

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

(Mark One)

**Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2023**

or

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

Commission File Number 000-23441

POWER INTEGRATIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware

94-3065014

(State or Other Jurisdiction of Incorporation or Organization)

(I.R.S. Employer Identification No.)

**5245 Hellyer Avenue
San Jose, California**

95138

(Address of Principal Executive Offices)

(Zip Code)

(408) 414-9200

(Registrant's telephone number, including area code)

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

Title of each class

Trading Symbol(s)

Name of each exchange on which registered

Common Stock

POWI

The Nasdaq Global Select Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller Reporting Company

Emerging Growth Company

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

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

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

Class

Shares Outstanding at November 3, 2023

Common Stock, \$0.001 par value

56,857,583

POWER INTEGRATIONS, INC.

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Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q includes a number of forward-looking statements that involve many risks and uncertainties. Forward-looking statements are identified by the use of the words “would,” “could,” “will,” “may,” “expect,” “believe,” “should,” “anticipate,” “if,” “future,” “intend,” “plan,” “estimate,” “potential,” “target,” “seek,” or “continue” and similar words and phrases, including the negatives of these terms, or other variations of these terms, that denote future events. These statements reflect our current views with respect to future events and our potential financial performance and are subject to risks and uncertainties that could cause our actual results and financial position to differ materially and/or adversely from what is projected or implied in any forward-looking statements included in this Quarterly Report on Form 10-Q. These factors include, but are not limited to: if demand for our products declines in our major end markets, our net revenues will decline; we do not have long-term contracts with any of our customers and if they fail to place, or if they cancel or reschedule orders for our products, our operating results and our business may suffer; our products are sold through distributors, which limits our direct interaction with our end customers, therefore reducing our ability to forecast sales and increasing the complexity of our business; we face competition from an array of other semiconductor companies, which puts downward pressure on our prices and can result in reduced sales volumes for our products; widespread health emergencies, such as the COVID-19 pandemic, may disrupt our operations, including our manufacturing, research and development, and sales and marketing activities, which in turn could have a material adverse impact on our business and has or could exacerbate the risks discussed herein; we depend on third-party suppliers to provide us with wafers for our products, and if they fail to provide us sufficient quantities of wafers, our business may suffer; if our products do not penetrate additional markets, our business will not grow as we expect; if we are unable to adequately protect or enforce our intellectual property rights, we could lose market share, incur costly litigation expenses, suffer incremental price erosion or lose valuable assets, any of which could harm our operations and negatively impact our profitability; and the other risk factors described under the caption “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2022, and in Part I, Item 2 - “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Quarterly Report on Form 10-Q. We make these forward-looking statements based upon information available on the date of this Quarterly Report on Form 10-Q, and we expressly disclaim any obligation to update or alter any forward-looking statements, whether as a result of new information or otherwise, except as required by laws.

In addition, statements that “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based upon information available to us as of the date of this Quarterly Report on Form 10-Q, and while we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. These statements are inherently uncertain and investors are cautioned not to unduly rely upon these statements.

PART I. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****POWER INTEGRATIONS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)**

(In thousands)	September 30, 2023	December 31, 2022
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 94,743	\$ 105,372
Short-term marketable securities	261,896	248,441
Accounts receivable, net	28,539	20,836
Inventories	150,246	135,420
Prepaid expenses and other current assets	20,692	15,004
Total current assets	556,116	525,073
PROPERTY AND EQUIPMENT, net	166,391	176,681
INTANGIBLE ASSETS, net	4,967	6,597
GOODWILL	91,849	91,849
DEFERRED TAX ASSETS	28,943	19,034
OTHER ASSETS	17,224	20,862
Total assets	\$ 865,490	\$ 840,096
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 28,553	\$ 30,088
Accrued payroll and related expenses	13,778	14,778
Taxes payable	774	938
Other accrued liabilities	10,316	12,572
Total current liabilities	53,421	58,376
LONG-TERM INCOME TAXES PAYABLE	16,724	15,757
OTHER LIABILITIES	10,288	10,747
Total liabilities	80,433	84,880
COMMITMENTS AND CONTINGENCIES (Notes 11, 12 and 13)		
STOCKHOLDERS' EQUITY:		
Common stock	23	24
Additional paid-in capital	19,429	—
Accumulated other comprehensive loss	(5,730)	(7,344)
Retained earnings	771,335	762,536
Total stockholders' equity	785,057	755,216
Total liabilities and stockholders' equity	\$ 865,490	\$ 840,096

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

POWER INTEGRATIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(In thousands, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
NET REVENUES	\$ 125,511	\$ 160,233	\$ 355,031	\$ 526,368
COST OF REVENUES	59,566	68,198	172,283	226,815
GROSS PROFIT	<u>65,945</u>	<u>92,035</u>	<u>182,748</u>	<u>299,553</u>
OPERATING EXPENSES:				
Research and development	24,064	23,205	72,562	70,390
Sales and marketing	16,224	14,700	49,126	47,081
General and administrative	7,945	5,759	24,950	21,432
Other operating expenses, net	—	—	—	1,130
Total operating expenses	<u>48,233</u>	<u>43,664</u>	<u>146,638</u>	<u>140,033</u>
INCOME FROM OPERATIONS	17,712	48,371	36,110	159,520
OTHER INCOME	3,138	1,001	7,566	2,229
INCOME BEFORE INCOME TAXES	20,850	49,372	43,676	161,749
PROVISION FOR INCOME TAXES	1,054	3,408	2,212	13,713
NET INCOME	<u>\$ 19,796</u>	<u>\$ 45,964</u>	<u>\$ 41,464</u>	<u>\$ 148,036</u>
EARNINGS PER SHARE:				
Basic	<u>\$ 0.34</u>	<u>\$ 0.80</u>	<u>\$ 0.72</u>	<u>\$ 2.55</u>
Diluted	<u>\$ 0.34</u>	<u>\$ 0.80</u>	<u>\$ 0.72</u>	<u>\$ 2.52</u>
SHARES USED IN PER SHARE CALCULATION:				
Basic	<u>57,383</u>	<u>57,172</u>	<u>57,282</u>	<u>58,039</u>
Diluted	<u>57,741</u>	<u>57,603</u>	<u>57,711</u>	<u>58,635</u>

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

POWER INTEGRATIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2023	2022	2023	2022
Net income	\$ 19,796	\$ 45,964	\$ 41,464	\$ 148,036
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments, net of \$0 tax in each of the three and nine months ended September 30, 2023 and 2022	(407)	(1,044)	(807)	(2,067)
Unrealized gain (loss) on marketable securities, net of \$0 tax in each of the three and nine months ended September 30, 2023 and 2022	455	(731)	2,483	(6,072)
Amortization of defined benefit pension items, net of tax of (\$4) and (\$11) in the three and nine months ended September 30, 2023, respectively, and \$3 and \$6 in the three and nine months ended September 30, 2022, respectively	(21)	18	(62)	59
Total other comprehensive income (loss)	27	(1,757)	1,614	(8,080)
TOTAL COMPREHENSIVE INCOME	\$ 19,823	\$ 44,207	\$ 43,078	\$ 139,956

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

POWER INTEGRATIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Common stock				
Beginning balance	\$ 23	\$ 24	\$ 24	\$ 28
Repurchase of common stock	—	—	(1)	(4)
Ending balance	23	24	23	24
Additional paid-in capital				
Beginning balance	11,220	—	—	162,301
Common stock issued under employee stock plans	3,139	3,105	6,237	6,162
Repurchase of common stock	(1,835)	—	(7,833)	(178,050)
Stock-based compensation	6,905	3,018	21,025	15,710
Ending balance	19,429	6,123	19,429	6,123
Accumulated other comprehensive loss				
Beginning balance	(5,757)	(10,060)	(7,344)	(3,737)
Other comprehensive income (loss)	27	(1,757)	1,614	(8,080)
Ending balance	(5,730)	(11,817)	(5,730)	(11,817)
Retained earnings				
Beginning balance	762,443	720,281	762,536	753,440
Net income	19,796	45,964	41,464	148,036
Repurchase of common stock	—	—	—	(114,295)
Payment of dividends to stockholders	(10,904)	(10,293)	(32,665)	(31,229)
Ending balance	771,335	755,952	771,335	755,952
Total stockholders' equity	\$ 785,057	\$ 750,282	\$ 785,057	\$ 750,282

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

POWER INTEGRATIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In thousands)	Nine Months Ended September 30,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 41,464	\$ 148,036
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	26,316	26,055
Amortization of intangibles	1,630	1,871
Loss on disposal of property and equipment	86	1,162
Stock-based compensation expense	21,025	15,710
Amortization of premium on marketable securities	146	2,638
Deferred income taxes	(9,952)	(7,390)
Increase (decrease) in accounts receivable allowance for credit losses	(454)	690
Change in operating assets and liabilities:		
Accounts receivable	(7,249)	24,628
Inventories	(14,826)	(20,826)
Prepaid expenses and other assets	(837)	8,428
Accounts payable	(2,882)	(5,874)
Taxes payable and accrued liabilities	(4,975)	(3,883)
Net cash provided by operating activities	49,492	191,245
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(14,741)	(33,444)
Proceeds from sale of property and equipment	—	1,202
Purchases of marketable securities	(173,015)	(27,244)
Proceeds from sales and maturities of marketable securities	161,897	161,014
Net cash provided by (used in) investing activities	(25,859)	101,528
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock under employee stock plans	6,237	6,162
Repurchase of common stock	(7,834)	(292,349)
Payments of dividends to stockholders	(32,665)	(31,229)
Net cash used in financing activities	(34,262)	(317,416)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(10,629)	(24,643)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	105,372	158,117
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 94,743	\$ 133,474
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Unpaid property and equipment	\$ 2,429	\$ 2,555
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for income taxes, net	\$ 13,683	\$ 17,834

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

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION:

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

While the financial information furnished is unaudited, the condensed consolidated financial statements included in this report reflect all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for the fair presentation of the results of operations for the interim periods covered and the financial condition of the Company at the date of the interim balance sheet in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The results for interim periods are not necessarily indicative of the results for the entire year. The condensed consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements and the notes thereto for the year ended December 31, 2022, included in its Form 10-K filed on February 7, 2023, with the Securities and Exchange Commission.

2. SIGNIFICANT ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS:

Significant Accounting Policies and Estimates

No material changes have been made to the Company’s significant accounting policies disclosed in Note 2, *Significant Accounting Policies and Recent Accounting Pronouncements*, of the Company’s financial statements set forth in Item 8 of the Company’s Annual Report on Form 10-K, filed on February 7, 2023, for the year ended December 31, 2022.

Recent Accounting Pronouncements

The Company has considered all recent accounting pronouncements issued, but not yet effective, and does not expect any to have a material effect on the Company’s condensed consolidated financial statements.

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

Accounts Receivable

(In thousands)	September 30, 2023	December 31, 2022
Accounts receivable trade	\$ 76,507	\$ 78,914
Allowance for ship and debit	(44,089)	(53,184)
Allowance for stock rotation and rebate	(3,198)	(3,759)
Allowance for credit losses	(681)	(1,135)
Total	\$ 28,539	\$ 20,836

The Company maintains an allowance for estimated credit losses resulting from the inability of customers to make required payments. This allowance is established using estimates formulated by the Company’s management based upon factors such as the composition of the accounts receivable aging, historical losses, changes in payment patterns, customer creditworthiness and current economic trends. Receivables determined to be uncollectible are written off and deducted from the allowance.

(In thousands)	Allowance for Credit Losses			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Beginning balance	\$ (681)	\$ (704)	\$ (1,135)	\$ (445)
Provision for credit loss expense	(671)	(967)	(1,498)	(1,585)
Receivables written off	—	49	—	49
Recoveries collected	671	487	1,952	846
Ending balance	\$ (681)	\$ (1,135)	\$ (681)	\$ (1,135)

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Inventories

(In thousands)	September 30, 2023	December 31, 2022
Raw materials	\$ 87,904	\$ 75,355
Work-in-process	25,187	15,440
Finished goods	37,155	44,625
Total	<u>\$ 150,246</u>	<u>\$ 135,420</u>

Intangible Assets

(In thousands)	September 30, 2023			December 31, 2022		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Domain name	\$ 1,261	\$ —	\$ 1,261	\$ 1,261	\$ —	\$ 1,261
Developed technology	37,960	(34,977)	2,983	37,960	(33,531)	4,429
Technology licenses	1,926	(1,203)	723	1,926	(1,019)	907
Total intangible assets	<u>\$ 41,147</u>	<u>\$ (36,180)</u>	<u>\$ 4,967</u>	<u>\$ 41,147</u>	<u>\$ (34,550)</u>	<u>\$ 6,597</u>

The estimated future amortization expense related to finite-lived intangible assets at September 30, 2023, is as follows:

<u>Fiscal Year</u>	<u>Estimated Amortization (In thousands)</u>
2023 (remaining three months)	\$ 543
2024	1,279
2025	832
2026	687
2027	365
Total	<u>\$ 3,706</u>

Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive loss for the three and nine months ended September 30, 2023 and 2022, were as follows:

(In thousands)	Unrealized Gains and Losses on Marketable Securities		Defined Benefit Pension Items		Foreign Currency Items		Total	
	Three Months Ended September 30,		Three Months Ended September 30,		Three Months Ended September 30,		Three Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Beginning balance	\$ (3,295)	\$ (6,506)	\$ 821	\$ (633)	\$ (3,283)	\$ (2,921)	\$ (5,757)	\$ (10,060)
Other comprehensive income (loss) before reclassifications	455	(731)	—	—	(407)	(1,044)	48	(1,775)
Amounts reclassified from accumulated other comprehensive loss	—	—	(21) ⁽¹⁾	18 ⁽¹⁾	—	—	(21)	18
Net-current period other comprehensive income (loss)	455	(731)	(21)	18	(407)	(1,044)	27	(1,757)
Ending balance	<u>\$ (2,840)</u>	<u>\$ (7,237)</u>	<u>\$ 800</u>	<u>\$ (615)</u>	<u>\$ (3,690)</u>	<u>\$ (3,965)</u>	<u>\$ (5,730)</u>	<u>\$ (11,817)</u>

(1) This component of accumulated other comprehensive income (loss) is included in the computation of net periodic pension cost for the three months ended September 30, 2023 and 2022.

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands)	Unrealized Gains and Losses on Marketable Securities		Defined Benefit Pension Items		Foreign Currency Items		Total	
	Nine Months Ended September 30,		Nine Months Ended September 30,		Nine Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Beginning balance	\$ (5,323)	\$ (1,165)	\$ 862	\$ (674)	\$ (2,883)	\$ (1,898)	\$ (7,344)	\$ (3,737)
Other comprehensive income (loss) before reclassifications	2,483	(6,072)	—	—	(807)	(2,067)	1,676	(8,139)
Amounts reclassified from accumulated other comprehensive loss	—	—	(62) ⁽¹⁾	59 ⁽¹⁾	—	—	(62)	59
Net-current period other comprehensive income (loss)	2,483	(6,072)	(62)	59	(807)	(2,067)	1,614	(8,080)
Ending balance	\$ (2,840)	\$ (7,237)	\$ 800	\$ (615)	\$ (3,690)	\$ (3,965)	\$ (5,730)	\$ (11,817)

(1) This component of accumulated other comprehensive income (loss) is included in the computation of net periodic pension cost for the nine months ended September 30, 2023 and 2022.

4. FAIR VALUE MEASUREMENTS:

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

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

The fair-value hierarchy of the Company's cash equivalents and marketable securities at September 30, 2023 and December 31, 2022, was as follows:

(In thousands)	Fair Value Measurement at September 30, 2023		
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Commercial paper	\$ 39,539	\$ —	\$ 39,539
Corporate securities	261,896	—	261,896
Money market funds	781	781	—
Total	\$ 302,216	\$ 781	\$ 301,435

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands)	Fair Value Measurement at December 31, 2022		
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Commercial paper	\$ 58,683	\$ —	\$ 58,683
Corporate securities	248,441	—	248,441
Money market funds	363	363	—
Total	\$ 307,487	\$ 363	\$ 307,124

The Company did not transfer any investments between Level 1 and Level 2 of the fair-value hierarchy in the nine months ended September 30, 2023 and the twelve months ended December 31, 2022.

5. MARKETABLE SECURITIES:

Amortized cost and estimated fair market value of marketable securities classified as available-for-sale (excluding cash equivalents) at September 30, 2023, were as follows:

(In thousands)	Amortized Cost	Gross Unrealized		Estimated Fair Market Value
		Gains	Losses	
Investments due in 3 months or less:				
Corporate securities	\$ 36,088	\$ —	\$ (207)	\$ 35,881
Total	36,088	—	(207)	35,881
Investments due in 4-12 months:				
Corporate securities	39,377	4	(664)	38,717
Total	39,377	4	(664)	38,717
Investments due in 12 months or greater:				
Corporate securities	189,271	18	(1,991)	187,298
Total	189,271	18	(1,991)	187,298
Total marketable securities	\$ 264,736	\$ 22	\$ (2,862)	\$ 261,896

Accrued interest receivable was \$2.7 million at September 30, 2023 and was recorded within prepaid expenses and other current assets on the condensed consolidated balance sheet.

Amortized cost and estimated fair market value of marketable securities classified as available-for-sale (excluding cash equivalents) at December 31, 2022, were as follows:

(In thousands)	Amortized Cost	Gross Unrealized		Estimated Fair Market Value
		Gains	Losses	
Investments due in 3 months or less:				
Corporate securities	\$ 21,803	\$ —	\$ (135)	\$ 21,668
Total	21,803	—	(135)	21,668
Investments due in 4-12 months:				
Corporate securities	173,833	—	(4,019)	169,814
Total	173,833	—	(4,019)	169,814
Investments due in 12 months or greater:				
Corporate securities	58,128	71	(1,240)	56,959
Total	58,128	71	(1,240)	56,959
Total marketable securities	\$ 253,764	\$ 71	\$ (5,394)	\$ 248,441

Accrued interest receivable was \$1.2 million at December 31, 2022 and was recorded within prepaid expenses and other current assets on the condensed consolidated balance sheet.

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes marketable securities classified as available-for-sale (excluding cash equivalents) in a continuous unrealized loss position for which an allowance for credit losses was not recorded at September 30, 2023:

(In thousands)	Less Than 12 Months		12 Months or Longer		Total	
	Estimated	Gross	Estimated	Gross	Estimated	Gross
	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses
Corporate securities	\$ 200,713	\$ (2,001)	\$ 55,695	\$ (861)	\$ 256,408	\$ (2,862)
Total marketable securities	\$ 200,713	\$ (2,001)	\$ 55,695	\$ (861)	\$ 256,408	\$ (2,862)

In the three and nine months ended September 30, 2023 and 2022, no unrealized losses on marketable securities were recognized in income.

The Company does not intend to sell and it is unlikely that it will be required to sell the securities prior to their anticipated recovery. The issuers are high quality (investment grade) and the decline in fair value is largely due to changes in interest rates. Additionally, the issuers continue to make timely interest payments on the marketable securities with the fair value expected to recover as they reach maturity.

6. STOCK-BASED COMPENSATION:

The following table summarizes the stock-based compensation expense recognized in accordance with ASC 718-10 for the three and nine months ended September 30, 2023 and 2022:

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2023	2022	2023	2022
Cost of revenues	\$ 446	\$ 172	\$ 1,193	\$ 727
Research and development	2,895	2,334	7,992	7,712
Sales and marketing	1,787	1,267	5,061	4,392
General and administrative	1,777	(755)	6,779	2,879
Total stock-based compensation expense	\$ 6,905	\$ 3,018	\$ 21,025	\$ 15,710

Stock-based compensation expense in the three months ended September 30, 2023, was approximately \$6.9 million, comprising approximately \$6.1 million related to restricted stock unit (“RSU”) awards, \$0.5 million related to the Company’s employee stock purchase plan and \$0.3 million related to performance-based (“PSU”) awards and long-term performance-based (“PRSU”) awards. Stock-based compensation expense in the nine months ended September 30, 2023, was approximately \$21.0 million, comprising approximately \$17.3 million related to RSUs, \$1.4 million related to the Company’s employee stock purchase plan and \$2.3 million related to PSUs and PRSUs.

Stock-based compensation expense in the three months ended September 30, 2022, was approximately \$3.0 million, comprising approximately \$6.4 million related to RSUs, \$0.5 million related to the Company’s employee stock purchase plan and \$3.9 million credit related to PSUs and PRSUs. Stock-based compensation expense in the nine months ended September 30, 2022, was approximately \$15.7 million, comprising approximately \$17.3 million related to RSUs, \$1.3 million related to the Company’s employee stock purchase plan and \$2.9 million credit related to PSUs and PRSUs.

PSU Awards

Under the performance-based awards program, the Company grants awards in the performance year in an amount equal to twice the target number of shares to be issued if the maximum performance metrics are met. The number of shares that are released at the end of the performance year can range from zero to 200% of the target number depending on the Company’s performance. The performance metrics of this program are annual targets consisting of a combination of net revenue, non-GAAP operating income and strategic goals.

As the net revenue, non-GAAP operating income and strategic goals are considered performance conditions, expense associated with these awards, net of estimated forfeitures, is recognized over the service period based on an

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

assessment of the expected achievement of the performance targets. The fair value of these PSUs is determined using the fair value of the Company's common stock on the date of the grant, reduced by the discounted present value of dividends expected to be declared before the awards vest. If the performance conditions are not achieved, no compensation cost is recognized and any previously recognized compensation is reversed.

In February 2023, it was determined that approximately 34,000 shares subject to the PSUs granted in 2022 vested in aggregate; the shares were released to the Company's employees and executives in the first quarter of 2023.

A summary of PSUs outstanding as of September 30, 2023 and activity during the nine months ended, is presented below:

	Shares (In thousands)	Weighted-Average Grant Date Fair Value Per Share	Weighted-Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at January 1, 2023	34	\$ 79.94		
Granted	130	\$ 82.96		
Vested	(34)	\$ 79.94		
Forfeited	—	—		
Outstanding at September 30, 2023	<u>130</u>	<u>\$ 82.96</u>	<u>0.25</u>	<u>\$ 9,964</u>
Outstanding and expected to vest at September 30, 2023	<u>39</u>		<u>0.25</u>	<u>\$ 2,989</u>

PRSU Awards

The Company's PRSU program provides for the issuance of PRSUs which will vest based on the Company's performance measured against the PRSU program's established performance targets. PRSUs are granted in an amount equal to twice the target number of shares to be issued if the maximum performance metrics are met. The actual number of shares the recipient receives is determined at the end of a three-year performance period based on results achieved versus the Company's performance goals, and may range from zero to 200% of the target number. The performance goals for PRSUs granted in fiscal 2021, 2022 and 2023 were based on the Company's compound annual growth rate ("CAGR") of revenue as measured against the revenue CAGR of the analog semiconductor industry ("Relative Measure"), in each case over the respective three-year performance period. In addition, the PRSUs granted in 2023 ("2023 PRSUs") also include a performance goal related to the Company's revenue growth over the respective three-year performance period as compared to defined targets ("Absolute Measure") with the actual vesting of the 2023 PRSUs calculated based on higher achievement under the Relative Measure or the Absolute Measure. Expense associated with these awards, net of estimated forfeitures, is recorded throughout the year based on an assessment of the expected achievement of the performance targets. If the performance conditions are not achieved, no compensation cost is recognized and any previously recognized compensation is reversed.

In February 2023, it was determined that approximately 23,000 shares subject to the PRSUs granted in 2020 vested in aggregate; the shares were released to the Company's executives in the first quarter of 2023.

A summary of PRSUs outstanding as of September 30, 2023 and activity during the nine months ended, is presented below:

	Shares (In thousands)	Weighted-Average Grant Date Fair Value Per Share	Weighted-Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at January 1, 2023	236	\$ 77.82		
Granted	145	\$ 80.92		
Vested	(23)	\$ 49.68		
Forfeited	—	—		
Outstanding at September 30, 2023	<u>358</u>	<u>\$ 80.89</u>	<u>1.37</u>	<u>\$ 27,344</u>
Outstanding and expected to vest at September 30, 2023	<u>6</u>		<u>2.25</u>	<u>\$ 445</u>

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

RSU Awards

A summary of RSUs outstanding as of September 30, 2023 and activity during the nine months ended, is presented below:

	Shares (In thousands)	Weighted-Average Grant Date Fair Value Per Share	Weighted-Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at January 1, 2023	1,096	\$ 60.52		
Granted	333	\$ 81.06		
Vested	(386)	\$ 51.49		
Forfeited	(22)	\$ 71.71		
Outstanding at September 30, 2023	<u>1,021</u>	<u>\$ 70.39</u>	<u>1.68</u>	<u>\$ 77,875</u>
Outstanding and expected to vest at September 30, 2023	<u>946</u>		<u>1.59</u>	<u>\$ 72,163</u>

7. SIGNIFICANT CUSTOMERS AND GEOGRAPHIC NET REVENUES:

Segment Reporting

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

Customer Concentration

The Company's top ten customers accounted for approximately 83% and 81% of net revenues for the three and nine months ended September 30, 2023, respectively, and 72% and 75%, respectively, in the corresponding periods of 2022. A significant portion of these revenues are attributable to sales of the Company's products to distributors of electronic components. These distributors sell the Company's products to a broad, diverse range of end users, including original equipment manufacturers ("OEMs") and merchant power-supply manufacturers. Similarly, merchant power-supply manufacturers sell power supplies incorporating the Company's products to a broad range of OEMs. Sales to distributors were \$93.2 million and \$238.7 million in the three and nine months ended September 30, 2023, respectively, and \$103.6 million and \$373.3 million, respectively, in the corresponding periods of 2022. Direct sales to OEMs and power-supply manufacturers accounted for the remainder.

The following customers represented 10% or more of the Company's net revenues for the respective periods:

Customer	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Avnet	28 %	28 %	26 %	30 %
Honestar Technologies Co., Ltd.	23 %	*	17 %	12 %
Salcomp Group	*	12 %	11 %	*

* Total customer revenue was less than 10% of net revenues.

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

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash investments and trade receivables. The Company does not have any off-balance-sheet credit exposure related to its customers. As of September 30, 2023, and December 31, 2022, 89% and 87% of accounts receivable were concentrated with the Company's top ten customers.

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following customers represented 10% or more of accounts receivable at September 30, 2023 and December 31, 2022:

Customer	September 30, 2023	December 31, 2022
Avnet	41 %	42 %
Honestar Technologies Co., Ltd.	12 %	*
Salcomp Group	10 %	13 %
Flextronics Group	*	11 %

* Total customer accounts receivable was less than 10% of accounts receivable.

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

Geographic Net Revenues

The Company markets its products globally through its sales personnel and a worldwide network of independent sales representatives and distributors. Geographic net revenues, based on "bill to" customer locations, for the three and nine months ended September 30, 2023 and 2022, were as follows:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
United States of America	\$ 2,208	\$ 8,387	\$ 6,903	\$ 22,862
Hong Kong/China	79,735	80,508	215,829	282,508
India	9,697	9,660	27,738	22,765
Taiwan	4,949	4,895	11,453	16,000
Korea	4,308	10,071	17,425	47,298
Western Europe (excluding Germany)	8,498	10,790	20,912	27,164
Japan	4,311	9,777	13,390	27,986
Germany	5,741	16,601	19,290	42,545
Other	6,064	9,544	22,091	37,240
Total net revenues	<u>\$ 125,511</u>	<u>\$ 160,233</u>	<u>\$ 355,031</u>	<u>\$ 526,368</u>

8. STOCKHOLDERS' EQUITY:

Common Stock Shares Outstanding

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Beginning balance	57,351	57,134	56,961	59,913
Common stock issued under employee stock plans	59	61	529	785
Repurchased	(24)	—	(104)	(3,503)
Ending balance	<u>57,386</u>	<u>57,195</u>	<u>57,386</u>	<u>57,195</u>

Common Stock Repurchases

As of December 31, 2022, the Company had \$81.3 million remaining under its authorized stock-repurchase program. In the three and nine months ended September 30, 2023 the Company purchased approximately 24,000 shares for \$1.8 million and approximately 104,000 shares for \$7.8 million, respectively, leaving \$73.4 million remaining on the repurchase authorization as of September 30, 2023. Authorization of future repurchase programs is at the discretion of the Company's board of directors and will depend on the Company's financial condition, results of operations, capital requirements, business conditions and other factors; the program has no expiration date.

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Cash Dividends

In January 2022, the Company's board of directors declared dividends of \$0.18 per share to be paid to stockholders of record at the end of each quarter in 2022. In February 2023, the Company's board of directors declared dividends of \$0.19 per share to be paid to stockholders of record at the end of each quarter in 2023.

In October 2023, the Company's board of directors raised the quarterly cash dividend again with the declaration of five cash dividends of \$0.20 per share to be paid to stockholders of record at the end of the fourth quarter in 2023 (in lieu of the \$0.19 per share announced in February 2023) and at the end of each quarter in 2024.

For the three and nine months ended September 30, 2023 and 2022, cash dividends declared and paid were as follows:

(In thousands, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Dividends declared and paid	\$ 10,904	\$ 10,293	\$ 32,665	\$ 31,229
Dividends declared per common share	\$ 0.19	\$ 0.18	\$ 0.57	\$ 0.54

9. EARNINGS PER SHARE:

Basic earnings per share are calculated by dividing net income by the weighted-average shares of common stock outstanding during the period. Diluted earnings per share are calculated by dividing net income by the weighted-average shares of common stock and dilutive common equivalent shares outstanding during the period. Dilutive common equivalent shares included in this calculation consist of dilutive shares issuable upon the assumed exercise of outstanding common stock options, the assumed vesting of outstanding restricted stock units, the assumed issuance of awards under the stock purchase plan and contingently issuable performance-based awards, as computed using the treasury stock method.

A summary of the earnings per share calculation is as follows:

(In thousands, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Basic earnings per share:				
Net income	\$ 19,796	\$ 45,964	\$ 41,464	\$ 148,036
Weighted-average common shares	57,383	57,172	57,282	58,039
Basic earnings per share	\$ 0.34	\$ 0.80	\$ 0.72	\$ 2.55
Diluted earnings per share: ⁽¹⁾				
Net income	\$ 19,796	\$ 45,964	\$ 41,464	\$ 148,036
Weighted-average common shares	57,383	57,172	57,282	58,039
Effect of dilutive awards:				
Employee stock plans	358	431	429	596
Diluted weighted-average common shares	57,741	57,603	57,711	58,635
Diluted earnings per share	\$ 0.34	\$ 0.80	\$ 0.72	\$ 2.52

- (1) The Company includes the shares underlying performance-based awards in the calculation of diluted earnings per share if the performance conditions have been satisfied as of the end of the reporting period and excludes such shares when the necessary conditions have not been met. The Company has excluded the shares underlying the outstanding performance-based awards in the 2023 and 2022 calculations as the shares were not contingently issuable as of the end of the reporting periods.

In the three and nine months ended September 30, 2023 and 2022, no outstanding stock awards were determined to be anti-dilutive and therefore excluded from the computation of diluted earnings per share.

10. PROVISION FOR INCOME TAXES:

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

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

recognized in the period they occur. Accordingly, the interim effective tax rate may not be reflective of the annual estimated effective tax rate.

The Company's effective tax rate for both the three and nine months ended September 30, 2023 was 5.1%, as compared to 6.9% and 8.5%, respectively, in the corresponding periods of 2022. The effective tax rate in these periods were lower than the statutory federal income-tax rate of 21% due to the geographic distribution of the Company's world-wide earnings in lower-tax jurisdictions and federal research tax credits. Additionally, in the three months ended September 30, 2023, our effective tax rate was favorably impacted by the recognition of excess tax benefits related to share-based payments. In the nine months ended September 30, 2023, our effective tax rate was favorably impacted by discrete items associated with the release of unrecognized tax benefits and recognition of excess tax benefits related to share-based payments. These benefits were partially offset by foreign income subject to U.S. tax, known as global intangible low-taxed income. The Company's primary jurisdiction where foreign earnings are derived is the Cayman Islands, which is a non-taxing jurisdiction. Income earned in other foreign jurisdictions was not material. The Company has not been granted any incentivized tax rates and does not operate under any tax holidays in any jurisdiction.

As of September 30, 2023, the Company maintained a valuation allowance on its California deferred tax assets, New Jersey deferred tax assets and a valuation allowance with respect to its deferred tax assets relating to tax credits in Canada.

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

11. COMMITMENTS:

Supplier Agreements

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

12. LEGAL PROCEEDINGS AND CONTINGENCIES:

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

On January 6, 2020, the Company filed a complaint against CogniPower LLC in the United States District Court for the District of Delaware for infringement of two of the Company's patents and seeking a declaration of non-infringement with respect to patents that CogniPower had charged the Company's customers with infringing, based on customer use of the Company's products. In response, CogniPower filed a motion to dismiss the Company's declaratory judgment claims on the basis that CogniPower had not threatened the Company directly with suit. That motion was granted, so CogniPower's claims for infringement initially went forward separately in their lawsuit against the Company's customers in the District of Delaware, but the Company filed a motion to intervene in that lawsuit and received a ruling allowing the Company to intervene in CogniPower's customer lawsuit on February 1, 2021, and the parties thereafter agreed to dismiss the Company's separate lawsuit against CogniPower. The remaining case is currently stayed, but the Company recently filed a motion to amend its claims against CogniPower to include three additional patents that are in the same family as the two CogniPower patents that are already in the lawsuit, after CogniPower accused the Company's

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

customers of infringing those three related patents in a lawsuit in the Eastern District of Texas. A ruling on the Company's motion is expected in the coming months, and the Company believes it has strong claims and defenses with respect to all of CogniPower's asserted patents, and intends to vigorously defend itself against CogniPower's claims against the Company's technology, with appeals to follow if necessary.

On October 31, 2022, Waverly Licensing LLC filed a complaint against the Company in the United States District Court for the Western District of Texas. In its complaint, Waverly alleged that the Company was infringing one patent pertaining to charging a battery-operated device. The Company believes it has strong claims and defenses, and intends to vigorously defend itself against Waverly's claims, with appeals to follow if necessary. Because the Company believed that Waverly's Texas complaint was improperly filed in the wrong court, the Company filed a motion to dismiss, and on November 30, 2022, the Company filed a complaint against Waverly Licensing LLC and related entities IP Edge LLC, Mavexar LLC, and Array IP LLC in the United States District Court for the District of Delaware seeking a declaration of non-infringement with respect to a patent that Waverly charged the Company with infringing. The Texas court thereafter dismissed Waverly's Texas complaint. The Company's Delaware lawsuit is in its earliest stages, but on April 6, 2023, the Delaware defendants filed a motion to dismiss based on a series of covenants not to sue that the Delaware defendants filed with the Court, with further proceedings on the Delaware defendants' motion expected in the coming months.

The Company is unable to predict the outcome of legal proceedings with certainty, and there can be no assurance that the Company will prevail in the above-mentioned unsettled litigations. These litigations, whether or not determined in the Company's favor or settled, will be costly and will divert the efforts and attention of the Company's management and technical personnel from normal business operations, potentially causing a material adverse effect on the business, financial condition and operating results. Currently, the Company is not able to estimate a loss or a range of loss for the ongoing litigations disclosed above, however adverse determinations in litigation could result in monetary losses, the loss of proprietary rights, subject the Company to significant liabilities, require the Company to seek licenses from third parties or prevent the Company from licensing the technology, any of which could have a material adverse effect on the Company's business, financial condition and operating results.

13. INDEMNIFICATIONS:

The Company sells products to its distributors under contracts, collectively referred to as Distributor Sales Agreements ("DSA"). Each DSA contains the relevant terms of the contractual arrangement with the distributor, and generally includes certain provisions for indemnifying the distributor against losses, expenses, and liabilities from damages that may be awarded against the distributor in the event the Company's products are found to infringe upon a patent, copyright, trademark, or other proprietary right of a third party ("Customer Indemnification"). The DSA generally limits the scope of and remedies for the Customer Indemnification obligations in a variety of industry-standard respects, including, but not limited to, limitations based on time and geography, and a right to replace an infringing product. The Company also, from time to time, has granted a specific indemnification right to individual customers.

The Company believes its internal development processes and other policies and practices limit its exposure related to such indemnifications. In addition, the Company requires its employees to sign a proprietary information and inventions agreement, which assigns the rights to its employees' development work to the Company. To date, the Company has not had to reimburse any of its distributors or customers for any losses related to these indemnifications and no material claims were outstanding as of September 30, 2023. For several reasons, including the lack of prior indemnification claims and the lack of a monetary liability limit for certain infringement cases, the Company cannot determine the maximum amount of potential future payments, if any, related to such indemnifications.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis has been prepared as an aid to understanding our financial condition and results of operations. It should be read in conjunction with the condensed consolidated financial statements and the notes to those statements included elsewhere in this Quarterly Report on Form 10-Q, and with the consolidated financial statements and management’s discussion and analysis of our financial condition and results of operations in our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the SEC on February 7, 2023. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those contained in these forward-looking statements due to a number of factors, including those discussed under the caption “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2022, and in Part II, Item 1A - “Risk Factors” and elsewhere in this report. See also “Cautionary Note Regarding Forward-Looking Statements” at the beginning of this report.

Overview

We design, develop and market analog and mixed-signal integrated circuits (“ICs”) and other electronic components and circuitry used in high-voltage power conversion. Our products are used in power converters that convert electricity from a high-voltage source to the type of power required for a specified downstream use. In most cases, this conversion entails, among other functions, converting alternating current (“AC”) to direct current (“DC”) or vice versa, reducing or increasing the voltage, and regulating the output voltage and/or current according to the customer’s specifications.

A large percentage of our products are ICs used in AC-DC power supplies, which convert the high-voltage AC from a wall outlet to the low-voltage DC required by most electronic devices. Power supplies incorporating our products are used with all manner of electronic products including mobile phones, computing and networking equipment, appliances, electronic utility meters, battery-powered tools, industrial controls, and “home-automation,” or “internet of things” applications such as networked thermostats, power strips and security devices. We also supply high-voltage LED drivers, which are AC-DC ICs specifically designed for lighting applications that utilize light-emitting diodes, and motor-driver ICs addressing brushless DC (“BLDC”) motors used in refrigerators, HVAC systems, ceiling fans and other consumer-appliance and light commercial applications.

We also offer high-voltage gate drivers—either standalone ICs or circuit boards containing ICs, electrical isolation components and other circuitry—used to operate high-voltage switches such as insulated-gate bipolar transistors (“IGBTs”) and silicon-carbide (“SiC”) MOSFETs. These combinations of switches and drivers are used for power conversion in high-power applications (i.e., power levels ranging from a few kilowatts up to gigawatts) such as industrial motors, solar- and wind-power systems, electric vehicles (“EVs”) and high-voltage DC transmission systems.

Our products bring a number of important benefits to the power-conversion market compared with less advanced alternatives, including reduced component count and design complexity, smaller size, higher reliability and reduced time-to-market. Our products also reduce the energy consumption of power converters during normal use and in “standby” operation, when the end product is not in use. In addition to the environmental benefits of reduced energy usage, our energy-saving technologies provide a number of benefits to our customers; these include helping them meet the increasingly stringent efficiency standards now in effect for many electronic products, and enabling the elimination of bulky heatsinks used to dissipate the heat produced by wasted electricity.

While the size of our addressable market fluctuates with changes in macroeconomic and industry conditions, the market has generally exhibited a modest growth rate over time as growth in the unit volume of power converters has been offset to a large degree by reductions in the average selling price of components in this market. Therefore, the growth of our business depends largely on increasing our penetration of the markets that we serve and on further expanding our addressable market. Our growth strategy includes the following elements:

- *Increase our penetration of the markets we serve.* We currently address AC-DC applications with power outputs up to approximately 500 watts, gate-driver applications ranging from a few kilowatts up to gigawatts, and motor-drive applications up to approximately 400 watts. Through our research and development efforts, we seek to introduce more advanced products for these markets offering higher levels of integration and performance compared to earlier products. We also continue to expand our sales

and application-engineering staff and our network of distributors, as well as our offerings of technical documentation and design-support tools and services to help customers use our products. These tools and services include our PI Expert™ design software, which we offer free of charge, and our transformer-sample service. In 2022 we launched PowerProsSM, a live online video support service that enables power-supply designers to talk directly with members of our applications engineering team 24 hours a day, six days a week, anywhere in the world.

Our market-penetration strategy also includes capitalizing on the importance of energy efficiency and renewable energy in the power conversion market. For example, our EcoSmart™ technology drastically reduces the amount of energy consumed by electronic products when they are not in use, helping our customers comply with regulations that seek to curb this so-called “standby” energy consumption. Also, our gate-driver products are critical components in energy-efficient DC motor drives, high-voltage DC transmission systems, solar and wind energy systems and electric transportation applications.

- *Increase the size of our addressable market.* Prior to 2010 our addressable market consisted of AC-DC applications with up to about 50 watts of output, a served available market (“SAM”) opportunity of approximately \$1.5 billion. Since that time we have expanded our SAM to approximately \$4 billion through a variety of means. These include the introduction of products that enable us to address higher-power AC-DC applications (such as our Hiper™ product families), the introduction of LED-driver products, and our entry into the gate-driver market through the acquisition of CT-Concept Technologie AG in 2012. In 2016 we introduced the SCALE-iDriver™ family of ICs, broadening the range of gate-driver applications we can address, and in 2018 we introduced our BridgeSwitch™ motor-driver ICs, addressing BLDC motors, as described above. We have recently introduced a series of automotive-qualified versions of our products, including SCALE-iDriver, InnoSwitch™ and LinkSwitch™ ICs, targeting the EV market; we expect to introduce additional products targeting EVs in the future, and expect automotive applications to become a significant portion of our SAM over time.

Also contributing to our SAM expansion has been the emergence of new applications within the power ranges that our products can address. For example, applications such as “smart” utility meters, battery-powered lawn equipment and bicycles, and USB power receptacles (often installed alongside traditional AC wall outlets) can incorporate our products. The increased use of connectivity, LED lighting and other power-consuming electronic features in consumer appliances has also enhanced our SAM.

Finally, we have expanded our SAM through the development of new technologies that increase the value (and therefore the average selling prices) of our products. For example, our InnoSwitch™ ICs integrate circuitry from the secondary, or low-voltage, side of AC-DC power supplies, whereas earlier product families integrated circuitry only on the primary, or high-voltage side. In 2019 we began incorporating proprietary gallium-nitride (“GaN”) transistors in some of our products, enabling a higher level of energy efficiency than ICs with silicon transistors. Since then, we have introduced a variety of new products utilizing GaN technology and we expect to address a wider range of applications with GaN-based products in the years ahead.

We intend to continue expanding our SAM in the years ahead through all of the means described above.

Our quarterly operating results are difficult to predict and subject to significant fluctuations. We plan our production and inventory levels based on internal forecasts of projected customer demand, which are highly unpredictable and can fluctuate substantially. Customers typically may cancel or reschedule orders on short notice without significant penalty and, conversely, often place orders with very short lead times to delivery. Also, external factors such as supply-chain dynamics, widespread health emergencies like the COVID-19 pandemic, and macroeconomic conditions including inflation, fluctuations in interest and exchange rates and bank failures, have caused and can continue to cause our operating results to be volatile. Furthermore, because our industry is intensely price-sensitive, our gross margin (gross profit divided by net revenues) is subject to change based on the relative pricing of solutions that compete with ours. Variations in product mix, end-market mix and customer mix can also cause our gross margin to fluctuate. Because we purchase a large percentage of our silicon wafers from foundries located in Japan, our gross margin is influenced by fluctuations in the exchange rate between the U.S. dollar and the Japanese yen. Changes in the prices of raw materials used in our products, such as copper and gold, can also affect our gross margin. Although our wafer fabrication and assembly operations are

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outsourced, as are most of our test operations, a portion of our production costs are fixed in nature. As a result, our unit costs and gross margin are impacted by the volume of units we produce.

Recent Results

Our net revenues were \$125.5 million and \$160.2 million for the three months ended September 30, 2023 and 2022, respectively, and \$355.0 million and \$526.4 million in the nine months ended September 30, 2023 and 2022, respectively. We believe that demand for our products has been negatively affected by an array of macroeconomic and geopolitical factors including reduced consumer spending in response to inflation and higher interest rates, softer housing markets, weaker demand for mobile phones, general economic weakness in China, the conflict in Ukraine and a shift in consumer spending toward travel and services following a period of elevated spending on goods during the COVID-19 pandemic. We believe these factors have exacerbated the effects of an ongoing cyclical downturn in the semiconductor industry; such downturns are commonly experienced in our industry following periods of strong growth during which supply-chain participants tend to accumulate excess inventories.

Our top ten customers, including distributors that resell to original equipment manufacturers (“OEMs”) and merchant power supply manufacturers, accounted for 83% and 81% of net revenues for the three and nine months ended September 30, 2023, respectively, and 72% and 75% in the corresponding periods of 2022, respectively. International sales accounted for 98% of our net revenues in both the three and nine months ended September 30, 2023, and 95% and 96% of our net revenues in the corresponding periods of 2022, respectively.

Our gross margin was 52.5% and 57.4% in the three months ended September 30, 2023 and 2022, respectively, and 51.5% and 56.9% for the nine months ended September 30, 2023 and 2022, respectively. The decrease was primarily due to unfavorable end-market mix and lower manufacturing volume slightly offset by the favorable impact of the dollar/yen exchange rate on our wafer costs.

Total operating expenses were \$48.2 million and \$43.7 million in the three months ended September 30, 2023 and 2022, respectively, and \$146.6 million and \$140.0 million for the nine months ended September 30, 2023 and 2022, respectively. The increases in operating expenses for the three-month and nine-month periods were primarily due to higher stock-based compensation expense related to performance-based awards, increased salary and related expenses and increased travel-related expenses partially offset by lower bad-debt expense and lower professional fees.

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates, including those listed below. We base our estimates on historical facts and various other assumptions that we believe to be reasonable at the time the estimates are made. Actual results could differ from those estimates.

Critical accounting policies are important to the portrayal of our financial condition and results of operations, and require us to make judgments and estimates about matters that are inherently uncertain. There have been no material changes to our critical accounting policies and estimates disclosed in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates” and Note 2, *Significant Accounting Policies and Recent Accounting Pronouncements*, in each case in our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the SEC on February 7, 2023. Currently, our only critical accounting policy relates to revenue recognition.

Results of Operations

The following table sets forth certain operating data as a percentage of net revenues for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net revenues	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenues	47.5	42.6	48.5	43.1
Gross profit	52.5	57.4	51.5	56.9
Operating expenses:				
Research and development	19.2	14.5	20.4	13.4
Sales and marketing	12.9	9.2	13.8	8.9
General and administrative	6.3	3.6	7.0	4.1
Other operating expenses, net	—	—	—	0.2
Total operating expenses	38.4	27.3	41.2	26.6
Income from operations	14.1	30.1	10.3	30.3
Other income	2.5	0.6	2.1	0.4
Income before income taxes	16.6	30.7	12.4	30.7
Provision for income taxes	0.8	2.1	0.6	2.6
Net income	15.8 %	28.6 %	11.8 %	28.1 %

Comparison of the three and nine months ended September 30, 2023 and 2022

Net revenues. Net revenues consist of revenues from product sales, which are calculated net of returns and allowances. Net revenues for the three and nine months ended September 30, 2023 were \$125.5 million and \$355.0 million, respectively, and \$160.2 million and \$526.4 million, in the corresponding periods of 2022, respectively.

The decrease in revenue for the three-month period ended September 30, 2023 was driven primarily by the industrial and consumer end-markets. Inventories of our products at distributors and end customers in these end markets remained at elevated levels, while demand for consumer appliances and a variety of industrial products decreased reflecting such factors as general macroeconomic weakness and lower home sales. Revenues from the communications end-market increased compared to the prior-year period reflecting new design wins and improved inventory levels in the smartphone supply chain. Revenues from the computer end-market category decreased due to lower sales related to tablets and notebook computers. For the nine-month period, revenues for all four end-market categories decreased compared to the corresponding prior-year period. We believe that demand for our products in recent periods has been negatively affected by an array of macroeconomic and geopolitical factors including reduced consumer spending in response to inflation and higher interest rates, softer housing markets, weaker demand for mobile phones, general economic weakness in China, the conflict in Ukraine and a shift in consumer spending toward travel and services following a period of elevated spending on goods during the COVID-19 pandemic. We believe these factors have exacerbated the effects of an ongoing cyclical downturn in the semiconductor industry; such downturns are commonly experienced in our industry following periods of strong growth during which supply-chain participants tend to accumulate excess inventories.

Our revenue mix by end market for the three and nine months ended September 30, 2023 and 2022 was as follows:

End Market	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Communications	32 %	16 %	30 %	20 %
Computer	10 %	11 %	12 %	10 %
Consumer	26 %	32 %	26 %	35 %
Industrial	32 %	41 %	32 %	35 %

International sales, consisting of sales outside of the United States of America based on “bill to” customer locations, were \$123.3 million and \$348.1 million in the three and nine months ended September 30, 2023, respectively, and \$151.8 million and \$503.5 million in the corresponding periods of 2022, respectively. Although power converters using our products are distributed to end markets worldwide, most are manufactured in Asia. As a result, sales to this region represented 84% of our net revenues in both the three and nine months ended September 30, 2023, respectively, and 74% and 79%, in the corresponding periods of 2022, respectively. We expect international sales, and sales to the Asia region in particular, to continue to account for a large portion of our net revenues in the future.

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Sales to distributors accounted for 74% and 67% in the three and nine months ended September 30, 2023, respectively, and 65% and 71%, in the corresponding periods of 2022, respectively. Direct sales to OEMs and power-supply manufacturers accounted for the remainder.

The following customers represented 10% or more of our net revenues for the respective periods:

Customer	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Avnet	28 %	28 %	26 %	30 %
Honestar Technologies Co., Ltd.	23 %	*	17 %	12 %
Salcomp Group	*	12 %	11 %	*

*Total customer revenue was less than 10% of net revenues.

No other customers accounted for 10% or more of our net revenues in these periods.

Gross profit. Gross profit is net revenues less cost of revenues. Our cost of revenues consists primarily of costs associated with the purchase of wafers from our contracted foundries, the assembly, packaging and testing of our products by sub-contractors, product testing performed in our own facilities, amortization of acquired intangible assets and overhead associated with the management of our supply chain. Gross margin is gross profit divided by net revenues. The table below compares gross profit and gross margin for the three and nine months ended September 30, 2023 and 2022:

(dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net revenues	\$ 125.5	\$ 160.2	\$ 355.0	\$ 526.4
Gross profit	\$ 65.9	\$ 92.0	\$ 182.7	\$ 299.6
Gross margin	52.5 %	57.4 %	51.5 %	56.9 %

The decrease in our gross margin was primarily due to unfavorable end-market mix and lower manufacturing volume slightly offset by the favorable impact of the dollar/yen exchange rate on our wafer costs.

Research and development expenses. Research and development (“R&D”) expenses consist primarily of employee-related expenses, including stock-based compensation, and expensed material and facility costs associated with the development of new technologies and new products. We also record R&D expenses for prototype wafers related to new products until such products are released to production. The table below compares R&D expenses for the three and nine months ended September 30, 2023 and 2022:

(dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
R&D expenses	\$ 24.1	\$ 23.2	\$ 72.6	\$ 70.4
Headcount (at period end)	290	305	290	305

R&D expenses increased for the three and nine months ended September 30, 2023 as compared to the corresponding periods of 2022 primarily due to increased stock-based compensation expense related to performance-based awards and, for the nine months ended September 30, 2023, increased equipment-related expenses and increased salaries and related expenses.

Sales and marketing expenses. Sales and marketing (“S&M”) expenses consist primarily of employee-related expenses, including stock-based compensation, commissions to sales representatives, amortization of intangible assets and facilities expenses, including expenses associated with our regional sales and support offices. The table below compares S&M expenses for the three and nine months ended September 30, 2023 and 2022:

(dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Sales and marketing expenses	\$ 16.2	\$ 14.7	\$ 49.1	\$ 47.1
Headcount (at period end)	320	321	320	321

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S&M expenses increased in the three and nine months ended September 30, 2023, as compared to the corresponding periods of 2022, primarily due to higher stock-based compensation expense related to performance-based awards, increased salaries and related expenses and increased travel-related expenses; for the nine-month period these increases were partially offset by lower commissions expense.

General and administrative expenses. General and administrative (“G&A”) expenses consist primarily of employee-related expenses, including stock-based compensation expense, for administration, finance, human resources and general management, as well as consulting, professional services, legal and audit expenses. The table below compares G&A expenses for the three and nine months ended September 30, 2023 and 2022:

(dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
G&A expenses	\$ 7.9	\$ 5.8	\$ 25.0	\$ 21.4
Headcount (at period end)	73	73	73	73

G&A expenses increased for the three and nine months ended September 30, 2023 as compared to the corresponding periods of 2022, primarily due to higher stock-based compensation expense related to performance-based awards partially offset by lower bad-debt expense and lower professional fees.

Other operating expenses, net. Other operating expenses, net were \$1.1 million in the nine months ended September 30, 2022. This amount consisted of a \$2.9 million expense resulting from the settlement of our litigation with Opticurrent LLC on May 16, 2022, in which we agreed to pay Opticurrent \$2.9 million to end all outstanding legal disputes, partially offset by receipt of a \$1.7 million distribution related to the bankruptcy liquidation of SemiSouth Laboratories, Inc., of which we were a creditor as a result of investments made in SemiSouth in 2011.

Other income. Other income consists primarily of interest income earned on cash and cash equivalents, marketable securities and other investments, and the impact of foreign exchange gains or losses. The table below compares other income for the three and nine months ended September 30, 2023 and 2022:

(dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Other income	\$ 3.1	\$ 1.0	\$ 7.6	\$ 2.2

Other income increased for the three and nine months ended September 30, 2023, as compared to the corresponding periods of 2022, primarily due to higher interest income driven by higher interest rates on investments.

Provision for income taxes. Provision for income taxes represents federal, state and foreign taxes. The table below compares income-tax expense for the three and nine months ended September 30, 2023 and 2022:

(dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Provision for income taxes	\$ 1.1	\$ 3.4	\$ 2.2	\$ 13.7
Effective tax rate	5.1 %	6.9 %	5.1 %	8.5 %

Income-tax expense includes a provision for federal, state and foreign taxes based on the annual estimated effective tax rate applicable to us and our subsidiaries, adjusted for certain discrete items which are fully recognized in the period in which they occur. Accordingly, the interim effective tax rate may not be reflective of the annual estimated effective tax rate.

Our effective tax rate for both the three and nine months ended September 30, 2023 was 5.1%, as compared to 6.9% and 8.5%, respectively, for the corresponding periods of 2022. The effective tax rate in these periods was lower than the statutory federal income-tax rate of 21% due to the geographic distribution of our world-wide earnings in lower-tax jurisdictions and the impact of federal research tax credits. Additionally, in the three months ended September 30, 2023, our effective tax rate was favorably impacted by the recognition of excess tax benefits related to share-based payments. In the nine months ended September 30, 2023, our effective tax rate was favorably impacted by discrete items associated

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with the release of unrecognized tax benefits and recognition of excess tax benefits related to share-based payments. This benefit was partially offset by U.S. tax on foreign income, known as global intangible low-taxed income. The primary jurisdiction from which our foreign earnings are derived is the Cayman Islands, which is a non-taxing jurisdiction. Income earned in other foreign jurisdictions was not material. We have not been granted any incentivized tax rates and do not operate under any tax holidays in any jurisdiction.

Liquidity and Capital Resources

As of September 30, 2023, we had \$356.6 million in cash, cash equivalents and short-term marketable securities, an increase of \$2.8 million from \$353.8 million as of December 31, 2022. As of September 30, 2023, we had working capital, defined as current assets less current liabilities, of \$502.7 million, an increase of approximately \$36.0 million from \$466.7 million as of December 31, 2022.

We have a credit agreement with Wells Fargo Bank, National Association (the "Credit Agreement") that provides us with a \$75.0 million revolving line of credit to use for general corporate purposes with a \$20.0 million sub-limit for the issuance of standby and trade letters of credit. The Credit Agreement was amended on June 7, 2021, to provide an alternate borrowing rate as a replacement for LIBOR and extend the termination date from April 30, 2022, to June 7, 2026, with all other terms remaining the same. The Credit Agreement was amended with an effective date of June 28, 2023 to include the Secured Overnight Financing Rates ("SOFR") as interest rate benchmark rates, with all other terms remaining the same. Our ability to borrow under the revolving line of credit is conditioned upon our compliance with specified covenants, including reporting and financial covenants, primarily a minimum liquidity measure and a debt to earnings ratio, with which we are currently in compliance. The Credit Agreement terminates on June 7, 2026; all advances under the revolving line of credit will become due on such date, or earlier in the event of a default. No advances were outstanding under the agreement as of September 30, 2023.

Cash From Operating Activities

Operating activities generated \$49.5 million of cash in the nine months ended September 30, 2023. Net income for this period was \$41.5 million; we also incurred depreciation, non-cash stock-based compensation expense, increase in deferred tax assets and amortization of intangibles of \$26.3 million, \$21.0 million, \$10.0 million and \$1.6 million, respectively. Sources of cash were partially offset by a \$14.8 million increase in inventories reflecting a slowdown in sales driven by factors described above, a \$7.2 million increase in accounts receivable, a \$5.0 million decrease in taxes payable and accrued liabilities primarily due to timing of customer rebate payments, a \$2.9 million decrease in accounts payable (excluding payables related to property and equipment) due to timing of payments and a \$0.8 million increase in prepaid expenses and other assets primarily due to federal income tax prepayments.

Operating activities generated \$191.2 million of cash in the nine months ended September 30, 2022. Net income for this period was \$148.0 million; we also incurred depreciation, non-cash stock-based compensation expense, amortization premiums on marketable securities and amortization of intangibles of \$26.1 million, \$15.7 million, \$2.6 million and \$1.9 million, respectively. Sources of cash also included a \$24.6 million decrease in accounts receivable due to decreased customer shipments and \$8.4 million decrease in prepaid expenses and other assets. These sources of cash were partially offset by a \$20.8 million increase in inventories due to decreased demand during the year, a \$5.9 million decrease in accounts payable (excluding payables related to property and equipment) due to timing of payments and a \$3.9 million decrease in taxes payable and accrued liabilities.

Cash From Investing Activities

Our investing activities in the nine months ended September 30, 2023 resulted in a \$25.9 million net use of cash, primarily consisting of \$11.1 million used for purchases of marketable securities net of proceeds from sales and maturities, and \$14.7 million used for purchases of property and equipment, primarily production-related machinery and equipment.

Our investing activities in the nine months ended September 30, 2022 generated \$101.5 million of cash, primarily consisting of \$133.8 million from sales and maturities of marketable securities, net of purchases, and by proceeds of \$1.2 million from the sale of an office building, partially offset by \$33.4 million for purchases of property and equipment, primarily production-related machinery and equipment.

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Cash From Financing Activities

Our financing activities in the nine months ended September 30, 2023 resulted in a \$34.3 million net use of cash, consisting of \$32.7 million for the payment of dividends to stockholders and \$7.8 million for the repurchase of our common stock, partially offset by \$6.2 million from the issuance of shares through our employee stock purchase plan.

Our financing activities in the nine months ended September 30, 2022 resulted in a \$317.4 million net use of cash, consisting of \$292.3 million for the repurchase of our common stock and \$31.2 million for the payment of dividends to stockholders, partially offset by \$6.2 million from the issuance of shares through our employee stock purchase plan.

Dividends

In January 2022, our board of directors declared dividends of \$0.18 per share to be paid to stockholders of record at the end of each quarter in 2022. In February 2023, our board of directors declared dividends of \$0.19 per share to be paid to stockholders of record at the end of each quarter in 2023. In October 2023, our board of directors raised the quarterly cash dividend again with the declaration of five cash dividends of \$0.20 per share to be paid to stockholders of record at the end of the fourth quarter in 2023 (in lieu of the \$0.19 per share announced in February 2023) and at the end of each quarter in 2024.

Dividend payouts of \$10.9 million occurred on each of March 31, 2023, June 30, 2023 and September 29, 2023. The declaration of any future cash dividend is at the discretion of the board of directors and will depend on our financial condition, results of operations, capital requirements, business conditions and other factors, as well as a determination that cash dividends are in the best interests of our stockholders.

Stock Repurchases

As of December 31, 2022, we had \$81.3 million remaining under our stock-repurchase program. In the nine months ended September 30, 2023, we repurchased approximately 104,000 shares of our common stock for \$7.8 million, leaving \$73.4 million remaining on the repurchase authorization as of September 30, 2023. Authorization of future repurchase programs is at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, business conditions and other factors; the program has no expiration date.

Contractual Commitments

As of September 30, 2023 we had a contractual obligation related to income tax, which consisted primarily of unrecognized tax benefits of approximately \$24.6 million and interest associated with those benefits of approximately \$1.5 million. A portion of the tax obligation is classified as long-term income taxes payable and a portion is recorded in deferred tax assets in our condensed consolidated balance sheet.

As of September 30, 2023, there were no material changes in our contractual commitments from those reported in our Annual Report on Form 10-K for the year ended December 31, 2022.

Other Information

Our cash, cash equivalents and investment balances may change in future periods due to changes in our planned cash outlays, including changes in incremental costs such as direct and integration costs related to future acquisitions. Current U.S. tax laws generally allow companies to repatriate accumulated foreign earnings without incurring additional U.S. federal taxes. Accordingly, as of September 30, 2023, our worldwide cash and marketable securities are available to fund capital allocation needs, including capital and internal investments, acquisitions, stock repurchases and/or dividends without incurring additional U.S. federal income taxes.

If our operating results deteriorate in future periods, either as a result of a decrease in customer demand, pricing and/or cost pressures, or for other reasons, our ability to generate positive cash flow from operations may be jeopardized. In that case, we may be forced to use our cash, cash equivalents and short-term investments, use our current financing or seek additional financing from third parties to fund our operations. We believe that cash generated from operations, together with existing sources of liquidity, will satisfy our projected working capital and other cash requirements for at least the next 12 months, and we anticipate that we will continue to be able to fund liquidity requirements through cash provided by our operations for the foreseeable future. However, we may experience reduced cash flow from operations as a result of the cyclical nature of our business along with other macroeconomic and geopolitical factors.

Recent Accounting Pronouncements

Information with respect to this item may be found in Note 2, *Significant Accounting Policies and Recent Accounting Pronouncements*, in our Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1, of this Quarterly Report on Form 10-Q, which information is incorporated herein by reference.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to our interest rate risk and foreign currency exchange risk during the first nine months of 2023. For a discussion of our exposure to interest rate risk and foreign currency exchange risk, refer to our market risk disclosures set forth in Part II, Item 7A, “Quantitative and Qualitative Disclosures About Market Risk” of the 2022 Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

Limitation on Effectiveness of Controls

Any control system, no matter how well designed and operated, can provide only reasonable assurance as to the tested objectives. The design of any control system is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. The inherent limitations in any control system include the realities that judgments related to decision-making can be faulty, and that reduced effectiveness in controls can occur because of simple errors or mistakes. Due to the inherent limitations in a cost-effective control system, misstatements due to error may occur and may not be detected.

Evaluation of Disclosure Controls and Procedures

Management is required to evaluate our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”). Disclosure controls and procedures are controls and other procedures designed to provide reasonable assurance that information required to be disclosed in our reports filed under the Exchange Act, such as this Quarterly Report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include controls and procedures designed to provide reasonable assurance 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. Based on our management’s evaluation (with the participation of our principal executive officer and principal financial officer), our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2023, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information with respect to this item may be found in Note 12, *Legal Proceedings and Contingencies*, in our Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1, of this Quarterly Report on Form 10-Q, which information is incorporated herein by reference.

ITEM 1A. RISK FACTORS

As of the date of this filing, the risk factors have not changed substantively from those disclosed in Part I Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2022, which risk factors are incorporated herein by reference in this report from [Item 1A](#) of our Annual Report on Form 10-K for the year ended December 31, 2022 filed with the SEC on February 7, 2023.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

In the three months ended September 30, 2023, we repurchased approximately 24,000 of our shares for \$1.8 million, leaving \$73.4 million remaining on our repurchase authorization as of September 30, 2023. The program has no expiration date.

The following table summarizes repurchases of our common stock made under our publicly announced repurchase program during the third quarter of fiscal 2023:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Approximate Dollar Value that May Yet be Repurchased Under the Plans or Program (In millions)</u>
July 1, 2023 to July 31, 2023	—	—	—	\$ 75.3
August 1, 2023 to August 31, 2023	1,572	\$ 79.90	1,572	\$ 75.1
September 1, 2023 to September 30, 2023	22,138	\$ 77.29	22,138	\$ 73.4
Total	<u>23,710</u>		<u>23,710</u>	

ITEM 5. OTHER INFORMATION

Rule 10b5-1 Trading Plans

On August 30, 2023, Doug Bailey, our Vice President of Marketing, adopted a Rule 10b5-1 trading plan. Mr. Bailey's Rule 10b5-1 trading plan provides for the potential sale of up to 12,000 shares of our common stock until November 30, 2024. This trading plan was entered into during an open window pursuant to the terms of our Insider Trading Policy. Such Rule 10b5-1 trading plan is intended to satisfy the affirmative defense of Rule 10b5-1(c) under the Exchange Act and our policies regarding transactions in our securities.

During the three months ended September 30, 2023, neither we nor our directors or other executive officers (as defined in Rule 16a-1(f) under the Exchange Act) adopted or terminated any contract, instruction or written plan for the purchase or sale of our securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) under the Exchange Act or any "non-Rule 10b5-1 trading arrangement" as defined in Item 408(c) of Regulation S-K.

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ITEM 6. EXHIBITS

EXHIBIT NUMBER	Exhibit Description	Incorporation by Reference				
		Form	File Number	Exhibit/Other Reference	Filing Date	Filed Herewith
3.1	Restated Certificate of Incorporation	10-K	000-23441	3.1	2/29/2012	
3.2	Amended and Restated Bylaws	8-K	000-23441	3.1	4/26/2013	
4.2	Reference is made to Exhibits 3.1 to 3.2					
10.1†	Amendment Number One to the Amended and Restated Wafer Supply Agreement between us and OKI Electric Industry Co., Ltd, effective as of August 11, 2004					X
10.2†	Wafer Supply Agreement between us and ZMD Analog Mixed Signal Services GmbH & Co. KG, dated as of May 23, 2003					X
10.3†	Amended and Restated Wafer Supply Agreement between us and OKI Electric Industry Co., Ltd., dated as of April 1, 2003					X
10.4†	Amendment Number One to the Amended and Restated Wafer Supply Agreement between Power Integrations International, Ltd. and XFAB Dresden GmbH & Co. KG, effective as of July 20, 2005					X
10.5†	Amendment Number Five to the Amended and Restated Wafer Supply Agreement between Power Integrations International, Ltd. and X-FAB Dresden GmbH & Co. KG, dated December 23, 2009.					X
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X

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EXHIBIT NUMBER	Exhibit Description	Incorporation by Reference				
		Form	File Number	Exhibit/Other Reference	Filing Date	Filed Herewith
32.1**	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2**	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	XBRL Instance Document - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.					X
101.SCH	Inline XBRL Taxonomy Extension Schema Document					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					X
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)					X

All references in the table above to previously filed documents or descriptions are incorporating those documents and descriptions by reference thereto.

† Portions of this exhibit have been omitted as being immaterial and the type of information that Power Integrations, Inc. treats as private or confidential.

** The certifications attached as Exhibits 32.1 and 32.2 accompanying this Quarterly Report on Form 10-Q, are not deemed filed with the SEC, and are not to be incorporated by reference into any filing of Power Integrations, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

POWER INTEGRATIONS, INC.

Dated: November 7, 2023

By: /s/ SANDEEP NAYYAR

Sandeep Nayyar
Chief Financial Officer
(Duly Authorized Officer, Principal Financial
Officer and Principal Accounting Officer)

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**AMENDMENT NUMBER ONE
TO
AMENDED AND RESTATED WAFER SUPPLY AGREEMENT**

This Amendment Number One (the "Amendment"), effective as of August 11, 2004 ("Amendment Date"), amends the Amended and Restated Wafer Supply Agreement effective as of April 1, 2003 (the "OKI Agreement"), by and between OKI Electric Industry Co., Ltd. ("OKI ELECTRIC"), a Japanese corporation having its registered head office at 7-12, Toranomom 1-chome, Minato-ku, Tokyo 105-8460, Japan, and Power Integrations, Inc., ("PI") a Delaware corporation having its principal place of business at 5245 Hellyer Avenue, San Jose, CA U.S.A. 95138. Unless specifically designated otherwise, capitalized terms used herein shall have the same meanings given them in the OKI Agreement.

RECITALS

WHEREAS, pursuant to the terms of the OKI Agreement, PI grants to OKI ELECTRIC licenses of certain of PI's intellectual property for the sole purpose of PI acquiring from OKI ELECTRIC the fabrication and supply of wafers of certain power IC products; and

WHEREAS, PI and OKI ELECTRIC desire to amend the terms of the OKI Agreement; and

WHEREAS, in accordance with Section 18.10 of the OKI Agreement, the OKI Agreement may be amended only by an instrument in writing duly executed by authorized officers of OKI ELECTRIC and PI.

NOW, THEREFORE, in consideration of the mutual promises, covenants and agreements of the parties contained herein, the parties hereby agree to amend the Agreement only as follows:

AGREEMENT

I. On page 1, substitute the following paragraphs for the paragraphs beginning with "The parties to this Agreement," and ending with "this 1st day of April, 2003 (the "Effective Date"), as follows.":

The parties to this Agreement are

(1) POWER INTEGRATIONS INTERNATIONAL LTD., a Cayman Islands corporation having its principal place of business at P.O. Box 219, Strathvale House, North Church Street, George Town, Grand Cayman, Cayman Islands;

and

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- (2) OKI ELECTRIC INDUSTRY CO., LTD., a Japanese corporation having its registered head office at 7-12, Toranomom 1-chome, Minato-ku, Tokyo 105-8460, Japan (“OKI ELECTRIC”).

POWER INTEGRATIONS, INC., a state of Delaware corporation, and OKI ELECTRIC entered into the Wafer Supply Agreement (“WSA”) on the 1st day of October, 1998 and desire to amend and restate the WSA in this Amended and Restated Wafer Supply Agreement (“Agreement”), which is made and entered into by and between the above parties as of this 1st day of April, 2003 (the “Effective Date”), as follows.

II. Delete Section 1.2 and substitute therefor:

1.2 ~~WAFER(S)~~: Non-probed four (4), five (5) and [***] inch silicon wafers produced during the PILOT PRODUCTION and the VOLUME PRODUCTION which meet the COMMON SPECIFICATIONS.

III. Delete Section 1.12 and substitute therefor:

1.12 ~~PI~~: POWER INTEGRATIONS INTERNATIONAL LTD.

IV. Delete Section 1.22 and substitute therefor:

1.22 SC WAFER(S): Non probed four (4) inch and five(5) inch WAFERS that are processed in accordance with the SC WAFER COMMON SPECIFICATION.

V. Insert the following new definitions:

1.24 ~~VC WAFER(S)~~: Non-probed [***] inch WAFERS that are processed in accordance with the VC WAFER COMMON SPECIFICATION.

VI. Delete Section 3.3 in its entirety and substitute therefor:

3.3 The WAFERS sold hereunder shall be SC WAFERS processed at OKI’s [***] plant and /or [***] plant, DC WAFERS processed at OKI’s [***] plant, and VC WAFERS processed at OKI’s [***] plant or other plants of OKI as mutually agreed in writing by OKI and PI.

VII. Delete Section 9.1 in its entirety and substitute therefor:

9.1 The prices of the WAFERS, whether produced in the PILOT PRODUCTION or the VOLUME PRODUCTION are set forth in EXHIBIT B attached hereto. Any modifications thereto must be agreed upon by OKI and PI in writing, either as an amendment to EXHIBIT B or as part of an INDIVIDUAL SALES CONTRACT. The VC WAFERS BASE_PRICE for VC WAFERS will include the additional cost

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of the [***] starting wafer (“VC STARTING WAFER”), which cost will be subject to written agreement of the parties as to cost of and vendor for the VC STARTING WAFER. OKI and PI may jointly review and revise the VC WAFERS’ price no earlier than the earlier of (i) the date [***] VC WAFERS have been purchased and accepted by PI, and (ii) [***] years after the start of VC WAFER VOLUME PRODUCTION. Subject to the previous sentence, OKI and PI may jointly review and revise the WAFERS price, by WAFER TYPE, within [***] days of the close of each half of OKI’s fiscal year or upon a material change to the COMMON SPECIFICATIONS.

VIII. Delete Section 13.11 in its entirety and substitute therefor:

Notwithstanding any termination or expiration of this Agreement, the provisions of Articles 1, 11, and 12, Sections 13.7, 13.8, 13.9, 13.10, this Section 13.11, Sections 16.4 and 19.9, and Articles 14, 15, and 18 shall survive this Agreement.

IX. Delete Section 18.14 [***] in its entirety and substitute therefor:

18.14 [***]

X. Insert the following new articles:

Article 19. (VC WAFER MANUFACTURING)

19.1 PI will purchase and loan to OKI, [***] the equipment defined below (the “VC PURCHASED EQUIPMENT”):

Name of VC PURCHASED EQUIPMENT	[***]
Name of Manufacturer	[***]
Quantity	One (1) unit
Serial Number	[***]

19.2 The purchase price of the VC PURCHASED EQUIPMENT will include the installation, connection and testing fees charged by the equipment sellers, the 5% Consumption Tax, and the Fixed Property Tax levied annually on the VC PURCHASED EQUIPMENT (collectively the “VC PURCHASED EQUIPMENT COST”), the total not to exceed [***]. The Fixed Property tax will be paid to the local tax office in Japan through OKI, which payment will be reimbursed to OKI by PI. The VC

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PURCHASED EQUIPMENT COST will be recovered by PI through the VC PURCHASED EQUIPMENT DISCOUNT defined in Section 19.8. Until the date title to the VC PURCHASED EQUIPMENT is transferred to OKI in accordance with Section 19.9, PI will own the VC PURCHASED EQUIPMENT and pay the Fixed Property Tax levied annually on the VC PURCHASED EQUIPMENT as set forth above in this Section 19.2. OKI shall not lend or transfer the VC PURCHASED EQUIPMENT to any third party or encumber the VC PURCHASED EQUIPMENT with any lien or other security interest while the same is owned by PI, without PI's prior written consent.

19.3 The VC PURCHASED EQUIPMENT will be delivered and installed in OKI's wafer fabrication facility in [***]. OKI will be responsible for overseeing full installation, connection to existing equipment, and testing of the VC PURCHASED EQUIPMENT performed by the equipment sellers. Qualification will be performed by OKI in accordance with a qualification plan mutually agreed upon in writing between OKI and PI. Qualification shall not be complete until the date PI reasonably agrees in writing that the foregoing qualification plan has been met.

19.4 OKI shall keep the VC PURCHASED EQUIPMENT in operating condition and available for VOLUME PRODUCTION during the Term of this Agreement. OKI shall be responsible for the maintenance and operation of the VC PURCHASED EQUIPMENT. OKI will pay for all repairs of the VC PURCHASED EQUIPMENT. Any repairs should be completed in reasonable time provided, however, that if a repair cannot be completed within ten (10) calendar days from discovery of the need for such repair, then OKI shall give immediate written notice to PI describing (1) the problem preventing repair in such ten (10) day period, and (2) a firm schedule for completing the repair. In addition, OKI will buy insurance for the VC PURCHASED EQUIPMENT.

19.5 OKI shall not modify the VC PURCHASED EQUIPMENT without the prior written approval of PI. PI shall determine whether the approved modification requires re-qualification of the VC PURCHASED EQUIPMENT. The parties will mutually agree who will pay for such modifications. OKI agrees to re-qualify the VC PURCHASED EQUIPMENT, if so determined, in accordance with a mutually agreed-to, written qualification plan. Such re-qualification will be at OKI's expense.

19.6 The VC PURCHASED EQUIPMENT will be used for manufacturing VC WAFERS for PI. Subject to Section 4.5, any other use is permitted as long as delivery and FOUNDRY CAPACITY commitments by OKI to PI are met.

19.7 The VC PURCHASED EQUIPMENT will not be re-located without PI's prior written consent. OKI will provide PI a minimum of [***] month's advance notice of a plan to move the VC PURCHASED EQUIPMENT. The terms of any VC PURCHASED EQUIPMENT move will be negotiated

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in good faith, mutually agreed upon in writing, and should at least anticipate: (a) adequate WAFER inventory to maintain VOLUME PRODUCTION deliveries during the duration of the move and re-qualification, (b) a plan to re-qualify the VC PURCHASED EQUIPMENT at the new location, and (c) that OKI would pay all costs of the move if such move is solely for OKI's benefit.

19.8 On and after the date OKI receives the VC PURCHASED EQUIPMENT and until title to the VC PURCHASED EQUIPMENT is transferred to OKI in accordance with Section 19.9 below, the price of each VC WAFER purchased and accepted by PI shall be a price that is discounted from the VC WAFERS BASE PRICE by [***] or by any other amount agreed to in writing by the parties ("VC PURCHASED EQUIPMENT DISCOUNT").

19.9 When the total VC PURCHASED EQUIPMENT DISCOUNT received by PI for VC WAFERS purchased and accepted by PI equals [***] of the VC PURCHASED EQUIPMENT COST, OKI will pay the remaining [***] of the VC PURCHASED EQUIPMENT COST, and all right, title and interest in such VC PURCHASED EQUIPMENT shall then automatically be transferred from PI to OKI and such VC PURCHASED EQUIPMENT will not thereafter be returned to PI. Notwithstanding the foregoing, should this Agreement terminate or expire before such transfer, OKI will assist PI, free of charge, in the removal and the return to PI of the VC PURCHASED EQUIPMENT. All packing and shipping cost for such return shall be borne by PI.

Article 20. (ADDITIONAL VC PURCHASED EQUIPMENT)

20.1 If the parties agree by further amendment of this Agreement, OKI will purchase unique production equipment required for OKI to meet PI's VOLUME PRODUCTION requirements for VC WAFERS at the price set forth in, and under the terms agreed to in, such agreement.

XI. Delete EXHIBIT A (OKI FOUNDRY CAPACITY and PI ANNUAL FORECAST) and substitute therefor:

EXHIBIT A

OKI FOUNDRY CAPACITY and PI ANNUAL FORECAST

1. OKI FOUNDRY CAPACITY

The following FOUNDRY CAPACITY will be effective from the Amendment Date:

SC WAFERS = [***] WAFERS / month

DC WAFERS = [***] WAFERS / month

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The following will be the initial FOUNDRY CAPACITY for VC WAFERS):

VC WAFERS = [***] WAFERS/month after purchase, installation and qualification of the VC PURCHASED EQUIPMENT.

2. PI's projected PI ANNUAL FORECAST of WAFER orders (non-binding)

OKI Fiscal Year	2003	2004	2005	2006	2007
SC WAFERS	[***]	[***]	[***]	[***]	[***]
DC WAFERS	[***]	[***]	[***]	[***]	[***]

XII. Delete EXHIBIT B (WAFERS PRICE) and substitute therefor:

EXHIBIT B

WAFERS PRICE

SC WAFERS BASE_PRICE (manufactured at [***]) = [***]

SC WAFERS BASE_PRICE (manufactured at [***]) = [***]

DC WAFERS BASE_PRICE = [***]

VC WAFERS BASE_PRICE = [***] plus cost of VC STARTING WAFER

F/X_BASE = [***]

Initial F/X_RATE = [***]

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A new F/X_RATE is only established at the time of placing a PO for WAFERS if the Previous Month's Average daily exchange rate is equal to or greater than [***] from the current F/X_RATE. The new F/X_RATE will be set to the Previous Month's Average exchange rate and will remain in effect for at least the month it was established.

The actual WAFERS PURCHASE_PRICE, by WAFER TYPE, used at the time of order will be calculated by the following formula:

$$\text{PURCHASE_PRICE} = [***]$$

Examples: For SC WAFERS with a BASE_PRICE of [***]

1) Nominal F/X Rate Example: F/X_RATE = [***]:

$$\text{PURCHASE_PRICE} = [***]$$

2) Higher F/X Rate Example: New F/X_RATE = [***]:

$$\text{PURCHASE_PRICE} = [***]$$

3) Lower F/X Rate Example: New F/X_RATE = [***]:

$$\text{PURCHASE_PRICE} = [***]$$

The term of validity for the DC WAFERS BASE PRICE above shall be from the Effective Date until [***] years from the Effective Date of this Agreement or until the date on which [***] DC WAFERS have been accepted by PI under this Agreement, provided, however, that both parties shall review the DC WAFERS BASE_PRICE at any time during such [***] year period upon request of either party, if either party considers that the quantity of DC WAFERS to be purchased by PI during such [***] year period does not reach [***] WAFERS. After such term of validity, DC WAFERS BASE PRICE shall be [***].

If PI purchases VC PURCHASED EQUIPMENT pursuant to Article 20 ("VC PURCHASED EQUIPMENT") then, effective as of the date OKI receives the VC PURCHASED EQUIPMENT, the VC WAFERS BASE_PRICE shall be discounted by the VC PURCHASED EQUIPMENT DISCOUNT until such time as the number of VC WAFERS thereafter purchased and accepted by PI multiplied by the VC PURCHASED EQUIPMENT DISCOUNT equals the VC PURCHASED EQUIPMENT PRICE. Thereafter, there shall be no further VC PURCHASED EQUIPMENT DISCOUNT from the VC WAFERS BASE_PRICE.

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XIII. The following changes are only to correct various minor clerical errors and do not change the intent or the meaning of the agreement.

- a. In Section 2.2, line 8, change “plant” to “plants.”
- b. In Section 2.2, line 12, after “[***]” insert “percent.”
- c. In Section 5.1.1, line 2, delete “[***] pilot lot”.
- d. In Section 5.2.1, line 2, delete “[***] lot”.
- e. In Section 6.2, line 3, change “1990” to “2000.”
- f. In Section 8.3, line 6, change “Joint Improvement” to “JOINT IMPROVEMENT”.
- g. In Section 10.2, line 1, change “PI” to “POWER INTEGRATIONS, INC.”.
- h. In Section 16.2 change all instances of “IMPLANTER” to “CONSIGNED EQUIPMENT”. In Section 18.16 change all instances of “subsidiary” to “SUBSIDIARY” and all instances of “subsidiaries” to “SUBSIDIARIES”.
- i. Amend “Article 18 (Miscellaneous Provisions)” to become “Article 21 (Miscellaneous Provisions).” and amend the numbering of all sections of Article 21 (“Miscellaneous Provisions”) to become sections numbered 21.

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By their signatures, the authorized representatives of the parties acknowledge the parties' acceptance of this Agreement:

OKI ELECTRIC INDUSTRY CO., LTD.

By: _____ /s/

Name: _____

Title: _____

POWER INTEGRATIONS, INC.

By: _____ /s/

Name: Clifford J. Walker

Title: Vice President Corporate Development

POWER INTEGRATIONS INTERNATIONAL, LTD.

By: _____ /s/

Name: John L Tomlin

Title: President

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WAFER SUPPLY AGREEMENT

This Agreement (“Agreement”) is made and entered into as of this 23rd day of May, 2003 (the “Effective Date”), by and between:

- (1) Power Integrations, Inc., a Delaware corporation having its principal place of business at 5245 Hellyer Ave., San Jose, CA U.S.A. 95138 (“POWER INTEGRATIONS”);
and
- (2) ZMD Analog Mixed Signal Services GmbH & CoKG, a German corporation having its principal place of business at Grenzstrasse 28, 01109 Dresden, Germany (“COMPANY”).

WITNESSETH:

WHEREAS, COMPANY is engaged in providing wafer foundry services for IC companies;
and

WHEREAS, POWER INTEGRATIONS is engaged in the design, development, marketing and sale of various IC products for use in power source applications; and

WHEREAS, POWER INTEGRATIONS desires to acquire from COMPANY fabrication and supply of wafers of certain IC products, and COMPANY is willing to supply such wafers to POWER INTEGRATIONS within the limitation of available production capacity of COMPANY.

NOW, THEREFORE, in consideration of the mutual covenants of the parties contained herein, POWER INTEGRATIONS and COMPANY hereby agree as follows:

Article 1. (Definitions)

When used throughout this Agreement, each of the following terms shall have the meaning indicated below:

- 1.1 COMMON SPECIFICATION(S): The specifications for the production, delivery and acceptance of the WAFERS which are set forth in Exhibit C attached hereto.
- 1.2 CONFIDENTIAL INFORMATION: Technical information, or other non-public information relating to PI or SUPPLIER, whether in a man-readable or machine-readable form and whether recorded on paper, tape, diskette or any other media, which is disclosed by the disclosing party to the receiving party, and subject to Section 1.3 (“CONFIDENTIAL MANUFACTURING INFORMATION”), (i) which is designated in writing, by appropriate legend, as confidential or, (ii) if disclosed orally is identified as confidential information at the time of disclosure and a summary of which is confirmed in writing within thirty (30) days after oral disclosure and designated, by appropriate legend,

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as confidential. Notwithstanding the foregoing, all information generated by the activities and actions of SUPPLIER under this Agreement on PI's behalf and any information, including all PI INTELLECTUAL PROPERTY received from PI by SUPPLIER, to effect the terms of this Agreement shall also be considered PI's CONFIDENTIAL INFORMATION.

- 1.3 CONFIDENTIAL MANUFACTURING INFORMATION: PI's CONFIDENTIAL INFORMATION that is or relates to the PI PROCESS. CONFIDENTIAL MANUFACTURING INFORMATION is CONFIDENTIAL MANUFACTURING INFORMATION in all cases, whether or not marked as or declared to be confidential. Any unmarked or oral information relating to the PI PROCESS conveyed during a meeting between the parties will be CONFIDENTIAL MANUFACTURING INFORMATION by default whether or not declared or marked confidential and whether or not it is subsequently described in writing.
- 1.4 ENGINEERING WAFERS: WAFERS that are processed in accordance with the applicable special pricing in Exhibit B and the applicable special specifications in Exhibit C.
- 1.5 INDIVIDUAL SALES CONTRACTS: Individual contracts of sale and purchase of the WAFERS that will be concluded between SUPPLIER and PI pursuant to this Agreement.
- 1.6 INTELLECTUAL PROPERTY RIGHTS: Copyrights, patents, trade secrets, moral rights, know-how and all other intellectual or proprietary rights of any kind.
- 1.7 MASK SPECIFICATIONS: The specifications for the production, delivery and acceptance of the MASK TOOLING SETS which are set forth in EXHIBIT C attached hereto.
- 1.8 MASK TOOLING SETS: Those mask tooling sets made by or for SUPPLIER for use in making WAFERS pursuant to this Agreement.
- 1.9 PI: POWER INTEGRATIONS, INC., and any of its SUBSIDIARIES.
- 1.10 PI PROCESS IMPROVEMENTS: Any modification or change, during the term of this Agreement, to the PI INTELLECTUAL PROPERTY, including PI IMPROVEMENTS and SUPPLIER IMPROVEMENTS.
- 1.11 PI IMPROVEMENTS: All PI PROCESS IMPROVEMENTS that that have been made solely by PI or made jointly by PI and SUPPLIER.
- 1.12 SUPPLIER IMPROVEMENTS: Any PI PROCESS IMPROVEMENTS that (i) are made solely by SUPPLIER without use of PI CONFIDENTIAL INFORMATION, and (ii) for which SUPPLIER has a substantial use other than manufacturing or incorporation into PRODUCTS, and (iii) are based solely on the SUPPLIER PROCESS.

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- 1.13 PI INTELLECTUAL PROPERTY: The PI PROCESS, the COMMON SPECIFICATIONS, the MASK TOOLING SETS and the mask databases therefor, the PI IMPROVEMENTS, and all INTELLECTUAL PROPERTY RIGHTS in the foregoing.
- 1.14 PI PROCESS: PI's process technologies, which are implemented in the SUPPLIER wafer fabrication facility to produce the WAFERS, and of which the detailed specification is specified in the COMMON SPECIFICATIONS, plus all PI IMPROVEMENTS.
- 1.15 PILOT PRODUCTION: The production by SUPPLIER of WAFERS for the purpose of evaluation by PI.
- 1.16 PRODUCTS: Any and all IC products of PI which will be manufactured in accordance with the PI PROCESS.
- 1.17 SUBSIDIARY: Any corporation, company or other entity in which SUPPLIER or PI, as the case may be, owns and/or controls, directly or indirectly, now or hereafter, more than fifty percent (50%) of the outstanding shares of stock entitled to vote for the election of directors or their equivalents regardless of the form thereof (other than any shares of stock whose voting rights are subject to restriction); provided, however, that any entity which would be a SUBSIDIARY by reason of the foregoing shall be considered a SUBSIDIARY only so long as such ownership or control exists. SUPPLIER and PI shall each enter into separate written agreements (each a "SUBSIDIARY Agreement") with each of their respective SUBSIDIARIES who wish to exercise any rights under this Agreement, binding the SUBSIDIARY to the terms and conditions of this Agreement. A SUBSIDIARY shall maintain its status as a SUBSIDIARY under this Agreement only for so long as such SUBSIDIARY has a SUBSIDIARY Agreement in force and effect. SUPPLIER and PI each guarantee to the other the performance of their respective SUBSIDIARIES under this Agreement, and each will indemnify and hold harmless the other from any costs, damages, or liabilities incurred by the other arising out of a breach by a SUBSIDIARY of the terms and conditions of this Agreement.
- 1.18 SUPPLIER: COMPANY and any of its SUBSIDIARIES.
- 1.19 SUPPLIER PROCESS: SUPPLIER's standard process technology steps, from SUPPLIER owned technologies, developed exclusively by SUPPLIER and implemented in the SUPPLIER wafer fabrication facility to produce the WAFERS.
- 1.20 VOLUME PRODUCTION: The production by SUPPLIER of WAFERS for the volume production of PRODUCTS.
- 1.21 WAFER(S): Non-probed silicon wafers produced during the PILOT PRODUCTION and VOLUME PRODUCTION which meet the COMMON SPECIFICATIONS and that may be identified by additional specifications in an exhibit that is added hereto by written agreement of the parties.

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- 1.22 WAFER TYPE. The different types of WAFERS (e.g., size, location of manufacture) as defined by the COMMON SPECIFICATION and that are identified by additional specifications in Exhibit C (SPECIFICATIONS).

Article 2. (Foundry Commitment and Forecasts)

- 2.1 SUPPLIER agrees to commit to PI the foundry capacity (“FOUNDRY CAPACITY”) as set forth in Exhibit A. Annually, PI will provide SUPPLIER with a non-binding twelve (12) month forecast of WAFER orders by WAFER TYPE (“PI ANNUAL FORECAST”). Annually during the Term of this Agreement and in advance of the beginning of SUPPLIER’s fiscal year, SUPPLIER and PI will jointly review the PI ANNUAL FORECAST and SUPPLIER’s FOUNDRY CAPACITY for the upcoming SUPPLIER fiscal year. Annually, at the beginning of SUPPLIER’s fiscal year during the Term of this Agreement, SUPPLIER will commit a FOUNDRY CAPACITY for the current SUPPLIER fiscal year, at each of the SUPPLIER’s plants making WAFERS for PI, in an amount no less than [***] ([***]%) of PI’s total WAFER purchases by WAFER TYPE during the previous SUPPLIER fiscal year. During the SUPPLIER fiscal year, SUPPLIER shall accept up to a [***] percent ([***]%) upside request over the current FOUNDRY CAPACITY, by WAFER TYPE, upon a [***] ([***]) month written advance notice from PI, unless the current FOUNDRY CAPACITY represents [***] percent ([***]%) of SUPPLIER’s total capacity in which case such advance notice shall be a [***] ([***]) month written notice. SUPPLIER can request PI to negotiate to reduce the committed FOUNDRY CAPACITY, by WAFER TYPE, for the then current SUPPLIER fiscal year, if SUPPLIER and PI determine that PI will not order at least [***] percent ([***]%) of the PI ANNUAL FORECAST by WAFER TYPE. Any negotiated reduction in FOUNDRY CAPACITY must be agreed to by PI in writing.
- 2.2 PI shall provide SUPPLIER, on or before a mutually agreed day of each calendar month, a written [***] ([***]) month forecast (“PI MONTHLY FORECAST”) of the quantity of the WAFERS of each PRODUCT to be manufactured and delivered during the Term of this Agreement. Such forecast shall be in conformity with the FOUNDRY CAPACITY.
- 2.3 PI must order at least the quantity of WAFERS by WAFER TYPE forecasted in the first [***] ([***]) months of the PI MONTHLY FORECAST unless SUPPLIER agrees to any change. PI may revise the quantity for each of the last [***] ([***]) months of each PI MONTHLY FORECAST without penalty or charge.

Article 3. (Sale and Purchase of WAFERS; MASK TOOLING SETS)

- 3.1 As implementation of the foundry services provided in the preceding Article, PI shall purchase from SUPPLIER, and SUPPLIER shall sell to PI, those WAFERS ordered pursuant to the terms and conditions of this Agreement, which shall be non-probed WAFERS.
- 3.2 Subject to the provisions of Section 3.1 above and 5.2 (“VOLUME PRODUCTION”) below, PI shall submit to SUPPLIER a purchase order (the “PO”) for the WAFERS, which

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PO shall be substantially in line with the provisions of Section 2.3 above. All PO's shall be subject to acceptance by SUPPLIER through issuance of a written confirmation within five (5) business days of receipt of the PO. Upon such written confirmation only, the PO terms of total quantity, delivery time and pricing shall constitute an INDIVIDUAL SALES CONTRACT which will be deemed to incorporate all of the terms and conditions of this Agreement. The confirmed PO shall be irrevocable except as set forth in Section 2.3 above.

The mix of PRODUCTS and the quantity of WAFERS, by WAFER TYPE, allocated per each of the PRODUCTS in any INDIVIDUAL SALES CONTRACT can be modified at any time, prior to the week the WAFERS will be started, by PI with confirmation from SUPPLIER so long as the total quantity of all WAFERS, by WAFER TYPE, is not less than the total quantity set forth in the INDIVIDUAL SALES CONTRACT.

- 3.3 The mask databases for creating MASK TOOLING SETS for WAFERS of any PRODUCT shall be supplied by PI to SUPPLIER one (1) week before its commencement of the WAFERS' fabrication at no cost to SUPPLIER. SUPPLIER will produce or procure the MASK TOOLING SETS for the WAFERS. The cost of production or procurement of the MASK TOOLING SETS shall be paid by PI and the MASK TOOLING SETS shall be owned by SUPPLIER, except that all INTELLECTUAL PROPERTY RIGHTS in such MASK TOOLING SETS shall be owned by PI. If, upon SUPPLIER's examination, the MASK TOOLING SETS are found to be defective or not in conformance with the MASK SPECIFICATIONS, SUPPLIER shall immediately notify PI in detail as to such defects or non-conformity, and PI shall either provide corrected mask databases and pay for corrected MASK TOOLING SETS or, notwithstanding any other provision of this Agreement, PI can cancel the INDIVIDUAL SALES CONTRACT for the affected WAFERS, upon written notice to SUPPLIER, without any liability except for affected WAFER work in progress ("WIP") and inventory. The price to PI for the MASK TOOLING SETS shall be SUPPLIER's cost to produce or procure them, and shall be commercially reasonable. If PI determines that the price or quality of the MASK TOOLING SETS is not acceptable then, at PI's option, the SUPPLIER will procure the MASK TOOLING SETS from a vendor specified by PI.

Article 4. (INTELLECTUAL PROPERTY RIGHTS)

- 4.1 PI is and shall remain the sole and exclusive owner of all right, title and interest in the PI INTELLECTUAL PROPERTY. Subject to all of the terms and conditions of this Agreement, PI grants SUPPLIER a limited, non-exclusive license in the PI INTELLECTUAL PROPERTY for the sole purpose of using it internally to manufacture WAFERS for PI in accordance with the terms and conditions of this Agreement. SUPPLIER may not use the PI INTELLECTUAL PROPERTY for any other purpose or license it to any third party, unless a separate written agreement for any such rights is executed by PI.
- 4.2 PI shall be the sole and exclusive owner of all right, title and interest in the PI IMPROVEMENTS. SUPPLIER hereby does and will irrevocably and unconditionally

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transfer and assign to PI all of SUPPLIER's right, title and interest worldwide in the PI IMPROVEMENTS. SUPPLIER will promptly disclose in writing all PI IMPROVEMENTS to PI promptly upon their creation. SUPPLIER shall take all reasonable actions, at PI's expense, to assist PI in perfecting and enforcing its rights in the PI IMPROVEMENTS. Such actions shall include but not be limited to execution of assignments, patent applications and other documents. Subject to all of the terms and conditions of this Agreement, PI hereby grants to SUPPLIER a non-exclusive, irrevocable, perpetual, royalty-free, non-transferable, worldwide, right and license, under all INTELLECTUAL PROPERTY RIGHTS to use, modify, reproduce, (but sub-license only to a SUPPLIER SUBSIDIARY) the PI IMPROVEMENTS for SUPPLIER's internal use only except that no license is granted to the PI IMPROVEMENTS for the purpose of SUPPLIER provided foundry service or other benefit to a third party.

- 4.3 In the event that any portion of Section 4.2 is declared invalid or illegal according to any applicable law, (a) SUPPLIER hereby waives and agrees never to assert such rights, including any moral rights or similar rights, against PI or PI's licensees and (b) the parties hereby modify such portion, effective upon such declaration, in such manner as shall secure for PI an exclusive, irrevocable, perpetual, worldwide, fully paid and royalty-free license under all INTELLECTUAL PROPERTY RIGHTS, with rights to sublicense through one or more level(s) of sublicensee(s), to use, modify, reproduce, create derivative works of, distribute, publicly perform and publicly display by all means now known or later developed, and otherwise exploit in any manner such rights in the PI IMPROVEMENTS, to the maximum extent permitted by applicable law.
- 4.4 SUPPLIER shall be the sole and exclusive owner of all right, title and interest in the SUPPLIER IMPROVEMENTS. PI will pay SUPPLIER a [***] licensee fee of [***] ([***) in the payments set forth below in this Section 4.4, for which SUPPLIER hereby grants to PI a non-exclusive, irrevocable, perpetual, royalty-free, non-transferable, worldwide, right and license, under all INTELLECTUAL PROPERTY RIGHTS to use, modify, reproduce, distribute and otherwise exploit in any manner all SUPPLIER IMPROVEMENTS as part of the PI PROCESS and any modifications thereto. Without any consent of SUPPLIER, PI may sublicense the SUPPLIER IMPROVEMENTS to PI's SUBSIDIARY so long as the sublicense provides for the protection of SUPPLIER's CONFIDENTIAL INFORMATION on terms not less protective of SUPPLIER's rights than those set forth in this Agreement. SUPPLIER will promptly disclose in writing all SUPPLIER IMPROVEMENTS to PI upon their creation. Such one-time license fee will be paid in four payments as follows: (a) [***] ([***) within [***] ([***) days of the execution of this Agreement, (b) [***] ([***) paid on or before [***], (c) [***] ([***) within [***] ([***) days after first shipment of WAFERS to PI by SUPPLIER, and (d) [***] ([***) within [***] ([***) days after SUPPLIER's foundry is deemed by PI to be ready for VOLUME PRODUCTION.
- 4.5 SUPPLIER agrees not to use the PI INTELLECTUAL PROPERTY or any license under this Agreement in whole or in part, or any knowledge gained by SUPPLIER through producing WAFERS for PI to develop an equivalent or competing process or other product

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or service that would compete with PI. Subject to the previous sentence, SUPPLIER may produce any type or variety of product, technology or service whatsoever in order to conduct business with its other customers.

Article 5. (PILOT PRODUCTION and Minimum Order Quantity)

5.1 PILOT PRODUCTION

5.1.1 For the PILOT PRODUCTION, PI shall, if PI desires to, place an order with SUPPLIER for a minimum of [***] ([***)] WAFER starts ([***] ([***)] pilot lot) or multiples thereof per each PRODUCT.

5.1.2 The output will be shipped to PI if the WAFERS output is at least [***] percent ([***)% of the ordered quantity. If the WAFERS output is less than [***] percent ([***)% of the ordered quantity, SUPPLIER will inform PI of the output quantity of the WAFERS, and if PI requires to have the shortage covered, SUPPLIER will re-input the WAFERS to cover the shortage of quantity at no additional cost to PI.

5.2 VOLUME PRODUCTION

5.2.1 For the VOLUME PRODUCTION, PI shall place an order with SUPPLIER for a minimum of [***] ([***)] WAFER starts ([***] ([***)] lot) or multiples thereof per each PRODUCT and SUPPLIER will ship monthly orders in quantities not less than [***] ([***)] of the quantities ordered of each PRODUCT.

5.2.2 The orders of PI for the VOLUME PRODUCTION shall be subject to the provisions of Section 3.2 above.

Article 6. (Delivery)

6.1 The terms of delivery of the WAFERS shall be FCA, ZMD, Dresden (as such terms are defined in Incoterms 2000).

6.2 The title and risk of loss relating to the WAFERS delivered by SUPPLIER to PI shall transfer from SUPPLIER to PI at such time and point as provided in Incoterms 2000 relating to such FCA terms. PI shall have the right to designate a freight forwarder, subject to SUPPLIER's reasonable approval.

6.3 SUPPLIER will deliver the WAFERS within the number of calendar days specified in the INDIVIDUAL SALES CONTRACT. In the event that SUPPLIER foresees a delay in the delivery schedule of the WAFERS, SUPPLIER shall make a best effort to correct any delay and SUPPLIER shall promptly notify PI of such delay and submit to PI the new delivery schedule. PI will have the right to cancel, without liability, the INDIVIDUAL SALES CONTRACT for the delayed WAFERS if the delay is greater than thirty (30) days.

6.4 SUPPLIER shall pack the WAFERS in accordance with the packing standards defined in the COMMON SPECIFICATIONS.

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- 6.5 SUPPLIER shall collect PCM data ("PCM DATA"), as defined in the COMMON SPECIFICATIONS, on the manufactured WAFERS. SUPPLIER will send the PCM DATA electronically to PI before the WAFERS are received by PI. The PCM DATA will be accurate and complete for all WAFERS and sent in a mutually agreed upon format.
- 6.6 In the case that PI determines, in consultation with SUPPLIER, that the WAFERS currently being manufactured will not meet the PRODUCTS requirements, PI can, notwithstanding any other provision of this Agreement, cancel the INDIVIDUAL SALES CONTRACT for the affected WAFERS without any liability except for the affected WAFER WIP and inventory, upon written notice to SUPPLIER.

Article 7. (Test and Inspection)

- 7.1 PI shall conduct incoming inspection of the WAFERS, by WAFER TYPE, to determine the WAFERS' conformance to the COMMON SPECIFICATIONS. The PCM DATA specified in Section 6.5 is required for the incoming inspection of the WAFERS and the omission, inaccuracy or other defect in the PCM DATA will in itself be sufficient cause to reject the WAFERS. This inspection shall be regarded as final in terms of quality, quantity and other conditions of the WAFERS supplied to PI subject to SUPPLIER's warranty as defined in Section 11.1. All WAFERS passing the incoming inspection will be accepted by PI.
- 7.2 PI shall notify SUPPLIER which of the WAFERS have been accepted by PI within [***] ([***]) business days after receipt of the WAFERS by PI. Should PI fail to notify SUPPLIER within the said [***] ([***]) business days, the WAFERS shall be deemed to have been accepted by PI. PI will owe SUPPLIER payment only for the quantity of WAFERS that have been accepted by PI.
- 7.3 SUPPLIER shall not be held responsible for the defects and failures of the WAFERS which are attributable to the design, test and assembly by PI of the PRODUCTS.
- 7.4 SUPPLIER shall not be held responsible for the defects, failures and yield problems of the WAFERS if the WAFERS meet the specifications set forth in the COMMON SPECIFICATIONS.
- 7.5 SUPPLIER may make a written special waiver request to PI to ship WAFERS that do not comply with the COMMON SPECIFICATIONS. If PI approves such special waiver request in writing, which approval may include special terms and conditions, SUPPLIER may ship such non-complying WAFERS under such terms and conditions.

Article 8. (Process and Specification Changes)

- 8.1 SUPPLIER shall notify PI in writing as soon as possible, in advance and in accordance with the COMMON SPECIFICATIONS, of process changes which require PI's change in database or which would affect the quality, reliability, form, fit or function of the PRODUCTS. Each such process change shall be subject to PI's prior written approval. If

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PI does not approve and the process change is implemented, PI will have the right to cancel, without liability, any INDIVIDUAL SALES CONTRACT affected by the process change.

- 8.2 PI shall have sole responsibility for the control, maintenance, distribution and modification of the COMMON SPECIFICATIONS including but not limited to the addition and maintenance of applicable process, inspection, quality and procurement specifications. PI will notify SUPPLIER of any changes to the COMMON SPECIFICATIONS by amending Exhibit C and attaching the relevant specification or documentation. SUPPLIER will acknowledge acceptance of the COMMON SPECIFICATIONS in writing and SUPPLIER's acceptance of the COMMON SPECIFICATIONS will not be unreasonably withheld. In the case of any issue with the COMMON SPECIFICATIONS, SUPPLIER agrees that PI is the ultimate authority on the COMMON SPECIFICATIONS.

Article 9. (Price and Charge)

- 9.1 The prices of the WAFERS, which are produced both in the PILOT PRODUCTION and the VOLUME PRODUCTION are set forth in Exhibit B attached hereto. Any modifications thereto must be agreed upon by SUPPLIER and PI in writing, either as an amendment to EXHIBIT B or as part of an INDIVIDUAL SALES CONTRACT. SUPPLIER and PI may jointly review and revise the WAFERS' price, by WAFER TYPE, within [***] ([***)] days of the close of SUPPLIER's fiscal year or upon a material change to the COMMON SPECIFICATIONS.

Article 10. (Payments)

- 10.1 Payment for the WAFERS shall be by telephonic transfer [***] ([***)] days after receipt of invoice and secured by a standby letter of credit to be opened at a first class bank acceptable to SUPPLIER. SUPPLIER agrees to negotiate terms or alternate forms of payment as proposed by PI.
- 10.2 For tooling costs, PI will pay SUPPLIER [***] ([***)]. Such tooling costs will be paid in two payments as follows: (a) [***] ([***)] to be paid on or before [***], and (b) [***] ([***)] to be paid within [***] ([***)] days after acceptance of the IMPLANTER by SUPPLIER.
- 10.3 If this Agreement is terminated in accordance with Article 13 ("Term and Termination") before SUPPLIER delivers and PI accepts [***] ([***)] WAFERS then SUPPLIER shall immediately pay PI the following amount:

[***]

If this Agreement reaches the end of its term before SUPPLIER delivers and PI accepts [***] ([***)] WAFERS, SUPPLIER will have no obligation to pay PI any funds under this Section 10.3, provided the quantity of WAFERS delivered by SUPPLIER was not materially adversely affected by SUPPLIER's quality, production or delivery problems.

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Article 11. (Warranty, Indemnification and Improvements)

- 11.1 SUPPLIER warrants that the WAFERS sold to PI will conform to their COMMON SPECIFICATIONS. PI shall notify SUPPLIER in writing of any such non-conformity or defect of said WAFERS within [***] ([***)] months after notification of acceptance per Section 7.2 above. SUPPLIER's sole obligations under this warranty are limited to, at PI's option, (i) replacing or reworking any said WAFERS which shall be returned to SUPPLIER's manufacturing facility with transportation charges prepaid, or (ii) SUPPLIER crediting an amount equal to the purchase price of said WAFERS.
- 11.2 SUPPLIER shall defend, indemnify and hold harmless PI, its officers, directors, employees and representatives from and against any claim, demand, cause of action, debt, or liability, including reasonable attorneys' fees, relating to or arising from allegations that the SUPPLIER PROCESS, SUPPLIER IMPROVEMENTS and any SUPPLIER contributions to the PI INTELLECTUAL PROPERTY used to produce WAFERS or the resulting WAFERS infringes any patent, copyright, trade secret or other right of any kind of a third party; provided that SUPPLIER is promptly notified in writing of the action and is allowed to assume and control the defense. SUPPLIER shall pay all damages and costs awarded therein, but shall not be responsible for any compromise or settlement made without SUPPLIER's consent.
- 11.3 EXCEPT AS EXPRESSLY STATED HEREIN, NO EXPRESS OR IMPLIED WARRANTIES ARE MADE BY SUPPLIER RELATING TO THE WAFERS, INCLUDING BUT NOT LIMITED TO WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. PI MAKES NO REPRESENTATION OR WARRANTY OF ANY KIND WITH REGARD TO ANY OF THE PI INTELLECTUAL PROPERTY.
- 11.4 PI shall defend, indemnify and hold harmless SUPPLIER, its officers, directors, employees and representatives from and against any claim, demand, cause of action, debt, or liability, including reasonable attorneys' fees, relating to or arising from allegations that the PI PROCESS and any PI contributions to the PI IMPROVEMENTS used to produce WAFERS infringes any patent, copyright, trade secret or other right of any kind of a third party; provided that PI is promptly notified in writing of the action and is allowed to assume and control the defense. PI shall pay all damages and costs awarded therein, but shall not be responsible for any compromise or settlement made without PI's consent.
- 11.5 Notwithstanding Section 13.7, SUPPLIER shall keep records for [***] ([***)] years, notwithstanding the termination of this Agreement, of the WAFERS manufactured and summaries of their process monitors. SUPPLIER agrees to permit such records to be examined and copied by PI or PI's authorized representative, upon reasonable prior written notice to SUPPLIER, during normal business hours at SUPPLIER's offices. Such records shall be deemed PI's CONFIDENTIAL INFORMATION.

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Article 12. (Confidentiality)

- 12.1 The receiving party shall use any CONFIDENTIAL INFORMATION acquired from the disclosing party in connection with this Agreement solely for the purposes of this Agreement.
- 12.2 Subject to Sections 12.7 and 12.8, for a period of [***] ([***) years after the receipt or creation of the CONFIDENTIAL INFORMATION, or during the Term of this Agreement, whichever is longer, the receiving party shall use a reasonable standard of care not to publish or disseminate the CONFIDENTIAL INFORMATION to any third party, except as otherwise provided herein. The receiving party shall have no obligation with respect to any CONFIDENTIAL INFORMATION received by it which the receiving party shall prove is:
- (a) Published or otherwise available to the public other than by a breach of this Agreement or any other agreement by the receiving party
 - (b) Rightfully received by the receiving party hereunder from a third party not obligated under this Agreement or any other agreement, and without confidential limitation;
 - (c) Known to the receiving party prior to its first receipt of the same from the disclosing party;
 - (d) Independently developed by the receiving party without access to the CONFIDENTIAL INFORMATION of the other party; or
 - (e) Furnished to a third party by the disclosing party without restrictions on the third party's right of disclosure similar to those of this Agreement.
 - (f) Stated in writing by a Disclosing Party no longer to be CONFIDENTIAL INFORMATION.

In the case that Recipient intends to disclose publicly or to a third party any CONFIDENTIAL INFORMATION under the previously defined exceptions above, the Recipient must first give the disclosing party written notice thirty (30) days prior to such a disclosure.

- 12.3 If any CONFIDENTIAL INFORMATION is disclosed pursuant to the requirement or request of a governmental or judicial agency or disclosure is required by operation of law, such disclosure will not constitute a breach of this Agreement, provided that the receiving party shall give prior written notice to the disclosing party and seek a protective order with respect thereto reasonably satisfactory to the disclosing party to the extent available under applicable law.
- 12.4 The receiving party shall limit access to the CONFIDENTIAL INFORMATION only to

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such officers and employees of the receiving party who are reasonably necessary to implement this Agreement and only to such extent as may be necessary for such officers and employees to perform their duties. The receiving party shall be liable to cause all of such officers and employees to sign a secrecy agreement to abide by the secrecy obligations provided in this Agreement. The receiving party shall maintain records of such officers and employees.

12.5 CONFIDENTIAL INFORMATION and all materials including, without limitation, documents, drawings, masks, specifications, models, apparatus, sketches, designs and lists furnished to the receiving party by and which are themselves identified to be or designated in writing to be the property of the disclosing party are and shall remain the property of the disclosing party and shall be returned to the disclosing party promptly at its request, including any copies.

12.6 PI may disclose information with respect to any SUPPLIER IMPROVEMENTS to the PI PROCESS to one or more third parties as PI CONFIDENTIAL INFORMATION and covered by a non-disclosure agreement with protection equivalent to this Agreement for the sole purpose of having such third parties provide PI with design, layout, foundry, assembly and testing services.

12.7 CONFIDENTIAL MANUFACTURING INFORMATION will be confidential for a period of [***] ([***)] years after the Term of this Agreement and SUPPLIER agrees to use its best efforts to never make public the CONFIDENTIAL MANUFACTURING INFORMATION. Notwithstanding any other provision of this Agreement, SUPPLIER shall treat the CONFIDENTIAL MANUFACTURING INFORMATION in accordance with the confidentiality obligations and use restrictions of this Agreement during that [***] ([***)] year period.

12.8 SUPPLIER's obligations with respect to any portion of PI's CONFIDENTIAL MANUFACTURING INFORMATION shall terminate when SUPPLIER can document and with PI's written concurrence that such CONFIDENTIAL MANUFACTURING INFORMATION:

- (a) Was rightfully in the public domain at the time it was communicated to SUPPLIER by PI; or
- (b) Rightfully entered the public domain through no fault of SUPPLIER subsequent to the time it was communicated to SUPPLIER by PI; or
- (c) Was rightfully in SUPPLIER's possession free of any obligation of confidence at the time it was communicated to SUPPLIER by PI; or
- (d) Was rightfully communicated to SUPPLIER by a third party free of any obligation of confidence subsequent to the time it was communicated to SUPPLIER by PI; or
- (e) Was independently developed by SUPPLIER and the SUPPLIER gave PI notice

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thereof, within [***] ([***) days of the disclosure of the PI CONFIDENTIAL MANUFACTURING INFORMATION to the SUPPLIER, documenting the information independently developed by the SUPPLIER.

For any CONFIDENTIAL MANUFACTURING INFORMATION to be subject to an exception above, any document containing such CONFIDENTIAL MANUFACTURING INFORMATION, and the information related thereto, must in their entirety qualify for the exception. This explicitly excludes any right to apply the exception by redacting CONFIDENTIAL MANUFACTURING INFORMATION or any part thereof from a document.

In the case that SUPPLIER intends to disclose to an unauthorized party PI's CONFIDENTIAL MANUFACTURING INFORMATION under the exceptions above, the SUPPLIER must first receive PI's prior written approval and such approval will be in PI's sole discretion.

- 12.9 PI may request the confidential release of SUPPLIER's CONFIDENTIAL INFORMATION to a customer of the PRODUCTS for purposes of such customer's evaluation or audit. SUPPLIER shall not unreasonably withhold approval of the release.
- 12.10 Obligation to Notify and Remedy. SUPPLIER will immediately give written notice to PI of any suspected unauthorized use or disclosure of PI's CONFIDENTIAL MANUFACTURING INFORMATION and SUPPLIER will be responsible for remedying such unauthorized use or disclosure. In the event that SUPPLIER or (to the knowledge of SUPPLIER) any of its representatives is requested or required (by oral questions, interrogatories, requests for information or documents in legal proceedings, subpoenas, civil investigative demands or other similar processes) to disclose any of PI's CONFIDENTIAL MANUFACTURING INFORMATION, SUPPLIER shall provide PI with prompt written notice of any such request or requirement sufficiently timely to allow PI adequate time to seek a protective order or other appropriate remedy and/or waive compliance with the provisions of this Agreement.
- 12.11 Notwithstanding Section 18.1 ("Entire Agreement"), the parties agree that the CMI Agreement previously entered into between the parties shall remain in full force and effect. In case of any conflict between the provisions this Agreement and those of the CMI Agreement, the provisions giving the greater protection to the CONFIDENTIAL MANUFACTURING INFORMATION shall govern except that in any such conflict involving Section 12.4 of this Agreement, such Section 12.4 shall govern.

Article 13. (Term and Termination)

- 13.1 This Agreement shall continue in full force and effect from the Effective Date until [***], unless earlier terminated as provided herein ("Term"). If this Agreement has not earlier terminated the parties agree to negotiate in good faith, beginning one year prior to end of

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the Term, for this Agreement's continuation for another [***] ([***]) year period, on mutually agreeable terms and conditions.

- 13.2 Notwithstanding anything to the contrary in Section 18.11 ("Force Majeure"), if any governmental agency, entity or authority requires (including through administrative guidance) any changes to this Agreement, PI may terminate this Agreement immediately if the changes are, in PI's sole discretion, detrimental to PI's interests or otherwise not reasonably acceptable to PI, without liability of any kind.
- 13.3 In the event that either party has committed a material breach of this Agreement, the other party shall promptly give written notice thereof to the breaching party, specifying any alleged material breach or breaches. The breaching party shall have sixty (60) days after the effective date of such written notice to have all material breaches specified either remedied or waived ("cured"). If such breaches are not so cured, the other party shall have the right to terminate this Agreement effective upon written notice.
- 13.4 A first party shall also have the right to terminate this Agreement with immediate effect by giving written notice of termination to the other party at any time upon or after the occurrence of any of the following events with respect to such other party:
- (a) Insolvency, bankruptcy, reorganization or liquidation or filing of any application therefor, or other commitment of an affirmative act of insolvency, which is not promptly removed or stayed, if (1) the first party does not receive prompt, satisfactory, written assurance from the other party that it can meet its obligations under this Agreement, or (2) after such assurance such other party does not continue to meet such obligations;
 - (b) Attachment, execution or seizure of substantially all of the assets or filing of any application therefor which is not promptly released or stayed;
 - (c) Assignment or transfer of that portion of the business to which this Agreement pertains to a trustee for the benefit of creditors;
 - (d) Termination of its business or dissolution.
- 13.5 [***]
- 13.6 No failure or delay on the part of either party in exercising its right of termination hereunder for any one or more causes shall be construed to prejudice its rights of termination for such cause or any other or subsequent cause.
- 13.7 In the event of expiration or termination of this Agreement, within sixty (60) days after expiration or termination of this Agreement, the receiving party shall return to the disclosing party all media and documentation containing the CONFIDENTIAL INFORMATION and render unusable all said CONFIDENTIAL INFORMATION placed in any storage apparatus under the receiving party's control. SUPPLIER will promptly produce for PI all documents in any form containing CONFIDENTIAL MANUFACTURING INFORMATION, whether made by PI or by SUPPLIER (including

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notes made by SUPPLIER), and whether such documents be in hard copy, electronic (including email), optical or other form.

- 13.8 The termination or expiration of this Agreement shall not release either party from any liability which at said date of termination or expiration has already accrued to the other party.
- 13.9 Notwithstanding any termination or expiration of this Agreement, the provisions of Articles 1 (“Definitions”), 4 (“INTELLECTUAL PROPERTY RIGHTS”), 11 (“Warranty, Indemnification and Improvements”), and 12 (“Confidentiality”), Sections 13.7, 13.8, 13.9, and Articles 14 (“Government Regulations”), 15 (“Non-Disclosure”), and 17 (“Miscellaneous Provisions”) shall survive this Agreement.

Article 14. (Government Regulations)

- 14.1 Unless prior approval is obtained from the competent governmental agency, each party shall not knowingly export or re-export, directly or indirectly, any WAFERS to any country or countries to which export or re-export will violate any laws or regulations of the United States of America.
- 14.2 SUPPLIER is responsible for all taxes in respect of this Agreement except for taxes on PI’s income.

Article 15. (Non-Disclosure)

- 15.1 SUPPLIER shall keep the terms and existence of this Agreement confidential and shall not make disclosure thereof to any third party without the prior written consent of PI, which will be at PI’s sole discretion and, if given, shall be conditioned upon all CONFIDENTIAL MANUFACTURING INFORMATION being redacted from such disclosure.

Article 16. (Third Party Service Providers)

- 16.1 SUPPLIER shall have no right to have WAFERS manufactured, in whole or in part, by a third party unless PI gives its written approval therefor in advance, which approval shall be at PI’s sole discretion. If PI does give such written approval, then SUPPLIER may disclose PI CONFIDENTIAL INFORMATION for the sole purpose of, and only to the extent reasonably necessary for, having such third party provide such services solely for the benefit of PI and not for the benefit of any other party. Such approval shall be conditioned upon:
- (i) PI’s prior review and written approval of the contract between SUPPLIER and such third party performing such manufacture; and
 - (ii) the third party agreeing in writing to all applicable terms and conditions of this Agreement, and;
 - (iii) SUPPLIER being the insurer and guarantor of such third party’s full observance of such terms and conditions; and

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- (iv) SUPPLIER's disclosure of CONFIDENTIAL MANUFACTURING INFORMATION to such third party being subject to PI's prior written approval, which shall be at PI's sole discretion.

Article 17. (Manufacturing Equipment)

17.1 SUPPLIER will purchase the following manufacturing equipment defined below (the IMPLANTER), which is a high energy implanter:

[***]

- 17.2 SUPPLIER will own the IMPLANTER and will be responsible for full installation, connection to existing equipment, testing and qualification of the IMPLANTER at SUPPLIER's facility. Qualification will be in accordance with a qualification plan mutually agreed upon in writing between SUPPLIER and PI. Qualification shall not be complete until the date PI reasonably agrees in writing that the foregoing qualification plan has been met.
- 17.3 SUPPLIER shall keep the IMPLANTER in operating condition and available for VOLUME PRODUCTION during the Term of this Agreement. SUPPLIER shall be responsible for the maintenance and operation of the IMPLANTER. SUPPLIER will pay for all repairs of the IMPLANTER. Any repairs should be completed in reasonable time provided, however, that if a repair cannot be completed within [***] ([***)] calendar days from discovery of the need for such repair, then SUPPLIER shall give immediate written notice to PI describing (1) the problem preventing repair in such [***] ([***)] day period, and (2) a firm schedule for completing the repair.
- 17.4 SUPPLIER shall not modify the IMPLANTER without the prior written approval of PI. SUPPLIER will pay for any modifications of the IMPLANTER. PI shall determine whether the approved modification requires re-qualification of the IMPLANTER. SUPPLIER agrees to re-qualify the IMPLANTER if so determined in accordance with a mutually agreed-to, written qualification plan. Such re-qualification will be at SUPPLIER's expense.
- 17.5 Without PI's prior written consent, SUPPLIER shall not (a) move or relocate the IMPLANTER, (b) lend or transfer it to any third party, or (c) encumber the IMPLANTER with any lien or other security interest, except for the terms and conditions of any grant by the [***].
- 17.6 The IMPLANTER will be used for manufacturing WAFERS for PI, and for PI research and development activities. The IMPLANTER will not be used for the benefit of competitors of PI. SUPPLIER will obtain prior written consent of PI for the use of the IMPLANTER for third parties. Such consent will not unreasonably be withheld. The operation of the IMPLANTER for any other use is permitted as long as delivery and FOUNDRY CAPACITY commitments by SUPPLIER to PI are met.

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17.7 The requirements of Sections 17.4, 17.5 and 17.6 will expire upon the earlier of the date that SUPPLIER delivers and PI accepts [***] ([***]) WAFERS or upon the date that PI is paid the total amount set forth in Section 10.3.

Article 18. (Miscellaneous Provisions)

18.1 Entire Agreement. This Agreement embodies the entire understanding of the parties as it relates to the subject matter hereof and this Agreement supersedes any prior agreements or understandings between the parties with respect to such subject matter.

18.2 Article Headings. The article and section headings herein are for convenience only and shall not affect the construction hereof.

18.3 Waiver. Should either PI or SUPPLIER fail to enforce any provision of this Agreement or to exercise any right in respect thereto, such failure shall not be construed as constituting a waiver or a continuing waiver of its rights to enforce such provision or right or any other provision or right.

18.4 No License. Nothing contained in this Agreement shall be construed as conferring by implication, estoppel or otherwise upon either party hereunder any license or other right except as expressly set forth in Article 4 (“INTELLECTUAL PROPERTY RIGHTS”).

18.5 English Language. This Agreement is in the English language only, which language shall be controlling in all respects, and all versions hereof in any other language shall be for accommodation only and shall not be binding upon the parties. All communications between SUPPLIER and PI to effect the terms of this Agreement shall be in the English language only.

18.6 No Agency. The parties to this Agreement are independent contractors. There is no relationship of agency, partnership, joint venture, employment or franchise between the parties. Neither party has, nor will either party represent that it has, the authority to bind the other or to incur any obligation on its behalf.

18.7 Notices. Any notice required or permitted to be given by either party to the other party under this Agreement shall be in writing and delivered by overnight courier, signature of receipt required, and shall be deemed delivered upon written confirmation of delivery by the courier, if sent to the following respective addresses or such new addresses as may from time to time be supplied hereunder.

To: ZMD Analog Mixed Signal Services GmbH & CoKG
Grenzstrasse 28
01109 Dresden
Attention: Executive VP Foundry

To: Power Integrations, Inc.

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5245 Hellyer Ave,
San Jose, CA U.S.A. 95138
Attention: President

- 18.8 Invalidity. If any provision of this Agreement, or the application thereof to any situation or circumstance, shall be invalid or unenforceable, the remainder of this Agreement or the application of such provision to situations or circumstances other than those as to which it is invalid or unenforceable, shall not be affected; and each remaining provision of this Agreement shall be valid and enforceable to the fullest extent permitted by applicable law. In the event of such partial invalidity, the parties shall seek in good faith to agree on replacing any such legally invalid provisions with provisions which, in effect, will most nearly and fairly approach the effect of the invalid provision.
- 18.9 Assignment. This Agreement and any rights or licenses granted herein shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. SUPPLIER shall not assign any of its rights or privileges hereunder without the prior written consent of PI except as set forth in Section 13.5. Such consent shall not be unreasonably withheld.
- 18.10 Amendment. This Agreement may not be extended, supplemented or amended in any manner except by an instrument in writing expressly referring to this Agreement and duly executed by authorized officers of both parties.
- 18.11 Force Majeure. Either party shall be excused for failures and delays in performance caused by war, declared or not, any laws, proclamations, ordinances or regulations of the government of any country or of any political subdivision of any country, or strikes, lockouts, floods, fires, explosions, acts of terrorism or such other catastrophes as are beyond the control or without the material fault of such party (“Causes”). Any party claiming any such excuse for failure or delay in performance due to such Causes shall give prompt notice thereof to the other party, and neither party shall be required to perform hereunder during the period of such excused failure or delay in performance except as otherwise provided herein. This provision shall not, however, release such party from using its best efforts to avoid or remove all such Causes and such party shall continue performance hereunder with the utmost dispatch whenever such Causes are removed. In the event that the period of excused performance continues for ninety (90) days, this Agreement may be terminated by the party not excused under this Section 18.11 (“Force Majeure”), by written notice to the other party, subject to the provisions of Article 13 (“Term and Termination”) relating to the effect of termination.
- 18.12 Equitable Relief. Because SUPPLIER will have access to and become acquainted with the CONFIDENTIAL INFORMATION of PI, the unauthorized use or disclosure of which would cause irreparable harm and significant injury which would be difficult to ascertain and which would not be compensable by damages alone, the parties agree that PI will have the right to obtain an injunction, specific performance, or other equitable relief without

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prejudice to any other rights and remedies that it may have for such breach of this Agreement.

18.13 [***]

18.14 Governing Law. This Agreement and matters connected with the performance hereof shall be construed, interpreted, applied and governed in all respects in accordance with the laws of California and the United States without regard to conflict of laws principles. SUPPLIER hereby submits to the jurisdiction of, and waives any venue objection against, the Superior Court of the State of California in Santa Clara County, or the Municipal Court of the State of California, County of Santa Clara, or the United States District Court for the Northern District of California, in any litigation arising out of this Agreement.

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IN WITNESS WHEREOF, the parties have caused this Agreement to be executed in their respective corporate names by their duly authorized representatives on the date written below.

ZMD Analog Mixed Signal Services GmbH & CoKG

Power Integrations, Inc.

Signature: /s/ THILO VON SELCHOW

Signature: /s/ BALU BALAKRISHNAN

Name: Thilo von Silchow

Name: Balu Balakrishnan

Title: President

Title: C.E.O. and President

Date: May 23, 2003

Date: May 23, 2003

Signature: /s/ KONRAD HERRE

Name: Konrad Herre

Title: Director Managing Executive VP Foundry

Date: May 23, 2003

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Exhibit A

SUPPLIER FOUNDRY CAPACITY and PI ANNUAL FORECAST

1. SUPPLIER FOUNDRY CAPACITY

The following FOUNDRY CAPACITY will effective from January, 2004 for the following quarters:

SUPPLIER Fiscal Year	Q1	Q2	Q3	Q4
2004	[***]	[***]	[***]	[***]
2005	[***]	[***]	[***]	[***]

Section 2.1 of the Agreement will determine FOUNDRY CAPACITY [***].

If PI requires SUPPLIER to commit to a FOUNDRY CAPACITY over [***] WAFERS / month, then PI and SUPPLIER will negotiate the sharing of the cost of increasing the FOUNDRY CAPACITY, in good faith.

2. PI's projected PI ANNUAL FORECAST of WAFER orders (non-binding)

SUPPLIER Fiscal Year	2004	2005	2006	2007	2008	2009
WAFERS	[***]	[***]	[***]	[***]	[***]	[***]

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Exhibit B

PRICES

[***] DC PROCESS WAFER

Price: [***] layers First [***] wafers [***]
Next [***] wafers [***]

At an annual volume of more than [***] ([***]) shipped WAFERS per year, pricing will change based on the average monthly run-rate scheduled to ship per quarter as follows:

< [***] wafers / month [***]
[***] – [***] wafers / month [***]
> [***] wafers / month [***]

A rebate of [***] ([***]) shall be applied to each WAFER purchased by PI until [***] ([***]) WAFERS have been accepted by PI.

Delivery times:

VOLUME PRODUCTION [***]

DC PROCESS ENGINEERING WAFER

Price: Std. and non-std. run [***]
Hot run [***]
Minimum wafer lot size [***] wafers

Delivery times:

Standard run [***]
Hot run [***]
Non-Standard run [***]

MASK TOOLING SET

Price: [***] mask set
([***] [***] masks)
([***] [***] masks)[***]

Individual masks

[***] mask [***]
[***] mask [***]

Vendors: [***]

ALL PRICES ABOVE WILL BE NEGOTIATED AND PAID IN US DOLLARS.



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Exhibit C

SPECIFICATIONS

COMMON SPECIFICATION

The COMMON SPECIFICATION(S) is the [***] to produce and deliver WAFERS to PI during the Term of this Agreement.

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AMENDED AND RESTATED WAFER SUPPLY AGREEMENT

The parties to this Agreement,

- (1) Power Integrations, Inc., a Delaware corporation having its principal place of business at 5245 Hellyer Ave.; San Jose, CA 95138 (“POWER INTEGRATIONS”);
and
- (2) OKI ELECTRIC INDUSTRY CO., LTD., a Japanese corporation having its registered head office at 7-12, Toranomom 1-chome, Minato-ku, Tokyo 105-8460, Japan (“OKI ELECTRIC”),

entered into the Wafer Supply Agreement (“WSA”) on the 1st day of October, 1998. The above parties desire to amend and restate the WSA in this Amended and Restated Wafer Supply Agreement (“Agreement”), which is made and entered into by and between the above parties as of this 1st day of April 2003 (the “Effective Date”), as follows.

WITNESSETH:

WHEREAS, OKI is engaged in providing wafer foundry services for IC companies; and

WHEREAS, PI is engaged in the design, development, marketing and sale of various IC products for use in power source applications; and

WHEREAS, PI desires to acquire from OKI fabrication and supply of wafers of certain IC products, and OKI is willing to supply such wafers to PI within the limitation of available production capacity of OKI.

NOW, THEREFORE, in consideration of the above premises and the mutual covenants of the parties contained herein, PI and OKI hereby agree as follows:

Article 1. (Definitions)

When used throughout this Agreement, each of the following terms shall have the meaning indicated below:

- 1.1 **PRODUCTS:** Any and all IC products of PI which will be processed in accordance with the PI PROCESS.

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- 1.2 WAFERS: Non-probed four (4) and/or five (5) inch silicon wafers produced during the PILOT PRODUCTION and VOLUME PRODUCTION which meet the COMMON SPECIFICATIONS.
- 1.3 PILOT PRODUCTION: The production by OKI of WAFERS for the purpose of evaluation by PI.
- 1.4 VOLUME PRODUCTION: The production by OKI of WAFERS for the volume production of PRODUCTS.
- 1.5 PI PROCESS: PI's process technologies, which are implemented in the OKI wafer fabrication facility to produce the WAFERS, and of which the detailed specification is specified in the COMMON SPECIFICATIONS plus any improvements made by PI or jointly by PI and OKI during the Term of the Agreement.
- 1.6 OKI PROCESS: OKI's process technologies developed exclusively by OKI and implemented in the OKI wafer fabrication facility to produce the WAFERS.
- 1.7 COMMON SPECIFICATION(S): The specifications for the production, delivery and acceptance of the WAFERS which are defined in EXHIBIT C attached hereto.
- 1.8 INDIVIDUAL SALES CONTRACTS: Individual contracts of sale and purchase of the WAFERS that will be concluded between OKI and PI pursuant to this Agreement.
- 1.9 LWS AGREEMENT: The Licensing and Wafer Supply Agreement, dated June 18, 1993, between OKI and PI, including all amendments.
- 1.10 SUBSIDIARY: Any corporation, company or other entity in which OKI or PI, as the case may be, owns and/or controls, directly or indirectly, now or hereafter, more than fifty percent (50%) of the outstanding shares of stock entitled to vote for the election of directors or their equivalents regardless of the form thereof (other than any shares of stock whose voting rights are subject to restriction); provided, however, that any entity which would be a SUBSIDIARY by reason of the foregoing shall be considered a SUBSIDIARY only so long as such ownership or control exists.
- 1.11 OKI: OKI and any of its SUBSIDIARIES.
- 1.12 PI: PI and any of its SUBSIDIARIES.
- 1.13 CONFIDENTIAL INFORMATION: Technical information, or other non-public information relating to PI or OKI, whether in a man-readable or machine-readable form and whether recorded on paper, tape, diskette or any other media, which is disclosed by the

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disclosing party to the receiving party, and (i) which is designated in writing, by appropriate legend, as confidential or, (ii) if disclosed orally is identified as confidential information at the time of disclosure and a summary of which is confirmed in writing within thirty (30) days after oral disclosure and designated, by appropriate legend, as confidential. Notwithstanding the foregoing, all information generated by the activities and actions of OKI under this Agreement on PI's behalf or any information including all PI INTELLECTUAL PROPERTY received from PI by OKI to effect the terms of this Agreement shall also be considered PI's CONFIDENTIAL INFORMATION unless explicitly agreed to be exempted by PI in writing.

- 1.14 OKI IMPROVEMENTS: Any modification or improvement to the OKI PROCESS or the PI PROCESS, developed exclusively by OKI, during the Term of the Agreement and all OKI improvements under the LWS Agreement.
- 1.15 JOINT IMPROVEMENTS: Any and all enhancements, modifications, derivative works, improvements and/or changes made by OKI in conjunction with PI to the PI PROCESS, the COMMON SPECIFICATION, the MASK TOOLING SETS, and/or the PI CONFIDENTIAL INFORMATION.
- 1.16 MASK TOOLING SETS: Those MASK TOOLING SETS delivered by PI to OKI or the mask databases provided to OKI for the purpose of building the MASK TOOLING SETS pursuant to this Agreement.
- 1.17 PI INTELLECTUAL PROPERTY: The PI PROCESS, the COMMON SPECIFICATIONS, the MASK TOOLING SETS, the JOINT IMPROVEMENTS, and all INTELLECTUAL PROPERTY RIGHTS in the foregoing.
- 1.18 INTELLECTUAL PROPERTY RIGHTS: Copyrights, patents, trade secrets, moral rights, know-how and other intellectual or proprietary rights of any kind.
- 1.19 DC WAFER(S): Non-probed five (5) inch Wafers that are processed in accordance with the DC WAFER COMMON SPECIFICATIONS.
- 1.20 CONSIGNED EQUIPMENT: The equipment defined in Article 16.
- 1.21 IMPLANTER: The equipment defined in Article 17.
- 1.22 SC WAFER(S): Non-probed four (4) inch WAFERS that are processed in accordance with the SC WAFER COMMON SPECIFICATION.

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1.23 WAFER TYPE: The different types of WAFERS as defined by the COMMON SPECIFICATION.

Article 2. (Foundry Commitment and Forecasts)

- 2.1 Both OKI and PI desire to enter into a relationship under which they will act in good faith and cooperate to achieve their objectives to their mutual benefit as set forth in this Agreement.
- 2.2 OKI agrees to commit to PI the foundry capacity ("FOUNDRY CAPACITY") as set forth in EXHIBIT A. Each January, during the Term of this Agreement OKI and PI will jointly review PI's non-binding twelve (12) month forecast of WAFER orders by WAFER TYPE ("PI ANNUAL FORECAST") and OKI's FOUNDRY CAPACITY for the upcoming OKI fiscal year (April 1 through March 31). Annually, on April 1st during the Term of this Agreement, OKI will commit a FOUNDRY CAPACITY for the current OKI fiscal year, at the OKI plant specified per Section 3.3, in an amount no less than [***] Percent ([***]%) of PI's total WAFER purchases by WAFER TYPE during the previous OKI fiscal year and PI will submit the PI ANNUAL FORECAST. During the OKI fiscal year, OKI shall accept up to a [***] ([***]%) upside request over the current FOUNDRY CAPACITY, by WAFER TYPE, upon a [***] ([***]) month written advance notice from PI. OKI can request PI to negotiate to reduce the committed FOUNDRY CAPACITY, by WAFER TYPE, for the then current OKI fiscal year, if OKI and PI determine that PI will not order at least [***]% of the PI ANNUAL FORECAST by WAFER TYPE. Any negotiated reduction in FOUNDRY CAPACITY must be agreed to by PI in writing.
- 2.3 During the Term of this Agreement, PI shall provide OKI on or before a mutually agreed day of each calendar month a written forecast ("PI MONTHLY FORECAST") of the quantity of the WAFERS of each PRODUCT to be manufactured and delivered (if any) within the period of the following [***] ([***]) calendar months which shall fall within the Term of this Agreement, provided that such forecast shall be in conformity with the FOUNDRY CAPACITY.
- 2.4 PI must order at least the quantity of WAFERS by WAFER TYPE forecasted in the first [***] ([***]) months of the PI MONTHLY FORECAST unless OKI agrees to any change. PI may revise the quantity for each of the last [***] ([***]) months of each PI MONTHLY

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FORECAST without penalty or charge.

- 2.5 In the event of any direct or indirect governmental intervention in Japan or the United States or in any country of destination of the WAFERS purchased by PI, which intervention may virtually or legally render infeasible supply of the full quantity of the WAFERS ordered by PI, then OKI shall be obligated to supply only such quantity as may feasibly and legally be supplied without any liability to PI and PI will have the right to terminate this Agreement without liability, effective upon written notice to OKI.
- 2.6 At the request of OKI, PI and OKI shall discuss allocating the production of the WAFERS from one plant of OKI to another.

Article 3. (Sale and Purchase of WAFERS; MASK TOOLING SETS)

- 3.1 As implementation of the foundry services provided in the preceding Article, PI shall purchase from OKI, and OKI shall sell to PI, those WAFERS ordered pursuant to the terms and conditions of this Agreement, which shall be non-probed WAFERS.
- 3.2 Subject to the provisions of Section 3.1 above and 5.2 below, PI shall submit to OKI a purchase order (the "PO") for the WAFERS which shall be substantially in line with the provisions of Section 2.4 above. All PO's shall be subject to acceptance by OKI through issuance of a written confirmation within five (5) business days of receipt of the PO. Upon such written confirmation only, the PO terms of total quantity, delivery time and pricing shall constitute an INDIVIDUAL SALES CONTRACT which will be deemed to incorporate all of the terms and conditions of this Agreement. The confirmed PO shall be irrevocable except as set forth in Sections 2.4 and 2.5 above. The mix of PRODUCTS and the quantity of WAFERS, by WAFER TYPE, allocated per each of the PRODUCTS in any INDIVIDUAL SALES CONTRACT can be modified at any time, prior to the week the WAFERS will be started, by PI with confirmation from OKI so long as the total quantity of all WAFERS, by WAFER TYPE, is not less.
- 3.3 The WAFERS sold hereunder shall be SC WAFERS processed at OKI's [***] plant and DC WAFERS processed at OKI's [***] plant, or other plants of OKI as mutually agreed in writing by OKI and PI.
- 3.4 The sale and purchase of the WAFERS may be made between PI and OKI or any of their respective SUBSIDIARIES pursuant to the terms and conditions of this Agreement.

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3.5 The mask tooling sets for WAFERS of any PRODUCT shall be supplied by PI to OKI one (1) week before its commencement of the WAFERS fabrication at no cost to OKI. If, upon OKI's examination, the MASK TOOLING SETS are found to be defective or not in conformance with the COMMON SPECIFICATIONS, OKI shall immediately notify PI in detail as to such defects or non-conformity, and PI shall either provide corrected MASK TOOLING SETS at PI's expense or, notwithstanding any other provision of this Agreement, PI can cancel the INDIVIDUAL SALES CONTRACT for the affected WAFERS, without any liability except for affected WAFER work in progress ("WIP") and inventory, upon written notice to OKI.

Article 4. (INTELLECTUAL PROPERTY RIGHTS)

4.1 PI is and shall remain the sole and exclusive owner of all right, title and interest in the PI INTELLECTUAL PROPERTY. Subject to all of the terms and conditions of this Agreement, PI grants OKI a limited, non-exclusive license in the PI INTELLECTUAL PROPERTY for the sole purpose of using it internally to manufacture WAFERS for PI in accordance with the terms and conditions of this Agreement. OKI may not use the PI INTELLECTUAL PROPERTY for any other purpose or license it to any third party, unless a separate written agreement for any such rights is executed by PI.

4.2 OKI hereby does and will irrevocably and unconditionally transfer and assign to PI all of OKI's right, title and interest worldwide in the JOINT IMPROVEMENTS. OKI will promptly disclose in writing all JOINT IMPROVEMENTS to PI promptly upon their creation. OKI shall take all reasonable actions, at PI's expense, to assist PI in perfecting and enforcing its rights in the JOINT IMPROVEMENTS. Such actions shall include but not be limited to execution of assignments, patent applications and other documents. Subject to all of the terms and conditions of this Agreement, PI hereby grants to OKI a non-exclusive, irrevocable, perpetual, royalty-free, non-transferable, worldwide, right and license, under all INTELLECTUAL PROPERTY RIGHTS to use, modify and reproduce, (with the right to sublicense only an OKI SUBSIDIARY) the JOINT IMPROVEMENTS for OKI's internal use only except that no license is granted for the purpose of OKI providing foundry service or other benefit to a third party.

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- 4.3 In the event that any portion of Section 4.2 is declared invalid or illegal according to any applicable law, (a) OKI hereby waives and agrees never to assert such rights, including any moral rights or similar rights, against PI or PI's licensees and (b) the parties hereby modify such portion, effective upon such declaration, in such manner as shall secure for PI an exclusive, irrevocable, perpetual, worldwide, fully paid and royalty-free license under all INTELLECTUAL PROPERTY RIGHTS, with rights to sublicense through one or more level(s) of sublicensee(s), to use, modify, reproduce, create derivative works of, distribute, publicly perform and publicly display by all means now known or later developed, such rights in the JOINT IMPROVEMENTS to the maximum extent permitted by applicable law.
- 4.4 OKI shall be the sole and exclusive owner of all right, title and interest in the OKI IMPROVEMENTS. OKI will promptly disclose in writing all OKI IMPROVEMENTS to PI promptly upon their creation. OKI hereby grants to PI a non-exclusive, irrevocable, perpetual, royalty free, non-transferable, worldwide, right and license, under all INTELLECTUAL PROPERTY RIGHTS to use, modify, reproduce, distribute and otherwise exploit in any manner the OKI IMPROVEMENTS as part of the PI PROCESS and any modifications thereto. Without any consent of OKI, PI may sublicense the OKI IMPROVEMENTS to PI's SUBSIDIARY so long as the sublicense provides for the protection of OKI's CONFIDENTIAL INFORMATION on terms not less protective of OKI's rights than those set forth the in this Agreement.
- 4.5 OKI agrees not to use the PI INTELLECTUAL PROPERTY or any license under this Agreement in whole or in part or knowledge gained by OKI through producing WAFERS for PI to develop an equivalent or competing process or other product or service that would compete with PI.

Article 5. (Pilot Production and Minimum Order Quantity)

5.1 PILOT PRODUCTION

- 5.1.1 For the PILOT PRODUCTION, PI shall, if PI's desires to, place an order with OKI for a minimum of [***] ([***) WAFER starts ([***) ([***) pilot lot) or multiples thereof per each PRODUCT.
- 5.1.2 The output will be shipped to PI if the WAFERS output is at least [***] percent ([***)%) of the ordered quantity. If the WAFERS output is less than [***] percent

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([***]%) of ordered quantity, OKI will inform PI of the output quantity of the WAFERS and if PI requires to have the shortage covered, OKI will re-input the WAFERS to cover the shortage of quantity at no additional cost to PI.

5.2 VOLUME PRODUCTION

5.2.1 For the VOLUME PRODUCTION, PI shall place an order with OKI for a minimum of [***] ([***]) WAFER starts ([***] ([***]) lot) or multiples thereof per each PRODUCT and OKI will ship monthly orders in quantities not less than [***] percent ([***]%) of the quantities ordered of each PRODUCT.

5.2.2 The orders of PI for the VOLUME PRODUCTION shall be subject to the provisions of Section 3.2 above.

Article 6. (Delivery)

6.1 The terms of delivery of the WAFERS shall be FCA Miyazaki airport (as such terms are defined in Incoterms 2000).

6.2 The title and risk of loss relating to the WAFERS delivered by OKI to PI shall transfer from OKI to PI at such time and point as provided in Incoterms 1990 relating to such FCA terms. PI shall have the right to designate a freight forwarder, subject to OKI's reasonable approval.

6.3 OKI will deliver the WAFERS within the number of calendar days specified in the INDIVIDUAL SALES CONTRACT. In the event that OKI foresees a delay in the delivery schedule of the WAFERS, OKI shall make a best effort to correct any delay and OKI shall promptly notify PI of such delay and submit to PI the new delivery schedule. PI will have the right to cancel, without liability, the INDIVIDUAL SALES CONTRACT for the delayed WAFERS if the delay is greater than thirty (30) days.

6.4 OKI shall pack the WAFERS in accordance with the packing standards defined in the COMMON SPECIFICATIONS.

6.5 OKI shall collect PCM data ("PCM DATA"), as defined in the COMMON SPECIFICATIONS, on the manufactured WAFERS. OKI will send the PCM DATA electronically to PI before the WAFERS are received by PI. The PCM DATA will be accurate and complete for all WAFERS and sent in a mutually agreed upon format.

6.6 Notwithstanding any other provision of this Agreement, in the case that PI determines, in consultation with OKI, that the WAFERS currently being manufactured will not meet the

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PRODUCTS requirements, PI can cancel the INDIVIDUAL SALES CONTRACT for the affected WAFERS without any liability except for the affected WAFER WIP and inventory, upon written notice to OKI.

Article 7. (Test and Inspection)

- 7.1 PI shall conduct incoming inspection of the WAFERS, by WAFER TYPE, to determine the WAFERS' conformance to the COMMON SPECIFICATIONS. The PCM DATA specified in Section 6.5 is required for the incoming inspection of the WAFERS and the omission, inaccuracy or other defect in the PCM DATA will in itself be sufficient cause to reject the WAFERS. This inspection shall be regarded as final in terms of quality, quantity and other conditions of the WAFERS supplied to PI subject to OKI's warranty as defined in Section 11.1. All WAFERS passing the incoming inspection will be accepted by PI.
- 7.2 PI shall notify OKI which of the WAFERS have been accepted by PI within [***] ([***)] business days after receipt of the WAFERS by PI. Should PI fail to notify OKI within the said [***] ([***)] business days, the WAFERS shall be deemed to have been accepted by PI. PI will owe OKI payment only for the quantity of WAFERS that have been accepted by PI.
- 7.3 OKI shall not be held responsible for the defects and failures of the WAFERS which are attributable to the design, test and assembly by PI of the PRODUCTS.
- 7.4 OKI shall not be held responsible for the defects, failures and yield problems of the WAFERS if the WAFERS meet the specifications set forth in the COMMON SPECIFICATIONS.

Article 8. (Process and Specification Changes)

- 8.1. OKI shall notify PI in writing as soon as possible, in advance and in accordance with the COMMON SPECIFICATIONS, of process changes which require PI's change in data-base or which would affect the quality, reliability, form, fit or function of the PRODUCTS in order to receive PI's prior written approval of the process change. PI will have the right to cancel, without liability, any INDIVIDUAL SALES CONTRACT affected by the process change.
- 8.2. PI shall have sole responsibility for the control, maintenance, distribution and modification

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of the COMMON SPECIFICATIONS including but not limited to the addition and maintenance of applicable process, inspection, quality and procurement specifications. PI will notify OKI of any changes to the COMMON SPECIFICATIONS by amending Exhibit C and attaching the relevant specification or documentation. OKI will acknowledge acceptance of the COMMON SPECIFICATIONS in writing and OKI's acceptance of the COMMON SPECIFICATIONS will not be unreasonably withheld. In the case of any issue with the COMMON SPECIFICATIONS, OKI agrees that PI is the ultimate authority on the COMMON SPECIFICATIONS.

- 8.3 PI and OKI shall specify in advance in writing the scope and purpose of any JOINT IMPROVEMENT project for the purpose of pre-defining to what extent and specifically which process technology will be considered a JOINT IMPROVEMENT. OKI's rights under Section 4.2 shall not extend to any process technology not so defined as a Joint Improvement.

Article 9. (Price and Charge)

- 9.1 The prices of the WAFERS, which are produced both in the PILOT PRODUCTION and the VOLUME PRODUCTION are set forth in EXHIBIT B attached hereto. Any modifications thereto must be agreed upon by OKI and PI in writing, either as an amendment to EXHIBIT B or as part of an INDIVIDUAL SALES CONTRACT. OKI and PI may jointly review and revise the WAFERS price, by WAFER TYPE, within [***] ([***)] days of the close of each half of OKI's fiscal year or upon a material change to the COMMON SPECIFICATION.
- 9.2 In the event of any direct or indirect intervention of the Japanese, the United States and/or any other relevant Governments, including the legislative, administrative and judicial branches thereof, which may virtually or legally disallow a price at which the WAFERS shall be supplied under this Agreement, then OKI shall not be obligated to abide by such price without any liability to PI and PI will have the right to terminate this Agreement without liability, effective upon written notice to OKI.

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Article 10. (Payments)

- 10.1 Payment for the WAFERS shall be by telephonic transfer [***] ([***)] days after receipt of invoice and secured by a standby letter of credit to be opened at a first class bank acceptable to OKI. OKI agrees to negotiate terms or alternate forms of payment as proposed by PI.
- 10.2 For tooling costs, PI will pay OKI [***] ([***)], payment of which shall be made within [***] ([***)] days from the beginning of VOLUME PRODUCTION of DC WAFERS from the IMPLANTER.

Article 11. (Warranty, Indemnification and Improvements)

- 11.1 OKI warrants that the WAFERS sold to PI under this Agreement will conform to their COMMON SPECIFICATIONS. PI shall notify OKI in writing of any such non-conformity or defect of said WAFERS within [***] ([***)] months after the acceptance of the WAFERS by PI per Section 7.2 above. OKI's sole obligations under this warranty are limited to, at PI's option, (i) replacing or reworking any said WAFERS which shall be returned to OKI's manufacturing facility with transportation charges prepaid, or (ii) OKI crediting an amount equal to the purchase price of said WAFERS.
- 11.2 OKI shall defend, indemnify and hold harmless PI, its officers, directors, employees and representatives from and against any claim, demand, cause of action, debt, or liability, including reasonable attorneys' fees, relating to or arising from allegations that the OKI PROCESS, OKI IMPROVEMENTS and any OKI contributions to the JOINT IMPROVEMENTS used to produce WAFERS or the resulting WAFERS under this Agreement or under the LWS Agreement or under the WSA infringes any patent, copyright, trade secret or other right of any kind of a third party; provided that OKI is promptly notified in writing of the action and is allowed to assume and control the defense. OKI shall pay all damages and costs awarded therein, but shall not be responsible for any compromise or settlement made without OKI's consent.
- 11.3 EXCEPT AS EXPRESSLY STATED HEREIN, NO EXPRESS OR IMPLIED WARRANTIES ARE MADE BY OKI RELATING TO THE WAFERS, INCLUDING BUT NOT LIMITED TO WARRANTIES OF MERCHANTABILITY OR FITNESS FOR

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A PARTICULAR PURPOSE. PI MAKES NO REPRESENTATION OR WARRANTY OF ANY KIND WITH REGARD TO ANY OF THE PI INTELLECTUAL PROPERTY.

- 11.4 PI shall defend, indemnify and hold harmless OKI, its officers, directors, employees and representatives from and against any claim, demand, cause of action, debt, or liability, including reasonable attorneys' fees, relating to or arising from allegations that the PI PROCESS and any PI contributions to the JOINT IMPROVEMENTS used to produce WAFERS infringes any patent, copyright, trade secret or other right of any kind of a third party; provided that PI is promptly notified in writing of the action and is allowed to assume and control the defense. PI shall pay all damages and costs awarded therein, but shall not be responsible for any compromise or settlement made without PI's consent.
- 11.5 OKI shall keep records for [***] ([***)] years, notwithstanding the termination of this Agreement, of the WAFERS manufactured and summaries of their process monitors. OKI agrees to permit such records to be examined and copied by PI, or PI's authorized representative, upon reasonable prior written notice to OKI during normal business hours at OKI's offices. Such records shall be deemed PI's CONFIDENTIAL INFORMATION.

Article 12. (Confidentiality)

- 12.1 The receiving party shall use any CONFIDENTIAL INFORMATION acquired from the disclosing party in connection with this Agreement solely for the purposes of this Agreement.
- 12.2 For a period of [***] ([***)] years after the receipt or creation of the CONFIDENTIAL INFORMATION, or during the Term of this Agreement, which may be longer, the receiving party shall use a reasonable standard of care not to publish or disseminate the CONFIDENTIAL INFORMATION to any third party, except as otherwise provided herein.
- The receiving party shall have no obligation with respect to any CONFIDENTIAL INFORMATION received by it which the receiving party shall prove is:
- 12.2.1 Published or otherwise available to the public other than by a breach of this Agreement or any other agreement by the receiving party
- 12.2.2 Rightfully received by the receiving party hereunder from a third party not obligated under this Agreement or any other agreement, and without confidential limitation;

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12.2.3 Known to the receiving party prior to its first receipt of the same from the disclosing party;

12.2.4 Independently developed by the receiving party; or

12.2.5 Furnished to a third party by the disclosing party without a similar restriction on the third party's right of disclosure.

In the case that Recipient intends to disclose publicly or to a third party any CONFIDENTIAL INFORMATION under the previously defined exceptions above, the Recipient must first give the disclosing party written notice ([***]) [***] days prior to such a disclosure. CONFIDENTIAL INFORMATION approved in writing by the disclosing party for release by the receiving party without a confidentiality agreement designating the information as confidential will remove the receiving party's obligations to the CONFIDENTIAL INFORMATION.

12.3 If any CONFIDENTIAL INFORMATION is disclosed pursuant to the requirement or request of a governmental or judicial agency or disclosure is required by operation of law, such disclosure will not constitute a breach of this Agreement, provided that the receiving party shall promptly notify the disclosing party and seek a protective order with respect thereto reasonably satisfactory to the disclosing party to the extent available under applicable law.

12.4 The receiving party shall limit access to the CONFIDENTIAL INFORMATION only to such officers and employees of the receiving party who are reasonably necessary to implement this Agreement and only to such extent as may be necessary for such officers and employees to perform their duties. The receiving party shall be liable to cause all of such officers and employees to sign a secrecy agreement to abide by the secrecy obligations provided in this Agreement. The receiving party shall maintain records of such officers and employees.

12.5 CONFIDENTIAL INFORMATION and all materials including, without limitation, documents, drawings, masks, specifications, models, apparatus, sketches, designs and lists furnished to the receiving party by and which are themselves identified to be or designated in writing to be the property of the disclosing party are and shall remain the property of the disclosing party and shall be returned to the disclosing party promptly at its request, including any copies.

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- 12.6 Any CONFIDENTIAL INFORMATION disclosed by the disclosing party at any time under the LWS AGREEMENT shall be deemed for the purpose of this Article to be or have been disclosed pursuant to this Agreement as CONFIDENTIAL INFORMATION. PI may disclose information with respect to any OKI IMPROVEMENTS to the PI PROCESS to one or more third parties as PI CONFIDENTIAL INFORMATION and covered by a non-disclosure agreement with protection equivalent to this Agreement for the sole purpose of having such third parties provide PI with design, layout, foundry, assembly and testing services.
- 12.7 The COMMON SPECIFICATIONS will be CONFIDENTIAL INFORMATION for a period of [***] ([***)] years after the Term of this Agreement and OKI agrees to use its best efforts to never make public the COMMON SPECIFICATIONS. Notwithstanding any other provision of this Agreement, OKI shall treat the COMMON SPECIFICATIONS in accordance with the confidentiality obligations and use restrictions of this Agreement during that [***] ([***)] year period.
- 12.8 PI may request the confidential release of OKI's CONFIDENTIAL INFORMATION to a customer of the PRODUCTS for purposes of such customer's evaluation or audit. OKI shall not unreasonably withhold approval of the release.

Article 13. (Term and Termination)

- 13.1 This Agreement shall continue in full force and effect from the Effective Date, until [***], unless earlier terminated as provided herein ("Term").
- 13.2 Notwithstanding anything to the contrary in Section 18.11 ("Force Majeure"), If any Japanese governmental agency, entity or authority requires (including through administrative guidance) any changes to this Agreement, PI may terminate this Agreement immediately if the changes are, in PI's sole discretion, detrimental to PI's interests or otherwise not reasonably acceptable to PI, without liability of any kind.
- 13.3 In the event that either party has committed a material breach of this Agreement, the other party shall have the right to terminate this Agreement by giving sixty (60) days' written notice of termination specifying any alleged material breach or breaches, such termination to become effective at the end of said period unless during said period all material breaches specified have been remedied or waived.

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- 13.4 Either party shall also have the right to terminate this Agreement with immediate effect by giving written notice of termination to the other party at any time upon or after the occurrence of any of the following events with respect to such other party:
- 13.4.1 Insolvency, bankruptcy, reorganization or liquidation or filing of any application therefor, or other commitment of an affirmative act of insolvency, which is not promptly removed or stayed;
 - 13.4.2 Attachment, execution or seizure of substantially all of the assets or filing of any application therefor which is not promptly released or stayed;
 - 13.4.3 Assignment or transfer of that portion of the business to which this Agreement pertains to a trustee for the benefit of creditors;
 - 13.4.4 Termination of its business or dissolution.
- 13.5 [***]
- 13.6 No failure or delay on the part of either party in exercising its right of termination hereunder for any one or more causes shall be construed to prejudice its rights of termination for such cause or any other or subsequent cause.
- 13.7 In the event of expiration or termination of this Agreement, within sixty (60) days after expiration or termination of this Agreement, the receiving party shall return to the disclosing party all media and documentation containing the CONFIDENTIAL INFORMATION and render unusable all said CONFIDENTIAL INFORMATION placed in any storage apparatus under the receiving party's control in accordance with the instruction of the disclosing party.
- 13.8 The termination or expiration of this Agreement shall not release either party from any liability which at said date of termination or expiration has already accrued to the other party. OKI waives any right to damages for termination or expiration of this Agreement in accordance with its terms except for affected WIP and WAFER inventory.
- 13.9 In the event that this Agreement is terminated by PI pursuant to Section 13.3 or Section 13.4, OKI will compensate PI for PI's unrealized WAFER price benefit due to such termination.
- 13.10 This Agreement amends and restates the WSA and shall not serve to terminate or cause the expiration of the WSA or any rights or obligations that accrued under it on or before the Effective Date of this Agreement.

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13.11 Notwithstanding any termination or expiration of this Agreement, the provisions of Articles 1, 11, and 12, Sections 13.7, 13.8, 13.9, 13.10, this Section 13.11, and Articles 14, 15, and 18 shall survive this Agreement.

Article 14. (Government Regulations)

- 14.1 Unless prior approval is obtained from the competent governmental agency, each party shall not knowingly export or re-export, directly or indirectly, any WAFERS to any country or countries to which export or re-export will violate any laws or regulations of either the United States of America or Japan.
- 14.2 OKI shall obtain, at OKI's expense, any and all governmental licenses, permits and approvals and make any necessary filings, registrations and notifications in Japan which are required in connection with this Agreement and shall provide PI with translated copies of any such documents.

Article 15. (Non-Disclosure)

- 15.1 PI and OKI shall keep the terms and existence of this Agreement confidential and shall not make disclosure thereof to any third party except:
 - 15.1.1 with the prior written consent of the other party, such consent will not be unreasonably withheld,
 - 15.1.2 as required by any governmental body having jurisdiction,
 - 15.1.3 as otherwise required by law or regulations of a stock exchange at which the shares of OKI or PI are listed, or
 - 15.1.4 to legal counsel or accountants of the parties.
- 15.2 Neither of the parties shall unilaterally make any announcement of the formation and existence of this Agreement without prior written consent of the other party.

Article 16. (Consignment of Manufacturing Equipment)

16.1 PI will consign to OKI the following manufacturing equipment (the "CONSIGNED EQUIPMENT"):

Name of CONSIGNED EQUIPMENT	[***]
Name of Manufacturer	[***]
Composition of CONSIGNED EQUIPMENT	[***]

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Quantity

[***]

- 16.2 The IMPLANTER will be located at OKI's [***] wafer fabrication facility. The IMPLANTER will not be re-located without PI's prior written consent. OKI will provide PI a minimum of [***] ([***) month's advance notice of a plan to move the IMPLANTER. The terms of any IMPLANTER move will be negotiated in good faith mutually agreed upon in writing and should at least anticipate: (a) adequate WAFER inventory to maintain VOLUME PRODUCTION deliveries during the duration of the move, (b) re-qualification of the IMPLANTER at the new location, and (c) that OKI would pay all costs of the move, if such move is solely decided by OKI.
- 16.3 OKI, in cooperation with the CONSIGNED EQUIPMENT supplier, will be responsible for the installation, connection to existing equipment, testing and qualification of the CONSIGNED EQUIPMENT at OKI's wafer fabrication facility. All cost shall be borne by PI. Notwithstanding above, such cost shall not exceed [***] ([***) US dollars.
- 16.4 OKI will be responsible for the removal and the return to PI of the CONSIGNED EQUIPMENT upon termination or expiration of this Agreement. All cost shall be borne by PI, in case of an expiration of this Agreement or when this Agreement is terminated by OKI due to a fault of PI. Notwithstanding above, such cost shall not exceed [***] ([***) US dollars.
- 16.5 OKI shall use its best efforts for, and be responsible for, the maintenance, operation and repair of the CONSIGNED EQUIPMENT. OKI shall complete such repair in no more than [***] ([***) calendar days, provided, however, that if a repair cannot be completed within [***] ([***) calendar days from discovery of the need for such repair, then OKI shall give immediate written notice to COMPANY describing the problem preventing repair in such [***] ([***) day period, including a best efforts firm schedule for completing the repair. PI will pay for the repair of the CONSIGNED EQUIPMENT unless the need for the repair is due to OKI's improper operation of the CONSIGNED EQUIPMENT.
- 16.6 OKI shall not modify the CONSIGNED EQUIPMENT without a prior written consent of PI.
- 16.7 OKI shall not lend or transfer the CONSIGNED EQUIPMENT to any third party, use the CONSIGNED EQUIPMENT for other than the benefit of PI, or encumber the

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CONSIGNED EQUIPMENT with any lien or other security interest, without PI's prior written consent.

16.8 OKI shall only process DC WAFERS with the CONSIGNED EQUIPMENT. The processing of other wafers requires the prior written consent of PI.

16.9 DC WAFERS cycle time through the CONSIGNED EQUIPMENT shall be no more than [***] ([***) business days.

Article 17. (Upgrade of Manufacturing Equipment)

17.1 OKI owns the following manufacturing equipment defined below (the IMPLANTER), which is a high energy implanter:

Name of IMPLANTER	[***]
Name of Manufacturer	[***]
Current Energy Rating	[***]
Quantity	[***]
IMPLANTER Serial Number	[***]

17.2 OKI will perform the services of upgrading the IMPLANTER in accordance with the specification agreed upon in writing by both parties. This will include increasing the IMPLANTER'S operation capability to [***] and fitting it with a [***].

17.3 OKI will own the IMPLANTER, which will be installed in OKI's **** wafer fabrication facility after completion of the upgrade. OKI will be responsible for full installation, connection to existing equipment, testing and qualification of the IMPLANTER, at the **** wafer fabrication facility. Qualification will be in accordance with a qualification plan mutually agreed upon in writing between OKI and PI. Qualification shall not be complete until the date PI reasonably agrees in writing that the foregoing qualification plan has been met.

17.4 The CONSIGNED EQUIPMENT currently operating in OKI's **** wafer fabrication facility will remain in production operation until the IMPLANTER has been qualified per Section 17.3. The CONSIGNED EQUIPMENT will remain in OKI's **** wafer fabrication facility as a backup for the IMPLANTER and will be put back into production if appropriate.

17.5 OKI shall keep the IMPLANTER in operating condition and available for VOLUME PRODUCTION during the Term of this Agreement. OKI shall be responsible for the



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maintenance and operation of the IMPLANTER. OKI will pay for all repairs of the IMPLANTER. Any repairs should be completed in reasonable time provided, however, that if a repair cannot be completed within **** (****) calendar days from discovery of the need for such repair, then OKI shall give immediate written notice to PI describing (1) the problem preventing repair in such **** (****) day period, and (2) a firm schedule for completing the repair.

17.6 OKI shall not modify the upgraded IMPLANTER without the prior written approval of PI.

OKI will pay for any modifications of the IMPLANTER. PI shall determine whether the approved modification requires re-qualification of the IMPLANTER. OKI agrees to re-qualify the IMPLANTER if so determined in accordance with a mutually agreed-to, written qualification plan. Such re-qualification will be at OKI's expense.

17.7 OKI shall not lend or transfer the upgraded IMPLANTER to any third party or encumber the upgraded IMPLANTER with any lien or other security interest, without PI's prior written consent.

17.8 The IMPLANTER will be used for manufacturing WAFERS for PI, and for PI research and development activities. The IMPLANTER will not be used for the benefit of competitors of PI. The operation of the IMPLANTER for any other use is permitted as long as delivery and FOUNDRY CAPACITY commitments by OKI to PI are met.

17.9 The IMPLANTER will not be re-located without PI's prior written consent. OKI will provide PI a minimum of [***] ([***)] month's advance notice of a plan to move the IMPLANTER. The terms of any IMPLANTER move will be negotiated in good faith mutually agreed upon in writing and should at least anticipate: (a) adequate WAFER inventory to maintain VOLUME PRODUCTION deliveries during the duration of the move and re-qualification, (b) a plan to re-qualify the IMPLANTER at the new location, and (c) that OKI would pay all costs of the move if such move is solely for OKI's benefit.

Article 18. (Miscellaneous Provisions)

18.1 Entire Agreement. This Agreement embodies the entire understanding of the parties as it relates to the subject matter hereof and this Agreement supersedes any prior agreements or understandings between the parties with respect to such subject matter, including without limitation all of the provisions (including license grants) under the LWS AGREEMENT. Any potential or existing liabilities and claims regarding the purchase of and payment for

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WAFERS under the terms of the LWS AGREEMENT are declared by OKI and PI to be paid in full and without further recourse.

- 18.2 Article Headings. The article and section headings herein are for convenience only and shall not affect the construction hereof.
- 18.3 Waiver. Should either PI or OKI fail to enforce any provision of this Agreement or to exercise any right in respect thereto, such failure shall not be construed as constituting a waiver or a continuing waiver of its rights to enforce such provision or right or any other provision or right.
- 18.4 No License. Nothing contained in this Agreement shall be construed as conferring by implication, estoppel or otherwise upon either party hereunder any license or other right except as expressly set forth herein.
- 18.5 English Language. This Agreement is in the English language only, which language shall be controlling in all respects, and all versions hereof in any other language shall be for accommodation only and shall not be binding upon the parties. All communications between OKI and PI to effect the terms of this Agreement shall be in the English language only.
- 18.6 No Agency. The parties to this Agreement are independent contractors. There is no relationship of agency, partnership, joint venture, employment or franchise between the parties. Neither party has the authority to bind the other or to incur any obligation on its behalf. OKI shall not have, and shall not represent that it has, any power, right or authority to bind PI, or to assume or create any obligation or responsibility, express or implied, on behalf of PI or in PI's name, except as herein expressly permitted.

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18.7 Notices. Any notice required or permitted to be given by either party under this Agreement shall be deemed to have been given at the time it is delivered in writing by person or by telefax (provided that in the case of telefax, a copy of the notice will promptly be delivered by overnight courier) to the other party at the following respective addresses or such new addresses as may from time to time be supplied hereunder.

To: OKI Electric Industry Co., Ltd.
550-1 Higashiasakawa-cho
Hachioji-shi, Tokyo 193-8550, Japan
Attention: Akira Arimatsu,
General Manager
Marketing & Sales Division
Silicon Manufacturing Company

Fax: 81-426-62-6709

To: Power Integrations, Inc.
5245 Hellyer Avenue.
San Jose, CA 95138
Attention: President
Fax: (408) 523-9300

18.8 Invalidity. If any provision of this Agreement, or the application thereof to any situation or circumstance, shall be invalid or unenforceable, the remainder of this Agreement or the application of such provision to situations or circumstances other than those as to which it is invalid or unenforceable, shall not be affected; and each remaining provision of this Agreement shall be valid and enforceable to the fullest extent permitted by applicable law. In the event of such partial invalidity, the parties shall seek in good faith to agree on replacing any such legally invalid provisions with provisions which, in effect, will, from an economic viewpoint, most nearly and fairly approach the effect of the invalid provision.

18.9 Assignment. This Agreement and any rights or licenses granted herein shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Neither party shall assign any of its rights or privileges hereunder without the prior written consent of the other party except as set forth in Section 13.5. Such consent shall not be unreasonably withheld.

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- 18.10 Amendment. This Agreement may not be extended, supplemented or amended in any manner except by an instrument in writing expressly referring to this Agreement and duly executed by authorized officers of both Parties.
- 18.11 Force Majeure. Either party shall be excused for failures and delays in performance caused by war, declared or not, any laws, proclamations, ordinances or regulations of the government of any country or of any political subdivision of any country, or strikes, lockouts, floods, fires, explosions or such catastrophes as are beyond the control or without the material fault of such party ("Causes"). Any party claiming any such excuse for failure or delay in performance due to such Causes shall give prompt notice thereof to the other party, and neither party shall be required to perform hereunder during the period of such excused failure or delay in performance except as otherwise provided herein. This provision shall not, however, release such party from using its best efforts to avoid or remove all such Causes and such party shall continue performance hereunder with the utmost dispatch whenever such Causes are removed. In the event that the period of excused performance continues for ninety (90) days, this Agreement may be terminated by the affected party with written notice to the other party without liability.
- 18.12 Indemnity. Both parties agree that neither party shall assume any responsibility or be liable for death or any injury or accident which may occur to any personnel of the other party or the property of such personnel during any visits to its facility, or otherwise. Each party agrees to indemnify the other party and to hold such other party harmless from and against all liabilities, claims and demands on account of personal injuries (including death), or loss or damage to property, arising out of or in any manner connected with the visits of its personnel to such other party's offices or facilities and occasioned by the negligence of such personnel, and it shall defend at its own expense any and all actions based thereon and shall pay all reasonable charges of attorneys and all costs and other expenses arising therefrom.
- 18.13 Arbitration. All disputes and differences between OKI and PI arising out of or under this Agreement or the LWS Agreement shall be settled amicably through negotiations. In case such dispute or difference cannot be settled amicably through negotiations in a reasonable period of time, it shall be finally settled by arbitration in San Francisco, California if initiated by OKI and in Tokyo, Japan if initiated by PI pursuant to the Japan-American

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Arbitration Agreement of September 16, 1952, by which each party is bound. The award rendered by arbitrator(s) shall be final and binding upon the parties hereto. The arbitrator's award shall be fully enforceable in any court having jurisdiction of the parties and OKI irrevocably consents to the non-exclusive jurisdiction of the California courts for matters related to injunctive relief or the enforcement of such award. Notwithstanding the foregoing, if the dispute involves the protection of the CONFIDENTIAL INFORMATION or INTELLECTUAL PROPERTY RIGHTS then either party make seek injunctive relief immediately from the courts.

18.14 [***]

18.15 Governing Law. This Agreement and matters connected with the performance hereof shall be construed, interpreted, applied and governed in all respects in accordance with the laws of California and the United States without regard to conflict of laws principles.

18.16 OKI and PI shall each enter into separate written agreements with each of their subsidiaries who wish to exercise any rights under this Agreement, binding the subsidiary to the terms and conditions of this Agreement. OKI and PI each guarantee to the other the performance of their respective subsidiaries under this Agreement, and each will indemnify and hold harmless the other from any costs, damages, or liabilities incurred by the other arising out of a breach by a subsidiary of the terms and conditions of this Agreement.

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IN WITNESS WHEREOF, the parties have caused this Agreement to be executed in their respective corporate names by their duly authorized representatives on the date written below.

OKI Electric Industry Co., Ltd.

Signature: /s/ A. ARIMATSU

Name: Akira Arimatsu

Title: General Manager

Date: May 7, 2003

Power Integrations, Inc.

Signature: /s/ CLIFFORD J. WALKER

Name: CLIFFORD J. WALKER

Title: Vice President

Date: May 2, 2003

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EXHIBIT A

OKI FOUNDRY CAPACITY and PI ANNUAL FORECAST

1. OKI FOUNDRY CAPACITY:

The following FOUNDRY CAPACITY will effective from the Effective Date:

SC WAFERS = [***] WAFERS / month

DC WAFERS = [***] WAFERS / month

2. PI's projected PI ANNUAL FORECAST of WAFER orders (non-binding)

OKI Fiscal Year	2003	2004	2005	2006	2007
SC WAFERS	[***]	[***]	[***]	[***]	[***]
DC WAFERS	[***]	[***]	[***]	[***]	[***]

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EXHIBIT B

WAFERS PRICE

SC WAFERS BASE_PRICE = [***]

DC WAFERS BASE_PRICE = [***]

F/X_BASE = [***]

Initial F/X_RATE = [***]

A new F/X_RATE is only established at the time of placing a PO for WAFERS if the Previous Month's Average daily exchange rate is equal to or greater than \pm [***] from the current F/X_RATE.

The new F/X_RATE will be set to the Previous Month's Average exchange rate and will remain in effect for at least the month it was established.

The actual WAFERS PURCHASE_PRICE, by WAFER TYPE, used at the time of order will be calculated by the following formula:

PURCHASE_PRICE =
[***]

Examples: [***]

1) Nominal F/X Rate Example: F/X_RATE = [***]:

PURCHASE_PRICE = [***]

2) Higher F/X Rate Example: New F/X_RATE = [***]:

PURCHASE_PRICE = [***]

3) Lower F/X Rate Example: New F/X_RATE = [***]:

PURCHASE_PRICE = [***]

The term of validity for the DC WAFERS BASE PRICE above shall be from the Effective Date until [***] ([***]) years from the Effective Date of this Agreement or until the date on which [***] DC WAFERS have been accepted by PI under this Agreement, provided, however, that both parties shall review the DC WAFERS BASE_PRICE at any time during such [***] ([***]) year period upon request of either party, if either party considers that the quantity of DC WAFERS to be purchased by PI during such [***] ([***]) year period does not reach [***] WAFERS. After such term of validity, DC WAFERS BASE PRICE shall be [***].

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EXHIBIT C

COMMON SPECIFICATION

The COMMON SPECIFICATION(S) is the [***], to produce and deliver WAFERS to PI under the WSA during the Term of this Agreement.

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**AMENDMENT ONE TO
WAFER SUPPLY AGREEMENT**

This Amendment Number One (the “Amendment”), effective as of July 20, 2005 (“Amendment Date”), amends the Wafer Supply Agreement effective as of May 23, 2003 (the “Agreement”), by and between Power Integrations, Inc. and ZMD Analog Mixed Signal Services GmbH & CoKG.

RECITALS

The parties to the Agreement hereby agree to amend the Agreement as follows:

AMENDMENT

I. On page 1, substitute the following heading for the heading beginning with “This Agreement (“Agreement”) is made and entered into as of this 23rd day of May, 2003, and ending with (“POWER INTEGRATIONS”).”:

This Agreement (“Agreement”) is made and entered into as of this 23rd day of May, 2003 (the “Effective Date”), by and between:

- (1) Power Integrations International, Ltd., a Cayman Islands corporation having its principal place of business at P.O. Box 219, Strathvale House, North Church Street, George Town, Grand Cayman, Cayman Islands (“POWER INTEGRATIONS”);

II. Add the following new section to Article I (“Definitions”):

1.23 [***] TECHNOLOGY: The technology described in all documentation listed in Exhibit D ([***] TECHNOLOGY), including [***] process technology and analog and digital

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libraries.

III. Add the following new Section 4.6:

4.6 POWER INTEGRATIONS will pay SUPPLIER a [***] licensee fee of [***] United States dollars (US \$[***]) within [***] ([***) days of the Amendment Date, for which SUPPLIER hereby grants to POWER INTEGRATIONS a non-exclusive, irrevocable, perpetual, royalty-free, non-transferable, worldwide, right and license, under all INTELLECTUAL PROPERTY RIGHTS to use, modify, reproduce, distribute and otherwise exploit in any manner all [***] TECHNOLOGY as part of the POWER INTEGRATIONS PROCESS and any modifications thereto. Without any consent of SUPPLIER, POWER INTEGRATIONS may sublicense the foregoing license to POWER INTEGRATIONS' SUBSIDIARY so long as the sublicense provides for the protection of SUPPLIER's CONFIDENTIAL INFORMATION on terms not less protective of SUPPLIER's rights than those set forth in this Agreement. SUPPLIER will promptly disclose in writing all [***] TECHNOLOGY to POWER INTEGRATIONS upon payment of such [***] license fee.

IV. Add the updated Exhibit B (PRICES), attached.

V. Add the new Exhibit D ([***] TECHNOLOGY), attached.

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VI. The following changes are only to correct various minor clerical errors and do not change the intent or the meaning of the agreement.

In each instance in the Agreement, change “SUPPLIER’s” to “SUPPLIER’S”.

In Section 1.9 change “POWER INTEGRATIONS, INC.” to “POWER INTEGRATIONS.”

In Section 4.4, after “may sublicense the”, insert “foregoing license for the”. In Section 5.1.1, delete “an order” and substitute “a PO”.

In Section 5.1.2, after “The output”, insert “of the PILOT PRODUCTION”. In Section 5.2.1 delete “an order” and substitute “a PO”.

In Section 11.1 delete “such”. In

Section 12.2 (d) delete “or”.

In Section 12.2(e) after “Agreement” delete the period and add “;or”.

In Section 12.2 (f) change “a Disclosing Party” to “the disclosing party”. In the paragraph after Section 12.2(f) change:

“that Recipient” to “that the receiving party”;

“the Recipient must” to “the receiving party must”; and “to such a disclosure” to “to any such disclosure”.

In the first line of Section 13.4 change “A first” to “Either”.

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IN WITNESS WHEREOF, the undersigned parties have caused this Amendment to be executed by their duly authorized representatives.

ZMD ANALOG MIXED SIGNAL SERVICES GMBH & CO. KG.

By: /s/ Konrad Herre
Name: KONRAD HERRE
Title: GESCHAFTSFUHRER

POWER INTEGRATIONS, INC.

By: /s/ Balu Balakrishnan
Name: BALU BALAKRISHNAN
Title: C.E.O. AND PRESIDENT

POWER INTEGRATIONS INTERNATIONAL, LTD.

By: /s/ John L. Tomlin
Name: JOHN L. TOMLIN
Title: PRESIDENT AND DIRECTOR

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Exhibit B

Effective as of

July 1, 2005

PRICES

[***] DC PROCESS WAFER

Price: [***] layers [***]

A rebate of [***] dollars (\$[***]) shall be applied to each WAFER purchased by PI until [***]([***]) WAFERS have been accepted by PI.

Delivery times:
VOLUME PRODUCTION [***]

DC PROCESS ENGINEERING WAFER

Price: Std. and non-std. run [***]
Hot run [***]
Minimum wafer lot size [***]

Delivery times: Standard run [***]
Hot run [***]
Non-Standard run [***]

MASK TOOLING SET

Price: [***] mask set
([***] [***] masks)
([***] [***] masks) [***]

Individual masks
[***] mask [***]
[***] mask [***]

Vendors: [***]

ALL PRICES ABOVE WILL BE NEGOTIATED AND PAID IN US DOLLARS.

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2. [***] Design Documentation and Digital Library

[***]	[***] [***] [***] [***] [***] [***]	[***] [***] [***] [***] [***] [***]
[***]	[***] [***] [***]	[***] [***] [***]
[***]	[***] [***] [***] [***] [***] [***]	[***] [***] [***] [***] [***] [***]
[***]	[***] [***] [***]	[***] [***] [***]
[***]	[***] [***] [***]	[***] [***] [***]

version	TechLib release	compatible AssuraRules release	compatible CellLibs release
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[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***] [***]
	[***]	[***]	[***]

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(a) Miscellaneous Development Documents

- [***]
- [***]

(b) [***] Documents

- [***]
- [***]
- [***]
- [***]

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3. [***] Analog Library

<i>Function</i>	<i>IR-Cell Name</i>	<i>Technology</i>	<i>Preliminary Specification</i>	<i>Status</i>	<i>Silicon</i>
[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]		[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]
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[***]	[***]	[***]	[***]	[***]	[***]



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[***]	[***]	[***]	[***]	[***]	[***]
	[***]	[***]		[***]	[***]
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	[***]	[***]		[***]	[***]
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	[***]	[***]		[***]	[***]

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**AMENDMENT NUMBER FIVE
TO
WAFER SUPPLY AGREEMENT**

This Amendment Number Five (the “Amendment”), effective as of December 1, 2009 (the “Amendment Effective Date”), amends the Wafer Supply Agreement effective as of May 23, 2003 (as previously amended) (the “Agreement”), by and between X-FAB Dresden GmbH & Co. KG (successor in interest to ZMD Analog Mixed Signal Services GmbH & CoKG) a German corporation (the “Company”) and Power Integrations International, Ltd. (“PI”) a Cayman Islands corporation having its principal place of business at 4th Floor, Century Yard, Cricket Square, Elgin Avenue, P.O. Box 32322, Grand Cayman KY1-1209. Unless specifically designated otherwise, capitalized terms used herein shall have the same meanings given them in the Agreement.

RECITALS

WHEREAS, pursuant to the terms of the Agreement, PI grants to Company licenses of certain of PI’s intellectual property for the sole purpose of PI acquiring from Company the fabrication and supply of wafers of certain power IC products; and

WHEREAS, PI and Company desire to amend the terms of the Agreement; and

WHEREAS, in accordance with Section 18.10 of the Agreement, the Agreement may be amended only by an instrument in writing duly executed by authorized officers of Company and PI.

NOW, THEREFORE, in consideration of the mutual promises contained herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereby amend the Agreement as follows:

AGREEMENT

1. Section 2.3 of the Agreement is deleted in its entirety and replaced with the following:

PI must order at least the quantity of WAFERS by WAFER TYPE forecasted in all [***] months of the PI MONTHLY FORECAST unless SUPPLIER agrees to any change.

2. The following Section 2.4 is added to the Agreement:

The PI MONTHLY FORECAST will be either [***] whole weeks for each forecasted month so as to align with SUPPLIER’s manufacturing calendar. The PI MONTHLY FORECAST will be (a) no less than [***] WAFERS per week during the [***] of calendar year 2010 and no less than [***] WAFERS per week during the [***] of calendar year 2010 (the total annual amount of WAFERS, the “2010 Wafer Commitment”) and (b)

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no more than the FOUNDRY CAPACITY (i.e., the CURRENT FOUNDRY CAPACITY or INCREASED FOUNDRY CAPACITY, as applicable in accordance with Exhibit A).

Notwithstanding the foregoing, to the extent SUPPLIER is unable to fulfill any PO from PI because of quality or any other issues ("Unfulfilled Wafers"), then (a) PI will have no obligation to purchase the Unfulfilled Wafers, and (b) the number of Unfulfilled Wafers will count towards PI's satisfaction of the 2010 Wafer Commitment (i.e., the 2010 Wafer Commitment will be decreased by the number of Unfulfilled Wafers).

Both parties agree to negotiate in good faith any changes in the terms, for calendar years after 2010, regarding the PI MONTHLY FORECAST and the FOUNDRY CAPACITY, at least [***] months prior to any such changes becoming effective.

3. Section 13.1 of the Agreement is deleted in its entirety and replaced with the following:

This Agreement shall continue in full force and effect from the Effective Date until December 31, 2012, unless earlier terminated as provided herein ("Term").

4. The Agreement covers PI's acquisition of wafer fabrication and supply services from SUPPLIER based on [***] inch [***] WAFERS. It is recognized by the parties that the Wafer Supply Agreement amended by this Amendment number five shall not apply to the development and manufacture of [***] inch [***] WAFERS. The parties agree to negotiate in good faith regarding PI's potential acquisition of additional WAFER fabrication and supply services for [***] inch [***] WAFERS from SUPPLIER under a new and separate Wafer Supply Agreement as early as agreeable but no later than [***] ([***] Wafer Supply Agreement"). If, in the process of negotiating the [***] Wafer Supply Agreement, both parties agree that subordination of or modifications to the Agreement are required, then such subordination or modifications to the Agreement will be negotiated in good faith.

5. [***] Machine

a. SUPPLIER has purchased (1) the following manufacturing equipment defined below, which is an [***] machine ("[***]"): [***] Machine / Model: [***]; and (2) installation of the [***] and fitting for [***].

b. SUPPLIER will own the [***] and, except as set forth above, will be responsible for full installation, connection to existing equipment, testing and qualification of the [***] at SUPPLIER's facility. Qualification will be in accordance with a qualification plan mutually agreed upon in writing between SUPPLIER and PI. Qualification shall not be complete until the date PI reasonably agrees in writing that the foregoing qualification plan has been met.

c. SUPPLIER shall keep the [***] in operating condition and available for VOLUME PRODUCTION during the Term of this Agreement. SUPPLIER shall be responsible for the maintenance and operation of the [***]. SUPPLIER will pay for all repairs of the [***]. Any repairs should be completed in reasonable time provided, however,

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that if a repair cannot be completed within [***] ([***)] calendar days from discovery of the need for such repair, then SUPPLIER shall give immediate written notice to PI describing (1) the problem preventing repair in such [***] ([***)] day period, and (2) a firm schedule for completing the repair.

d. SUPPLIER shall not modify the [***] without the prior written approval of PI. SUPPLIER will pay for any modifications of the [***]. PI shall determine whether the approved modification requires re-qualification of the [***]. SUPPLIER agrees to re-qualify the [***] if so determined in accordance with a mutually agreed-to, written qualification plan. Such re-qualification will be at SUPPLIER's expense.

e. Without PI's prior written consent, SUPPLIER shall not (a) move or relocate the [***], (b) lend or transfer it to any third party, or (c) encumber the [***] with any lien or other security interest, except for the terms and conditions of any grant by the German government.

f. The [***] will be used for manufacturing WAFERS for PI, and for PI research and development activities. The [***] will not be used for the benefit of competitors of PI. SUPPLIER will obtain prior written consent of PI for the use of the [***] for third parties. Such consent will not unreasonably be withheld. The operation of the [***] for any other use is permitted as long as delivery and FOUNDRY CAPACITY commitments by SUPPLIER to PI are met.

g. SUPPLIER will maintain, at its sole cost and expense, the same types and amounts of insurance for the [***] as SUPPLIER maintains for its other similar equipment at SUPPLIER's facility. A Certificate of Insurance indicating such coverage shall be delivered to PI upon request. The Certificate shall indicate that the policy will not be changed or terminated without at least [***] ([***)] days' prior notice to PI, shall name PI as an additional named insured and shall also indicate that the insurer has waived its subrogation rights against PI.

h. SUPPLIER hereby grants a security interest in the [***] furnished hereunder and the proceeds therefrom, to secure full re-payment of the [***] COST to PI in accordance with this Agreement. SUPPLIER agrees to execute any financing statements or other documents PI requests to protect its security interest.

i. The requirements of Sections 5(d), (e), (f), (g), and (h) will expire upon the earlier of the date that SUPPLIER delivers and PI accepts the Rebate Number of Wafers (defined below) or upon the date that PI is paid the total amount set forth in Section 5(k).

j. For the [***] costs, PI will pay SUPPLIER [***] U.S. dollars (U.S. \$[***]) (“[***] Cost”) (i.e., U.S. \$[***] for the [***] and U.S. \$[***] for installation and fitting), provided that SUPPLIER will pay PI back for the [***] Cost in the form of [***] U.S. dollars (U.S. \$[***]) discounts per wafer after the Rebate Milestone Date until SUPPLIER delivers and PI accepts [***] ([***)] WAFERS (“**Rebate Number of Wafers**”) (i.e., U.S. \$[***] x [***] = U.S. \$[***]). The “**Rebate Milestone Date**” means the date on which the [***] is qualified for production by PI. Upon PI's receipt

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of written confirmation of the [***] order, PI will pay SUPPLIER the [***] Cost in accordance with the [***] purchase order payment timeframes.

k. If this Agreement is terminated in accordance with Article 13 (“Term and Termination”) of the Agreement before SUPPLIER delivers and PI accepts the Rebate Number of Wafers the SUPPLIER shall immediately pay PI the following amount:

(a) The difference of (i) the [***] minus (ii) the [***] under this Agreement after the Rebate Milestone Date, times (b) [***] U.S. dollars (U.S. \$[***]). For example, but without limitation, if PI has accepted [***] WAFERS between the Rebate Milestone Date and the termination date, then SUPPLIER shall pay PI $([***] - [***]) \times ([***]) = \$[***]$.

If this Agreement expires before SUPPLIER delivers and PI accepts the Rebate Number of Wafers, SUPPLIER will have no obligation to pay PI any funds under this Section 5(k), provided the quantity of WAFERS delivered by SUPPLIER was not materially adversely affected by SUPPLIER’S quality, production, or delivery problems.

- 6. Exhibit A to the Agreement is deleted in its entirety and replaced with Exhibit A attached hereto.
- 7. Exhibit B to the Agreement is deleted in its entirety and replaced with Exhibit B attached hereto. Exhibit B attached hereto shall apply to all POs submitted by PI on or after the Amendment Effective Date.
- 8. Effective as of the Amendment Effective Date, all references in the Agreement to the “Agreement” or “this Agreement” shall mean the Agreement as amended by this Amendment. Except as expressly amended herein, the terms of the Agreement continue unchanged and shall remain in full force and effect. This Amendment may be executed in one or more counterparts, each of which shall be considered an original, but all of which counterparts together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have caused this Amendment to be executed by their duly authorized representatives, effective as of the Amendment Effective Date.

X-FAB DRESDEN GMBH & CO. KG
By: /s/ Chris Forster
Name: Chris Forster
Title: Chief Financial Officer

POWER INTEGRATIONS INTERNATIONAL, LTD.
By: /s/ John Tomlin
Name: John Tomlin
Title: President

By: /s/ TH Hariung
Name: TH Hariung
Title: Vice President, Marketing & Sales



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Exhibit A
SUPPLIER FOUNDRY CAPACITY AND PI ANNUAL FORECAST

1. SUPPLIER FOUNDRY CAPACITY

a. The following FOUNDRY CAPACITY of [***] WAFERS per week will be committed effective from [***] through [***] (the “CURRENT FOUNDRY CAPACITY”). The FOUNDRY CAPACITY will change to [***] WAFERS per week effective from [***] onwards. The FOUNDRY CAPACITY will be increased to the INCREASED FOUNDRY CAPACITY (defined below). PI may request and SUPPLIER may approve an increase in the monthly CURRENT FOUNDRY CAPACITY in addition to the limits above via the PI MONTHLY FORECAST. Notwithstanding anything to the contrary in Section 2.1 of the Agreement, in no event will the FOUNDRY CAPACITY exceed the CURRENT FOUNDRY CAPACITY or INCREASED FOUNDRY CAPACITY (as applicable) unless the parties agree otherwise in writing.

b. The parties hereby agree to use commercially reasonable efforts to increase the FOUNDRY CAPACITY up to [***] WAFERS per week or the actual increase in FOUNDRY CAPACITY finally achieved, (the “INCREASED FOUNDRY CAPACITY”) on or before the end of [***], and in any event as early as possible, in accordance with this Section. Such efforts will include purchase, installation, qualification and implementation of a new [***] machine, as well as analysis and elimination of other potential equipment-based limits to FOUNDRY CAPACITY. SUPPLIER will promptly notify PI in writing when the INCREASED FOUNDRY CAPACITY is available.

c. SUPPLIER will take all reasonable measures, including without limitation those described in this Exhibit A, to expand its FOUNDRY CAPACITY to the INCREASED FOUNDRY CAPACITY, BUT SUPPLIER DOES NOT WARRANT, NEITHER IMPLIED NOR EXPRESSLY, THAT SUCH MEASURES WILL BE SUCCESSFUL AND LEAD TO THE INCREASED FOUNDRY CAPACITY.

d. If the parties enter into an [***] Wafer Supply Agreement, the parties will re-negotiate in good faith the FOUNDRY CAPACITY for [***] WAFERS that would be replaced by [***] wafers.

2. PI’s projected PI ANNUAL FORECAST of WAFER orders

The table below summarizes the PI ANNUAL FORECAST for the next three years. Except for the 2010 Wafer Commitment, the PI ANNUAL FORECAST are non-binding estimates. Estimated volume for calendar year 2010 is comprised of the 2010 Wafer Commitment, and some number of WAFERS above the 2010 Wafer Commitment, dependent upon the PI MONTHLY FORECAST and the availability of the INCREASED FOUNDRY CAPACITY.

SUPPLIER (FY)	2009	2010	2011	2012
WAFERS	[***]	[***] (inclusive of [***] 2010 Wafer Commitment)	[***]	[***]

Confidential



CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT, MARKED BY [***], HAS BEEN OMITTED BECAUSE IT IS BOTH (I) NOT MATERIAL AND (II) IS THE TYPE THAT POWER INTEGRATIONS INC. TREATS AS PRIVATE OR CONFIDENTIAL.

Exhibit B

PRICES

[***] Inch DC/DS PROCESS WAFER

Price:	[***] layers	less than [***]	\$[***]
		[***] - [***]	\$[***]
		[***] - [***]	\$[***]
		[***] - [***]	\$[***]
		[***]	\$[***]

Pricing [***].

Delivery times: [***] days / layer DC PROCESS
ENGINEERING WAFER

Price:	Std. and non-std. run	\$[***]
	Hot run	\$[***]
	Minimum wafer lot size	[***] wafers

Delivery times:	Standard run	[***]
	Hot run	[***]
	Non-Standard run	[***]

MASK TOOLING SET

Price:	[***] mask set	
	([***] masks)	
	([***] masks)	\$[***]

Individual masks

[***] mask	\$[***]
[***] mask	\$[***]

Vendors: [***]

THE ABOVE PRICES ARE FOR [***]. ALL PRICES ABOVE FOR [***] WILL BE NEGOTIATED IN THE [***] OF THE [***] BEGINNING IN [***] AND PAID IN US DOLLARS. IF THE PARTIES ARE UNABLE TO AGREE ON PRICING FOR [***] PRIOR TO THE [***] OF THE [***], THEN THE PRICING FROM THE [***] WILL APPLY FOR SUCH [***].

Confidential

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Balu Balakrishnan certify that:

1. I have reviewed this Form 10-Q of Power Integrations, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 7, 2023

By: /s/ BALU BALAKRISHNAN

Balu Balakrishnan
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Sandeep Nayyar, certify that:

1. I have reviewed this Form 10-Q of Power Integrations, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 7, 2023

By: /s/ SANDEEP NAYYAR

Sandeep Nayyar
Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Power Integrations, Inc. (the “Company”) on Form 10-Q for the quarter ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Balu Balakrishnan, Chief Executive Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (“Section 906”), certify to the best of my knowledge that:

- (1) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 7, 2023

By: /s/ BALU BALAKRISHNAN

Balu Balakrishnan
Chief Executive Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Registrant and will be retained by the Registrant and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION OF CHIEF FINANCIAL OFFICER

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Power Integrations, Inc. (the “Company”) on Form 10-Q for the quarter ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Sandeep Nayyar, Chief Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (“Section 906”), certify to the best of my knowledge that:

- (1) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 7, 2023

By: /s/ SANDEEP NAYYAR

Sandeep Nayyar
Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Registrant and will be retained by the Registrant and furnished to the Securities and Exchange Commission or its staff upon request.
