate of taxes payable or refundable in the current fiscal year by tax jurisdiction. The Company also recognizes federal, state and foreign deferred tax assets or liabilities for its estimate of future tax effects attributable to temporary differences and carryforwards. The Company records a valuation allowance to reduce any deferred tax assets by the amount of any tax benefits that, based on available evidence and judgment, are not expected to be realized.

The Company's calculation of current and deferred tax assets and liabilities is based on certain estimates and judgments and involves dealing with uncertainties in the application of complex tax laws. The Company's estimates of current and deferred tax assets and liabilities may change based, in part, on added certainty or finality or uncertainty to an anticipated outcome, changes in accounting or tax laws in the U.S. or foreign jurisdictions where the Company operates, or changes in other facts or circumstances. In addition, the Company recognizes liabilities for potential U.S. and foreign income tax for uncertain income tax positions taken on its tax returns if it has less than a 50% likelihood of being sustained. If the Company determines that payment of these amounts is unnecessary or if the recorded tax liability is less than its current assessment, the Company may be required to recognize an income tax benefit or additional income tax expense in its financial statements in the period such determination is made. The Company has calculated its uncertain tax positions which were attributable to certain estimates and judgments primarily related to transfer pricing, cost sharing and its international tax structure exposure.

### ***Contingencies***

The Company is a party to actions and proceedings in the ordinary course of business, including litigation regarding its shareholders and its intellectual property, challenges to the enforceability or validity of its intellectual property, claims that the Company's products infringe on the intellectual property rights of others, and employment matters. The pending proceedings involve complex questions of fact and law and will require the expenditure of significant funds and the diversion of other resources to prosecute and defend. In addition, from time to time, the Company becomes aware that it is subject to other contingent liabilities. When this occurs, the Company will evaluate the appropriate accounting for the potential contingent liabilities to determine whether a contingent liability should be recorded. In making this determination, management may, depending on the nature of the matter, consult with internal and external legal counsel and technical experts. Based on the facts and circumstances in each matter, the Company uses its judgment to determine whether it is probable that a contingent loss has occurred and whether the amount of such loss

can be estimated. If the Company determines a loss is probable and estimable, the Company records a contingent loss. In determining the amount of a contingent loss, the Company takes into account advice received from experts for each specific matter regarding the status of legal proceedings, settlement negotiations, prior case history and other factors. Should the judgments and estimates made by management need to be adjusted as additional information becomes available, the Company may need to record additional contingent losses. Alternatively, if the judgments and estimates made by management are adjusted, for example, if a particular contingent loss does not occur, the contingent loss recorded would be reversed.

### ***Litigation Expense (Benefit)***

The Company records litigation costs in the period in which they are incurred. Due to the uncertainties inherent in litigation proceedings, the Company generally recognizes the proceeds resulting from settlement of litigation or favorable judgments when the cash is received and there is no further contingency related to the litigation. The proceeds are recorded as a reduction against litigation expense to the extent that litigation costs were previously incurred in the related case. Proceeds in excess of cumulative costs incurred for the case is recorded in interest and other income, net, in the Consolidated Statements of Operations. Litigation expense (benefit), net, includes primarily patent litigation and other contract-related matters.

### ***Net Income per Share***

Basic net income per share is computed by dividing net income by the weighted-average number of common shares outstanding for the period. Diluted net income per share reflects the potential dilution that would occur if outstanding securities or other contracts to issue common stock were exercised or converted into common stock, and calculated using the treasury stock method.

Contingently issuable shares, including equity awards with performance conditions or market conditions, are considered outstanding common shares and included in the basic net income per share as of the date that all necessary conditions to earn the awards have been satisfied. Prior to the end of the contingency period, the number of contingently issuable shares included in the diluted net income per share is based on the number of shares, if any, that would be issuable under the terms of the arrangement at the end of the reporting period.

The Company's outstanding restrict stock units contain forfeitable rights to receive dividend equivalents, which are accumulated quarterly during the vesting periods of the restricted stock units and are payable to the employees when the awards vest. Dividend equivalents accumulated on the restricted stock units are forfeited if the employees do not fulfill their service requirement during the vesting periods. Accordingly, these awards are not treated as participating securities in the net income per share calculation.

### ***Comprehensive Income***

Comprehensive income represents the change in the Company's net assets during the period from non-owner sources. Accumulated other comprehensive income presented in the Consolidated Balance Sheets primarily consists of unrealized gains and losses related to available-for-sale investments and foreign currency translation adjustments.

### ***Recent Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The standard's core principle is that an entity will recognize revenue when it transfers 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. In July 2015, the FASB approved a one-year deferral of the effective date. The standard will be effective for annual reporting periods beginning after December 15, 2017. Early adoption is permitted for reporting periods beginning after December 15, 2016. The standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The Company is evaluating the impact of the adoption on its consolidated financial position, results of operations, cash flows and disclosures.

In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes*, which requires that all deferred tax assets and liabilities, including related valuation allowance, be classified as non-current on the balance sheets. The Company has elected to early adopt the standard as of December 31, 2015 on a retrospective basis. As of December 31, 2014, the Company reclassified \$0.2 million of current deferred tax assets to non-current deferred tax assets on the Consolidated Balance Sheet. The adoption did not affect the Company's

operating results, comprehensive income or cash flows for the periods presented.

## 2. ACQUISITION

On July 22, 2014 (the “Acquisition Date”), the Company acquired 100% of the outstanding capital stock of Sensima Technology SA (“Sensima”), a company based in Switzerland that develops magnetic sensor technologies for angle measurements as well as three-dimensional magnetic field sensing. The acquisition creates new opportunities with customers by offering enhanced solutions in power management for key industries such as automotive, industrial and cloud computing. As a result of the acquisition, Sensima became a subsidiary of the Company and changed its name to MPS Tech Switzerland Sarl. Its results of operations have been included in the Company’s consolidated financial statements subsequent to the acquisition.

### *Purchase Consideration*

The fair value of the purchase consideration as of the Acquisition Date consisted of the following (in thousands):

|                                   |           |
|-----------------------------------|-----------|
| Cash paid at the Acquisition Date | \$ 11,735 |
| Contingent consideration          | 2,507     |
| Total                             | \$ 14,242 |

Cash paid at the Acquisition Date included \$1.2 million that was held in an escrow account for a one-year period, which was subject to Sensima’s satisfaction of certain representations and warranties. The full amount was released from the escrow account on July 22, 2015.

The contingent consideration arrangement requires the Company to pay up to an additional \$8.9 million to former Sensima shareholders if Sensima achieves a new product introduction as well as certain product revenue and direct margin targets in 2016. The fair value of the contingent consideration at the Acquisition Date was \$2.5 million, which was estimated based on a probability-weighted analysis of possible future revenue outcomes. The fair value of the contingent consideration was recorded in other long-term liabilities in the Consolidated Balance Sheets and was remeasured at the end of each reporting period, with any changes in fair value recorded in operating expense in the Consolidated Statements of Operations. During the fourth quarter of 2015, the Company determined the fair value of contingent consideration was \$0 and recorded the release of the liability of \$2.5 million as a credit to selling, general and administrative expenses (see Note 4).



The Company incurred \$0.6 million of transaction costs that were expensed as incurred and included in selling, general and administrative expenses in the Consolidated Statements of Operations.

### ***Purchase Consideration Allocation***

The fair value of assets acquired and liabilities assumed as of the Acquisition Date was as follows (in thousands):

|  |           |
|--|-----------|
| Cash   | \$ 145    |
| Other tangible assets acquired, net of liabilities assumed | 42        |
| Intangible assets:   |           |
| Know-how   | 1,018     |
| Developed technologies                                     | 4,421     |
| IPR&D  | 2,045     |
| Total identifiable net assets acquired                     | 7,671     |
| Goodwill   | 6,571     |
| Total net assets acquired                                  | \$ 14,242 |

Intangible assets with finite lives included know-how and developed technologies with estimated useful lives of three to five years. The fair value of know-how was determined using the relief from royalty method, and the fair value of the developed technologies was determined using the income approach. Intangible assets with indefinite lives included in-process research and development (“IPR&D”), which consisted of incomplete R&D projects that had not reached technological feasibility as of the Acquisition Date. The fair value of the IPR&D assets was determined using the income approach. During the third quarter of 2015, management determined that the acquired IPR&D was completed and reclassified it as a finite-lived intangible asset with an estimated useful life of four years.

Goodwill arising from the acquisition was primarily attributed to synergies which will enable the Company to develop advanced solutions in power management by integrating Sensima’s magnetic sensor technologies. Goodwill is not deductible for tax purposes.

### ***Equity Awards***

On the Acquisition Date, the Board of Directors granted \$1.7 million of time-based RSUs (or 40,000 shares) to key Sensima employees who became employees of the Company. These awards vest over four years. In addition, the Board of Directors granted \$2.0 million of PSUs (or 47,000 shares) to these employees, with the right to earn up to a maximum of \$8.0 million based on the achievement of certain cumulative Sensima product revenue targets during the

performance period from the Acquisition Date to July 22, 2019. 50% of the awards subject to each revenue goal will vest immediately when the revenue goal is met during the performance period. The remaining shares will vest over the following two years. Vesting is subject to the employees' continued employment with the Company. These equity awards are considered arrangements for post-acquisition services and the related compensation cost is recognized over the requisite service period if it is probable that the performance goals will be met.

***Pro Forma Information (Unaudited)***

Supplemental information of the Company's results of operations on a pro forma basis, as if the Sensima acquisition had been consummated on January 1, 2013, is presented as follows (in thousands, except per-share amounts):

|                              | <b>Year Ended</b>   |             |
|------------------------------|---------------------|-------------|
|                              | <b>December 31,</b> |             |
|                              | <b>2014</b>         | <b>2013</b> |
| Revenue                      | \$282,584           | \$238,181   |
| Net income                   | \$33,777            | \$20,187    |
| Diluted net income per share | \$0.85              | \$0.52      |



These pro forma results are not necessarily indicative of the Company's consolidated results of operations in future periods or the results that would have been realized had the Company acquired Sensima during the periods presented. The pro forma results include adjustments primarily related to Sensima's results of operations, amortization of intangible assets, stock-based compensation expense and the related tax effects.

### 3. CASH, CASH EQUIVALENTS AND INVESTMENTS

The following is a summary of the Company's cash, cash equivalents and short-term and long-term investments (in thousands):

|  | <b>December 31,</b> |             |
|--|---------------------|-------------|
|  | <b>2015</b>         | <b>2014</b> |
| Cash, cash equivalents and investments:              |                     |             |
| Cash   | \$58,217            | \$66,188    |
| Money market funds                                   | 31,640              | 60,078      |
| Certificates of deposit                              | 21,574              | 22,778      |
| U.S. treasuries and government agency bonds          | 123,532             | 89,674      |
| Auction-rate securities backed by student-loan notes | 5,361               | 5,389       |
| Total  | \$240,324           | \$244,107   |

|                           | <b>December 31,</b> |             |
|---------------------------|---------------------|-------------|
|                           | <b>2015</b>         | <b>2014</b> |
| Reported as:              |                     |             |
| Cash and cash equivalents | \$90,860            | \$126,266   |
| Short-term investments    | 144,103             | 112,452     |
| Long-term investments     | 5,361               | 5,389       |
| Total                     | \$240,324           | \$244,107   |

The contractual maturities of the Company's short-term and long-term available-for-sale investments are as follows (in thousands):

|                             | <b>December 31,</b> |             |
|-----------------------------|---------------------|-------------|
|                             | <b>2015</b>         | <b>2014</b> |
| Due in less than 1 year     | \$110,898           | \$91,335    |
| Due in 1 - 5 years          | 33,205              | 21,117      |
| Due in greater than 5 years | 5,361               | 5,389       |
| Total                       | \$149,464           | \$117,841   |

Edgar Filing: MONOLITHIC POWER SYSTEMS INC - Form 10-K

The following tables summarize the unrealized gain and loss positions related to the Company's investments in marketable securities designated as available-for sale (in thousands):

|  | <b>December 31, 2015</b> |                             |                              |                                 | <b>Fair Value<br/>of<br/>Investments<br/>in<br/>Unrealized<br/>Loss<br/>Position</b> |
|--|--------------------------|-----------------------------|------------------------------|---------------------------------|--|
|  | <b>Adjusted<br/>Cost</b> | <b>Unrealized<br/>Gains</b> | <b>Unrealized<br/>Losses</b> | <b>Total<br/>Fair<br/>Value</b> |  |
| Money market funds                                   | \$31,640                 | \$ -                        | \$ -                         | \$31,640                        | \$ -   |
| Certificates of deposit                              | 21,574                   | -                           | -                            | 21,574                          | -  |
| U.S. treasuries and government agency bonds          | 123,698                  | 4                           | (170 )                       | 123,532                         | 110,720  |
| Auction-rate securities backed by student-loan notes | 5,570                    | -                           | (209 )                       | 5,361                           | 5,361  |
| <b>Total</b>   | <b>\$182,482</b>         | <b>\$ 4</b>                 | <b>\$ (379 )</b>             | <b>\$182,107</b>                | <b>\$ 116,081</b>  |

|  | December 31, 2014 |                     |                      |                        | Fair Value<br>of                                    |
|--|-------------------|---------------------|----------------------|------------------------|---|
|  | Adjusted<br>Cost  | Unrealized<br>Gains | Unrealized<br>Losses | Total<br>Fair<br>Value | Investments<br>in<br>Unrealized<br>Loss<br>Position |
| Money market funds                                   | \$60,078          | \$ -                | \$ -                 | \$60,078               | \$ -  |
| Certificates of deposit                              | 22,778            | -                   | -                    | 22,778                 | -   |
| U.S. treasuries and government agency bonds          | 89,689            | 14                  | (29 )                | 89,674                 | 35,062  |
| Auction-rate securities backed by student-loan notes | 5,570             | -                   | (181 )               | 5,389                  | 5,389   |
| Total  | \$178,115         | \$ 14               | \$ (210 )            | \$177,919              | \$ 40,451   |

Except for the auction-rate securities, there were no individual securities that had been in a continuous loss position for 12 months or longer as of December 31, 2015 and 2014.

There were no redemptions of auction-rate securities for the year ended December 31, 2015. For the year ended December 31, 2014, the Company redeemed \$4.7 million of auction-rate securities at par. The underlying maturities of the outstanding auction-rate securities are up to 32 years. As of December 31, 2015 and 2014, the impairment of \$0.2 million was determined to be temporary based on the following management assessment:

- (1) The decline in the fair value of these securities is not largely attributable to adverse conditions specifically related to these securities or to specific conditions in an industry or in a geographic area;
  - (2) Management possesses both the intent and ability to hold these securities for a period of time sufficient to allow for any anticipated recovery in fair value;
  - (3) Management believes that it is more likely than not that the Company will not have to sell these securities before recovery of its cost basis;
- Except for the credit loss of \$70,000 recognized in the year ended December 31, 2009, the Company does not
- (4) believe that there is any additional credit loss associated with these securities because the Company expects to recover the entire amortized cost basis;
  - (5) There have been no further downgrades on these securities since 2009;
  - (6) All scheduled interest payments have been made pursuant to the reset terms and conditions; and
  - (7) All redemptions of these securities to date, representing 87% of the original portfolio, have been at par.

#### 4. FAIR VALUE MEASUREMENT

The following tables detail the fair value measurement of the financial assets and liabilities (in thousands):

|  | <b>Fair Value Measurement at December 31, 2015</b>                                  |  |  |                |
|--|---|--|--|----------------|
|  | <b>Quoted<br/>Prices in<br/>Active<br/>Markets<br/>for<br/>Identical<br/>Assets</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs</b> | <b>Significant<br/>Unobservable<br/>Inputs</b> |                |
|  | <b>Total</b>  | <b>Level 1</b>   | <b>Level 2</b>                                 | <b>Level 3</b> |
| Assets:  |   |  |  |                |
| Money market funds                                   | \$31,640  | \$ 31,640  | \$ -   | \$ -           |
| Certificates of deposit                              | 21,574  | -  | 21,574   | -              |
| U.S. treasuries and government agency bonds          | 123,532   | -  | 123,532  | -              |
| Auction-rate securities backed by student-loan notes | 5,361   | -  | -  | 5,361          |
| Mutual funds under deferred compensation plan        | 8,279   | 8,279  | -  | -              |
| Total  | \$190,386   | \$ 39,919  | \$ 145,106                                     | \$ 5,361       |

## Fair Value Measurement at December 31, 2014

|  | Total     | Quoted Prices in                    |                                     |                                 |
|--|-----------|-------------------------------------|-------------------------------------|---------------------------------|
|  |           | Active Markets for Identical Assets | Significant Other Observable Inputs | Significant Unobservable Inputs |
|  |           | Level 1                             | Level 2                             | Level 3                         |
| <b>Assets:</b>                                       |           |                                     |                                     |                                 |
| Money market funds                                   | \$60,078  | \$60,078                            | \$ -                                | \$ -                            |
| Certificates of deposit                              | 22,778    | -                                   | 22,778                              | -                               |
| U.S. treasuries and government agency bonds          | 89,674    | -                                   | 89,674                              | -                               |
| Auction-rate securities backed by student-loan notes | 5,389     | -                                   | -                                   | 5,389                           |
| Mutual funds under deferred compensation plan        | 2,236     | 2,236                               | -                                   | -                               |
| Total  | \$180,155 | \$62,314                            | \$112,452                           | \$5,389                         |
| <b>Liabilities:</b>                                  |           |                                     |                                     |                                 |
| Contingent consideration                             | \$2,507   | \$ -                                | \$ -                                | \$2,507                         |
| Total  | \$2,507   | \$ -                                | \$ -                                | \$2,507                         |

The Company's level 3 assets consist of government-backed student loan auction-rate securities, with interest rates that reset through a Dutch auction every 7 to 35 days and which became illiquid in 2008. The following table provides a rollforward of the fair value of the auction-rate securities (in thousands):

|  |         |
|--|---------|
| Balance at January 1, 2014                                       | \$9,860 |
| Sales and settlement at par                                      | (4,650) |
| Change in unrealized loss included in other comprehensive income | 179     |
| Ending balance at December 31, 2014                              | 5,389   |
| Change in unrealized loss included in other comprehensive income | (28 )   |
| Ending balance at December 31, 2015                              | \$5,361 |

The Company determined the fair value of the auction-rate securities using a discounted cash flow model with the following assumptions:

|                            | December 31, |            |
|----------------------------|--------------|------------|
|                            | 2015         | 2014       |
| Time-to-liquidity (months) | 24           | 24         |
| Expected return            | 2.9%         | 2.9%       |
| Discount rate              | 4.3%- 7.3%   | 4.0%- 7.0% |

The Company's level 3 liabilities consisted of contingent consideration related to the acquisition of Sensima in July 2014. The arrangement requires the Company to pay up to \$8.9 million to certain former Sensima shareholders if Sensima achieves a new product introduction as well as certain product revenue and direct margin targets in 2016. The fair value of the contingent consideration at the Acquisition Date was \$2.5 million, which was estimated based on a probability-weighted analysis of possible future revenue outcomes. The fair value was calculated using the following assumptions:

|                                 | <b>December 31,<br/>2014</b> |       |
|---------------------------------|------------------------------|-------|
| Projected revenue (in millions) | \$2.1 -                      | \$3.8 |
| Discount rate                   | 9.0%                         |       |
| Probability of occurrence       | 20%-                         | 50%   |

As part of the quarterly assessment in the fourth quarter of 2015, management reviewed the sales forecast for the products and concluded that the projected product revenue in 2016 will not likely meet the minimum target required to earn the contingent consideration, primarily because the product adoption process by customers will take longer than the Company had originally anticipated. Accordingly, the fair value of the contingent consideration was deemed to be \$0 as of December 31, 2015, and the Company recorded the release of the liability of \$2.5 million as a credit to selling, general and administrative expenses in the Consolidated Statement of Operations. The Company will continue to assess the probability of former Sensima shareholders earning the contingent consideration in 2016 and may record additional adjustment to the fair value.

## 5. BALANCE SHEET COMPONENTS

### *Inventories*

Inventories consist of the following (in thousands):

|                 | <b>December 31,</b> |             |
|-----------------|---------------------|-------------|
|                 | <b>2015</b>         | <b>2014</b> |
| Raw materials   | \$14,907            | \$7,298     |
| Work in process | 21,177              | 18,950      |
| Finished goods  | 27,125              | 14,670      |
| Total           | \$63,209            | \$40,918    |

### *Property and Equipment, Net*

Property and equipment, net, consist of the following (in thousands):

|   | <b>December 31,</b> |             |
|---|---------------------|-------------|
|   | <b>2015</b>         | <b>2014</b> |
| Production equipment and software               | \$92,208            | \$88,929    |
| Buildings and improvements                      | 34,736              | 29,386      |
| Land  | 5,600               | 5,600       |
| Transportation equipment                        | 4,694               | 4,694       |
| Furniture and fixtures                          | 2,962               | 2,883       |
| Leasehold improvements                          | 2,283               | 2,350       |
| Property and equipment, gross                   | 142,483             | 133,842     |
| Less: accumulated depreciation and amortization | (77,124 )           | (70,900 )   |
| Total   | \$65,359            | \$62,942    |

Depreciation and amortization expense was \$12.0 million, \$12.4 million and \$12.1 million for the years ended December 31, 2015, 2014 and 2013, respectively.

### *Other Long-Term Assets*

Other long-term assets consist of the following (in thousands):

|                                   | <b>December 31,</b> |             |
|-----------------------------------|---------------------|-------------|
|                                   | <b>2015</b>         | <b>2014</b> |
| Deferred compensation plan assets | \$13,985            | \$6,084     |
| Prepaid expense                   | 1,257               | 1,418       |
| Other                             | 1,099               | 955         |
| Total                             | \$16,341            | \$8,457     |

***Accrued Liabilities***

Accrued liabilities consist of the following (in thousands):

|   | <b>December 31,</b> |             |
|---|---------------------|-------------|
|   | <b>2015</b>         | <b>2014</b> |
| Dividends and dividend equivalents        | \$8,675             | \$6,080     |
| Deferred revenue and customer prepayments | 5,236               | 3,908       |
| Stock rotation reserve                    | 2,372               | 1,757       |
| Commissions                               | 763                 | 767         |
| Income tax payable                        | 465                 | -           |
| Warranty                                  | 289                 | 240         |
| Sales rebate                              | 268                 | 586         |
| Other                                     | 1,916               | 1,365       |
| Total                                     | \$19,984            | \$14,703    |



**Other Long-Term Liabilities**

Other long-term liabilities consist of the following (in thousands):

|  | <b>December 31,</b> |             |
|--|---------------------|-------------|
|  | <b>2015</b>         | <b>2014</b> |
| Deferred compensation plan liabilities | \$ 14,147           | \$ 6,177    |
| Dividend equivalents                   | 2,019               | 580         |
| Contingent consideration               | -                   | 2,507       |
| Other                                  | 379                 | 940         |
| Total                                  | \$ 16,545           | \$ 10,204   |

**6. GOODWILL AND ACQUISITION-RELATED INTANGIBLE ASSETS, NET**

There have been no changes in the balance of goodwill from the Acquisition Date to December 31, 2015. The Company did not identify any goodwill impairment in 2015 and 2014.

Acquisition-related intangible assets consist of the following (in thousands):

|                          | <b>December 31, 2015</b> |                     |               |
|--------------------------|--------------------------|---------------------|---------------|
|                          | <b>Gross</b>             | <b>Accumulated</b>  | <b>Net</b>    |
|                          | <b>Amount</b>            | <b>Amortization</b> | <b>Amount</b> |
| Subject to amortization: |                          |                     |               |
| Know-how                 | \$ 1,018                 | \$ (297             | ) \$ 721      |
| Developed technologies   | 6,466                    | (2,134              | ) 4,332       |
| Total                    | \$ 7,484                 | \$ (2,431           | ) \$ 5,053    |

|                          | <b>December 31, 2014</b> |                     |               |
|--------------------------|--------------------------|---------------------|---------------|
|                          | <b>Gross</b>             | <b>Accumulated</b>  | <b>Net</b>    |
|                          | <b>Amount</b>            | <b>Amortization</b> | <b>Amount</b> |
| Subject to amortization: |                          |                     |               |
| Know-how                 | \$ 1,018                 | \$ (93              | ) \$ 925      |

|                              |         |         |   |          |
|------------------------------|---------|---------|---|----------|
| Developed technologies       | 4,421   | (579    | ) | 3,842    |
| Not subject to amortization: |         |         |   |          |
| IPR&D                        | 2,045   | -       |   | 2,045    |
| Total                        | \$7,484 | \$ (672 | ) | \$ 6,812 |

During the third quarter of 2015, management determined that the acquired IPR&D from the Sensima acquisition was completed and the products incorporating the technologies were ready to be commercially introduced. Accordingly, the acquired IPR&D was reclassified into developed technologies as a finite-lived intangible asset and is being amortized over its estimated useful life.

Amortization expense is recorded in cost of revenue in the Consolidated Statements of Operations and totaled \$1.8 million and \$0.7 million for the years ended December 31, 2015 and 2014, respectively.

The estimated future amortization expense as of December 31, 2015 is as follows (in thousands):

|       |         |
|-------|---------|
| 2016  | \$2,051 |
| 2017  | 2,051   |
| 2018  | 841     |
| 2019  | 110     |
| Total | \$5,053 |

## 7. STOCK-BASED COMPENSATION

### *2004 Equity Incentive Plan (the “2004 Plan”)*

The Board of Directors adopted the 2004 Plan in March 2004, and the stockholders approved it in November 2004. The 2004 Plan provided for annual increases in the number of shares available for issuance equal to the least of 5% of the outstanding shares of common stock on the first day of the year, 2.4 million shares, or a number of shares determined by the Board of Directors. The 2004 Plan expired on November 12, 2014 and equity awards can no longer be granted under the 2004 Plan. As of November 12, 2014, 2.9 million shares that were available for issuance expired under the 2004 Plan.

### *2014 Equity Incentive Plan (the “2014 Plan”)*

The Board of Directors adopted the 2014 Plan in April 2013, and the stockholders approved it in June 2013. In October 2014, the Board of Directors approved certain amendments to the 2014 Plan. The 2014 Plan became effective on November 13, 2014 and provides for the issuance of up to 5.5 million shares. The 2014 Plan will expire on November 13, 2024. As of December 31, 2015, 4.7 million shares remained available for future issuance.

### *Stock-Based Compensation Expense*

The Company recognized stock-based compensation expense as follows (in thousands):

|                                     | <b>Year Ended December 31,</b> |             |             |
|-------------------------------------|--------------------------------|-------------|-------------|
|                                     | <b>2015</b>                    | <b>2014</b> | <b>2013</b> |
| Cost of revenue                     | \$1,166                        | \$903       | \$631       |
| Research and development            | 11,156                         | 9,019       | 6,219       |
| Selling, general and administrative | 29,241                         | 23,532      | 13,851      |
| Total                               | \$41,563                       | \$33,454    | \$20,701    |

### *RSUs*

Edgar Filing: MONOLITHIC POWER SYSTEMS INC - Form 10-K

The Company's restricted stock units ("RSUs") include time-based RSUs, RSUs with performance conditions ("PSUs"), RSUs with market conditions and performance conditions ("MPSUs"), and RSUs with market conditions ("MSUs"). Vesting of all awards requires continued employment with the Company. In addition, vesting of awards with performance conditions or market conditions is subject to the achievement of pre-determined performance goals. A summary of the RSUs is presented in the table below:

|  | Time-Based<br>RSUs | Weighted-<br>Average<br>Grant<br>Date Fair<br>PSUs<br>and<br>MPSUs |                   | Weighted-<br>Average<br>Grant<br>Date Fair<br>MSUs |                   | Weighted-<br>Average<br>Grant<br>Date Fair<br>Total |                   | Weighted-<br>Average<br>Grant<br>Date Fair |                   |
|--|--------------------|--|-------------------|--|-------------------|---|-------------------|--|-------------------|
|  |                    | Value<br>Per<br>Share<br>(in<br>thousands)                         | (in<br>thousands) | Value<br>Per<br>Share<br>(in<br>thousands)         | (in<br>thousands) | Value<br>Per<br>Share<br>(in<br>thousands)          | (in<br>thousands) | Value<br>Per<br>Share<br>(in<br>thousands) | (in<br>thousands) |
| Outstanding at<br>January 1, 2013      | 1,099              | \$ 16.96   | 531               | \$ 18.49   | -                 | \$ -  | 1,630             | \$ 17.46                                   |                   |
| Granted                                | 299                | \$ 24.25   | 875 (1)           | \$ 24.43   | 1,800             | \$ 23.57  | 2,974             | \$ 23.89                                   |                   |
| Performance<br>adjustment              | -                  | \$ -   | (124 )(2)         | \$ 21.98   | -                 | \$ -  | (124 )            | \$ 21.98                                   |                   |
| Released                               | (519 )             | \$ 17.57   | (206 )            | \$ 18.90   | -                 | \$ -  | (725 )            | \$ 17.95                                   |                   |
| Forfeited                              | (125 )             | \$ 17.06   | (48 )             | \$ 19.06   | -                 | \$ -  | (173 )            | \$ 17.61                                   |                   |
| Outstanding at<br>December 31,<br>2013 | 754                | \$ 19.41   | 1,028             | \$ 23.02   | 1,800             | \$ 23.57  | 3,582             | \$ 22.53                                   |                   |
| Granted                                | 335                | \$ 36.71   | 1,091 (1)         | \$ 34.23   | -                 | \$ -  | 1,426             | \$ 34.82                                   |                   |
| Performance<br>adjustment              | -                  | \$ -   | (139 )(2)         | \$ 31.40   | -                 | \$ -  | (139 )            | \$ 31.40                                   |                   |
| Released                               | (468 )             | \$ 20.36   | (304 )            | \$ 18.12   | -                 | \$ -  | (772 )            | \$ 19.48                                   |                   |
| Forfeited                              | (32 )              | \$ 19.75   | (17 )             | \$ 19.79   | -                 | \$ -  | (49 )             | \$ 19.77                                   |                   |
| Outstanding at<br>December 31,<br>2014 | 589                | \$ 28.48   | 1,659             | \$ 28.11   | 1,800             | \$ 23.57  | 4,048             | \$ 26.14                                   |                   |
| Granted                                | 271                | \$ 49.82   | 1,291 (1)         | \$ 45.24   | -                 | \$ -  | 1,562             | \$ 46.03                                   |                   |
| Performance<br>adjustment              | -                  | \$ -   | (364 )(2)         | \$ 39.20   | -                 | \$ -  | (364 )            | \$ 39.20                                   |                   |
| Released                               | (319 )             | \$ 26.56   | (629 )            | \$ 23.40   | -                 | \$ -  | (948 )            | \$ 24.47                                   |                   |
| Forfeited                              | (42 )              | \$ 35.60   | (24 )             | \$ 28.68   | -                 | \$ -  | (66 )             | \$ 33.06                                   |                   |
| Outstanding at<br>December 31,<br>2015 | 499                | \$ 40.75   | 1,933             | \$ 38.99   | 1,800             | \$ 23.57  | 4,232             | \$ 32.64                                   |                   |

(1) Amount reflects the maximum number of PSUs and MPSUs that can be earned assuming the achievement of the highest level of performance conditions.

(2) Amount reflects the number of PSUs and MPSUs that have not been earned or may not be earned based on management's probability assessment at each reporting period.

The intrinsic value related to awards released for the years ended December 31, 2015, 2014 and 2013 was \$49.2 million, \$28.9 million and \$18.6 million, respectively. As of December 31, 2015, the total intrinsic value of all outstanding awards was \$269.6 million, based on the closing stock price of \$63.71. As of December 31, 2015, unamortized compensation expense related to all outstanding awards was approximately \$86.0 million with a weighted-average remaining recognition period of approximately five years.

Time-Based RSUs:

For the years ended December 31, 2015, 2014 and 2013, the Board of Directors granted 271,000, 335,000 and 299,000 shares with service conditions, respectively, to employees and non-employee directors. The RSUs generally vest over one to four years, subject to continued employment with the Company.

2015 MPSUs:

On December 31, 2015, the Board of Directors granted 127,000 shares to the executive officers and certain key employees, which represent a target number of RSUs to be awarded upon achievement of both market conditions and performance conditions (“2015 MPSUs”). The maximum number of 2015 MPSUs that an employee can earn is 500% of the target shares. The 2015 MPSUs consist of four separate tranches with various performance periods ending on December 31, 2019. The first tranche contains market conditions only, which require the achievement of five MPS stock price targets ranging from \$71.36 to \$95.57 over a four-year period. The second, third and fourth tranches contain both market conditions and performance conditions. Each tranche requires the achievement of five MPS stock price targets to be measured against a base price equal to the greater of: (1) the average closing stock price during the 20 consecutive trading days immediately before the start of the measurement period for that tranche, or (2) the closing stock price immediately before the start of the measurement period for that tranche. In addition, each of the second, third and fourth tranches requires the achievement of one of following six operating metrics:

- Successful implementation of full digital solutions vs. current analog topology for certain products.
- Successful implementation and adoption by a key player of an integrated, software-based, field-oriented-control with 3D hall sensor to motor drive.
- Successful implementation of certain advanced power analog processes.
- Successful design wins and achievement of a specific level of revenues with a global networking customer.
- Achievement of a specific level of revenues with a global electronics manufacturer.
- Achievement of a specific level of market share with certain core power products.

Subject to the employees’ continued employment with the Company, the 2015 MPSUs will fully vest on January 1, 2020 if the pre-determined individual market and performance goals in each tranche are met during the performance periods. In addition, the 2015 MPSUs contain post-vesting restrictions on sales of the vested shares by employees for up to two years.

The Company determined the grant date fair value of the 2015 MPSUs using a Monte Carlo simulation model with the following weighted-average assumptions: stock price of \$61.35, expected volatility of 33.2%, risk-free interest rate of 1.3%, dividend yield of 0.0% and an illiquidity discount of 7.8% to account for the post-vesting sales restrictions. Assuming the achievement of all of the required performance goals, the total stock-based compensation cost for the

2015 MPSUs is approximately \$26.4 million to be recognized for each tranche as follows: \$9.2 million for the first tranche, \$4.6 million for the second tranche, \$5.3 million for the third tranche, and \$7.3 million for the fourth tranche.

For the first tranche, stock-based compensation expense will be recognized over four years even if the market conditions are not satisfied. For the second, third and fourth tranches, stock-based compensation expense for each tranche will be recognized over one to four years depending upon the number of the operating metrics management deems probable of achievement in each reporting period. If it becomes probable in a reporting period that more than one operating metric is expected to be achieved during the performance periods, the Company will recognize stock-based compensation expense for more than one tranche in the reporting period.

#### 2015 PSUs:

In February 2015, the Board of Directors granted 172,000 shares to the executive officers, which represent a target number of RSUs to be awarded based on the Company's average two-year (2015 and 2016) revenue growth rate compared against the analog industry's average two-year revenue growth rate as determined by the Semiconductor Industry Association ("2015 Executive PSUs"). The maximum number of 2015 Executive PSUs that an executive officer can earn is 300% of the target shares. 50% of the 2015 Executive PSUs will vest in the first quarter of 2017 if the pre-determined performance goals are met during the performance period. The remaining shares will vest over the following two years on a quarterly basis. Vesting is subject to the employees' continued employment with the Company. Assuming the achievement of the highest level of performance goals, the total stock-based compensation cost for the 2015 Executive PSUs is approximately \$25.0 million.

In February 2015, the Board of Directors granted 58,000 shares to certain non-executive employees, which represent a target number of RSUs to be awarded based on the Company's 2016 revenue goals for certain regions or product line divisions, or the Company's average two-year (2015 and 2016) revenue growth rate compared against the analog industry's average two-year revenue growth rate as determined by the Semiconductor Industry Association ("2015 Non-Executive PSUs"). The maximum number of 2015 Non-Executive PSUs that an employee can earn is either 200% or 300% of the target shares, depending on the job classification of the employee. 50% of the 2015 Non-Executive PSUs will vest in the first quarter of 2017 if the pre-determined performance goals are met during the performance period. The remaining shares will vest over the following two years on an annual or quarterly basis. Vesting is subject to the employees' continued employment with the Company. Assuming the achievement of the highest level of performance goals, the total stock-based compensation cost for the 2015 Non-Executive PSUs is approximately \$7.0 million.

2014 PSUs:

In February 2014, the Board of Directors granted 252,000 shares to the executive officers, which represented a target number of RSUs that would be awarded based on the Company's average two-year (2014 and 2015) revenue growth rate compared against the analog industry's average two-year revenue growth rate as determined by the Semiconductor Industry Association ("2014 Executive PSUs"). The maximum number of 2014 Executive PSUs that an executive officer could earn was 300% of the target shares. 50% of the 2014 Executive PSUs vest in the first quarter of 2016 if the pre-determined performance goals are met during the performance period. The remaining shares vest over the following two years on a quarterly basis. Vesting is subject to the employees' continued employment with the Company.

In February 2016, the Compensation Committee approved the revenue achievement for the 2014 Executive PSUs and a total of 694,000 shares were earned by the executive officers. Based on the actual achievement of the performance goals, the total stock-based compensation cost for the 2014 Executive PSUs is approximately \$21.9 million.

In April 2014, the Board of Directors granted 61,000 shares to certain non-executive employees, which represented a target number of RSUs that would be awarded based on the Company's 2015 revenue goals for certain regions or product line divisions, or the Company's average two-year (2014 and 2015) revenue growth rate compared against the analog industry's average two-year revenue growth rate as determined by the Semiconductor Industry Association ("2014 Non-Executive PSUs"). The maximum number of 2014 Non-Executive PSUs that an employee could earn was either 200% or 300% of the target shares, depending on the job classification of the employee. 50% of the 2014 Non-Executive PSUs vest in the second quarter of 2016 if the pre-determined performance goals are met during the performance period. The remaining shares will vest over the following two years on an annual or quarterly basis. Vesting is subject to the employees' continued employment with the Company.

In February 2016, the Compensation Committee approved the revenue achievement for the 2014 Non-Executive PSUs and a total of 103,000 shares were earned by the non-executive employees. Based on the actual achievement of the performance goals, the total stock-based compensation cost for the 2014 Non-Executive PSUs is approximately \$3.8 million.

In connection with the acquisition of Sensima in July 2014, the Board of Directors granted PSUs to key Sensima employees who became employees of the Company. See Note 2 for further discussion.

2013 MSUs:



In December 2013, the Board of Directors granted 360,000 shares to the executive officers and certain key employees, which represented a target number of RSUs that would be awarded upon achievement of five MPS stock price targets ranging from \$40.00 to \$56.00 during a five-year performance period from January 1, 2014 to December 31, 2018 (“2013 MSUs”). The maximum number of 2013 MSUs that an employee could earn was 500% of the target shares. The 2013 MSUs will vest quarterly from January 1, 2019 to December 31, 2023 if the pre-determined performance goals are met during the performance period. Vesting is subject to the employees’ continued employment with the Company. As of December 31, 2015, all five MPS stock price targets have been achieved and the employees earned a total of 1.8 million shares.

The Company determined the grant date fair value of the 2013 MSUs using a Monte Carlo simulation model with the following assumptions: stock price of \$31.73, expected volatility of 38.7%, risk-free interest rate of 1.6% and dividend yield of 0.0%. The total stock-based compensation cost for the 2013 MSUs is approximately \$42.4 million.

2013 PSUs:

In February 2013, the Board of Directors granted 220,000 shares to the executive officers, which represented a target number of RSUs that would be awarded upon achievement of certain pre-determined revenue targets in 2014 (“2013 Executive PSUs”). The maximum number of 2013 Executive PSUs that an executive officer could earn was 300% of the target shares. In February 2015, the Compensation Committee approved the revenue achievement for the 2013 Executive PSUs and a total of 622,000 shares were earned by the executive officers. 50% of the 2013 Executive PSUs vested in the first quarter of 2015 and the remaining shares vest over the following two years on a quarterly basis. Vesting is subject to the employees’ continued employment with the Company. Based on the actual achievement of the performance goals, the total stock-based compensation cost for the 2013 Executive PSUs is approximately \$15.5 million.

In February 2013, the Board of Directors granted 91,000 shares to certain non-executive employees, which represented a target number of RSUs that would be awarded upon achievement of certain pre-determined revenue targets for the Company as a whole, certain regions or product-line divisions in 2014 (“2013 Non-Executive PSUs”). The maximum number of 2013 Non-Executive PSUs that an employee could earn was either 200% or 300% of the target shares, depending on the job classification of the employee. In February 2015, the Compensation Committee approved the revenue achievement for the 2013 Non-Executive PSUs and a total of 154,000 shares were earned by the non-executive employees. 50% of the 2013 Non-Executive PSUs vested in the first quarter of 2015 and the remaining shares vest over the following two years on an annual or quarterly basis. Vesting is subject to the employees’ continued employment with the Company. Based on the actual achievement of the performance goals, the total stock-based compensation cost for the 2013 Non-Executive PSUs is approximately \$3.0 million.

### *Stock Options*

A summary of stock option activity is presented in the table below:

|   | Shares            | Weighted-<br>Average<br>Exercise<br>Price | Weighted-<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|---|-------------------|---|--|---------------------------------|
|   | (in<br>thousands) |   | (in years)   | (in<br>thousands)               |
| Outstanding at January 1, 2013                                | 3,813             | \$ 15.62                                  | 2.6  | \$ 25,380                       |
| Exercised   | (2,446 )          | \$ 15.49                                  |  |                                 |
| Forfeited and expired   | (11 )             | \$ 15.27                                  |  |                                 |
| Outstanding at December 31, 2013                              | 1,356             | \$ 15.86                                  | 1.9  | \$ 25,506                       |
| Exercised   | (742 )            | \$ 16.09                                  |  |                                 |
| Forfeited and expired   | (24 )             | \$ 10.07                                  |  |                                 |
| Outstanding at December 31, 2014                              | 590               | \$ 15.80                                  | 1.2  | \$ 20,039                       |
| Exercised   | (498 )            | \$ 15.55                                  |  |                                 |
| Forfeited and expired   | (2 )              | \$ 6.10                                   |  |                                 |
| Outstanding at December 31, 2015                              | 90                | \$ 17.50                                  | 1.3  | \$ 4,134                        |
| Options exercisable at December 31, 2015 and expected to vest | 90                | \$ 17.50                                  | 1.3  | \$ 4,134                        |
| Options exercisable at December 31, 2015                      | 89                | \$ 17.50                                  | 1.3  | \$ 4,126                        |

The following table summarizes certain information related to outstanding and exercisable options as of December 31, 2015:

| Range of Exercises Prices | Options Outstanding     |                        | Options Exercisable        |                  |          |
|---------------------------|-------------------------|------------------------|----------------------------|------------------|----------|
|                           | Weighted-Average Shares | Average Exercise Price | Weighted-Average           | Weighted-Average |          |
|                           |                         |                        | Remaining Contractual Term | Shares           |          |
|                           | (in thousands)          | (in years)             | (in thousands)             | (in thousands)   |          |
| \$11.09-\$19.29           | 69                      | \$ 16.25               | 1.5                        | 69               | \$ 16.25 |
| \$19.56-\$23.02           | 21                      | \$ 21.76               | 0.7                        | 20               | \$ 21.76 |
|                           | 90                      | \$ 17.50               | 1.3                        | 89               | \$ 17.50 |

Total intrinsic value of options exercised was \$18.6 million, \$17.3 million and \$27.8 million for the years ended December 31, 2015, 2014 and 2013, respectively. Proceeds from the exercise of stock options were \$7.7 million, \$11.9 million and \$37.9 million for the years ended December 31, 2015, 2014 and 2013, respectively. At December 31, 2015, unamortized compensation expense related to unvested options was not material.

### *Employee Stock Purchase Plan*

Under the 2004 Employee Stock Purchase Plan (the "ESPP"), eligible employees may purchase common stock through payroll deductions. Participants may not purchase more than 2,000 shares in a six-month offering period or stock having a value greater than \$25,000 in any calendar year as measured at the beginning of the offering period in accordance with the Internal Revenue Code and applicable Treasury Regulations. The ESPP provides for an automatic annual increase by an amount equal to the lesser of 1.0 million shares, 2% of the outstanding shares of common stock on the first day of the year, or a number of shares as determined by the Board of Directors. As of December 31, 2015, approximately 4.7 million shares were available for future issuance.

For the years ended December 31, 2015, 2014 and 2013, 56,000, 78,000 and 111,000 shares, respectively, were issued under the ESPP. The intrinsic value of shares issued was \$0.6 million, \$0.9 million and \$0.8 million for the years ended December 31, 2015, 2014 and 2013, respectively. The unamortized expense as of December 31, 2015 was \$78,000. The Black-Scholes model was used to value the employee stock purchase rights with the following weighted-average assumptions:

|                         | <b>Year Ended</b>   |             |             |
|-------------------------|---------------------|-------------|-------------|
|                         | <b>December 31,</b> |             |             |
|                         | <b>2015</b>         | <b>2014</b> | <b>2013</b> |
| Expected term (years)   | 0.5                 | 0.5         | 0.5         |
| Expected volatility     | 30.3 %              | 29.4 %      | 28.0 %      |
| Risk-free interest rate | 0.2 %               | 0.1 %       | 0.1 %       |
| Dividend yield          | 1.4 %               | 0.7 %       | -           |

Cash proceeds from the ESPP were \$2.2 million, \$2.1 million and \$2.1 million for the years ended December 31, 2015, 2014 and 2013, respectively.

## 8. STOCK REPURCHASE PROGRAM

In July 2013, the Board of Directors approved a stock repurchase program that authorized the Company to repurchase up to \$100 million in the aggregate of its common stock through June 30, 2015. In April 2015, the Board of Directors approved an extension of the program through December 31, 2015. All shares were retired upon repurchase. The following table summarizes the repurchase activity under the program (in thousands, except per-share amounts):

|   | <b>Shares</b>      | <b>Average</b> | <b>Total</b>  |
|---|--------------------|----------------|---------------|
|   | <b>Repurchased</b> | <b>Price</b>   | <b>Amount</b> |
|   |                    | <b>Per</b>     |               |
|   |                    | <b>Share</b>   |               |
| Cumulative balance at January 1, 2013   | -                  | \$ -           | \$ -          |
| Repurchases                             | 664                | \$ 31.06       | 20,615        |
| Cumulative balance at December 31, 2013 | 664                | \$ 31.06       | 20,615        |
| Repurchases                             | 1,051              | \$ 39.19       | 41,198        |
| Cumulative balance at December 31, 2014 | 1,715              | \$ 36.04       | 61,813        |
| Repurchases                             | 645                | \$ 50.05       | 32,286        |
| Cumulative balance at December 31, 2015 | 2,360              | \$ 39.87       | \$ 94,099     |

As of December 31, 2015, the stock repurchase program expired with a remaining balance of \$5.9 million.

**9. DIVIDENDS AND DIVIDEND EQUIVALENTS***Cash Dividend Program*

In June 2014, the Board of Directors approved a dividend program pursuant to which the Company intends to pay quarterly cash dividends on its common stock. Stockholders of record as of the last day of the quarter are entitled to receive the quarterly cash dividends when and if declared by the Board of Directors, which are generally payable on the 15th of the following month. The Board of Directors declared the following cash dividends (in thousands, except per-share amounts):

|                     | <b>Dividend<br/>Declared</b> | <b>Total</b>  |
|---------------------|------------------------------|---------------|
|                     | <b>per<br/>Share</b>         | <b>Amount</b> |
| <b><u>2015:</u></b> |                              |               |
| First quarter       | \$ 0.20                      | \$ 7,854      |
| Second quarter      | \$ 0.20                      | \$ 7,925      |
| Third quarter       | \$ 0.20                      | \$ 7,901      |
| Fourth quarter      | \$ 0.20                      | \$ 7,938      |
| <b><u>2014:</u></b> |                              |               |
| Second quarter      | \$ 0.15                      | \$ 5,817      |
| Third quarter       | \$ 0.15                      | \$ 5,823      |
| Fourth quarter      | \$ 0.15                      | \$ 5,826      |

As of December 31, 2015, accrued dividends totaled \$7.9 million, which were paid to stockholders on January 15, 2016.

The declaration of any future cash dividends is at the discretion of the Board of Directors and will depend on, among other things, the Company's financial condition, results of operations, capital requirements, business conditions, statutory requirements of Delaware law, compliance with the terms of future indebtedness and credit facilities and other factors that the Board of Directors may deem relevant, as well as a determination that cash dividends are in the best interests of the stockholders. The Company anticipates that the cash used for future dividends will come from its current domestic cash and cash generated from ongoing U.S. operations. If cash held by the Company's international subsidiaries is needed for the payment of dividends, the Company may be required to accrue and pay U.S. taxes to repatriate the funds.

### *Cash Dividend Equivalent Rights*

Under the Company's stock plan, outstanding RSU awards contain rights to receive cash dividend equivalents, which entitle employees who hold RSUs to the same dividend value per share as holders of common stock. The dividend equivalents are accumulated during the vesting periods of the RSUs and are payable to the employees when the awards vest. Dividend equivalents accumulated on the RSUs are forfeited if the employees do not fulfill their service requirement during the vesting periods. As of December 31, 2015 and 2014, accrued dividend equivalents totaled \$2.8 million and \$0.8 million, respectively, which will be paid to the employees when the RSUs vest.

## 10. NET INCOME PER SHARE

The following table sets forth the computation of basic and diluted net income per share (in thousands, except per share amounts):

|  | <b>Year Ended December 31,</b> |             |             |
|--|--------------------------------|-------------|-------------|
|  | <b>2015</b>                    | <b>2014</b> | <b>2013</b> |
| Numerator:   |                                |             |             |
| Net income   | \$35,172                       | \$35,495    | \$22,898    |
| Denominator:   |                                |             |             |
| Weighted-average outstanding shares used to compute basic net income per share   | 39,470                         | 38,686      | 37,387      |
| Effect of dilutive securities  | 1,399                          | 1,107       | 1,233       |
| Weighted-average outstanding shares used to compute diluted net income per share | 40,869                         | 39,793      | 38,620      |
| Net income per share:  |                                |             |             |
| Basic  | \$0.89                         | \$0.92      | \$0.61      |
| Diluted  | \$0.86                         | \$0.89      | \$0.59      |

Anti-dilutive common stock equivalents were not material in any of the periods presented.

## 11. INCOME TAXES

The components of income before income taxes are as follows (in thousands):

|                                  | <b>Year Ended December 31,</b> |             |             |
|----------------------------------|--------------------------------|-------------|-------------|
|                                  | <b>2015</b>                    | <b>2014</b> | <b>2013</b> |
| United States                    | \$(247 )                       | \$3,173     | \$(2,309 )  |
| International                    | 42,738                         | 33,219      | 26,316      |
| Total income before income taxes | \$42,491                       | \$36,392    | \$24,007    |

Management's intent is to indefinitely reinvest any undistributed earnings from its foreign subsidiaries. Accordingly, no provision for Federal and state income or foreign withholding taxes has been provided thereon, nor is it practical to determine the amount of this liability. Upon distribution of those earnings in the form of dividends or otherwise, the Company will be subject to U.S. income taxes and potential foreign withholding taxes. As of December 31, 2015 and 2014, the unremitted earnings of foreign subsidiaries were \$214.3 million and \$172.7 million, respectively. The Company has sufficient cash reserves in the U.S. and intends to use the undistributed foreign earnings to fund foreign operations and research and development needs, planned capital outlay and expansion.

The components of the income tax provision are as follows (in thousands):

|                            | <b>Year Ended<br/>December 31,</b> |             |             |
|----------------------------|------------------------------------|-------------|-------------|
|                            | <b>2015</b>                        | <b>2014</b> | <b>2013</b> |
| Current:                   |                                    |             |             |
| Federal                    | \$6,042                            | \$18        | \$77        |
| State                      | 2                                  | (28 )       | 67          |
| Foreign                    | 1,213                              | 943         | 1,053       |
| Deferred:                  |                                    |             |             |
| Foreign                    | 62                                 | (36 )       | (88 )       |
| Total income tax provision | \$7,319                            | \$897       | \$1,109     |

The effective tax rate differs from the applicable U.S. statutory federal income tax rate as follows:

|                                 | <b>Year Ended December<br/>31,</b> |             |             |
|---------------------------------|------------------------------------|-------------|-------------|
|                                 | <b>2015</b>                        | <b>2014</b> | <b>2013</b> |
| U.S. statutory federal tax rate | 34.0 %                             | 34.0 %      | 34.0 %      |
| Settlement with tax authorities | 6.2                                | -           | -           |
| Foreign income at lower rates   | (43.1)                             | (27.7)      | (33.8)      |
| Changes in valuation allowance  | 17.6                               | 5.9         | 16.8        |
| Stock-based compensation        | -                                  | (9.3 )      | (13.7)      |
| Reserves and other              | 2.5                                | (0.4 )      | 1.3         |
| Effective tax rate              | 17.2 %                             | 2.5 %       | 4.6 %       |

The components of net deferred tax assets consist of the following (in thousands):

|   | <b>December 31,</b> |             |
|---|---------------------|-------------|
|   | <b>2015</b>         | <b>2014</b> |
| Deferred tax assets:                    |                     |             |
| Research tax credits                    | \$8,869             | \$10,393    |
| Deferred compensation                   | 5,038               | 2,326       |
| Other expenses not currently deductible | 3,519               | 2,535       |
| Stock-based compensation                | 1,912               | 4,068       |
| Net operating losses                    | -                   | 298         |
| Depreciation and amortization           | (52 )               | 181         |
| Total deferred tax assets               | 19,286              | 19,801      |
| Valuation allowance                     | (18,614)            | (19,051)    |
| Net deferred tax assets                 | \$672               | \$750       |



As a result of the cost sharing arrangements with the Company's international subsidiaries (cost share arrangements), relatively small changes in costs that are not subject to sharing under the cost share arrangements can significantly impact the overall profitability of the U.S. entity. Because of the U.S. entity's inconsistent earnings history and uncertainty of future earnings, the Company has determined that it is more likely than not that the U.S. deferred tax benefits would not be realized. The Company will continue to evaluate if its facts and circumstances warrant a reversal of the valuation allowance against the U.S. deferred tax benefits in future periods.

As of December 31, 2015 and 2014, the Company had a valuation allowance of \$18.6 million and \$19.1 million, respectively, attributable to management's determination that it is more likely than not that most of the deferred tax assets in the U.S. will not be realized. Should it be determined that additional amounts of the net deferred tax asset will not be realized in the future, an adjustment to increase the deferred tax asset valuation allowance will be charged to income in the period such determination is made. Likewise, in the event the Company were to determine that it is more likely than not that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the valuation allowance for the deferred tax asset would increase income in the period such determination was made.

As of December 31, 2015, the federal and state net operating loss carryforwards for income tax purposes were approximately \$0.7 million and \$22.8 million, respectively. The federal net operating loss carryforwards will begin to expire in 2034 and the state net operating loss carry forwards will expire beginning in 2017. \$0.7 million of the federal net operating loss carry forwards and \$22.8 million of the state operating loss carry forwards are related to excess tax benefits as a result of stock option exercises and therefore will be recorded in additional paid-in-capital in the period that they become realized. The Company has elected to follow the "with and without" approach to account for excess tax benefits from stock options exercises. In addition, the Company only considers the direct effects of stock option exercises when calculating the amount of windfalls or shortfalls.

As of December 31, 2015, the Company had research tax credit carryforwards of \$16.3 million for federal income tax purposes, which will begin to expire in 2026, and \$15.6 million for state income tax purposes, which can be carried forward indefinitely. \$7.4 million of the federal research tax credit and \$1.6 million of the state research tax credit carryforwards are related to excess tax benefits as a result of stock option exercises and therefore will be recorded in additional paid-in-capital in the period that they become realized.

In the event of a change in ownership, as defined under federal and state tax laws, the Company's net operating loss and tax credit carryforwards could be subject to annual limitations. The annual limitations could result in the expiration of the net operating loss and tax credit carryforwards prior to utilization.

The R&D credit extension, part of the Protecting Americans from Tax Hikes (“PATH”) Act of 2015, was signed into law by the President on December 18, 2015. Under prior law, R&D credit was extended as of December 31 2014. The PATH Act of 2015 permanently extends the R&D credit retroactively as of January 1, 2015. As a result of the retroactive extension, the Company had an increase to its federal R&D credits of approximately \$1.9 million for qualifying amounts incurred in 2015. However, due to the Company’s current valuation allowance position, the credit did not result in a tax benefit.

On July 27, 2015, in *Altera Corp. v. Commissioner*, the U.S. Tax Court issued an opinion related to the treatment of stock-based compensation expense in an intercompany cost-sharing arrangement. A final decision was issued in December 2015, and the IRS appealed the decision in February 2016. At this time, the U.S. Department of the Treasury has not withdrawn the requirement from its regulations to include stock-based compensation. Due to the uncertainty surrounding the status of the current regulations, questions related to the scope of potential benefits, and the risk of the Tax Court’s decision being overturned upon appeal, the Company has not recorded any adjustments as of December 31, 2015. The Company will continue to monitor developments related to this opinion and the potential impact on its financial statements.

At December 31, 2015, the Company had \$12.1 million of unrecognized tax benefits, \$2.7 million of which would affect its effective tax rate if recognized after considering the valuation allowance. At December 31, 2014, the Company had \$16.4 million of unrecognized tax benefits, \$4.8 million of which would affect its effective tax rate if recognized after considering the valuation allowance.

A reconciliation of the gross unrecognized tax benefits is as follows (in thousands):

|  |           |
|--|-----------|
| Balance as at January 1, 2013              | \$ 13,081 |
| Increases for tax position of prior year   | 646       |
| Increases for tax position of current year | 1,528     |

|  |          |
|--|----------|
| Decreases due to lapse of statute of limitations     | (333 )   |
| Balance as of December 31, 2013                      | 14,922   |
| Increases for tax position of prior year             | 584      |
| Increases for tax position of current year           | 1,760    |
| Decreases due to lapse of statute of limitations     | (860 )   |
| Balance as of December 31, 2014                      | 16,406   |
| Increases for tax position of current year           | 1,964    |
| Decreases related to settlement with tax authorities | (4,162 ) |
| Decreases due to lapse of statute of limitations     | (669 )   |
| Decreases for tax position of prior year             | (1,446 ) |
| Balance as of December 31, 2015                      | \$12,093 |

The Company recognizes interest and penalties, if any, related to uncertain tax positions in its income tax provision. As of December 31, 2015 and 2014, the Company has approximately \$0.2 million and \$0.5 million, respectively, of accrued interest related to uncertain tax positions, which were recorded in long-term income tax liabilities in the Consolidated Balance Sheets.

Uncertain tax positions relate to the allocation of income and deductions among the Company's global entities and to the determination of the research and development tax credit. It is reasonably possible that over the next twelve-month period, the Company may experience increases or decreases in its unrecognized tax benefits. However, it is not possible to determine either the magnitude or the range of increases or decreases at this time.

In Switzerland where the Company designs and sells certain of its products, the Company's earnings are currently subject to a tax holiday through 2018. The benefit resulting from the tax holiday had an insignificant impact on earnings per share for the periods presented.

On September 13, 2013, the U.S. Treasury Department and the IRS issued final regulations that address costs incurred in acquiring, producing, or improving tangible property (the "tangible property regulations"). The tangible property regulations are effective for tax years beginning on or after January 1, 2014. Given its full valuation allowance, the regulations did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

### ***Income Tax Audits***

The Company is subject to examination of its income tax returns by the IRS and other tax authorities. The Company's U.S. Federal income tax returns for the years ended December 31, 2005 through December 31, 2007 were under examination by the IRS. In April 2011, the Company received from the IRS a Notice of Proposed Adjustment ("NOPA") relating to a cost-sharing agreement entered into by the Company and its international subsidiaries on January 1, 2004. In the NOPA, the IRS objected to the Company's allocation of certain litigation expenses between the Company and its international subsidiaries and the amount of "buy-in payments" made by the international subsidiaries to the Company in connection with the cost-sharing agreement, and proposed to increase the Company's U.S. taxable income according to a few alternative methodologies. In February 2012, the Company received a revised NOPA from the IRS ("Revised NOPA"). In this Revised NOPA, the IRS raised the same issues as in the NOPA issued in April 2011 but under a different methodology. Under the Revised NOPA, the largest potential federal income tax payment, if the IRS were to prevail on all matters in dispute, was \$10.5 million, plus interest and penalties, if any. The Company responded to the Revised NOPA in May 2012. In June 2013, the IRS responded and continued to disagree with the Company's rebuttal. The Company met with the IRS Office of Appeals in 2014 and both parties engaged in continuous discussions for a resolution of the matter in the first quarter of 2015. Meanwhile, the Company granted the IRS an extension of the statute of limitations for taxable years 2005 through 2007 to September 30, 2015.

The IRS also audited the research and development credits carried forward into year 2005 and the credits generated in the years 2005 through 2007. The Company received a NOPA from the IRS in February 2011, proposing to reduce the research and development credits generated in years 2005 through 2007 and the carryforwards, which would then reduce the value of such credits carried forward to subsequent tax years.

In April 2015, the Company reached a final resolution with the IRS in connection with the income tax audits for the years 2005 through 2007. Under the agreement, the Company made a one-time buy-in payment of \$1.2 million for taxes related primarily to the revaluation of a license for certain intellectual property rights of the Company to one of its international subsidiaries. This buy-in payment is final and no additional payment will be required with respect to the intellectual property license for the years under examination or for a previous or subsequent tax year. In addition, the Company made an interest payment of \$1.0 million as well as a tax payment of \$0.1 million for the tax years 2008 to 2013 in 2015. There were no penalties assessed on the Company as a result of the audits.

For the second quarter of 2015, the Company's income tax provision included a one-time net charge of approximately \$2.7 million reflecting the taxes and interest, partially offset by the reversal of previously accrued tax liabilities and valuation allowances. Of the \$2.7 million charge, approximately \$1.6 million was related to taxes and \$1.1 million was related to interest.

## 12. COMMITMENTS AND CONTINGENCIES

### *Lease Obligations*

As of December 31, 2015, future minimum payments under the non-cancelable operating leases were as follows (in thousands):

|       |         |
|-------|---------|
| 2016  | \$1,354 |
| 2017  | 631     |
| 2018  | 258     |
| 2019  | 169     |
| 2020  | 116     |
| Total | \$2,528 |

In September 2004, the Company entered into a lease arrangement for its manufacturing facility located in Chengdu, China. In September 2015, the Company exercised the option to acquire the facility for approximately \$1.7 million, which consists of total construction costs minus total rent paid by the Company during the lease term. The Company expects to close the transaction in the first half of 2016.

The Company also leases sales and research and development offices in China, Europe, Japan, Korea, Taiwan, and the United States. Certain of the Company's facility leases provide for periodic rent increases. Rent expense for the years ended December 31, 2015, 2014 and 2013 was \$1.8 million, \$1.5 million and \$1.2 million, respectively.

***Warranty and Indemnification Provisions***

The Company generally provides a standard one to two-year warranty against defects in materials and workmanship and will either repair the goods or provide replacements at no charge to the customer for defective units. In such cases, the Company accrues for the related costs at the time the decision to permit the return is made. Reserve requirements are recorded in the period of sale and are based on an assessment of the products sold with warranty and historical warranty costs incurred.

The changes in warranty reserves are as follows (in thousands):

|                                      | <b>Year Ended</b>   |             |             |
|--------------------------------------|---------------------|-------------|-------------|
|                                      | <b>December 31,</b> |             |             |
|                                      | <b>2015</b>         | <b>2014</b> | <b>2013</b> |
| Balance at beginning of period       | \$240               | \$451       | \$331       |
| Warranty provision for product sales | 333                 | 282         | 476         |
| Settlements made                     | (158)               | (42 )       | (117)       |
| Unused warranty provision            | (126)               | (451)       | (239)       |
| Balance at end of period             | \$289               | \$240       | \$451       |

The Company provides indemnification agreements to certain direct or indirect customers. The Company agrees to reimburse these parties for any damages, costs and expenses incurred by them as a result of legal actions taken against them by third parties for infringing upon their intellectual property rights as a result of using the Company's products and technologies. These indemnification provisions are varied in their scope and are subject to certain terms, conditions, limitations and exclusions. In addition, the Company has entered into indemnification agreements with its directors and officers.

It is not possible to predict the maximum potential amount of future payments under these agreements due to the limited history of indemnification claims and the unique facts and circumstances involved in each particular agreement. There were no indemnification liabilities incurred in any of the periods presented. However, there can be no assurances that the Company will not incur any financial liabilities in the future as a result of these obligations.

**13. LITIGATION**

The Company is a party to actions and proceedings in the ordinary course of business, including litigation regarding its shareholders and its intellectual property, challenges to the enforceability or validity of its intellectual property,

claims that the Company's products infringe on the intellectual property rights of others, and employment matters. These proceedings often involve complex questions of fact and law and may require the expenditure of significant funds and the diversion of other resources to prosecute and defend. The Company defends itself vigorously against any such claims.

### *O2 Micro*

In May 2012, the United States District Court for the Northern District of California (the "District Court") issued an order finding O2 Micro International, Ltd. ("O2 Micro") liable for approximately \$9.1 million in attorneys' fees and non-taxable costs, plus interest, in connection with the patent litigation that the Company won in 2010. This award was in addition to the approximately \$0.3 million in taxable costs that the District Court had earlier ordered O2 Micro to pay to the Company in connection with the same lawsuit. In October 2012, O2 Micro appealed the District Court's judgment to the United States Court of Appeals for the Federal Circuit (the "Federal Circuit"). In August 2013, the Federal Circuit affirmed O2 Micro's liability for the full amount of the award. In September 2013, O2 Micro filed a petition for rehearing of that ruling, but the Federal Circuit denied O2 Micro's petition for rehearing in October 2013.

In November 2013, the Company received a cash payment of \$9.5 million from O2 Micro. In January 2014, O2 Micro filed an appeal with the United States Supreme Court. Had O2 Micro been successful in obtaining a favorable ruling against the Company, the Company could have been liable to return a portion or all of the \$9.5 million to O2 Micro. Accordingly, the Company recorded the \$9.5 million as a current liability as of December 31, 2013.

In March 2014, the Supreme Court declined to hear the case. As O2 Micro had no further legal avenues to appeal, the Company released the current liability of \$9.5 million and recorded the award as a litigation benefit in the Consolidated Statements of Operations in the first quarter of 2014. In addition, the Company incurred additional legal fees of \$0.5 million in connection with the final resolution of the lawsuit.

### *Silergy*

In December 2011, the Company entered into a settlement and license agreement with Silergy Corp. and Silergy Technology for infringement of the Company's patent whereby the Company would receive a total of \$2.0 million. The first \$1.2 million was paid in equal installments of \$0.3 million in each quarter of 2012 and the remainder was paid in two equal installments in the first two quarters of 2013. All amounts were recorded as litigation benefits in the Consolidated Statements of Operations in the periods the proceeds were received.

**14. EMPLOYEE 401(k) PLAN**

The Company sponsors a 401(k) retirement savings plan for all employees in the United States who meet certain eligibility requirements. Participants may contribute up to the amount allowable as a deduction for federal income tax purposes. The Company is not required to contribute and did not contribute to the plan in 2015, 2014 and 2013.

**15. SIGNIFICANT CUSTOMERS**

The Company sells its products primarily through third-party distributors, value-added resellers and directly to original equipment manufacturers, original design manufacturers, and electronic manufacturing service providers. The following table summarizes those customers with sales greater than 10% of the Company's total revenue:

| <b>Customers</b> | <b>Year Ended</b>   |             |             |
|------------------|---------------------|-------------|-------------|
|                  | <b>December 31,</b> |             |             |
|                  | <b>2015</b>         | <b>2014</b> | <b>2013</b> |
| Distributor A    | 24 %                | 26 %        | 32 %        |
| Distributor B    | *                   | *           | 10 %        |

\* Represents less than 10%.

The following table summarizes those customers with accounts receivable balances greater than 10% of the Company's total accounts receivable:

| <b>Customers</b> | <b>December</b> |             |
|------------------|-----------------|-------------|
|                  | <b>31,</b>      |             |
|                  | <b>2015</b>     | <b>2014</b> |
| Distributor A    | 28 %            | 31 %        |
| Distributor B    | 17 %            | 10 %        |

Both of the customers are third-party distributors. The Company's agreements with these distributors were made in the ordinary course of business and may be terminated with or without cause by these distributors with advance notice. Although the Company may experience a short-term disruption in the distribution of its products and a short-term decline in revenue if its agreement with either of these distributors was terminated, the Company believes that such termination would not have a material adverse effect on its financial statements because it would be able to engage



alternative distributors, resellers and other distribution channels to deliver its products to end customers within a few quarters following the termination of the agreement with the distributor.

## **16. SEGMENT AND GEOGRAPHIC INFORMATION**

The Company operates in one reportable segment that includes the design, development, marketing and sale of high-performance power solutions for the communications, storage and computing, consumer and industrial markets. The Company's chief operating decision maker is its chief executive officer, who reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. The Company derives a majority of its revenue from sales to customers located outside North America, with geographic revenue based on the customers' ship-to locations.

The following is a summary of revenue by geographic regions (in thousands):

| <b>Country or Region</b> | <b>Year Ended December 31,</b> |                  |                  |
|--------------------------|--------------------------------|------------------|------------------|
|                          | <b>2015</b>                    | <b>2014</b>      | <b>2013</b>      |
| China                    | \$213,119                      | \$181,050        | \$141,400        |
| Taiwan                   | 41,521                         | 38,460           | 34,248           |
| Europe                   | 22,603                         | 19,830           | 15,351           |
| Korea                    | 20,519                         | 14,362           | 9,992            |
| Southeast Asia           | 18,592                         | 13,993           | 21,760           |
| Japan                    | 9,727                          | 8,251            | 7,495            |
| United States            | 6,732                          | 6,392            | 7,525            |
| Other                    | 254                            | 197              | 320              |
| <b>Total</b>             | <b>\$333,067</b>               | <b>\$282,535</b> | <b>\$238,091</b> |

The following is a summary of revenue by product family (in thousands):

| <b>Product Family</b>     | <b>Year Ended December 31,</b> |                  |                  |
|---------------------------|--------------------------------|------------------|------------------|
|                           | <b>2015</b>                    | <b>2014</b>      | <b>2013</b>      |
| DC to DC products         | \$299,726                      | \$253,083        | \$211,337        |
| Lighting control products | 33,341                         | 29,452           | 26,754           |
| <b>Total</b>              | <b>\$333,067</b>               | <b>\$282,535</b> | <b>\$238,091</b> |

The following is a summary of long-lived assets by geographic regions (in thousands):

| <b>Country</b> | <b>December 31,</b> |                 |
|----------------|---------------------|-----------------|
|                | <b>2015</b>         | <b>2014</b>     |
| China          | \$40,738            | \$37,147        |
| United States  | 40,405              | 33,913          |
| Bermuda        | 11,624              | 13,383          |
| Other          | 557                 | 339             |
| <b>Total</b>   | <b>\$93,324</b>     | <b>\$84,782</b> |

## **17. ACCUMULATED OTHER COMPREHENSIVE INCOME**

The following table summarizes the changes in accumulated other comprehensive income (in thousands):

|  | <b>Unrealized<br/>Losses</b>              | ) | <b>Unrealized<br/>Gains</b>  | ) | <b>Foreign<br/>Currency<br/>Translation<br/>Adjustments</b> | <b>Total</b> |
|--|---|---|--|---|---|--------------|
|  | <b>on<br/>Auction-Rate<br/>Securities</b> |   | <b>(Losses) on<br/>Other<br/>Available-for-Sale<br/>Securities</b> |   |   |              |
| Balance as of January 1, 2014                                    | \$ (360                                   |   | ) \$ 4   |   | \$ 6,616  | \$6,260      |
| Other comprehensive income (loss) before reclassifications       | 179                                       |   | (17  |   | ) (609  | ) (447 )     |
| Amounts reclassified from accumulated other comprehensive income | -   |   | (2   |   | ) -   | (2 )         |
| Net current period other comprehensive income (loss)             | 179                                       |   | (19  |   | ) (609  | ) (449 )     |
| Balance as of December 31, 2014                                  | (181                                      |   | ) (15  |   | ) 6,007   | 5,811        |
| Other comprehensive loss before reclassifications                | (28                                       |   | ) (146   |   | ) (4,166  | ) (4,340)    |
| Amounts reclassified from accumulated other comprehensive income | -   |   | (5   |   | ) -   | (5 )         |
| Net current period other comprehensive loss                      | (28                                       |   | ) (151   |   | ) (4,166  | ) (4,345)    |
| Balance as of December 31, 2015                                  | \$ (209                                   |   | ) \$ (166  |   | ) \$ 1,841  | \$1,466      |

The amounts reclassified from accumulated other comprehensive income were recorded in interest and other income, net, in the Consolidated Statements of Operations.

## 18. SUBSEQUENT EVENTS

### *Stock Repurchase Program*

In February 2016, the Board of Directors approved a new stock repurchase program that authorizes the Company to repurchase up to \$50.0 million in the aggregate of its common stock through December 31, 2016.

**2016 PSUs**

In February 2016, the Board of Directors granted a total of 349,000 shares to the executive officers and certain non-executive employees, which represent a target number of RSUs to be awarded upon achievement of certain performance conditions. The maximum number of shares that an employee can earn is either 200% or 300% of the target shares. The PSUs contain a purchase price feature, which requires the employees to pay the Company \$20 per share upon vesting of the shares. Shares that do not vest will not be subject to the purchase price payment.

**19. QUARTERLY FINANCIAL DATA (UNAUDITED)**

|  | <b>Three Months Ended</b>                |                     |                          |                         |
|--|--|---------------------|--------------------------|-------------------------|
|  | <b>March<br/>31,</b>                     | <b>June<br/>30,</b> | <b>September<br/>30,</b> | <b>December<br/>31,</b> |
|  | <b>2015</b>                              | <b>2015</b>         | <b>2015</b>              | <b>2015</b>             |
|  | (in thousands, except per share amounts) |                     |                          |                         |
| Revenue                                  | \$73,538                                 | \$81,416            | \$ 91,194                | \$ 86,918               |
| Cost of revenue                          | 33,855                                   | 37,287              | 41,754                   | 40,001                  |
| Gross profit                             | 39,683                                   | 44,129              | 49,440                   | 46,917                  |
| Operating expenses:                      |  |                     |                          |                         |
| Research and development                 | 16,038                                   | 15,743              | 17,272                   | 16,734                  |
| Selling, general and administrative      | 17,518                                   | 17,964              | 18,722                   | 18,107                  |
| Litigation expense                       | 270                                      | 311                 | 136                      | 283                     |
| Total operating expenses                 | 33,826                                   | 34,018              | 36,130                   | 35,124                  |
| Income from operations                   | 5,857                                    | 10,111              | 13,310                   | 11,793                  |
| Interest and other income (expense), net | 642                                      | 235                 | (6                       | ) 550                   |
| Income before income taxes               | 6,499                                    | 10,346              | 13,304                   | 12,343                  |
| Income tax provision                     | 536                                      | 2,447               | 2,103                    | 2,233                   |
| Net income                               | \$5,963                                  | \$7,899             | \$ 11,201                | \$ 10,110               |
| Net income per share:                    |  |                     |                          |                         |
| Basic                                    | \$0.15                                   | \$0.20              | \$ 0.28                  | \$ 0.26                 |
| Diluted                                  | \$0.15                                   | \$0.19              | \$ 0.28                  | \$ 0.24                 |
| Weighted-average shares outstanding:     |  |                     |                          |                         |
| Basic                                    | 39,105                                   | 39,570              | 39,592                   | 39,615                  |
| Diluted                                  | 40,596                                   | 40,745              | 40,689                   | 41,445                  |
| Cash dividends declared per common share | \$0.20                                   | \$0.20              | \$ 0.20                  | \$ 0.20                 |



|  | <b>Three Months Ended</b>                |                     |                          |                         |
|--|--|---------------------|--------------------------|-------------------------|
|  | <b>March<br/>31,</b>                     | <b>June<br/>30,</b> | <b>September<br/>30,</b> | <b>December<br/>31,</b> |
|  | <b>2014</b>                              | <b>2014</b>         | <b>2014</b>              | <b>2014</b>             |
|  | (in thousands, except per share amounts) |                     |                          |                         |
| Revenue                                  | \$60,061                                 | \$68,436            | \$ 78,335                | \$ 75,703               |
| Cost of revenue                          | 27,964                                   | 31,337              | 35,872                   | 34,744                  |
| Gross profit                             | 32,097                                   | 37,099              | 42,463                   | 40,959                  |
| Operating expenses:                      |  |                     |                          |                         |
| Research and development                 | 15,603                                   | 13,368              | 14,679                   | 14,941                  |
| Selling, general and administrative      | 16,109                                   | 16,853              | 17,006                   | 16,787                  |
| Litigation expense (benefit), net        | (8,700 )                                 | 274                 | 332                      | 66                      |
| Total operating expenses                 | 23,012                                   | 30,495              | 32,017                   | 31,794                  |
| Income from operations                   | 9,085                                    | 6,604               | 10,446                   | 9,165                   |
| Interest and other income, net           | 190                                      | 295                 | 202                      | 407                     |
| Income before income taxes               | 9,275                                    | 6,899               | 10,648                   | 9,572                   |
| Income tax provision (benefit)           | 257                                      | 502                 | (573 )                   | 712                     |
| Net income                               | \$9,018                                  | \$6,397             | \$ 11,221                | \$ 8,860                |
| Net income per share:                    |  |                     |                          |                         |
| Basic                                    | \$0.23                                   | \$0.17              | \$ 0.29                  | \$ 0.23                 |
| Diluted                                  | \$0.23                                   | \$0.16              | \$ 0.28                  | \$ 0.22                 |
| Weighted-average shares outstanding:     |  |                     |                          |                         |
| Basic                                    | 38,470                                   | 38,684              | 38,785                   | 38,807                  |
| Diluted                                  | 39,517                                   | 39,608              | 39,727                   | 40,321                  |
| Cash dividends declared per common share | \$-                                      | \$0.15              | \$ 0.15                  | \$ 0.15                 |

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934 as of the end of the period covered by this Annual Report on Form 10-K.

Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of December 31, 2015, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

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

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2015. Management reviewed the results of its assessment with our Audit Committee.

Our independent registered public accounting firm, Deloitte & Touche LLP, which audited the consolidated financial statements included in this Annual Report on Form 10-K, has issued an attestation report on the effectiveness of our internal control over financial reporting.

### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Limitations on Effectiveness of Controls and Procedures**

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.



**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of

Monolithic Power Systems, Inc.

San Jose, California

We have audited the internal control over financial reporting of Monolithic Power Systems, Inc. and subsidiaries (the "Company") as of December 31, 2015, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2015 of the Company and our report dated February 29, 2016 expressed an unqualified opinion on those financial statements.

/s/ DELOITTE & TOUCHE LLP

San Jose, California

February 29, 2016

**ITEM 9B. OTHER INFORMATION**

None.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Reference is made to the information regarding directors and nominees, code of ethics, corporate governance matters and disclosure relating to compliance with Section 16(a) of the Securities Exchange Act of 1934 appearing under the captions “Election of Directors” and “Compliance with Section 16(a) Beneficial Ownership Reporting Compliance” in the Company’s Proxy Statement for its 2016 Annual Meeting of Stockholders (the “2016 Annual Meeting”), which information is incorporated in this Annual Report on Form 10-K by reference. Information regarding executive officers is set forth under the caption “Executive Officers of the Registrant” in Part I of this Annual Report on Form 10-K.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this item will be set forth under the caption “Executive Officer Compensation” in the Company’s Proxy Statement for the 2016 Annual Meeting, and is incorporated herein by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this item will be set forth under the captions “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information” in the Company’s Proxy Statement for the 2016 Annual Meeting, and is incorporated herein by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this item will be set forth under the captions “Certain Relationships and Related Transactions” and “Election of Directors” in the Company’s Proxy Statement for the 2016 Annual Meeting, and is incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by this item will be set forth under the caption “Audit and Other Fees” in the Company’s Proxy Statement for the 2016 Annual Meeting, and is incorporated herein by reference.

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.**

**(a) Documents filed as part of this report**

**(1) All financial statements**

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets

Consolidated Statements of Operations

Consolidated Statements of Comprehensive Income

Consolidated Statements of Stockholders' Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

**(2) Financial Statement Schedules**

All schedules have been omitted because the required information is not present or not present in amounts sufficient to require submission of the schedules, or because the information required is included in the consolidated financial statements or notes thereto.

**(3) Exhibits**

| <b>Exhibit</b> | <b>Description</b> |
|----------------|--------------------|
|----------------|--------------------|

**Number**

- 3.1 (1) Amended and Restated Certificate of Incorporation.
- 3.2 (2) Amended and Restated Bylaws.
- 10.1+ (3) Registrant's 1998 Stock Plan and form of option agreement.
- 10.2+ (4) Registrant's 2004 Employee Stock Purchase Plan and form of subscription agreement.
- 10.3+ (5) Form of Directors' and Officers' Indemnification Agreement.
- 10.4† (6) Foundry Agreement between the Registrant and Advanced Semiconductor Manufacturing Corp. of Shanghai, dated August 14, 2001.
- 10.5+ (7) Employment Agreement with Michael Hsing and Amendment thereof.
- 10.6+ (8) Employment Agreement with Maurice Sciammas and Amendment thereof.
- 10.7+ (9) Employment Agreement with Jim Moyer.
- 10.8+(10) Employment Agreement with Deming Xiao and Amendment thereof.
- 10.9 (11) Distribution Agreement with Asian Information Technology Inc. Ltd., dated March 1, 2004.
- 10.10†(12) Investment and Cooperation Contract, dated August 19, 2004.
- 10.11+(13) Form of Performance Unit Agreement.
- 10.12+(14) Letter Agreement with Victor Lee.
- 10.13+(15) Letter Agreement with Douglas McBurnie.
- 10.14+(16) Letter Agreement with Karen A. Smith Bogart.
- 10.15+(17) Registrant's Employee Bonus Plan, as amended effective March 6, 2008.
- 10.16+(18) Form of Restricted Stock Award Agreement.
- 10.17+(19) Letter Agreement with Jeff Zhou.
- 10.18+(20) Employment Agreement with Meera P. Rao and Saria Tseng and Amendments thereof.

- 10.19+(21) Monolithic Power Systems, Inc. Master Cash Performance Bonus Plan.
- 10.20+(22) Letter Agreement with Eugen Elmiger.
- 10.21+(23) Monolithic Power Systems, Inc. 2004 Equity Incentive Plan, as Amended, and Form of Grant Agreement.
- 10.22+(24) Monolithic Power Systems, Inc. 2014 Equity Incentive Plan and Form of Grant Agreement.
- 21.1 Subsidiaries of Monolithic Power Systems, Inc.
- 23.1 Consent of Independent Registered Public Accounting Firm.
- 24.1 Power of Attorney (included on Signature page to this Form 10-K).
- 31.1 Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1\* Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance
- 101.SCH XBRL Taxonomy Extension Schema
- 101.CAL XBRL Taxonomy Extension Calculation
- 101.DEF XBRL Taxonomy Extension Definition
- 101.LAB XBRL Taxonomy Extension Labels
- 101.PRE XBRL Taxonomy Extension Presentation

---

+ Management contract or compensatory plan or arrangement.

† Confidential treatment requested for portions of this agreement, which portions have been omitted and filed separately with the Securities and Exchange Commission

\* This exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that Section, nor shall it be deemed incorporated by reference in any filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.

(1) Incorporated by reference to Exhibit 3.2 of the Registrant’s Registration Statement on Form S-1/A (Registration No. 333-117327), filed with the Securities and Exchange Commission on November 15, 2004.

- (2) Incorporated by reference to Exhibit 3.4 of the Registrant's Registration Statement on Form S-1/A (Registration No. 333-117327), filed with the Securities and Exchange Commission on November 15, 2004.
- (3) Incorporated by reference to Exhibit 10.1 of the Registrant's Registration Statement on Form S-1 (Registration No. 333-117327), filed with the Securities and Exchange Commission on July 13, 2004.
- (4) Incorporated by reference to Exhibit 10.3 of the Registrant's Registration Statement on Form S-1 (Registration No. 333-117327), filed with the Securities and Exchange Commission on July 13, 2004.
- (5) Incorporated by reference to Exhibit 10.4 of the Registrant's Registration Statement on Form S-1/A (Registration No. 333-117327), filed with the Securities and Exchange Commission on November 15, 2004.
- (6) Incorporated by reference to Exhibit 10.5 of the Registrant's Registration Statement on Form S-1/A (Registration No. 333-117327), filed with the Securities and Exchange Commission on November 2, 2004.  
Incorporated by reference to Exhibit 10.7 of the Registrant's annual report on Form 10-K (File No. 000-51026), filed with the Securities and Exchange Commission on March 11, 2008 and Exhibit 10.1 of the Registrant's
- (7) current report on Form 8-K (File No. 000-51026), filed with the Securities and Exchange Commission on December 19, 2008.  
Incorporated by reference to Exhibit 10.8 of the Registrant's annual report on Form 10-K (File No. 000-51026),
- (8) filed with the Securities and Exchange Commission on March 11, 2008 and Exhibit 10.3 of the Registrant's current report on Form 8-K (File No. 000-51026), filed with the Securities and Exchange Commission on December 19, 2008.
- (9) Incorporated by reference to Exhibit 10.9 of the Registrant's Registration Statement on Form S-1 (Registration No. 333-117327), filed with the Securities and Exchange Commission on July 13, 2004.  
Incorporated by reference to Exhibit 10.10 of the Registrant's annual report on Form 10-K (File No. 000-51026),
- (10) filed with the Securities and Exchange Commission on March 11, 2008 and Exhibit 10.4 of the Registrant's current report on Form 8-K (File No. 000-51026), filed with the Securities and Exchange Commission on December 19, 2008.
- (11) Incorporated by reference to Exhibit 10.11 of the Registrant's Registration Statement on Form S-1/A (Registration No. 333-117327), filed with the Securities and Exchange Commission on September 10, 2004.
- (12) Incorporated by reference to Exhibit 10.13 of the Registrant's Registration Statement on Form S-1/A (Registration No. 333-117327), filed with the Securities and Exchange Commission on September 10, 2004.
- (13) Incorporated by reference to Exhibit 10.1 of the Registrant's current report on Form 8-K (File No. 000-51026), filed with the Securities and Exchange Commission on November 1, 2006.
- (14) Incorporated by reference to Exhibit 10.1 of the Registrant's current report on Form 8-K (File No. 000-51026), filed with the Securities and Exchange Commission on September 14, 2006.
- (15) Incorporated by reference to Exhibit 10.1 of the Registrant's current report on Form 8-K (File No. 000-51026), filed with the Securities and Exchange Commission on May 25, 2007.
- (16) Incorporated by reference to Exhibit 10.2 of the Registrant's current report on Form 8-K (File No. 000-51026), filed with the Securities and Exchange Commission on May 25, 2007.
- (17) Incorporated by reference to Exhibit 10.31 of the Registrant's annual report on Form 10-K (File No. 000-51026), filed with the Securities and Exchange Commission on March 11, 2008.



- (18) Incorporated by reference to Exhibit 10.1 of the Registrant's current report on Form 8-K (File No. 000-51026), filed with the Securities and Exchange Commission on February 15, 2008.
- (19) Incorporated by reference to Exhibit 10.1 of the Registrant's current report on Form 8-K (File No. 000-51026), filed with the Securities and Exchange Commission on February 3, 2010.
- (20) Incorporated by reference to Exhibit 10.33 of the Registrant's annual report on Form 10-K (File No. 000-51026), filed with the Securities and Exchange Commission on March 4, 2011.
- (21) Incorporated by reference to Annexure C of the Registrant's Proxy Statement on Schedule 14A (File No. 000-51026), filed with the Securities and Exchange Commission on April 30, 2013.
- (22) Incorporated by reference to Exhibit 10.36 of the Registrant's annual report on Form 10-K (File No. 000-51026), filed with the Securities and Exchange Commission on March 10, 2014.
- (23) Incorporated by reference to Exhibit 4.4 of the Registrant's Registration Statement on Form S-8 (Registration No. 333-199782), filed with the Securities and Exchange Commission on November 3, 2014.
- (24) Incorporated by reference to Exhibit 4.6 of the Registrant's Registration Statement on Form S-8 (Registration No. 333-199782), filed with the Securities and Exchange Commission on November 3, 2014.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

### MONOLITHIC POWER SYSTEMS, INC.

Date: February 29, 2016 By: /s/ MICHAEL R. HSING  
Michael R. Hsing  
President and Chief Executive Officer

**KNOW ALL PERSONS BY THESE PRESENTS**, that each person whose signature appears below constitutes and appoints Michael R. Hsing and Meera P. Rao, jointly and severally, his or her attorneys-in-fact, each with the power of substitution, for him or her in any and all capacities, to sign any amendments to this Annual Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his or her substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below on February 29, 2016 by the following persons on behalf of the registrant and in the capacities indicated:

|   |  |
|---|--|
| /s/ MICHAEL R. HSING<br>Michael R. Hsing              | President, Chief Executive Officer, and Director (Principal Executive Officer) |
| /s/ MEERA P. RAO<br>Meera P. Rao                      | Chief Financial Officer (Principal Financial and Accounting Officer)           |
| /s/ KAREN A. SMITH<br>BOGART<br>Karen A. Smith Bogart | Director   |
| /s/ HERBERT CHANG<br>Herbert Chang                    | Director   |
| /s/ EUGEN ELMIGER                                     | Director   |

Eugen Elmiger

/s/ VICTOR K. LEE                      Director  
Victor K. Lee

/s/ JAMES C. MOYER                      Director  
James C. Moyer

/s/ JEFF ZHOU                              Director  
Jeff Zhou

79