

**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 June 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 July 31, 2023

Common Stock, \$0.001 par value

57,393,956

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)	June 30, 2023	December 31, 2022
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 84,096	\$ 105,372
Short-term marketable securities	262,219	248,441
Accounts receivable, net	32,077	20,836
Inventories	149,741	135,420
Prepaid expenses and other current assets	22,854	15,004
Total current assets	550,987	525,073
PROPERTY AND EQUIPMENT, net	168,066	176,681
INTANGIBLE ASSETS, net	5,511	6,597
GOODWILL	91,849	91,849
DEFERRED TAX ASSETS	21,771	19,034
OTHER ASSETS	21,273	20,862
Total assets	\$ 859,457	\$ 840,096
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 40,531	\$ 30,088
Accrued payroll and related expenses	14,041	14,778
Taxes payable	704	938
Other accrued liabilities	9,543	12,572
Total current liabilities	64,819	58,376
LONG-TERM INCOME TAXES PAYABLE	16,009	15,757
OTHER LIABILITIES	10,700	10,747
Total liabilities	91,528	84,880
COMMITMENTS AND CONTINGENCIES (Notes 11, 12 and 13)		
STOCKHOLDERS' EQUITY:		
Common stock	23	24
Additional paid-in capital	11,220	—
Accumulated other comprehensive loss	(5,757)	(7,344)
Retained earnings	762,443	762,536
Total stockholders' equity	767,929	755,216
Total liabilities and stockholders' equity	\$ 859,457	\$ 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 June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
NET REVENUES	\$ 123,223	\$ 183,986	\$ 229,520	\$ 366,135
COST OF REVENUES	60,377	77,143	112,717	158,617
GROSS PROFIT	<u>62,846</u>	<u>106,843</u>	<u>116,803</u>	<u>207,518</u>
OPERATING EXPENSES:				
Research and development	24,517	23,507	48,498	47,185
Sales and marketing	17,017	16,045	32,902	32,381
General and administrative	8,671	6,059	17,005	15,673
Other operating expenses, net	—	1,130	—	1,130
Total operating expenses	<u>50,205</u>	<u>46,741</u>	<u>98,405</u>	<u>96,369</u>
INCOME FROM OPERATIONS	12,641	60,102	18,398	111,149
OTHER INCOME	2,714	674	4,428	1,228
INCOME BEFORE INCOME TAXES	15,355	60,776	22,826	112,377
PROVISION FOR INCOME TAXES	562	4,952	1,158	10,305
NET INCOME	<u>\$ 14,793</u>	<u>\$ 55,824</u>	<u>\$ 21,668</u>	<u>\$ 102,072</u>
EARNINGS PER SHARE:				
Basic	<u>\$ 0.26</u>	<u>\$ 0.97</u>	<u>\$ 0.38</u>	<u>\$ 1.75</u>
Diluted	<u>\$ 0.26</u>	<u>\$ 0.96</u>	<u>\$ 0.38</u>	<u>\$ 1.72</u>
SHARES USED IN PER SHARE CALCULATION:				
Basic	<u>57,355</u>	<u>57,731</u>	<u>57,231</u>	<u>58,480</u>
Diluted	<u>57,669</u>	<u>58,305</u>	<u>57,654</u>	<u>59,192</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 June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net income	\$ 14,793	\$ 55,824	\$ 21,668	\$ 102,072
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments, net of \$0 tax in each of the three and six months ended June 30, 2023 and 2022	(548)	(754)	(400)	(1,023)
Unrealized gain (loss) on marketable securities, net of \$0 tax in each of the three and six months ended June 30, 2023 and 2022	(144)	(1,160)	2,028	(5,341)
Amortization of defined benefit pension items, net of tax of (\$4) and (\$7) in the three and six months ended June 30, 2023, respectively, and \$0 and \$3 in the three and six months ended June 30, 2022, respectively	(21)	23	(41)	41
Total other comprehensive income (loss)	(713)	(1,891)	1,587	(6,323)
TOTAL COMPREHENSIVE INCOME	\$ 14,080	\$ 53,933	\$ 23,255	\$ 95,749

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 June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Common stock				
Beginning balance	\$ 23	\$ 26	\$ 24	\$ 28
Repurchase of common stock	—	(2)	(1)	(4)
Ending balance	23	24	23	24
Additional paid-in capital				
Beginning balance	8,780	39,684	—	162,301
Common stock issued under employee stock plans	—	—	3,098	3,057
Repurchase of common stock	(4,312)	(43,363)	(5,998)	(178,050)
Stock-based compensation	6,752	3,679	14,120	12,692
Ending balance	11,220	—	11,220	—
Accumulated other comprehensive loss				
Beginning balance	(5,044)	(8,169)	(7,344)	(3,737)
Other comprehensive income (loss)	(713)	(1,891)	1,587	(6,323)
Ending balance	(5,757)	(10,060)	(5,757)	(10,060)
Retained earnings				
Beginning balance	758,543	789,032	762,536	753,440
Net income	14,793	55,824	21,668	102,072
Repurchase of common stock	—	(114,295)	—	(114,295)
Payment of dividends to stockholders	(10,893)	(10,280)	(21,761)	(20,936)
Ending balance	762,443	720,281	762,443	720,281
Total stockholders' equity	\$ 767,929	\$ 710,245	\$ 767,929	\$ 710,245

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

POWER INTEGRATIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In thousands)	Six Months Ended June 30,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 21,668	\$ 102,072
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	17,653	17,174
Amortization of intangibles	1,086	1,328
Loss on disposal of property and equipment	22	1,034
Stock-based compensation expense	14,120	12,692
Amortization of premium on marketable securities	419	1,867
Deferred income taxes	(2,782)	(3,282)
Increase (decrease) in accounts receivable allowance for credit losses	(454)	259
Change in operating assets and liabilities:		
Accounts receivable	(10,787)	13,154
Inventories	(14,321)	(11,992)
Prepaid expenses and other assets	(7,241)	4,075
Accounts payable	8,813	5,577
Taxes payable and accrued liabilities	(5,430)	(2,539)
Net cash provided by operating activities	<u>22,766</u>	<u>141,419</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(7,211)	(27,944)
Proceeds from sale of property and equipment	—	1,202
Purchases of marketable securities	(110,810)	(20,710)
Proceeds from sales and maturities of marketable securities	98,641	125,527
Net cash provided by (used in) investing activities	<u>(19,380)</u>	<u>78,075</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock under employee stock plans	3,098	3,057
Repurchase of common stock	(5,999)	(292,349)
Payments of dividends to stockholders	(21,761)	(20,936)
Net cash used in financing activities	<u>(24,662)</u>	<u>(310,228)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(21,276)	(90,734)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	105,372	158,117
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 84,096</u>	<u>\$ 67,383</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Unpaid property and equipment	<u>\$ 2,713</u>	<u>\$ 2,984</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for income taxes, net	<u>\$ 11,653</u>	<u>\$ 14,657</u>

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)	June 30, 2023	December 31, 2022
Accounts receivable trade	\$ 75,014	\$ 78,914
Allowance for ship and debit	(38,278)	(53,184)
Allowance for stock rotation and rebate	(3,978)	(3,759)
Allowance for credit losses	(681)	(1,135)
Total	<u>\$ 32,077</u>	<u>\$ 20,836</u>

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		Six Months Ended	
	June 30,		June 30,	
	2023	2022	2023	2022
Beginning balance	\$ (681)	\$ (520)	\$ (1,135)	\$ (445)
Provision for credit loss expense	(388)	(218)	(827)	(618)
Receivables written off	—	—	—	—
Recoveries collected	388	34	1,281	359
Ending balance	<u>\$ (681)</u>	<u>\$ (704)</u>	<u>\$ (681)</u>	<u>\$ (704)</u>

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Inventories

(In thousands)	June 30, 2023	December 31, 2022
Raw materials	\$ 80,973	\$ 75,355
Work-in-process	27,178	15,440
Finished goods	41,590	44,625
Total	<u>\$ 149,741</u>	<u>\$ 135,420</u>

Intangible Assets

(In thousands)	June 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	(34,494)	3,466	37,960	(33,531)	4,429
Technology licenses	1,926	(1,142)	784	1,926	(1,019)	907
Total intangible assets	<u>\$ 41,147</u>	<u>\$ (35,636)</u>	<u>\$ 5,511</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 June 30, 2023, is as follows:

<u>Fiscal Year</u>	<u>Estimated Amortization (In thousands)</u>
2023 (remaining six months)	\$ 1,087
2024	1,279
2025	832
2026	687
2027	365
Total	<u>\$ 4,250</u>

Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive loss for the three and six months ended June 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 June 30,		Three Months Ended June 30,		Three Months Ended June 30,		Three Months Ended June 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Beginning balance	\$ (3,151)	\$ (5,346)	\$ 842	\$ (656)	\$ (2,735)	\$ (2,167)	\$ (5,044)	\$ (8,169)
Other comprehensive income (loss) before reclassifications	(144)	(1,160)	—	—	(548)	(754)	(692)	(1,914)
Amounts reclassified from accumulated other comprehensive loss	—	—	(21) ⁽¹⁾	23 ⁽¹⁾	—	—	(21)	23
Net-current period other comprehensive income (loss)	(144)	(1,160)	(21)	23	(548)	(754)	(713)	(1,891)
Ending balance	<u>\$ (3,295)</u>	<u>\$ (6,506)</u>	<u>\$ 821</u>	<u>\$ (633)</u>	<u>\$ (3,283)</u>	<u>\$ (2,921)</u>	<u>\$ (5,757)</u>	<u>\$ (10,060)</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 June 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	
	Six Months Ended June 30,		Six Months Ended June 30,		Six Months Ended June 30,		Six Months Ended June 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	2,028	(5,341)	—	—	(400)	(1,023)	1,628	(6,364)
Amounts reclassified from accumulated other comprehensive loss	—	—	(41) ⁽¹⁾	41 ⁽¹⁾	—	—	(41)	41
Net-current period other comprehensive income (loss)	2,028	(5,341)	(41)	41	(400)	(1,023)	1,587	(6,323)
Ending balance	\$ (3,295)	\$ (6,506)	\$ 821	\$ (633)	\$ (3,283)	\$ (2,921)	\$ (5,757)	\$ (10,060)

(1) This component of accumulated other comprehensive income (loss) is included in the computation of net periodic pension cost for the six months ended June 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 June 30, 2023 and December 31, 2022, was as follows:

(In thousands)	Fair Value Measurement at June 30, 2023		
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Commercial paper	\$ 36,056	\$ —	\$ 36,056
Corporate securities	262,219	—	262,219
Money market funds	1,269	1,269	—
Total	\$ 299,544	\$ 1,269	\$ 298,275

(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

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company did not transfer any investments between Level 1 and Level 2 of the fair-value hierarchy in the six months ended June 30, 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 June 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	\$ 50,417	\$ —	\$ (281)	\$ 50,136
Total	50,417	—	(281)	50,136
Investments due in 4-12 months:				
Corporate securities	78,042	7	(1,383)	76,666
Total	78,042	7	(1,383)	76,666
Investments due in 12 months or greater:				
Corporate securities	137,055	38	(1,676)	135,417
Total	137,055	38	(1,676)	135,417
Total marketable securities	\$ 265,514	\$ 45	\$ (3,340)	\$ 262,219

Accrued interest receivable was \$2.0 million at June 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.

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 June 30, 2023:

(In thousands)	Less Than 12 Months		12 Months or Longer		Total	
	Estimated	Gross	Estimated	Gross	Estimated	Gross
	Fair Market	Unrealized	Fair Market	Unrealized	Fair Market	Unrealized
	Value	Losses	Value	Losses	Value	Losses
Corporate securities	\$ 141,511	\$ (1,584)	\$ 112,792	\$ (1,756)	\$ 254,303	\$ (3,340)
Total marketable securities	\$ 141,511	\$ (1,584)	\$ 112,792	\$ (1,756)	\$ 254,303	\$ (3,340)

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

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

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 six months ended June 30, 2023 and 2022:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Cost of revenues	\$ 446	\$ 235	\$ 747	\$ 555
Research and development	2,429	2,323	5,097	5,378
Sales and marketing	1,621	1,177	3,274	3,125
General and administrative	2,256	(56)	5,002	3,634
Total stock-based compensation expense	<u>\$ 6,752</u>	<u>\$ 3,679</u>	<u>\$ 14,120</u>	<u>\$ 12,692</u>

Stock-based compensation expense in the three months ended June 30, 2023, was approximately \$6.8 million, comprising approximately \$5.3 million related to restricted stock unit (“RSU”) awards, \$0.5 million related to the Company’s employee stock purchase plan and \$1.0 million related to performance-based (“PSU”) awards and long-term performance-based (“PRSU”) awards. Stock-based compensation expense in the six months ended June 30, 2023, was approximately \$14.1 million, comprising approximately \$11.2 million related to RSUs, \$1.0 million related to the Company’s employee stock purchase plan and \$1.9 million related to PSUs and PRSUs.

Stock-based compensation expense in the three months ended June 30, 2022, was approximately \$3.7 million, comprising approximately \$5.3 million related to RSUs, \$0.5 million related to the Company’s employee stock purchase plan and \$2.1 million credit related to PSUs and PRSUs. Stock-based compensation expense in the six months ended June 30, 2022, was approximately \$12.7 million, comprising approximately \$10.9 million related to RSUs, \$0.9 million related to the Company’s employee stock purchase plan and \$0.9 million 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 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.

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of PSUs outstanding as of June 30, 2023 and activity during the six 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	\$ 82.88		
Vested	(34)	\$ 79.94		
Forfeited	—	—		
Outstanding at June 30, 2023	<u>130</u>	<u>\$ 82.88</u>	<u>0.50</u>	<u>\$ 12,295</u>
Outstanding and expected to vest at June 30, 2023	<u>39</u>		<u>0.50</u>	<u>\$ 3,689</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 June 30, 2023 and activity during the six 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 June 30, 2023	<u>358</u>	<u>\$ 80.89</u>	<u>1.62</u>	<u>\$ 33,923</u>
Outstanding and expected to vest at June 30, 2023	<u>79</u>		<u>2.50</u>	<u>\$ 7,454</u>

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

RSU Awards

A summary of RSUs outstanding as of June 30, 2023 and activity during the six 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	314	\$ 80.52		
Vested	(368)	\$ 51.04		
Forfeited	(13)	\$ 70.85		
Outstanding at June 30, 2023	1,029	\$ 69.89	1.90	\$ 97,327
Outstanding and expected to vest at June 30, 2023	943		1.81	\$ 89,310

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 82% and 79% of net revenues for the three and six months ended June 30, 2023, respectively, and 77% for both the three and six months ended June 30, 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 \$78.8 million and \$145.5 million in the three and six months ended June 30, 2023, respectively, and \$133.9 million and \$269.7 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 June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Avnet	25 %	30 %	25 %	31 %
Honestar Technologies Co., Ltd.	15 %	11 %	14 %	13 %
Salcomp Group	14 %	*	13 %	*
Flextronics 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 both June 30, 2023 and December 31, 2022, 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 June 30, 2023 and December 31, 2022:

Customer	June 30, 2023	December 31, 2022
Avnet	33 %	42 %
Salcomp Group	18 %	13 %
Flextronics Group	15 %	11 %

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 six months ended June 30, 2023 and 2022, were as follows:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
United States of America	\$ 2,148	\$ 7,569	\$ 4,695	\$ 14,476
Hong Kong/China	76,496	96,760	136,094	202,001
India	11,312	7,256	18,041	13,105
Taiwan	4,495	5,848	6,504	11,106
Korea	6,316	18,563	13,117	37,226
Western Europe (excluding Germany)	5,498	8,129	12,414	16,374
Japan	3,740	10,160	9,079	18,209
Germany	6,075	14,460	13,549	25,943
Other	7,143	15,241	16,027	27,695
Total net revenues	<u>\$ 123,223</u>	<u>\$ 183,986</u>	<u>\$ 229,520</u>	<u>\$ 366,135</u>

8. STOCKHOLDERS' EQUITY:

Common Stock Shares Outstanding

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Beginning balance	57,206	58,778	56,961	59,913
Common stock issued under employee stock plans	202	275	470	724
Repurchased	(57)	(1,919)	(80)	(3,503)
Ending balance	<u>57,351</u>	<u>57,134</u>	<u>57,351</u>	<u>57,134</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 six months ended June 30, 2023, the Company purchased approximately 57,000 shares for \$4.3 million and approximately 80,000 shares for \$6.0 million, respectively, leaving \$75.3 million remaining on the repurchase authorization as of June 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.

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.

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(In thousands, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Dividends declared and paid	\$ 10,893	\$ 10,280	\$ 21,761	\$ 20,936
Dividends declared per common share	\$ 0.19	\$ 0.18	\$ 0.38	\$ 0.36

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 June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Basic earnings per share:				
Net income	\$ 14,793	\$ 55,824	\$ 21,668	\$ 102,072
Weighted-average common shares	57,355	57,731	57,231	58,480
Basic earnings per share	\$ 0.26	\$ 0.97	\$ 0.38	\$ 1.75
Diluted earnings per share: ⁽¹⁾				
Net income	\$ 14,793	\$ 55,824	\$ 21,668	\$ 102,072
Weighted-average common shares	57,355	57,731	57,231	58,480
Effect of dilutive awards:				
Employee stock plans	314	574	423	712
Diluted weighted-average common shares	57,669	58,305	57,654	59,192
Diluted earnings per share	\$ 0.26	\$ 0.96	\$ 0.38	\$ 1.72

(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 six months ended June 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 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 rates for the three and six months ended June 30, 2023 were 3.7% and 5.1%, respectively, and 8.1% and 9.2%, respectively, in the three and six months ended June 30, 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 June 30, 2023, the Company's effective tax rate was favorably impacted by a discrete item associated with recognition of excess tax benefits related to share-based payments. In the six months ended June 30, 2023, the Company's effective tax rate was favorably impacted by discrete items associated with the release of unrecognized tax benefits and

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

recognition of excess tax benefits related to share-based payments. In the three months ended June 30, 2022, the Company's effective tax rate was favorably impacted by the recognition of excess tax benefits related to share-based payments. In the six months ended June 30, 2022, the Company's 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 June 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 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

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 June 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 PowerPros™, 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 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 \$123.2 million and \$184.0 million for the three months ended June 30, 2023 and 2022, respectively, and \$229.5 million and \$366.1 million for the six months ended June 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, restrictions on economic activity in China driven by the COVID-19 pandemic, and a shift in consumer spending toward travel and services following a period of elevated spending on goods during the 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 82% and 79% of net revenues for the three and six months ended June 30, 2023, respectively and 77% of net revenues in both the three and six months ended June 30, 2022. International sales accounted for 98% of our net revenues in both the three and six months ended June 30, 2023, and 96% of our net revenues in both the three and six months ended June 30, 2022.

Our gross margin was 51% and 58% in the three months ended June 30, 2023 and 2022, respectively, and 51% and 57% for the six months ended June 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 \$50.2 million and \$46.7 million in the three months ended June 30, 2023 and 2022, respectively, and \$98.4 million and \$96.4 million for the six months ended June 30, 2023 and 2022, respectively. The increase in operating expenses for the three- and six-month periods were due primarily to higher stock-based compensation expense related to performance-based awards, increased salary and related expenses, and increased travel-related expenses.

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		Six Months Ended	
	June 30,		June 30,	
	2023	2022	2023	2022
Net revenues	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenues	49.0	41.9	49.1	43.3
Gross profit	51.0	58.1	50.9	56.7
Operating expenses:				
Research and development	19.9	12.8	21.1	12.9
Sales and marketing	13.8	8.7	14.4	8.8
General and administrative	7.0	3.3	7.4	4.3
Other operating expenses, net	—	0.6	—	0.3
Total operating expenses	40.7	25.4	42.9	26.3
Income from operations	10.3	32.7	8.0	30.4
Other income	2.2	0.3	1.9	0.3
Income before income taxes	12.5	33.0	9.9	30.7
Provision for income taxes	0.5	2.7	0.5	2.8
Net income	12.0 %	30.3 %	9.4 %	27.9 %

Comparison of the three and six months ended June 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 six months ended June 30, 2023 were \$123.2 million and \$229.5 million, respectively, and \$184.0 million and \$366.1 million for the three and six months ended June 30, 2022, respectively.

The decrease in revenue for the three-month period ended June 30, 2023 was driven primarily by the consumer and industrial end-markets, reflecting reduced demand and elevated inventories related to consumer-appliances and a broad range of industrial applications. Revenues from the communications and computer markets increased slightly compared to the prior-year period. For the six-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, restrictions on economic activity in China driven by the COVID-19 pandemic, and a shift in consumer spending toward travel and services following a period of elevated spending on goods during the 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 six months ended June 30, 2023 and 2022 was as follows:

End Market	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2023	2022	2023	2022
Communications	28 %	18 %	28 %	22 %
Computer	14 %	9 %	14 %	10 %
Consumer	29 %	38 %	27 %	36 %
Industrial	29 %	35 %	31 %	32 %

International sales, consisting of sales outside of the United States of America based on “bill to” customer locations, were \$121.1 million and \$224.8 million in the three and six months ended June 30, 2023, respectively, and \$176.4 million and \$351.7 million in the three and six months ended June 30, 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 86% and 83% of our net revenues in the three and six months ended June 30, 2023, respectively, and 80% and 82%, in the three and six months ended June 30, 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.

Sales to distributors accounted for 64% and 63% in the three and six months ended June 30, 2023, respectively, and 73% and 74%, in the three and six months ended June 30, 2022, respectively. Direct sales to OEMs and power-supply manufacturers accounted for the remainder.

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

Customer	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Avnet	25 %	30 %	25 %	31 %
Honestar Technologies Co., Ltd.	15 %	11 %	14 %	13 %
Salcomp Group	14 %	*	13 %	*
Flextronics 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 six months ended June 30, 2023 and 2022:

(dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net revenues	\$ 123.2	\$ 184.0	\$ 229.5	\$ 366.1
Gross profit	\$ 62.8	\$ 106.8	\$ 116.8	\$ 207.5
Gross margin	51.0 %	58.1 %	50.9 %	56.7 %

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 six months ended June 30, 2023 and 2022:

(dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
R&D expenses	\$ 24.5	\$ 23.5	\$ 48.5	\$ 47.2
Headcount (at period end)	283	306	283	306

R&D expenses increased for the three and six months ended June 30, 2023, as compared to the three and six months ended June 30, 2022, primarily due to increased product development costs and equipment-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 six months ended June 30, 2023 and 2022:

(dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Sales and marketing expenses	\$ 17.0	\$ 16.0	\$ 32.9	\$ 32.4
Headcount (at period end)	320	298	320	298

S&M expenses increased in the three and six months ended June 30, 2023, as compared to the three and six months ended June 30, 2022, due to higher stock-based compensation expenses, higher salary and related expenses stemming from higher headcount and increased travel-related expenses.

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General and administrative expenses. General and administrative (“G&A”) expenses consist primarily of employee-related expenses, including stock-based compensation expenses, 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 six months ended June 30, 2023 and 2022:

(dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
G&A expenses	\$ 8.7	\$ 6.1	\$ 17.0	\$ 15.7
Headcount (at period end)	79	76	79	76

G&A expenses increased for the three and six months ended June 30, 2023 as compared to the three and six months ended June 30, 2022, due to higher stock-based compensation expense related to performance-based awards, increased salary and related expenses driven by increased headcount, and increased professional services; these increases were partially offset by decreased patent-litigation expenses and, for the six months ended June 30, 2023, recovery of bad debt.

Other operating expenses, net. Other operating expenses, net were \$1.1 million in the three and six months ended June 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 six months ended June 30, 2023 and 2022:

(dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Other income	\$ 2.7	\$ 0.7	\$ 4.4	\$ 1.2

Other income increased for the three and six months ended June 30, 2023 as compared to the three and six months ended June 30, 2022, primarily due to higher interest income.

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 six months ended June 30, 2023 and 2022:

(dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Provision for income taxes	\$ 0.6	\$ 5.0	\$ 1.2	\$ 10.3
Effective tax rate	3.7 %	8.1 %	5.1 %	9.2 %

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 rates for the three and six months ended June 30, 2023 were 3.7% and 5.1%, respectively, and 8.1% and 9.2%, in the three and six months ended June 30, 2022, respectively. 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 June 30, 2023, our effective tax rate was favorably impacted by a discrete item associated with recognition of excess tax benefits related to share-based payments. In the six months ended June 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. 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 June 30, 2023, we had \$346.3 million in cash, cash equivalents and short-term marketable securities, a decrease of \$7.5 million from \$353.8 million as of December 31, 2022. As of June 30, 2023, we had working capital, defined as current assets less current liabilities, of \$486.2 million, an increase of approximately \$19.5 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 June 30, 2023.

Cash From Operating Activities

Operating activities generated \$22.8 million of cash in the six months ended June 30, 2023. Net income for this period was \$21.7 million; we also incurred depreciation, non-cash stock-based compensation expense, amortization of intangibles and amortization premiums on marketable securities of \$17.7 million, \$14.1 million, \$1.1 million, and \$0.4 million, respectively. Sources of cash also included a \$8.8 million increase in accounts payable (excluding payables related to property and equipment) due to timing of payments. These sources of cash were partially offset by a \$14.3 million increase in inventories, a \$7.2 million increase in prepaid expenses and other assets primarily due to federal income tax prepayments, a \$10.8 million increase in accounts receivable, a \$5.4 million decrease in taxes payable and accrued liabilities primarily due to timing of customer rebate payments, and a \$2.8 million increase in deferred income taxes.

Operating activities generated \$141.4 million of cash in the six months ended June 30, 2022. Net income for this period was \$102.1 million; we also incurred depreciation, non-cash stock-based compensation expense, premium amortization on marketable securities and intangibles amortization of \$17.2 million, \$12.7 million, \$1.9 million and \$1.3 million, respectively. Sources of cash also included a \$13.2 million decrease in accounts receivable due to the timing of collections, a \$5.6 million increase in accounts payable (excluding payables related to property and equipment) and a \$4.1 million decrease in prepaid expenses and other assets. These sources of cash were partially offset by a \$12.0 million increase in inventories and a \$2.5 million decrease in taxes payable and accrued liabilities.

Cash From Investing Activities

Our investing activities in the six months ended June 30, 2023 resulted in a \$19.4 million net use of cash, primarily consisting of \$12.2 million used for purchases of marketable securities net of proceeds from sales and maturities, and \$7.2 million used for purchases of property and equipment, primarily production-related machinery and equipment.

Our investing activities in the six months ended June 30, 2022 generated \$78.1 million of cash, primarily consisting of \$104.8 million from sales and maturities of marketable securities, net of purchases, offset by \$27.9 million for purchases of property and equipment, primarily production-related machinery and equipment, partially offset by proceeds of \$1.2 million from the sale of an office building.

Cash From Financing Activities

Our financing activities in the six months ended June 30, 2023 resulted in a \$24.7 million net use of cash, consisting of \$6.0 million for the repurchase of our common stock and \$21.8 million for the payment of dividends to stockholders, partially offset by \$3.1 million from the issuance of shares through our employee stock purchase plan.

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Our financing activities in the six months ended June 30, 2022 resulted in a \$310.2 million net use of cash, consisting of \$292.3 million for the repurchase of our common stock and \$20.9 million for the payment of dividends to stockholders, partially offset by \$3.1 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.

Dividend payouts of \$10.9 million occurred on each of March 31, 2023 and June 30, 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 six months ended June 30, 2023, we repurchased approximately 80,000 shares of our common stock for \$6.0 million, leaving \$75.3 million remaining on the repurchase authorization as of June 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 June 30, 2023 we had a contractual obligation related to income tax, which consisted primarily of unrecognized tax benefits of approximately \$23.7 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 June 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 June 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 six 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 June 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 June 30, 2023, we repurchased approximately 57,000 of our shares for \$4.3 million, leaving \$75.3 million remaining on our repurchase authorization as of June 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 second 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>
April 1, 2023 to April 30, 2023	32,061	\$ 75.10	32,061	\$ 77.1
May 1, 2023 to May 31, 2023	25,153	\$ 75.71	25,153	\$ 75.3
June 1, 2023 to June 30, 2023	—	—	—	\$ 75.3
Total	<u>57,214</u>		<u>57,214</u>	

ITEM 5. OTHER INFORMATION

Rule 10b5-1 Trading Plans

During the three months ended June 30, 2023, none of our directors or 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	Third Amendment to Credit Agreement, dated June 28, 2023 between Power Integrations, Inc. and Wells Fargo Bank, National Association					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
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

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EXHIBIT NUMBER	Exhibit Description	Incorporation by Reference				
		Form	File Number	Exhibit/Other Reference	Filing Date	Filed Herewith
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)					

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

** 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: August 3, 2023

By: /s/ SANDEEP NAYYAR

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

THIRD AMENDMENT TO CREDIT AGREEMENT

THIS AMENDMENT TO CREDIT AGREEMENT (this "Amendment") dated June 28, 2023, is entered into by and between POWER INTEGRATIONS, INC., a Delaware corporation ("Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank").

RECITALS

WHEREAS, Borrower is currently indebted to Bank pursuant to the terms and conditions of that certain Credit Agreement between Borrower and Bank dated July 27, 2016, as amended from time to time ("Credit Agreement").

WHEREAS, Bank and Borrower have agreed to certain changes in the terms and conditions set forth in the Credit Agreement and have agreed to amend the Credit Agreement to reflect said changes.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree that the Credit Agreement shall be amended as follows:

1. Section 1.1.(a) is hereby deleted in its entirety, and the following substituted therefor:

"SECTION 1.1. LINE OF CREDIT

(a) Line of Credit. Subject to the terms and conditions of this Agreement, Bank hereby agrees to make advances to Borrower from time to time up to and including June 7, 2026, not to exceed at any time the aggregate principal amount of Seventy-Five Million Dollars (\$75,000,000.00) ("Line of Credit"), the proceeds of which shall be used to finance Borrower's working capital requirements. Borrower's obligation to repay advances under the Line of Credit shall be evidenced by a promissory note dated as of Jun 28, 2023, as modified from time to time ("Line of Credit Note")."

2. The effective date of this Amendment shall be the date that all of the following conditions set forth in this Section have been satisfied, as determined by Bank and evidenced by Bank's system of record. Notwithstanding the occurrence of the effective date of this Amendment, Bank shall not be obligated to extend credit under this Amendment or any other Loan Document until all conditions to each extension of credit set forth in the Credit Agreement have been fulfilled to Bank's satisfaction.

- (a) Approval of Bank Counsel. All legal matters incidental to the effectiveness of this Amendment shall be satisfactory to Bank's counsel.

- (b) Documentation. Bank shall have received, in form and substance satisfactory to Bank, each of the following, duly executed by all parties:

- (i) This Amendment and each promissory note or other instrument or document required hereby.

- (ii) as Bank may require under any other Section of this Amendment.

- (c) Regulatory and Compliance Requirements. All regulatory and compliance requirements, standards and processes shall be completed to the satisfaction of Bank.

3. Except as specifically provided herein, all terms and conditions of the Credit Agreement remain in full force and effect, without waiver or modification. All terms defined in the Credit Agreement shall have the same meaning when used in this Amendment. This Amendment and the Credit Agreement shall be read together, as one document.

4. Borrower hereby remakes all representations and warranties contained in the Credit Agreement and reaffirms all covenants set forth therein. Borrower further certifies that as of the date of this Amendment and as of the date of Borrower's execution of this Amendment there exists no Event of Default as defined in the Credit Agreement, nor any condition, act or event which with the giving of notice or the passage of time or both would constitute any such Event of Default.

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound hereby, have caused this Amendment to be effective as of the effective date set forth above.

POWER INTEGRATIONS, INC.

By: /s/ BALU BALAKRISHNAN
BALU BALAKRISHNAN, CHIEF EXECUTIVE
OFFICER AND PRESIDENT

WELLS FARGO BANK,
NATIONAL ASSOCIATION

By: /s/ GAMBO AUDU
GAMBO AUDU, VICE PRESIDENT
PORTFOLIO MANAGER

REVOLVING LINE OF CREDIT NOTE

\$75,000,000.00

San Francisco, California
June 28, 2023

FOR VALUE RECEIVED, the undersigned POWER INTEGRATIONS, INC. ("Borrower") promises to pay to the order of WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank") at its office at MAC: A0112-145, 550 California Street, 14th Floor, San Francisco, California 94104, or at such other place as the holder hereof may designate, in lawful money of the United States of America and in immediately available funds, the principal sum of Seventy-Five Million Dollars (\$75,000,000.00), or so much thereof as may be advanced and be outstanding pursuant to the terms of the Credit Agreement, as defined herein, with interest thereon, to be computed on each advance from the date of its disbursement as set forth herein.

DEFINITIONS:

As used herein, the following terms shall have the meanings set forth after each, and any other term defined in this Note shall have the meaning set forth at the place defined:

- (a) "Benchmark Floor" means a rate of interest equal to zero percent (0%).
- (b) "Conforming Changes" means any technical, administrative or operational changes (including, without limitation, changes to the definition of "U.S. Government Securities Business Day," the definition of "Interest Period" or any similar or analogous definition, the timing and frequency of determining rates and making payments of interest, prepayment provisions and other technical, administrative or operational matters) that Bank decides may be appropriate to reflect the adoption and implementation of a Benchmark Replacement or to permit the use and administration of Term SOFR or a Benchmark Replacement by Bank.
- (c) "Daily Simple SOFR" means, with respect to any day (a "SOFR Rate Day"), a rate per annum equal to SOFR for the day (such day, the "SOFR Determination Day") that is two (2) U.S. Government Securities Business Days prior to (i) if such SOFR Rate Day is a U.S. Government Securities Business Day, such SOFR Rate Day or (ii) if such SOFR Rate Day is not a U.S. Government Securities Business Day, the U.S. Government Securities Business Day immediately preceding such SOFR Rate Day, in each case, as such SOFR is published by the SOFR Administrator on the SOFR Administrator's Website; provided, however, that if Daily Simple SOFR determined as provided above would be less than the Benchmark Floor, then Daily Simple SOFR shall be deemed to be the Benchmark Floor. If by 5:00 p.m. (New York City time) on the second (2nd) U.S. Government Securities Business Day immediately following any SOFR Determination Day, SOFR in respect of such SOFR Determination Day has not been published on the SOFR Administrator's Website and a Benchmark Replacement Date with respect to Daily Simple SOFR has not occurred, then SOFR for such SOFR Determination Day will be SOFR as published in respect of the first preceding U.S. Government Securities Business Day for which SOFR was published on the SOFR Administrator's Website; provided that any SOFR determined pursuant to this sentence shall be utilized for purposes of calculation of Daily Simple SOFR for no more than three (3) consecutive SOFR Rate Days.
- (d) "Federal Reserve Business Day" means any day that is not a Saturday, Sunday or other day on which the Federal Reserve Bank of New York is closed.
- (e) "Interest Period" means a period commencing on a Federal Reserve Business Day and continuing for one (1), three (3) or six (6) months, during which all or a portion of the outstanding principal balance of this Note bears interest determined in relation to Term SOFR with the understanding, that (i) no Interest Period may be selected for a principal amount less than One Hundred Thousand Dollars

(\$100,000.00), (ii) if the day after the end of any Interest Period is not a Federal Reserve Business Day (so that a new Interest Period could not be selected by Borrower to start on such day), then such Interest Period shall continue up to, but shall not include, the next Federal Reserve Business Day after the end of such Interest Period, unless the result of such extension would be to cause any immediately following Interest Period to begin in the next calendar month in which event the Interest Period shall continue up to, but shall not include, the Federal Reserve Business Day immediately preceding the last day of such Interest Period, (iii) no Interest Period shall extend beyond the scheduled maturity date hereof and (iv) no tenor that has been removed from this definition pursuant to the terms of this Note shall be available for designation by Borrower.

(f) "Prime Rate" means at any time the rate of interest most recently announced within Bank at its principal office as its prime rate, with the understanding that the Prime Rate is one of Bank's base rates and serves as the basis upon which effective rates of interest are calculated for those loans making reference thereto, and is evidenced by the recording thereof after its announcement in such internal publication or publications as Bank may designate; provided, however, that if Prime Rate determined as provided above would be less than zero percent (0%), then Prime Rate shall be deemed to be zero percent (0%).

(g) "SOFR" means a rate per annum equal to the secured overnight financing rate as administered by the SOFR Administrator.

(h) "SOFR Administrator" means the Federal Reserve Bank of New York (or a successor administrator of the secured overnight financing rate).

(i) "SOFR Administrator's Website" means the website of the Federal Reserve Bank of New York, currently at <http://www.newyorkfed.org>, or any successor source for the secured overnight financing rate identified as such by the SOFR Administrator from time to time.

(j) "Term SOFR" means the Term SOFR Reference Rate for a tenor comparable to the applicable Interest Period on the day (such day, the "Term SOFR Determination Day") that is two (2) U.S. Government Securities Business Days prior to the first day of such Interest Period, as such rate is published by the Term SOFR Administrator; provided, however, that (x) if as of 5:00 p.m. (New York City time) on any Term SOFR Determination Day the Term SOFR Reference Rate for the applicable tenor has not been published by the Term SOFR Administrator and a Benchmark Replacement Date with respect to the Term SOFR Reference Rate has not occurred, then Term SOFR will be the Term SOFR Reference Rate for such tenor as published by the Term SOFR Administrator on the first preceding U.S. Government Securities Business Day for which such Term SOFR Reference Rate for such tenor was published by the Term SOFR Administrator so long as such first preceding U.S. Government Securities Business Day is not more than three (3) U.S. Government Securities Business Days prior to such Term SOFR Determination Day and (y) if Term SOFR determined as provided above (including pursuant to clause (x) of this proviso) shall ever be less than the Benchmark Floor, then Term SOFR shall be deemed to be the Benchmark Floor.

(k) "Term SOFR Administrator" means CME Group Benchmark Administration Limited (CBA) (or a successor administrator of the Term SOFR Reference Rate selected by Bank in its reasonable discretion).

(l) "Term SOFR Reference Rate" means the forward-looking term rate based on SOFR.

(m) "U.S. Government Securities Business Day" means any day except for (i) a Saturday, (ii) a Sunday or (iii) a day on which the Securities Industry and Financial Markets Association, or any successor thereto, recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in United States government securities.

INTEREST:

(a) Interest. The outstanding principal balance of this Note shall bear interest (computed on the basis of a 360-day year, actual days elapsed) either (i) at a fluctuating rate per annum determined by Bank

to be one and sixty hundredths percent (1.60%) above Daily Simple SOFR in effect from time to time, or (ii) at a fixed rate per annum determined by Bank to be one and sixty hundredths percent (1.60%) above Term SOFR in effect on the first day of the applicable Interest Period. Bank is hereby authorized to note the date, principal amount and interest rate applicable to this Note and any payments made thereon on Bank's books and records (either manually or by electronic entry) and/or on any schedule attached to this Note, which notations shall be prima facie evidence of the accuracy of the information noted. Bank shall be permitted to estimate the amount of accrued interest that is payable at any time hereunder on the applicable invoice provided by Bank to Borrower in respect thereof, in which case Borrower shall pay such estimated amount and Bank shall to the extent necessary, include on the next invoice an adjustment to correct any difference between the amount on the applicable invoice and the amount of interest that actually accrued pursuant to the terms of this Note.

(b) Selection of Interest Rate Options. Subject to the provisions herein regarding Interest Periods and the prior notice required for the selection of a Term SOFR interest rate, (i) at any time any portion of this Note bears interest determined in relation to Term SOFR for an Interest Period, (A) it may be continued by Borrower at the end of the Interest Period applicable thereto so that all or a portion thereof bears interest determined in relation to Term SOFR for a new Interest Period designated by Borrower or (B) Borrower may convert all or a portion thereof so that it bears interest determined in relation to Daily Simple SOFR, (ii) at any time any portion of this Note bears interest determined in relation to Daily Simple SOFR, Borrower may convert all or a portion thereof so that it bears interest determined in relation to Term SOFR for an Interest Period designated by Borrower, and (iii) at the time an advance is made hereunder, Borrower may choose to have all or a portion thereof bear interest determined in relation to Daily Simple SOFR or to Term SOFR for an Interest Period designated by Borrower.

To select a Term SOFR option hereunder, Borrower shall give Bank notice thereof that is received by Bank prior to 11:00 a.m. in the time zone of the city referenced on the first page of this Note above the Note date on a Federal Reserve Business Day at least two (2) Federal Reserve Business Days prior to the first day of the Interest Period, or at a later time during such Federal Reserve Business Day if Bank, at its sole option but without obligation to do so, accepts Borrower's notice and quotes a fixed rate to Borrower. Such notice shall specify: (A) the interest rate option selected by Borrower, (B) the principal amount subject thereto, and (C) for each Term SOFR selection, to the extent Borrower has the option to designate the length of an Interest Period, the length of the applicable Interest Period. If Bank has not received such notice in accordance with the foregoing before an advance is made hereunder or before the end of any Interest Period, Borrower shall be deemed to have made a Daily Simple SOFR interest selection for such advance or the principal amount to which such Interest Period applied. Any such notice may be given by telephone (or such other electronic method as Bank may permit) so long as it is given in accordance with the foregoing and, with respect to each Term SOFR selection, if requested by Bank, Borrower provides to Bank written confirmation thereof not later than three (3) Federal Reserve Business Days after such notice is given. Borrower shall reimburse Bank immediately upon demand for any loss or expense (including any loss or expense incurred by reason of the liquidation or redeployment of funds obtained to fund or maintain a Term SOFR borrowing) incurred by Bank as a result of the failure of Borrower to accept or complete a Term SOFR borrowing hereunder after making a request therefor. Any reasonable determination of such amounts by Bank shall be conclusive and binding upon Borrower. Should more than one person or entity sign this Note as a Borrower, any notice required above may be given by any one Borrower acting alone, which notice shall be binding on all other Borrowers.

(c) Taxes and Regulatory Costs. Borrower shall pay to Bank immediately upon demand, in addition to any other amounts due or to become due hereunder, any and all (i) withholdings, interest equalization taxes, stamp taxes or other taxes (except income and franchise taxes) imposed by any domestic or foreign governmental authority and related in any manner to SOFR, Daily Simple SOFR or Term SOFR, and (ii) costs, expenses and liabilities arising from or in connection with reserve percentages prescribed by the Board of Governors of the Federal Reserve System (or any successor) for "Eurocurrency Liabilities" (as defined in Regulation D of the Board of Governors of the Federal Reserve System, as amended), assessment rates imposed by the Federal Deposit Insurance Corporation, or similar requirements or costs imposed by any domestic or foreign governmental authority or resulting from compliance by Bank with any request or directive (whether or not having the force of law) from any central bank or other governmental authority and related in any manner to SOFR, Daily Simple SOFR or Term SOFR. In

determining which of the foregoing are attributable to any SOFR, Daily Simple SOFR or Term SOFR option available to Borrower hereunder, any reasonable allocation made by Bank among its operations shall be conclusive and binding upon Borrower.

(d) Default Interest. Bank shall have the option in its sole and absolute discretion to have the outstanding principal balance of this Note bear interest at an increased rate per annum (computed on the basis of a 360-day year, actual days elapsed) equal to four percent (4.0%) above the rate of interest from time to time applicable to this Note (i) from and after the maturity date of this Note; (ii) from and after the date prior to the maturity date of this Note when all principal owing hereunder becomes due and payable by acceleration or otherwise; and/or (iii) upon the occurrence and during the continuance of any Event of Default.

(e) Inability to Determine Interest Rates; Illegality. Subject to the Benchmark Replacement Provisions below, if Bank determines (any determination of which shall be conclusive and binding on Borrower) that either (i) Daily Simple SOFR or Term SOFR for the applicable Interest Period cannot be determined pursuant to the definition thereof other than as a result of a Benchmark Transition Event (an "Inability Determination") or (ii) any law has made it unlawful, or that any governmental authority has asserted that it is unlawful, for Bank to make or maintain an advance based on SOFR, Daily Simple SOFR or Term SOFR, or to determine or charge interest rates based upon SOFR, Daily Simple SOFR or Term SOFR (an "Illegality Determination"), then Bank will so notify Borrower. If the foregoing Inability Determination or Illegality Determination relates to Daily Simple SOFR, then any outstanding principal balance of this Note bearing interest determined in relation to Daily Simple SOFR shall bear interest (x) pursuant to the Term SOFR option herein (if selected by Borrower and to the extent such option is available) or (y) otherwise, at a fluctuating rate per annum determined by Bank to be equal to the Prime Rate in effect from time to time (computed on the basis of a 360-day year, actual days elapsed), from the date of such Inability Determination or such Illegality Determination until Bank revokes such Inability Determination or notifies Borrower that the circumstances giving rise to such Illegality Determination no longer exist, as applicable. If the foregoing Inability Determination or Illegality Determination relates to Term SOFR for any Interest Period, then any outstanding principal balance of this Note bearing interest determined in relation to Term SOFR for any affected Interest Period shall bear interest (x) pursuant to the Daily Simple SOFR option herein (to the extent such option is available) or (y) otherwise, at a fluctuating rate per annum determined by Bank to be the Prime Rate in effect from time to time (computed on the basis of a 360-day year, actual days elapsed), from the date of such Inability Determination or such Illegality Determination until Bank revokes such Inability Determination or notifies Borrower that the circumstances giving rise to such Illegality Determination no longer exist, as applicable; provided, however, that, with respect to any outstanding principal balance of this Note bearing interest determined in relation to Term SOFR for any affected Interest Period, no such determination of interest shall take effect during any applicable Interest Period as a result of an Inability Determination. When interest is determined in relation to the Prime Rate, each change in the rate of interest hereunder shall become effective on the date each Prime Rate change is announced Within Bank. Notwithstanding any of the foregoing to the contrary, if a Benchmark Replacement is subsequently determined in accordance with applicable Benchmark Replacement Provisions, that Benchmark Replacement, plus any applicable margin, will then supersede the foregoing with respect to the replaced Benchmark.

(f) Term SOFR Conforming Changes. In connection with the use or administration of Term SOFR, Bank, in consultation with Borrower, will have the right to make Conforming Changes from time to time and any amendments implementing such Conforming Changes will become effective without any further action or consent of Borrower.

BENCHMARK REPLACEMENT PROVISIONS:

Notwithstanding anything to the contrary contained in this Note or in any related loan document (for the purposes of these Benchmark Replacement Provisions, a swap agreement by and between Borrower and Bank or any of its affiliates is not a loan document):

(a) Benchmark Replacement. If a Benchmark Transition Event with respect to any applicable then-current Benchmark, occurs, the applicable Benchmark Replacement will replace such Benchmark for all purposes under this Note or under any related loan document. Any Benchmark Replacement will become effective on the applicable Benchmark Replacement Date without any further action or consent of Borrower.

(b) Benchmark Replacement Conforming Changes. In connection with the use, administration, adoption or implementation of a Benchmark Replacement, Bank will have the right to make Conforming Changes from time to time and any amendments implementing such Conforming Changes will become effective without any further action or consent of Borrower.

(c) Notices; Standards for Decisions and Determinations. Bank will promptly notify Borrower of (i) the implementation of any Benchmark Replacement, (ii) the effectiveness of any Conforming Changes in connection with the use, administration, adoption or implementation of a Benchmark Replacement and (iii) the removal or reinstatement of any tenor of a Benchmark pursuant to the provisions of this Note. Any determination, decision or election that may be made by Bank pursuant to these Benchmark Replacement Provisions, including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or any selection, will be conclusive and binding absent manifest error and will be made in its sole discretion and without Borrower consent.

(d) Unavailability of Tenor of Benchmark. At any time (including in connection with the implementation of a Benchmark Replacement), (i) if any then-current Benchmark is a term rate (including the Term SOFR Reference Rate) and either (A) any tenor for such Benchmark is not displayed on a screen or other information service that publishes such rate from time to time as selected by Bank in its reasonable discretion or (B) the administrator of such Benchmark or the regulatory supervisor for the administrator of such Benchmark has provided a public statement or publication of information announcing that any tenor for such Benchmark is not or will not be representative or in compliance with or aligned with the International Organization of Securities Commissions (IOSCO) Principles for Financial Benchmarks, then Bank may modify the definition of "Interest Period" (or any similar or analogous definition) for any Benchmark settings at or after the occurrence of either (A) or (B) above to remove such unavailable, non-representative, non-compliant or non-aligned tenor and (ii) if a tenor that was removed pursuant to clause (i) above either (A) is subsequently displayed on a screen or information service for a Benchmark (including a Benchmark Replacement) as selected by Bank in its reasonable discretion or (B) is not, or is no longer, subject to an announcement that it is not or will not be representative or in compliance with or aligned with the International Organization of Securities Commissions (IOSCO) Principles for Financial Benchmarks for a Benchmark (including a Benchmark Replacement), then Bank may modify the definition of "Interest Period" (or any similar or analogous definition) for all Benchmark settings at or after such time to reinstate such previously removed tenor.

(e) Certain Defined Terms. As used in this Note, each of the following capitalized terms has the meaning given to such term below:

(i) "Available Tenor" means, as of any date of determination and with respect to any then-current Benchmark, as applicable, (A) if such Benchmark is a term rate, any tenor for such Benchmark that is or may be used for determining the length of an interest period pursuant to this Note or (B) otherwise, any payment period for interest calculated with reference to such Benchmark that is or may be used for determining any frequency of making payments of interest calculated with reference to such Benchmark, in each case, as of such date and not including, for the avoidance of doubt, any tenor for such Benchmark that is then-removed from the definition of "Interest Period" pursuant to the provisions of this Note.

(ii) "Benchmark" means, initially, Daily Simple SOFR or the Term SOFR Reference Rate, as applicable; provided, however, that if a Benchmark Transition Event has occurred with respect to Daily Simple SOFR, the Term SOFR Reference Rate or the applicable then-current Benchmark, then "Benchmark" means the applicable Benchmark Replacement to the extent that such Benchmark Replacement has become effective pursuant to the provisions of this Note.

(iii) "Benchmark Administrator" means, with respect to any then-current Benchmark, initially, the SOFR Administrator or the Term SOFR Administrator, as applicable, or any successor administrator of such Benchmark or any insolvency or resolution official with authority over such administrator.

(iv) "Benchmark Replacement" means the sum of: (A) the alternate reference rate that has been selected by Bank as the replacement for the applicable then-current Benchmark; and (B) the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected by Bank, in each case, giving due consideration to (x) any selection or recommendation by the Relevant Governmental Body at such time for a replacement reference rate, the mechanism for determining such a rate, the methodology or conventions applicable to such alternate reference rate, or the spread adjustment, or method for calculating or determining such spread adjustment, for such rate, or (y) any evolving or then-prevailing market convention for determining an alternate reference rate as a replacement to the applicable then-current Benchmark, the methodology or conventions applicable to such rate, or the spread adjustment, or method for calculating or determining such spread adjustment, for such rate for U.S. dollar-denominated syndicated or bilateral credit facilities; provided, however, that if the applicable Benchmark Replacement as determined as provided above would be less than the Benchmark Floor, then the applicable Benchmark Replacement shall be deemed to be the Benchmark Floor for the purposes of this Note and the related loan documents, subject to any other applicable floor rate provision.

(v) "Benchmark Replacement Date" means the date specified by Bank in a notice to Borrower following a Benchmark Transition Event.

(vi) "Benchmark Transition Event" means the occurrence of one or more of the following events with respect to any then-current Benchmark: a public statement or publication of information by or on behalf of the Benchmark Administrator or a regulatory supervisor for the Benchmark Administrator announcing that (A) the Benchmark Administrator has ceased or will cease to provide such Benchmark, or, if such Benchmark is a term rate, all Available Tenors of such Benchmark, permanently or indefinitely, or (B) such Benchmark is, or, if such Benchmark is a term rate, all Available Tenors of such Benchmark are, not, or as of a specified future date will not be, representative of underlying markets or in compliance with or aligned with the International Organization of Securities Commissions (IOSCO) Principles for Financial Benchmarks.

(vii) "Relevant Governmental Body" means the Board of Governors of the Federal Reserve System and/or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Board of Governors of the Federal Reserve System and/or the Federal Reserve Bank of New York or any successor thereto.

BORROWING AND REPAYMENT:

- (a) Borrowing and Repayment of Principal. Borrower may from time to time during the term of this Note borrow, partially or wholly repay its outstanding borrowings, and reborrow, subject to all of the limitations, terms and conditions of this Note and of any document executed in connection with or governing this Note; provided however, that the total outstanding borrowings under this Note shall not at any time exceed the principal amount stated above. The unpaid principal balance of this obligation at any time shall be the total amounts advanced hereunder by the holder hereof less the amount of principal payments made hereon by or for Borrower, which balance may be endorsed hereon from time to time by the holder. The outstanding principal balance of this Note shall be due and payable in full on June 7, 2026.
- (b) Payment of Interest. Interest accrued on this Note shall be payable on the first day of each month, commencing June 1, 2023, and on the maturity date set forth above.
- (c) Advances. Advances hereunder, to the total amount of the principal sum stated above, may be made by the holder at the oral or written request of (i) BALU BALAKRISHNAN,

SANDEEP NAYYAR, ERIC VERITY or JEFF PADILLA, any one acting alone (subject to any of Bank's applicable authentication policies or procedures, which may require that a particular individual—including another specific individual listed above—provide verification of the identity of the requestor), who are authorized to request advances and direct the disposition of any advances until written notice of the revocation of such authority is received by the holder at the office designated above, or (ii) any person, with respect to advances deposited to the credit of any deposit account of Borrower, which advances, when so deposited, shall be conclusively presumed to have been made to or for the benefit of Borrower regardless of the fact that persons other than those authorized to request advances may have authority to draw against such account. The holder shall have no obligation to determine whether any person requesting an advance is or has been authorized by Borrower.

- (d) Application of Payments. Each payment made on this Note shall be credited first, to any interest then due and second, to the outstanding principal balance hereof. All payments credited to principal shall be applied first, to the outstanding principal balance of this Note which bears interest determined in relation to Daily Simple SOFR, if any, and second, to the outstanding principal balance of this Note which bears interest determined in relation to Term SOFR, with such payments applied to the oldest Interest Period first.

PAYMENTS:

If any payment of principal or interest to be made pursuant to this Note, other than a prepayment or a payment due on the maturity date of this Note, shall fall due on a day that is not a Federal Reserve Business Day, payment shall be made on the next succeeding Federal Reserve Business Day, except that, if such next succeeding Federal Reserve Business Day would fall in the next calendar month, such payment shall be made on the immediately preceding Federal Reserve Business Day. Any extension or contraction of time shall be reflected in computing interest or fees, as the case may be.

PREPAYMENT:

(a) Daily Simple SOFR. Borrower may prepay principal on any portion of this Note which bears interest determined in relation to Daily Simple SOFR, in any amount and without penalty.

(b) Term SOFR. Borrower may prepay principal on any portion of this Note which bears interest determined in relation to Term SOFR and in the minimum amount of One Hundred Thousand Dollars (\$100,000.00); provided however, that if the outstanding principal balance of such portion of this Note is less than said amount, the minimum prepayment amount shall be the entire outstanding principal balance hereof. In consideration of Bank providing this prepayment option to Borrower, or if any such portion of this Note shall become due and payable at any time prior to the last day of any Interest Period by acceleration or otherwise, Borrower shall pay to Bank immediately upon demand a fee which is the amount, if any, by which (i) exceeds (ii) below:

- (i) The amount of interest that would have accrued on the amount prepaid at the interest rate applicable to such amount had it remained outstanding until the last day of the Interest Period applicable thereto.
- (ii) The amount of interest that would have accrued on the amount prepaid at Term SOFR (without adding any spread or margin specified in part (a) under the "INTEREST" section of this Note) that would have been applicable to such amount had this Note been disbursed on the repayment date and remained outstanding until the last day of the Interest Period applicable thereto.

Borrower acknowledges that prepayment of such amount may result in Bank incurring additional costs, expenses and/or liabilities, and that it is difficult to ascertain the full extent of such costs, expenses and/or liabilities. Borrower, therefore, agrees to pay the above-described prepayment fee and agrees that said amount represents a reasonable estimate of the prepayment costs, expenses and/or liabilities of Bank. If Borrower fails to pay any prepayment fee when due, the amount of such prepayment fee shall thereafter

bear interest until paid at a rate per annum four percent (4.00%) above the Prime Rate in effect from time to time (computed on the basis of a 360-day year, actual days elapsed).

(c) Application of Prepayments. If principal under this Note is payable in more than one installment, then any prepayments of principal shall be applied to the most remote principal installment or installments then unpaid.

SWAP AGREEMENT:

Borrower understands and acknowledges that (i) any Swap Agreement constitutes an independent agreement between Borrower and Bank or its affiliates, as applicable, and will be unaffected by any repayment, prepayment, acceleration, reduction, increase or change in the terms of this Note, except as otherwise expressly provided in the Swap Agreement, (ii) nothing in this Note shall be construed as a modification of a Swap Agreement or create an obligation to amend a Swap Agreement, (iii) Borrower may incur losses or reductions in benefits related to differences between the economic terms and characteristics of this Note and those of a related Swap Agreement (including, without limitation, differences with respect to maturity dates, payment dates and methods for determining interest rates and differences between borrowings hereunder and the notional amount of a related Swap Agreement), and Bank is under no obligation to ensure that there are no differences or that differences will not arise hereafter, including, without limitation, differences between usage hereunder and the notional amount of a related Swap Agreement, and (iv) Bank has no obligation to modify, renew or extend the maturity date of this Note to match the maturity date of a related Swap Agreement. For the purposes of this Note, "Swap Agreement" means any existing or future swap agreement by and between Borrower and Bank or any of its affiliates.

EVENTS OF DEFAULT:

This Note is made pursuant to and is subject to the terms and conditions of that certain Credit Agreement between Borrower and Bank dated July 27, 2016, as amended from time to time (the "Credit Agreement"). Any default in the payment or performance of any obligation under this Note, or any defined event of default under the Credit Agreement, shall constitute an "Event of Default" under this Note.

MISCELLANEOUS:

(a) Remedies. Upon the sale, transfer, hypothecation, assignment or other encumbrance, whether voluntary, involuntary or by operation of law, of all or any interest in any real property securing this Note, if any, or upon the occurrence of any Event of Default, the holder of this Note, at the holder's option, may declare all sums of principal and interest outstanding hereunder to be immediately due and payable without presentment, demand, notice of nonperformance, notice of protest, protest or notice of dishonor, all of which are expressly waived by Borrower, and the obligation, if any, of the holder to extend any further credit hereunder shall immediately cease and terminate. Borrower shall pay to the holder immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of the holder's in-house counsel), expended or incurred by the holder in connection with the enforcement of the holder's rights and/or the collection of any amounts which become due to the holder under this Note whether or not suit is brought, and the prosecution or defense of any action in any way related to this Note, including without limitation, any action for declaratory relief, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to Borrower or any other person or entity.

(b) Collateral Exclusion. No lien or security interest created by or arising under any deed of trust, mortgage, security deed, or similar real estate collateral agreement ("Lien Document") shall secure the Note Obligations unless such Lien Document specifically describes the promissory note(s), instrument(s) or agreement(s) evidencing Note Obligations as a part of the indebtedness secured thereby. This exclusion shall apply notwithstanding (i) the fact that such Lien Document may appear to secure the

Note Obligations by virtue of a cross-collateralization provision or other provisions expanding the scope of the secured obligations, and (ii) whether such Lien Document was entered into prior to, concurrently with, or after the date hereof. As used herein, "Note Obligations" means any obligations under this Note, as amended, extended, renewed, refinanced, supplemented or otherwise modified from time to time, or under any other evidence of indebtedness that has been modified, renewed or extended in whole or in part by this Note, as amended, extended, renewed, refinanced, supplemented or otherwise modified from time to time.

(c) Obligations Joint and Several. Should more than one person or entity sign this Note as a Borrower, the obligations of each such Borrower shall be joint and several.

(d) Governing Law. This Note shall be governed by and construed in accordance with the laws of California, but giving effect to federal laws applicable to national banks, without reference to the conflicts of law or choice of law principles thereof.

(e) Effective Date. The effective date of this Note shall be the date that Bank has accepted this Note and all conditions to the effectiveness of the Credit Agreement have been fulfilled to Bank's satisfaction. Notwithstanding the occurrence of the effective date of this Note, Bank shall not be obligated to extend credit under this Note until all conditions to each extension of credit set forth in the Credit Agreement have been fulfilled to Bank's satisfaction.

IN WITNESS WHEREOF, the undersigned has executed this Note to be effective as of the effective date set forth herein.

POWER INTEGRATIONS, INC.

By: /s/ BALU BALAKRISHNAN
BALU BALAKRISHNAN, CHIEF EXECUTIVE
OFFICER AND PRESIDENT

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: August 3, 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: August 3, 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 June 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: August 3, 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 June 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: August 3, 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.
