

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, DC 20549

**FORM 10-Q**

(Mark One)

**Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended June 30, 2021**

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 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  
Common Stock, \$0.001 par value

Shares Outstanding at July 26, 2021  
60,290,603

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**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 Form 10-Q. These factors include, but are not limited to: the novel coronavirus pandemic (COVID-19), which has disrupted and may again 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 below; if demand for our products declines in our major end markets, our net revenues will decrease; 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 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; intense competition in the high-voltage power supply industry may lead to a decrease in our average selling price and reduced sales volume of our products; if our products do not penetrate additional markets, our business will not grow as we expect; 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; 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, 2020, 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 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)**

<b>(In thousands)</b>	<b>June 30, 2021</b>	<b>December 31, 2020</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 297,481	\$ 258,874
Short-term marketable securities	217,777	190,318
Accounts receivable, net	41,352	35,910
Inventories	89,643	102,878
Prepaid expenses and other current assets	21,292	13,252
Total current assets	667,545	601,232
PROPERTY AND EQUIPMENT, net	167,079	166,188
INTANGIBLE ASSETS, net	10,601	12,506
GOODWILL	91,849	91,849
DEFERRED TAX ASSETS	2,072	3,339
OTHER ASSETS	28,703	28,225
Total assets	\$ 967,849	\$ 903,339
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 41,898	\$ 34,712
Accrued payroll and related expenses	16,652	14,806
Taxes payable	989	902
Other accrued liabilities	8,727	12,106
Total current liabilities	68,266	62,526
LONG-TERM INCOME TAXES PAYABLE	14,340	15,588
OTHER LIABILITIES	14,899	14,814
Total liabilities	97,505	92,928
<b>COMMITMENTS AND CONTINGENCIES (Notes 11, 12 and 13)</b>		
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock	28	28
Additional paid-in capital	185,878	190,920
Accumulated other comprehensive loss	(3,155)	(2,163)
Retained earnings	687,593	621,626
Total stockholders' equity	870,344	810,411
Total liabilities and stockholders' equity	\$ 967,849	\$ 903,339

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,	
	2021	2020	2021	2020
NET REVENUES	\$ 180,110	\$ 106,832	\$ 353,847	\$ 216,496
COST OF REVENUES	88,797	53,296	178,123	106,480
GROSS PROFIT	91,313	53,536	175,724	110,016
OPERATING EXPENSES:				
Research and development	21,741	19,770	41,768	38,922
Sales and marketing	15,290	13,037	29,413	26,510
General and administrative	9,306	7,804	19,381	16,565
Total operating expenses	46,337	40,611	90,562	81,997
INCOME FROM OPERATIONS	44,976	12,925	85,162	28,019
OTHER INCOME	173	1,480	770	3,257
INCOME BEFORE INCOME TAXES	45,149	14,405	85,932	31,276
PROVISION FOR INCOME TAXES	3,268	1,213	4,253	2,198
NET INCOME	\$ 41,881	\$ 13,192	\$ 81,679	\$ 29,078
EARNINGS PER SHARE:				
Basic	\$ 0.69	\$ 0.22	\$ 1.35	\$ 0.49
Diluted	\$ 0.68	\$ 0.22	\$ 1.33	\$ 0.48
SHARES USED IN PER SHARE CALCULATION:				
Basic	60,544	59,712	60,366	59,458
Diluted	61,466	60,624	61,481	60,464

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements. The Earnings Per Share and Shares Used in Per Share Calculation information presented above reflects the effect of the August 2020 two-for-one stock split. Refer to Note 9, *Earnings Per Share*, in this Form 10-Q for details.

**POWER INTEGRATIONS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(Unaudited)**

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net income	\$ 41,881	\$ 13,192	\$ 81,679	\$ 29,078
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, 2021 and 2020	(40)	(30)	(58)	(313)
Unrealized gain (loss) on marketable securities, net of \$0 tax in each of the three and six months ended June 30, 2021 and 2020	(331)	2,566	(911)	1,614
Amortization of defined benefit pension items, net of tax of \$6 and \$141 in the three and six months ended June 30, 2021, respectively, and \$24 and \$55 in the three and six months ended June 30, 2020, respectively	52	58	(23)	109
Total other comprehensive income (loss)	(319)	2,594	(992)	1,410
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>\$ 41,562</b>	<b>\$ 15,786</b>	<b>\$ 80,687</b>	<b>\$ 30,488</b>

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,	
	2021	2020	2021	2020
<b>Common stock</b>				
Beginning balance	\$ 29	\$ 28	\$ 28	\$ 28
Common stock issued under employee stock plans	—	—	1	—
Repurchase of common stock	(1)	—	(1)	—
Ending balance	28	28	28	28
<b>Additional paid-in capital</b>				
Beginning balance	203,051	162,343	190,920	152,117
Common stock issued under employee stock plans	—	769	3,651	6,298
Repurchase of common stock	(26,373)	(623)	(26,373)	(2,636)
Stock-based compensation	9,200	5,981	17,680	12,691
Ending balance	185,878	168,470	185,878	168,470
<b>Accumulated other comprehensive loss</b>				
Beginning balance	(2,836)	(4,314)	(2,163)	(3,130)
Other comprehensive income (loss)	(319)	2,594	(992)	1,410
Ending balance	(3,155)	(1,720)	(3,155)	(1,720)
<b>Retained earnings</b>				
Beginning balance	653,579	585,773	621,626	575,531
Net income	41,881	13,192	81,679	29,078
Payment of dividends to stockholders	(7,867)	(6,271)	(15,712)	(11,915)
Ending balance	687,593	592,694	687,593	592,694
<b>Total stockholders' equity</b>	<b>\$ 870,344</b>	<b>\$ 759,472</b>	<b>\$ 870,344</b>	<b>\$ 759,472</b>

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,	
	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 81,679	\$ 29,078
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	15,274	11,069
Amortization of intangibles	1,905	2,207
Loss on disposal of property and equipment	38	292
Stock-based compensation expense	17,680	12,691
Amortization of premium on marketable securities	300	321
Deferred income taxes	1,182	1,279
Increase (decrease) in accounts receivable allowance for credit losses	91	(154)
Change in operating assets and liabilities:		
Accounts receivable	(5,533)	11,556
Inventories	13,235	(13,583)
Prepaid expenses and other assets	(4,501)	4,092
Accounts payable	8,053	5,861
Taxes payable and accrued liabilities	(4,433)	(1,665)
Net cash provided by operating activities	<u>124,970</u>	<u>63,044</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(19,294)	(21,622)
Proceeds from sale of property and equipment	35	331
Purchases of marketable securities	(188,753)	(19,827)
Proceeds from sales and maturities of marketable securities	160,083	58,962
Net cash provided by (used in) investing activities	<u>(47,929)</u>	<u>17,844</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Issuance of common stock under employee stock plans	3,652	6,298
Repurchase of common stock	(26,374)	(2,636)
Payments of dividends to stockholders	(15,712)	(11,915)
Net cash used in financing activities	<u>(38,434)</u>	<u>(8,253)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	38,607	72,635
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	258,874	178,690
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 297,481</u>	<u>\$ 251,325</u>
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Unpaid property and equipment	<u>\$ 5,070</u>	<u>\$ 13,932</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid (received) for income taxes, net	<u>\$ 10,084</u>	<u>\$ (2,155)</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, 2020, included in its Form 10-K filed on February 5, 2021, with the Securities and Exchange Commission.

The share and per share information for all periods presented in this Form 10-Q reflects the effect of the August 2020 two-for-one stock split. Refer to Note 8, *Stockholders’ Equity*, in this Form 10-Q for details.

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

**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*, in its Annual Report on Form 10-K, filed on February 5, 2021, for the year ended December 31, 2020.

***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***

<b>(In thousands)</b>	<b>June 30, 2021</b>	<b>December 31, 2020</b>
Accounts receivable trade	\$ 78,759	\$ 66,703
Allowance for ship and debit	(33,738)	(26,435)
Allowance for stock rotation and rebate	(3,151)	(3,931)
Allowance for credit losses	(518)	(427)
<b>Total</b>	<b>\$ 41,352</b>	<b>\$ 35,910</b>

**POWER INTEGRATIONS, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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 payments patterns, customer creditworthiness, and current economic trends. Receivables determined to be uncollectible are written off and deducted from the allowance.

(In thousands)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2021	2020	2021	2020
Beginning balance	\$ (425)	\$ (609)	\$ (427)	\$ (763)
Provision for credit loss expense	(360)	—	(577)	—
Receivables written off	—	—	—	154
Recoveries collected	267	—	486	—
Ending balance	<u>\$ (518)</u>	<u>\$ (609)</u>	<u>\$ (518)</u>	<u>\$ (609)</u>

**Inventories**

(In thousands)	June 30, 2021	December 31, 2020
Raw materials	\$ 23,285	\$ 32,131
Work-in-process	35,488	39,469
Finished goods	30,870	31,278
Total	<u>\$ 89,643</u>	<u>\$ 102,878</u>

**Intangible Assets**

(In thousands)	June 30, 2021			December 31, 2020		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
	Domain name	\$ 1,261	\$ —	\$ 1,261	\$ 1,261	\$ —
Developed technology	37,960	(30,500)	7,460	37,960	(29,126)	8,834
Customer relationships	16,700	(16,095)	605	16,700	(15,687)	1,013
Technology licenses	1,926	(651)	1,275	1,926	(528)	1,398
Total intangible assets	<u>\$ 57,847</u>	<u>\$ (47,246)</u>	<u>\$ 10,601</u>	<u>\$ 57,847</u>	<u>\$ (45,341)</u>	<u>\$ 12,506</u>

The estimated future amortization expense related to finite-lived intangible assets at June 30, 2021, is as follows:

Fiscal Year	Estimated Amortization (In thousands)
2021 (remaining six months)	\$ 1,589
2022	2,415
2023	2,173
2024	1,279
2025	832
Thereafter	1,052
Total	<u>\$ 9,340</u>

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Accumulated Other Comprehensive Loss**

Changes in accumulated other comprehensive loss for the three and six months ended June 30, 2021 and 2020, 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,	
	2021	2020	2021	2020	2021	2020	2021	2020
Beginning balance	\$ 310	\$ (369)	\$ (1,716)	\$ (2,433)	\$ (1,430)	\$ (1,512)	\$ (2,836)	\$ (4,314)
Other comprehensive income (loss) before reclassifications	(331)	2,566	—	—	(40)	(30)	(371)	2,536
Amounts reclassified from accumulated other comprehensive loss	—	—	52 <sup>(1)</sup>	58 <sup>(1)</sup>	—	—	52	58
Net-current period other comprehensive income (loss)	(331)	2,566	52	58	(40)	(30)	(319)	2,594
Ending balance	\$ (21)	\$ 2,197	\$ (1,664)	\$ (2,375)	\$ (1,470)	\$ (1,542)	\$ (3,155)	\$ (1,720)

(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, 2021 and 2020.

(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,	
	2021	2020	2021	2020	2021	2020	2021	2020
Beginning balance	\$ 890	\$ 583	\$ (1,641)	\$ (2,484)	\$ (1,412)	\$ (1,229)	\$ (2,163)	\$ (3,130)
Other comprehensive income (loss) before reclassifications	(911)	1,614	—	—	(58)	(313)	(969)	1,301
Amounts reclassified from accumulated other comprehensive loss	—	—	(23) <sup>(1)</sup>	109 <sup>(1)</sup>	—	—	(23)	109
Net-current period other comprehensive income (loss)	(911)	1,614	(23)	109	(58)	(313)	(992)	1,410
Ending balance	\$ (21)	\$ 2,197	\$ (1,664)	\$ (2,375)	\$ (1,470)	\$ (1,542)	\$ (3,155)	\$ (1,720)

(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, 2021 and 2020.

**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.

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The fair-value hierarchy of the Company's cash equivalents and marketable securities at June 30, 2021, and December 31, 2020, was as follows:

(In thousands)	Fair Value Measurement at June 30, 2021		
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Commercial paper	\$ 341,013	\$ —	\$ 341,013
Corporate securities	107,780	—	107,780
Money market funds	1,865	1,865	—
Total	<u>\$ 450,658</u>	<u>\$ 1,865</u>	<u>\$ 448,793</u>

  

(In thousands)	Fair Value Measurement at December 31, 2020		
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Corporate securities	\$ 146,658	\$ —	\$ 146,658
Commercial paper	253,855	—	253,855
Money market funds	1,634	1,634	—
Total	<u>\$ 402,147</u>	<u>\$ 1,634</u>	<u>\$ 400,513</u>

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, 2021, and the twelve months ended December 31, 2020.

**5. MARKETABLE SECURITIES:**

Amortized cost and estimated fair market value of marketable securities classified as available-for-sale (excluding cash equivalents) at June 30, 2021, were as follows:

(In thousands)	Amortized Cost	Gross Unrealized		Estimated Fair Market Value
		Gains	Losses	
<b>Investments due in 3 months or less:</b>				
Commercial paper	\$ 77,195	\$ —	\$ —	\$ 77,195
Corporate securities	23,948	46	(6)	23,988
Total	<u>101,143</u>	<u>46</u>	<u>(6)</u>	<u>101,183</u>
<b>Investments due in 4-12 months:</b>				
Commercial paper	34,306	—	—	34,306
Corporate securities	20,675	47	(5)	20,717
Total	<u>54,981</u>	<u>47</u>	<u>(5)</u>	<u>55,023</u>
<b>Investments due in 12 months or greater:</b>				
Corporate securities	61,674	—	(103)	61,571
Total	<u>61,674</u>	<u>—</u>	<u>(103)</u>	<u>61,571</u>
<b>Total marketable securities</b>	<u>\$ 217,798</u>	<u>\$ 93</u>	<u>\$ (114)</u>	<u>\$ 217,777</u>

Accrued interest receivable was \$0.6 million at June 30, 2021 and was recorded within prepaid expenses and other current assets on the condensed consolidated balance sheet.

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Amortized cost and estimated fair market value of marketable securities classified as available-for-sale (excluding cash equivalents) at December 31, 2020, were as follows:

(In thousands)	Amortized Cost	Gross Unrealized		Estimated Fair Market Value
		Gains	Losses	
<b>Investments due in 3 months or less:</b>				
Commercial paper	\$ 43,660	\$ —	\$ —	\$ 43,660
Corporate securities	19,846	44	—	19,890
Total	63,506	44	—	63,550
<b>Investments due in 4-12 months:</b>				
Corporate securities	125,922	846	—	126,768
Total	125,922	846	—	126,768
<b>Total marketable securities</b>	<b>\$ 189,428</b>	<b>\$ 890</b>	<b>\$ —</b>	<b>\$ 190,318</b>

Accrued interest receivable was \$0.8 million at December 31, 2020 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, 2021:

(In thousands)	Less Than 12 Months		12 Months or Longer		Total	
	Estimated Fair Market Value	Gross Unrealized Losses	Estimated Fair Market Value	Gross Unrealized Losses	Estimated Fair Market Value	Gross Unrealized Losses
	Corporate securities	\$ 69,194	\$ (114)	\$ —	\$ —	\$ 69,194
Total marketable securities	\$ 69,194	\$ (114)	\$ —	\$ —	\$ 69,194	\$ (114)

In the three and six months ended June 30, 2021 and 2020, no unrealized losses on marketable securities were recognized in income.

The Company does not intend to sell and it is unlikely that it will be required to sell the securities prior to their anticipated recovery. The issuers are high quality (investment grade) and the decline in fair value is largely due to changes in interest rates and other market conditions. 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, 2021 and 2020:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	Cost of revenues	\$ 640	\$ 252	\$ 1,271
Research and development	3,159	2,351	5,550	4,460
Sales and marketing	1,725	1,258	3,339	2,650
General and administrative	3,676	2,120	7,520	4,933
Total stock-based compensation expense	\$ 9,200	\$ 5,981	\$ 17,680	\$ 12,691

Stock-based compensation expense in the three months ended June 30, 2021, was approximately \$9.2 million, comprising approximately \$4.7 million related to restricted stock unit (RSU) awards, \$4.0 million related to performance-based (PSU) awards and long-term performance-based (PRSU) awards and \$0.5 million related to the Company's employee stock purchase plan. Stock-based compensation expense in the six months ended June 30, 2021, was approximately \$17.7 million, comprising approximately \$10.0 million related to RSUs, \$6.7 million related to PSUs and PRSUs and \$1.0 million related to the Company's employee stock purchase plan.

**POWER INTEGRATIONS, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Stock-based compensation expense in the three months ended June 30, 2020, was approximately \$6.0 million, comprising approximately \$4.5 million related to RSUs, \$1.1 million related to PSUs and PRSUs and \$0.4 million related to the Company's employee stock purchase plan. Stock-based compensation expense in the six months ended June 30, 2020, was approximately \$12.7 million, comprising approximately \$9.5 million related to RSUs, \$2.4 million related to PSUs and PRSUs and \$0.8 million related to the Company's employee stock purchase plan.

**Stock Options**

A summary of stock options outstanding as of June 30, 2021, and activity during the six months then ended, is presented below:

	Shares (In thousands)	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at January 1, 2021	92	\$ 20.63		
Granted	—	—		
Exercised	(33)	\$ 19.15		
Forfeited or expired	—	—		
Outstanding at June 30, 2021	<u>59</u>	<u>\$ 21.44</u>	<u>0.85</u>	<u>\$ 3,602</u>
Vested and exercisable at June 30, 2021	<u>59</u>		<u>0.85</u>	<u>\$ 3,602</u>

**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 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 January 2021, it was determined that approximately 150,000 shares subject to the PSUs granted in 2020 vested in aggregate; the shares were released to the Company's employees and executives in the first quarter of 2021.

A summary of PSUs outstanding as of June 30, 2021, 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, 2021	150	\$ 46.27		
Granted	100	\$ 84.45		
Vested	(150)	\$ 46.27		
Forfeited	—	—		
Outstanding at June 30, 2021	<u>100</u>	<u>\$ 84.45</u>	<u>0.50</u>	<u>\$ 8,228</u>
Outstanding and expected to vest at June 30, 2021	<u>100</u>		<u>0.50</u>	<u>\$ 8,228</u>

## POWER INTEGRATIONS, INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**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 2019 were based on the Company's annual revenue growth, while the PRSUs granted in 2020 and 2021 were based on the Company's compound annual growth rate ("CAGR") of revenue as measured against the revenue CAGR of the analog semiconductor industry, in each case over the respective three-year performance period. 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 January 2021 it was determined that approximately 6,000 shares subject to the PRSUs granted in 2018 vested in aggregate; the shares were released to the Company's executives in the first quarter of 2021.

A summary of PRSUs outstanding as of June 30, 2021, 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, 2021	301	\$ 41.90		
Granted	97	\$ 83.00		
Vested	(6)	\$ 29.95		
Forfeited	(15)	\$ 40.05		
Outstanding at June 30, 2021	<u>377</u>	<u>\$ 52.75</u>	1.40	\$ 30,956
Outstanding and expected to vest at June 30, 2021	<u>377</u>		<u>1.40</u>	<u>\$ 30,956</u>

**RSU Awards**

A summary of RSUs outstanding as of June 30, 2021, and activity during the six months then ended, is presented below:

	Shares (In thousands)	Weighted-Average Grant Date Fair Value Per Share	Weighted-Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at January 1, 2021	1,518	\$ 35.51		
Granted	227	\$ 82.94		
Vested	(524)	\$ 34.53		
Forfeited	(71)	\$ 36.41		
Outstanding at June 30, 2021	<u>1,150</u>	<u>\$ 45.29</u>	1.70	\$ 94,342
Outstanding and expected to vest at June 30, 2021	<u>1,064</u>		<u>1.65</u>	<u>\$ 87,279</u>

**7. SIGNIFICANT CUSTOMERS AND GEOGRAPHIC NET REVENUES:****Segment Reporting**

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

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

The Company's top ten customers accounted for approximately 80% of net revenues in both the three and six months ended June 30, 2021, and approximately 59% and 56%, respectively, of net revenues in the corresponding periods of 2020. 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, or OEMs, and merchant power supply manufacturers. Sales to distributors were \$136.4 million and \$270.7 million in the three and six months ended June 30, 2021, respectively, and \$87.3 million and \$170.8 million, respectively, for the corresponding periods of 2020. 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:

<b>Customer</b>	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Avnet	29 %	13 %	30 %	12 %
Honestar Technologies Co., Ltd.	19 %	*	19 %	*

\* 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 June 30, 2021, and December 31, 2020, 84% and 90%, respectively, of accounts receivable were concentrated with the Company's top ten customers.

The following customers represented 10% or more of accounts receivable:

<b>Customer</b>	<b>June 30, 2021</b>	<b>December 31, 2020</b>
Avnet	46 %	50 %
Powertech Distribution Ltd.	*	10 %

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

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



## POWER INTEGRATIONS, INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*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, 2021 and 2020, were as follows:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
United States of America	\$ 3,819	\$ 2,935	\$ 7,919	\$ 5,648
Hong Kong/China	122,123	65,680	240,853	126,093
Taiwan	6,361	7,199	12,803	13,678
Korea	13,705	7,284	26,194	17,641
Western Europe (excluding Germany)	8,720	7,995	15,850	18,030
Japan	5,152	4,398	9,799	8,303
Germany	7,656	5,847	14,662	11,414
Other	12,574	5,494	25,767	15,689
Total net revenues	<u>\$ 180,110</u>	<u>\$ 106,832</u>	<u>\$ 353,847</u>	<u>\$ 216,496</u>

**8. STOCKHOLDERS' EQUITY:***Common Stock Shares Outstanding*

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Beginning balance	60,363	59,382	59,910	58,862
Common stock issued under employee stock plans	316	386	769	954
Repurchased	(335)	(16)	(335)	(64)
Ending balance	<u>60,344</u>	<u>59,752</u>	<u>60,344</u>	<u>59,752</u>

In July 2020, the Company's board of directors approved a two-for-one stock split in the form of a stock dividend, payable on August 18, 2020, to stockholders of record as of the close of business on August 14, 2020. The Company's stockholders received one additional share of common stock for each share of common stock held on August 14, 2020. The share and per share information for all periods presented in this Form 10-Q reflects the effect of the stock split.

*Common Stock Repurchases*

As of December 31, 2020, the Company had approximately \$41.3 million remaining under its stock-repurchase program. In April 2021, the Company's board of directors authorized the use of an additional \$50.0 million for the repurchase of the Company's common stock, with repurchases to be executed according to pre-defined price/volume guidelines. In the six months ended June 30, 2021 the Company purchased approximately 335,000 shares for approximately \$26.4 million. As of June 30, 2021, the Company had approximately \$64.9 million remaining under its current repurchase program, which has no expiration date. Authorization of future repurchase programs is at the discretion of the board of directors and will depend on the Company's financial condition, results of operations, capital requirements, business conditions and other factors.

*Cash Dividends*

In October 2019, the Company's board of directors declared four quarterly cash dividends of \$0.095 per share to be paid to stockholders of record at the end of each quarter in 2020. In April 2020, the Company's board of directors raised the cash dividends with the declaration of three cash dividends of \$0.105 per share (in lieu of the \$0.095 per share previously announced in October 2019) to be paid to stockholders of record at the end of each of the second, third and fourth quarter in 2020. In July 2020, the Company's board of directors raised the cash dividends further with the declaration of two cash dividends of \$0.11 per share (in lieu of the \$0.105 per share announced in April 2020) to be paid to stockholders of record at the end of each of the third and fourth quarter in 2020.

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

In January 2021, the Company's board of directors raised the quarterly cash dividend by an additional \$0.02 per share with the declaration of four cash dividends of \$0.13 per share to be paid to stockholders of record at the end of each quarter in 2021.

For the three and six months ended June 30, 2021 and 2020, cash dividends declared and paid were as follows:

(In thousands, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Dividends declared and paid	\$ 7,867	\$ 6,271	\$ 15,712	\$ 11,915
Dividends declared per common share	\$ 0.13	\$ 0.105	\$ 0.26	\$ 0.20

**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,	
	2021	2020	2021	2020
Basic earnings per share:				
Net income	\$ 41,881	\$ 13,192	\$ 81,679	\$ 29,078
Weighted-average common shares	60,544	59,712	60,366	59,458
Basic earnings per share	\$ 0.69	\$ 0.22	\$ 1.35	\$ 0.49
Diluted earnings per share: <sup>(1)</sup>				
Net income	\$ 41,881	\$ 13,192	\$ 81,679	\$ 29,078
Weighted-average common shares	60,544	59,712	60,366	59,458
Effect of dilutive awards:				
Employee stock plans	922	912	1,115	1,006
Diluted weighted-average common shares	61,466	60,624	61,481	60,464
Diluted earnings per share	\$ 0.68	\$ 0.22	\$ 1.33	\$ 0.48

(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 2021 and 2020 calculations as the shares were not contingently issuable as of the end of the reporting periods.

In the three months ended June 30, 2021, approximately 134,000 stock awards were determined to be anti-dilutive and therefore excluded from the computation of diluted earnings per share, no outstanding stock awards were determined to be anti-dilutive in the comparable period of 2020. In the six months ended June 30, 2021 and 2020, no outstanding stock awards were determined to be anti-dilutive and therefore excluded from the computation of diluted earnings per share.

In July 2020, the Company's board of directors approved a two-for-one stock split in the form of a stock dividend to stockholders of record as of the close of business on August 14, 2020. Refer to Note 8, *Stockholders' Equity*, for additional information. The share and per share information for all periods presented in this Form 10-Q reflects the effect of the stock split.

**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

**POWER INTEGRATIONS, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

The Company's effective tax rates for the three and six months ended June 30, 2021, were 7.2% and 4.9%, respectively, and 8.4% and 7.0%, respectively, in the corresponding periods of 2020. In the three and six months ended June 30, 2021 and 2020, the effective tax rate was 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, federal research tax credits and the recognition of excess tax benefits related to share-based payments. Additionally, in the six months ended June 30, 2021, the Company's effective tax rate was favorably impacted by a discrete item associated with the release of an unrecognized tax benefit. 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, 2021, the Company maintained a valuation allowance on its California deferred tax assets, New Jersey deferred tax assets, and capital losses for federal purposes, 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 April 1, 2016, Opticurrent, LLC filed a complaint against the Company in the United States District Court for the Eastern District of Texas alleging that the Company infringed one patent pertaining to transistor switch devices and seeking damages for the alleged infringement. The Company filed a motion to transfer the case to the Northern District of California, which the Court granted, and the case was assigned to a new judge in San Francisco following the transfer. On December 21, 2018, the Court granted the Company's challenge to Opticurrent's damages expert but denied the Company's motion for summary judgment. Following a trial in February 2019, a jury issued a finding of direct infringement by the Company but found that the Company did not induce infringement, and awarded Opticurrent damages of \$6.7 million. The Company challenged those findings in post-trial proceedings, and the Court granted one of the Company's post-trial motions, reducing the damages award to \$1.2 million. The Court of Appeals affirmed the original findings and the reduced damages award, but the Company believes Opticurrent made key disclaimers during reexamination proceedings after the original trial, giving rise to a motion to set aside the original judgment in view of a disclaimer, an issue that is currently on appeal to the Federal Circuit. Briefing on the Company's appeal is completed, with oral argument expected to take place in the coming months and a ruling thereafter. The District Court has issued an order staying execution on the original judgment pending the Company's appeal, and the Federal Circuit rejected Opticurrent's

**POWER INTEGRATIONS, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

challenge to the order staying execution pending appeal. As such, the Company continues to believe it has strong defenses, and intends to continue to vigorously defend itself against Opticurrent's claims.

On June 19, 2019, Opticurrent, LLC filed a follow-on lawsuit in the United States District Court for the Northern District of California accusing more of the Company's products of infringement and seeking damages for the alleged infringement of the same claim of the same patent asserted in the parties' prior litigation, as described above. Limited discovery has taken place, but proceedings are currently stayed for all but written discovery, and no schedule has yet been set for expert discovery, dispositive motions, or trial. The Company believes it has strong defenses, independent of the issue on appeal in the first case, and intends to vigorously defend itself against Opticurrent's claims, with appeals to follow if necessary.

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. Fact discovery is now under way, but the Company believes it has strong claims and defenses, and intends to vigorously defend itself against CogniPower's claims against the Company's technology, with appeals to follow if necessary. Moreover, given the United States Patent and Trademark Office's institution of inter partes review (IPR) proceedings against every independent claim CogniPower asserted in the litigation, the parties have agreed to stay the associated District Court litigation pending resolution of the IPRs.

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 litigation disclosed above, however adverse determinations in litigation could result in monetary losses, the loss of proprietary rights, subject the Company to significant liabilities, require 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, 2021. 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 of our financial condition and our results of operations 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, 2020, filed with the SEC on February 5, 2021. 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, 2020, 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 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.

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 more than \$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 electronic intelligence and connectivity in consumer appliances has also enhanced our SAM. Finally, we have enhanced 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 products, enabling a higher level of energy efficiency than ICs with traditional silicon transistors.

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 global economic conditions and supply-chain dynamics can cause our operating results to be volatile. In particular, the severe economic disruption caused by the global novel coronavirus pandemic (COVID-19) may affect the supply of and demand for our products and make our results more difficult to forecast. 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 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 \$180.1 million and \$106.8 million for the three months ended June 30, 2021 and 2020, respectively, and \$353.8 million and \$216.5 million for the six months ended June 30, 2021 and 2020, respectively. The increase in revenues reflects the strong demand conditions currently prevalent across the semiconductor industry, as well as market-share gains for our products in a broad range of applications. All of our end-market categories exhibited strong



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growth, led by the communications and computer markets, reflecting increased adoption of higher-power chargers for mobile phones and tablets, and our increased market share in these applications. Revenues from the consumer market grew as a result of strong demand for consumer appliances, as well as increased market share in appliance applications. Revenues from the industrial category increased driven by growth in a broad range of applications including home-and-building automation, battery operated tools and broad-based industrial applications.

Our top ten customers, including distributors that resell to original equipment manufacturers, or OEMs, and merchant power supply manufacturers, accounted for 80% of net revenues in both the three and six months ended June 30, 2021, and 59% and 56% of net revenues in the corresponding periods of 2020. In the three months ended June 30, 2021, two customers, distributors of our products, accounted for 29% and 19% of our net revenues. In the six months ended June 30, 2021, the same customers accounted for 30% and 19% of our net revenues. In the three and six months ended June 30, 2020, one customer, a distributor of our products, accounted for 13% and 12% of our net revenues, respectively. International sales accounted for 98% of our net revenues in each of the three and six months ended June 30, 2021, and 97% of our net revenues in each of the corresponding periods of 2020.

Our gross margin was 50.7% and 50.1% in the three months ended June 30, 2021 and 2020, respectively, and 49.7% and 50.8% in the six months ended June 30, 2021 and 2020, respectively. The increase in gross margin in the three months ended June 30, 2021, as compared to the corresponding period of 2020, was due primarily to manufacturing efficiencies. Our gross margin decreased in the six-month period of 2021, as compared to the corresponding period of 2020, as improved manufacturing efficiencies only partially offset an unfavorable change in end-market mix as a greater amount of revenues came from lower-margin end markets.

Total operating expenses were \$46.3 million and \$40.6 million for the three months ended June 30, 2021 and 2020, respectively, and \$90.6 million and \$82.0 million for the six months ended June 30, 2021 and 2020, respectively. The increases in operating expenses for the three and six months ended June 30, 2021 as compared to the corresponding periods of 2020 were due primarily to higher salary and related expenses driven by increased headcount and annual merit increases, higher stock-based compensation expense related to performance-based awards, as well as increased materials engineering and equipment-related expenses in support of our product development efforts.

### *COVID-19 Pandemic*

The COVID-19 pandemic has disrupted everyday life and markets worldwide, and governments around the world have imposed restrictions aimed at controlling the spread of the virus, including shelter-in-place orders, travel restrictions, business shutdowns and border closures. Beginning March 16, 2020 our San Jose headquarters location was subject to a shelter-in-place order, under which most of our employees were required to work from home; other locations around the world have also been subject to such restrictions. With restrictions lifting and high employee-vaccination rates, we have begun a phased reopening of our San Jose headquarters; with most employees expected to return in the coming months. Some of our employees in other locations around the world have also returned to the office under a phased reopening plan. We have implemented a variety of measures to protect the health and safety of our employees, including the provision of masks, gloves and sanitizers, social-distancing rules, and regular deep cleaning of our facilities.

While we have been able to conduct our day-to-day operations effectively in spite of the restrictions caused by the pandemic, in early 2020, the pandemic caused some disruptions in our supply chain. While our supply of wafers from our foundry partners was not interrupted, government-mandated closures in China, Malaysia, Sri Lanka and the Philippines caused temporary shutdowns at our assembly and test sub-contractors in those countries; all of the affected sub-contractors had resumed operations by the end of 2020. While these disruptions resulted in delayed shipments to some customers early in 2020, our results were not materially affected due to a variety of mitigation measures including higher-than-normal inventories of wafers and finished goods, safety stocks of certain key inputs, and multiple sources for components for most of our products. Although there are signs of improvement in many areas around the world, the potential for new lockdowns and other mitigation efforts to deal with an increase in infection rates in certain areas remains a key risk for our supply chain and the results of our business.

Despite the economic downturn stemming from the pandemic, demand for goods incorporating our products is strong. While the future trajectory of demand is uncertain, we believe our business is fundamentally sound with strong, long-term growth prospects. We have increased headcount and intend to continue investing in research and development and other functions necessary to support our future growth. We also intend to continue our cash dividend and stock-repurchase programs; however, if the economy deteriorates or our business outlook changes, our board of directors may

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choose to suspend or alter these programs at its discretion. For additional discussion regarding COVID-19 business risks refer to Part I, Item 1A “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2020.

**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.

Our critical accounting policies are as follows:

- revenue recognition; and
- income taxes.

Our 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, 2020, filed with the SEC on February 5, 2021.

**Results of Operations**

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net revenues	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenues	49.3	49.9	50.3	49.2
Gross profit	50.7	50.1	49.7	50.8
Operating expenses:				
Research and development	12.1	18.5	11.8	18.0
Sales and marketing	8.5	12.2	8.3	12.2
General and administrative	5.1	7.3	5.5	7.7
Total operating expenses	25.7	38.0	25.6	37.9
Income from operations	25.0	12.1	24.1	12.9
Other income	0.1	1.4	0.2	1.5
Income before income taxes	25.1	13.5	24.3	14.4
Provision for income taxes	1.8	1.1	1.2	1.0
Net income	23.3 %	12.4 %	23.1 %	13.4 %

*Comparison of the Three and Six Months Ended June 30, 2021 and 2020*

*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, 2021 were \$180.1 million and \$353.8 million, respectively, and \$106.8 million and \$216.5 million, respectively, for the corresponding periods of 2020. All of our end-market categories exhibited strong growth, led by the communications and computer markets, reflecting increased adoption of higher-power chargers for mobile phones and tablets, and our increased market share in these applications. Revenues from the consumer market grew as a result of strong demand for consumer appliances, as well as increased market share in appliance applications. Revenues from the industrial category increased driven by growth in a broad range of applications including home-and-building automation, battery-operated tools and broad-based industrial applications.



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Our revenue mix by end market for the three and six months ended June 30, 2021 and 2020 was as follows:

<b>End Market</b>	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Communications	35 %	28 %	37 %	25 %
Computer	8 %	6 %	8 %	5 %
Consumer	31 %	31 %	30 %	36 %
Industrial	26 %	35 %	25 %	34 %

International sales, consisting of sales outside of the United States of America based on “bill to” customer locations, were \$176.3 million and \$345.9 million in the three and six months ended June 30, 2021, respectively, and \$103.9 million and \$210.8 million, respectively, in corresponding periods of 2020. 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 85% of our net revenues in both the three and six months ended June 30, 2021, and 81% and 78%, respectively, in the corresponding periods of 2020. 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 76% and 77% in the three and six months ended June 30, 2021, respectively, and 82% and 79%, respectively, in the corresponding periods of 2020. Direct sales to OEMs and power-supply manufacturers accounted for the remainder.

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

<b>Customer</b>	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Avnet	29 %	13 %	30 %	12 %
Honestar Technologies Co., Ltd.	19 %	*	19 %	*

\* 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, 2021 and 2020:

<b>(dollars in millions)</b>	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Net revenues	\$ 180.1	\$ 106.8	\$ 353.8	\$ 216.5
Gross profit	\$ 91.3	\$ 53.5	\$ 175.7	\$ 110.0
Gross margin	50.7 %	50.1 %	49.7 %	50.8 %

The increase in gross margin in the three months ended June 30, 2021, as compared to the corresponding period of 2020, was due primarily to manufacturing efficiencies. Our gross margin decreased in the six-month period of 2021, as compared to the corresponding period of 2020, as improved manufacturing efficiencies only partially offset an unfavorable change end-market mix as a greater amount of revenues came from lower-margin end markets.

*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.

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The table below compares R&D expenses for the three and six months ended June 30, 2021 and 2020:

(dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net revenues	\$ 180.1	\$ 106.8	\$ 353.8	\$ 216.5
R&D expenses	\$ 21.7	\$ 19.8	\$ 41.8	\$ 38.9
Percentage of net revenues	12.1 %	18.5 %	11.8 %	18.0 %

R&D expenses for the three and six months ended June 30, 2021 increased, as compared to the corresponding periods of 2020, primarily due to higher salary and related expenses driven by increased headcount and annual merit increases, higher stock-based compensation expense related to performance-based awards, and an increase in materials engineering and equipment-related expenses in support of our product development efforts.

*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, 2021 and 2020:

(dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net revenues	\$ 180.1	\$ 106.8	\$ 353.8	\$ 216.5
Sales and marketing expenses	\$ 15.3	\$ 13.0	\$ 29.4	\$ 26.5
Percentage of net revenues	8.5 %	12.2 %	8.3 %	12.2 %

S&M expenses increased in the three and six months ended June 30, 2021, as compared to the corresponding periods of 2020, due primarily to increased commission expense driven by increased sales, higher salary and related expenses stemming from annual merit increases, and higher stock-based compensation expense primarily related to performance-based awards.

*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, 2021 and 2020:

(dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net revenues	\$ 180.1	\$ 106.8	\$ 353.8	\$ 216.5
G&A expenses	\$ 9.3	\$ 7.8	\$ 19.4	\$ 16.6
Percentage of net revenues	5.1 %	7.3 %	5.5 %	7.7 %

G&A expenses increased for the three and six months ended June 30, 2021 due primarily to higher stock-based compensation expense related to performance-based awards.

*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, 2021 and 2020:

(dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net revenues	\$ 180.1	\$ 106.8	\$ 353.8	\$ 216.5
Other income	\$ 0.2	\$ 1.5	\$ 0.8	\$ 3.3
Percentage of net revenues	0.1 %	1.4 %	0.2 %	1.5 %

Other income decreased primarily due to lower interest income, as lower yields on our cash and investments more than offset the impact of higher cash and investment balances.

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*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, 2021 and 2020:

(dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Income before income taxes	\$ 45.1	\$ 14.4	\$ 85.9	\$ 31.3
Provision for income taxes	\$ 3.3	\$ 1.2	\$ 4.3	\$ 2.2
Effective tax rate	7.2 %	8.4 %	4.9 %	7.0 %

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, 2021 were 7.2% and 4.9%, respectively, and 8.4% and 7.0%, respectively for the corresponding periods of 2020. 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, the impact of federal research tax credits and the recognition of excess tax benefits related to share-based payments. Additionally, in the six months ended June 30, 2021, our effective tax rate was favorably impacted by a discrete item associated with the release of an unrecognized tax benefit. These benefits were 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, 2021, we had \$515.3 million in cash, cash equivalents and short-term marketable securities, an increase of approximately \$66.1 million from \$449.2 million as of December 31, 2020. As of June 30, 2021, we had working capital, defined as current assets less current liabilities, of \$599.3 million, an increase of approximately \$60.6 million from \$538.7 million as of December 31, 2020.

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. 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, 2021.

#### *Cash From Operating Activities*

Operating activities generated cash of \$125.0 million in the six months ended June 30, 2021. Net income for this period was \$81.7 million; we also incurred non-cash stock-based compensation expense, depreciation, amortization, and deferred income taxes of \$17.7 million, \$15.3 million, \$1.9 million, and \$1.2 million, respectively. Sources of cash also included a \$13.2 million decrease in inventory reflecting strong demand for the period and a \$8.1 million increase in accounts payable (excluding payables related to property and equipment) due to the timing of payments. These sources of cash were partially offset by a \$5.5 million increase in accounts receivable due to increased customer shipments, a \$4.5 million increase in prepaid expenses and other assets, primarily due to prepaid income taxes, and a \$4.4 million decrease in taxes payable and accrued liabilities.

Operating activities generated cash of \$63.0 million in the six months ended June 30, 2020. Net income for this period was \$29.1 million; we also incurred non-cash stock-based compensation expense, depreciation, amortization and deferred income taxes of \$12.7 million, \$11.1 million, \$2.2 million and \$1.3 million, respectively. Sources of cash also included an \$11.6 million decrease in accounts payable (excluding payables related to property and equipment) due primarily to the timing of payments and a \$4.1 million decrease in prepaid expenses and other assets, primarily driven by

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taxes refunded. These sources of cash were partially offset by a \$13.6 million increase in inventories in order to support future demand and a \$1.7 million decrease in taxes payable and accrued liabilities.

### *Cash From Investing Activities*

Our investing activities in the six months ended June 30, 2021, resulted in a \$47.9 million net use of cash, primarily consisting of \$28.7 million for the purchase of marketable securities, net of sales and maturities, and \$19.3 million for purchases of property and equipment, primarily production-related machinery and equipment as well as construction of a new office building in Switzerland.

Our investing activities in the six months ended June 30, 2020, provided a net \$17.8 million of cash, primarily consisting of \$39.1 million from sales and maturities of marketable securities, net of purchases, partially offset by \$21.6 million for purchases of property and equipment, primarily production-related machinery and equipment as well as construction of our office in Switzerland.

### *Cash From Financing Activities*

Our financing activities in the six months ended June 30, 2021, resulted in a \$38.4 million net use of cash, consisting of \$26.4 million for the repurchase of our common stock and \$15.7 million for the payment of dividends to stockholders, partially offset by \$3.7 million from the issuance of common stock, including the exercise of employee stock options and the issuance of shares through our employee stock purchase plan.

Our financing activities in the six months ended June 30, 2020, resulted in an \$8.3 million net use of cash, consisting of \$11.9 million for the payment of dividends to stockholders and \$2.6 million for the repurchase of our common stock. These uses of cash were offset in part by \$6.3 million from the issuance of common stock, including the exercise of employee stock options and the issuance of shares through our employee stock purchase plan.

### *Credit Agreement*

On July 27, 2016, we entered into the Credit Agreement with Wells Fargo Bank, National Association 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. We amended the Credit Agreement on April 30, 2018, to extend the termination date from July 26, 2019, to April 30, 2022, with all other terms remaining the same. On June 7, 2021, we signed the second amendment to the Credit Agreement 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. 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, 2021.

### *Dividends*

In October 2019, our board of directors declared four quarterly cash dividends of \$0.095 per share to be paid to stockholders of record at the end of each quarter in 2020. In April 2020, our board of directors raised the cash dividend with the declaration of three cash dividends of \$0.105 per share (in lieu of the \$0.095 per share previously announced in October 2019) to be paid to stockholders of record at the end of each of the second, third and fourth quarter in 2020. In July 2020, our board of directors raised the cash dividends further with the declaration of two cash dividends of \$0.11 per share (in lieu of the \$0.105 per share announced in April 2020) to be paid to stockholders of record at the end of each of the third and fourth quarter in 2020.

In January 2021, our board of directors raised the quarterly cash dividend by an additional \$0.02 per share with the declaration of four cash dividends of \$0.13 per share to be paid to stockholders of record at the end of each quarter in 2021. Dividends payouts of \$7.8 million and \$7.9 million occurred on March 31, 2021 and June 30, 2021, respectively. 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.

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### *Stock Repurchases*

As of December 31, 2020, we had approximately \$41.3 million remaining under our stock-repurchasing program. In April 2021, our board of directors authorized the use of an additional \$50.0 million for the repurchase of our common stock, with repurchases to be executed according to pre-defined price/volume guidelines. In the six months ended June 30, 2021, we repurchased approximately 335,000 shares of our common stock for \$26.4 million. As of June 30, 2021, we had approximately \$64.9 million remaining under our stock-repurchase program, which has no expiration date. Authorization of future repurchase programs 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.

### *Contractual Commitments*

As of June 30, 2021 we had a contractual obligation related to income tax, which consisted primarily of unrecognized tax benefits of approximately \$20.4 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, 2021, 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, 2020.

### *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, 2021, 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 or pricing pressures from our customers or our competitors, 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.

### *Off-Balance-Sheet Arrangements*

As of June 30, 2021, we did not have any off-balance-sheet arrangements or relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which are typically established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

### *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 has not been a material change in our exposure to foreign currency exchange and interest rate risks from that described in our Annual Report on Form 10-K for the year ended December 31, 2020.

*Interest Rate Risk.* Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. We consider cash invested in highly liquid financial instruments with a remaining maturity of three months or less at the date of purchase to be cash equivalents. Investments in highly liquid financial instruments with maturities greater than three months at the date of purchase are classified as short-term investments. We generally hold securities until maturity; however, they may be sold under certain circumstances, including, but not limited to, when necessary for the funding of acquisitions and other strategic investments, and therefore we classify our investment portfolio as available-

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for-sale. We invest in high-credit quality issuers and, by policy, limit the amount of credit exposure to any one issuer. As stated in our policy, we seek to ensure the safety and preservation of our invested principal funds by limiting default risk, market risk and reinvestment risk. We mitigate default risk by investing in safe and high-credit quality securities and by constantly positioning our portfolio to respond appropriately to a significant reduction in a credit rating of any investment issuer, guarantor or depository. Our portfolio includes only marketable securities with active secondary or resale markets to facilitate portfolio liquidity. At June 30, 2021, and December 31, 2020, we held primarily cash equivalents and short-term investments with fixed interest rates.

Our investment securities are subject to market interest rate risk and will vary in value as market interest rates fluctuate. We monitor our investments per our above-mentioned investment policy; therefore, if market interest rates were to increase or decrease by 10% from interest rates as of June 30, 2021, or December 31, 2020, the increase or decrease in the fair market value of our portfolio on these dates would not have been material. We monitor our investments for impairment on a periodic basis. Refer to Note 5, *Marketable Securities*, in our Notes to Unaudited Condensed Consolidated Financial Statements, for a tabular presentation of our available-for-sale investments and the expected maturity dates.

*Foreign Currency Exchange Risk.* As of June 30, 2021, our primary transactional currency was U.S. dollars; in addition, we hold cash in Swiss francs and euro. We maintain cash denominated in Swiss francs and euro to fund the operations of our Swiss subsidiary. The foreign exchange rate fluctuation between the U.S. dollar versus the Swiss franc and euro is recorded in other income in our condensed consolidated statements of income.

We have sales offices in various other foreign countries in which our expenses are denominated in the local currency, primarily Asia and Western Europe. Cash balances held in foreign countries are subject to local banking laws and may bear higher or lower risk than cash deposited in the United States. From time to time we may enter into foreign currency hedging contracts to hedge certain foreign currency transactions. As of June 30, 2021, and December 31, 2020, we did not have an open foreign currency hedge program utilizing foreign currency forward exchange contracts.

Two of our major suppliers, Epson and Lapis, have wafer supply agreements based in U.S. dollars; however, our agreements with Epson and Lapis also allow for mutual sharing of the impact of the exchange rate fluctuation between Japanese yen and the U.S. dollar on future purchases. Each year, our 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 us and each of these suppliers on future purchases. Nevertheless, as a result of these supplier agreements, our gross margin is influenced by fluctuations in the exchange rate between the U.S. dollar and the Japanese yen. All else being equal, a 10% change in the value of the U.S. dollar compared to the Japanese yen would result in a corresponding change in our gross margin of approximately 1.0%; this sensitivity may increase or decrease depending on the percentage of our wafer supply that we purchase from some of our Japanese suppliers and could subject our gross profit and operating results to the potential for material fluctuations.

## **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 Rule 13a-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

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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, 2021, 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, 2020, which risk factors are incorporated by reference in this report.

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

As of December 31, 2020, we had approximately \$41.3 million available for future repurchases to be executed according to predefined price/volume guidelines. In April 2021, our board of directors authorized the use of an additional \$50.0 million for the repurchase of our common stock, which was announced on April 29, 2021.

In the six months ended June 30, 2021, we repurchased approximately 335,000 of our shares for approximately \$26.4 million. As of June 30, 2021, we had approximately \$64.9 million remaining in our repurchase program, which has no expiration date.

### Issuer Purchases of Equity Securities

The following table summarizes repurchases of our common stock during the second quarter of fiscal 2021:

<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</u> <u>(In millions)</u>
April 1, 2021 to April 30, 2021	—	—	—	\$ 91.3
May 1, 2021 to May 31, 2021	184,764	\$ 77.47	184,764	\$ 77.0
June 1, 2021 to June 30, 2021	149,931	\$ 80.44	149,931	\$ 64.9
Total	<u>334,695</u>		<u>334,695</u>	

All of the shares repurchased were pursuant to our publicly announced repurchase program.



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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	<a href="#">Restated Certificate of Incorporation</a>	10-K	000-23441	3.1	2/29/2012	
3.2	<a href="#">Amended and Restated Bylaws</a>	8-K	000-23441	3.1	4/26/2013	
4.2	Reference is made to Exhibits 3.1 to 3.2					
10.1	<a href="#">Amended and Restated 1997 Employee Stock Purchase Plan</a>					X
10.2	<a href="#">Amended and Restated 2016 Incentive Award Plan</a>					X
10.3	<a href="#">Second Amendment to Credit Agreement, dated June 7, 2021, between Power Integrations, Inc. and Wells Fargo Bank, National Association</a>					X
10.4	<a href="#">Amendment Number Three to the Amended and Restated Wafer Supply Agreement between Power Integrations International, Ltd. And X-FAB Semiconductor Foundries AG, effective as of April 21, 2021</a>					X
10.5	<a href="#">Executive Officer Benefits Agreement, dated as of June 14, 2021, between Power Integrations, Inc. and Yang Chiah Yee</a>					X
31.1	<a href="#">Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>					X
31.2	<a href="#">Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>					X
32.1**	<a href="#">Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>					X
32.2**	<a href="#">Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>					X

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EXHIBIT NUMBER	Exhibit Description	Incorporation by Reference				
		Form	File Number	Exhibit/Other Reference	Filing Date	Filed Herewith
101.INS	XBRL Instance Document - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.					X
101.SCH	Inline XBRL Taxonomy Extension Schema Document					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					X
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)					

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

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

\*\* The certifications attached as Exhibits 32.1 and 32.2 accompanying this 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 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: July 29, 2021

By: /s/ SANDEEP NAYYAR

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

POWER INTEGRATIONS, INC.  
AMENDED AND RESTATED 1997 EMPLOYEE STOCK PURCHASE PLAN

(As Approved by the Board on March 17, 2016)  
(As Approved by the Stockholders on May 13, 2016)  
(As Adjusted for the 1-for-1 Stock Dividend on August 19, 2020)  
(As Approved by the Board of Directors on March 11, 2021)  
(As Approved by the Stockholders on May 21, 2021)

**1. ESTABLISHMENT, PURPOSE AND TERM OF PLAN.**

**1.1 Establishment.** The Power Integrations, Inc. 1997 Employee Stock Purchase Plan (the “**Plan**”) is hereby established effective as of the effective date of the initial registration by the Company of its Stock under Section 12 of the Securities Exchange Act of 1934, as amended (the “**Effective Date**”).

**1.2 Purpose.** The purpose of the Plan is to advance the interests of Company and its stockholders by providing an incentive to attract, retain and reward Eligible Employees of the Participating Company Group and by motivating such persons to contribute to the growth and profitability of the Participating Company Group. The Plan provides such Eligible Employees with an opportunity to acquire a proprietary interest in the Company through the purchase of Stock. The Plan consists of two programs, which are referred to as the U.S. Program and the Global Program. The U.S. Program is intended to qualify as an “employee stock purchase plan” under Section 423(b) of the Code (including any amendments or replacements of such section), and the Global Program is not intended to so qualify.

**1.3 Term of Plan.** The Plan shall continue in effect until the earlier of its termination by the Board or the date on which all of the shares of Stock available for issuance under the Plan have been issued.

**2. DEFINITIONS AND CONSTRUCTION.**

**2.1 Definitions.** Any term not expressly defined in the Plan (or other provisions governing the Global Program) but defined for purposes of Section 423 of the Code shall have the same definition herein. Whenever used herein, the following terms shall have their respective meanings set forth below:

(a) “**Board**” means the Board of Directors of the Company. If one or more Committees have been appointed by the Board to administer the Plan, “**Board**” also means such Committee(s).

(b) “**Code**” means the Internal Revenue Code of 1986, as amended, and any applicable regulations promulgated thereunder.

(c) “**Committee**” means a committee of the Board duly appointed to administer the Plan and having such powers as shall be specified by the Board. Unless the powers of the Committee have been specifically limited, the Committee shall have all of the powers of the Board granted herein, including, without limitation, the power to amend or terminate the Plan at any time, subject to the terms of the Plan and any applicable limitations imposed by law.

(d) “**Company**” means Power Integrations, Inc., a Delaware corporation, or any successor corporation thereto.

(e) “**Compensation**” means, with respect to any Offering Period, base wages or salary, commissions, overtime, bonuses, annual awards, other incentive payments, shift premiums, and all other compensation paid in cash during such Offering Period before deduction for any contributions to any plan maintained by a Participating Company and described in Section 401(k) or Section 125 of the Code. Compensation shall not include reimbursements of expenses, allowances, long-term disability, workers’ compensation or any amount deemed received without the actual transfer of cash or any amounts directly or indirectly paid pursuant to the Plan or any other equity compensation plan, or any other compensation not included above.

(f) “**Eligible Employee**” means an Employee who meets the requirements set forth in Section 5 for eligibility to participate in the Plan.

(g) “**Employee**” means a person treated as an employee of a Participating Company. A Participant shall be deemed to have ceased to be an Employee either upon an actual termination of employment or upon the corporation employing the Participant ceasing to be a Participating Company. For purposes of the Plan, an individual shall not be deemed to have ceased to be an Employee while such individual is on any military leave, sick leave, or other bona fide leave of absence approved by the Company of three (3) months or less. In the event an individual’s leave of absence exceeds three (3) months, the individual shall be deemed to have ceased to be an Employee on the first day following the three (3)-month anniversary of such leave unless the individual’s right to reemployment with the Participating Company Group is guaranteed either by statute or by contract. The Company shall determine in good faith and in the exercise of its discretion whether an individual has become or has ceased to be an Employee and the effective date of such individual’s employment or termination of employment, as the case may be. For purposes of an individual’s participation in or other rights, if any, under the Plan as of the time of the Company’s determination, all such determinations by the Company shall be final, binding and conclusive, notwithstanding that the Company or any governmental agency subsequently makes a contrary determination.

(h) “**Fair Market Value**” means, as of any date, if there is then a public market for the Stock, the U.S. Dollar closing price of a share of Stock (or the mean of the U.S. Dollar closing bid and asked prices if the Stock is so quoted instead) as quoted on the Nasdaq Global Select Market, Nasdaq Global Market, the Nasdaq Capital Market or such other national or regional securities exchange or market system constituting the primary market for the Stock, as reported in *The Wall Street Journal* or such other source as the Company deems reliable. If the relevant date does not fall on a day on which the Stock has traded on such securities exchange or market system, the date on which the Fair Market Value shall be established shall be the last day

on which the Stock was so traded prior to the relevant date, or such other appropriate day as shall be determined by the Board, in its sole discretion. If there is then no public market for the Stock, the Fair Market Value on any relevant date shall be as determined by the Board.

(i) “**Global Program**” means the component of the Plan intended to provide Employees, who are not subject to United States income tax, the opportunity to purchase Stock through accumulated payroll deductions or other approved contributions. This component of the Plan is not intended to qualify for special tax treatment under Section 423 of the Code.

(j) “**Offering**” means an offering of Stock as provided in Section 6.

(k) “**Offering Date**” means, for any Offering, the first day of the Offering Period with respect to such Offering.

(l) “**Offering Period**” means a period established in accordance with Section 6.1.

(m) “**Parent Corporation**” means any present or future “parent corporation” of the Company, as defined in Section 424(e) of the Code.

(n) “**Participant**” means an Eligible Employee who has become a participant in an Offering Period in accordance with Section 7 and remains a participant in accordance with the Plan.

(o) “**Participating Company**” means (i) for purposes of the U.S. Program, the Company or any U.S. Parent Corporation or U.S. Subsidiary Corporation designated by the Board as a corporation the Employees of which may, if Eligible Employees, participate in the Plan and (ii) for purposes of the Global Program, any entity (whether or not treated as a corporation for U.S. tax purposes) controlling the Company or controlled by the Company directly or indirectly through one or more intermediaries. The Board shall have the sole and absolute discretion to determine from time to time which Parent Corporations or Subsidiary Corporations shall be Participating Companies. To the extent that any Participating Company in the Global Program has an entity located in more than one local jurisdiction, the Board shall also have the authority to establish eligibility to participate in the Global Program on an entity-by-entity basis within such Participating Company. The Participating Companies in the U.S. Program and Global Program are set forth on **Appendix A**.

(p) “**Participating Company Group**” means, at any point in time, the Company and all other corporations collectively which are then Participating Companies.

(q) “**Plan**” means this 1997 Employee Stock Purchase Plan and shall apply to both the U.S. Program and the Global Program.

(r) “**Purchase Date**” means, for any Purchase Period, the last day of such period.

(s) “**Purchase Period**” means a period established in accordance with Section 6.2.

(t) “**Purchase Price**” means the price at which a share of Stock may be purchased under the Plan, as determined in accordance with Section 9.

(u) “**Purchase Right**” means an option granted to a Participant pursuant to the Plan to purchase such shares of Stock as provided in Section 8, which the Participant may or may not exercise during the Offering Period in which such option is outstanding. Such option arises from the right of a Participant to withdraw any accumulated payroll deductions of the Participant not previously applied to the purchase of Stock under the Plan and to terminate participation in the Plan at any time during an Offering Period.

(v) “**Stock**” means the common stock of the Company, as adjusted from time to time in accordance with Section 4.2.

(w) “**Subscription Agreement**” means a written agreement in such form as specified by the Company, stating an Employee’s election to participate in the Plan and authorizing payroll deductions under the Plan from the Employee’s Compensation.

(x) “**Subscription Date**” means the last business day prior to the Offering Date of an Offering Period or such earlier date as the Company shall establish.

(y) “**Subsidiary Corporation**” means any present or future “subsidiary corporation” of the Company, as defined in Section 424(f) of the Code.

(z) “**U.S. Program**” means the component of the Plan intended to provide Employees, who are subject to United States income tax, the opportunity to purchase Stock through accumulated payroll deductions or other approved contributions. This component of the Plan shall be deemed to be a plan that is intended to qualify for special tax treatment under Section 423 of the Code and does not include the Global Program.

**2.2 Construction.** Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of the Plan. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term “or” is not intended to be exclusive, unless the context clearly requires otherwise.

### **3. ADMINISTRATION.**

#### **3.1 Administration by the Board.**

(a) The Plan shall be administered by the Board. All questions of interpretation of the Plan, of any form of agreement or other document employed by the Company in the administration of the Plan, or of any Purchase Right shall be determined by the Board and shall be final and binding upon all persons having an interest in the Plan or the Purchase Right. All expenses incurred in connection with the administration of the Plan shall be paid by the Company.

Subject to the provisions of the Plan, the Board shall determine all of the relevant terms and conditions of Purchase Rights granted pursuant to the Plan under the U.S. Program; provided, however, that all Participants granted Purchase Rights pursuant to the U.S. Program shall have the same rights and privileges within the meaning of Section 423(b)(5) of the Code.

(b) The Board may also adopt rules, procedures, or sub-plans applicable to a Participating Company or jurisdiction as part of the Global Program to accommodate the specific requirements of the law and procedures of foreign jurisdictions, including but not limited to, establishing rules and procedures regarding handling of payroll deductions or other approved contributions, payment of interest, conversion of local currency, payroll tax, withholding procedures, and handling of stock certificates that vary with local requirements. Unless otherwise superseded by the terms of a sub-plan under the Global Program, the provisions of the Plan shall govern the operation of such sub-plan.

**3.2 Authority of Officers.** Any officer of the Company shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, determination or election that is the responsibility of or that is allocated to the Company herein, provided that the officer has apparent authority with respect to such matter, right, obligation, determination or election.

**3.3 Policies and Procedures Established by the Company.** The Company may, from time to time, consistent with the Plan and the requirements of Section 423 of the Code, establish, change or terminate such rules, guidelines, policies, procedures, limitations, or adjustments as deemed advisable by the Company, in its sole discretion, for the proper administration of the Plan, including, without limitation, (a) a minimum payroll deduction amount required for participation in an Offering, (b) a limitation on the frequency or number of changes permitted in the rate of payroll deduction during an Offering, (c) an exchange ratio applicable to amounts withheld in a currency other than United States dollars, (d) a payroll deduction greater than or less than the amount designated by a Participant in order to adjust for the Company's delay or mistake in processing a Subscription Agreement or in otherwise effecting a Participant's election under the Plan or as advisable to comply with the requirements of Section 423 of the Code, and (e) determination of the date and manner by which the Fair Market Value of a share of Stock is determined for purposes of administration of the Plan.

#### **4. SHARES SUBJECT TO PLAN.**

**4.1 Maximum Number of Shares Issuable.** Subject to adjustment as provided in Section 4.2, the maximum aggregate number of shares of Stock that may be issued under the Plan shall be seven million five hundred thousand (7,500,000) and shall consist of authorized but unissued or reacquired shares of Stock, or any combination thereof. If an outstanding Purchase Right for any reason expires or is terminated or canceled, the shares of Stock allocable to the unexercised portion of such Purchase Right shall again be available for issuance under the Plan.

**4.2 Adjustments for Changes in Capital Structure.** In the event of any stock dividend, stock split, reverse stock split, recapitalization, combination, reclassification or similar change in the capital structure of the Company, or in the event of any merger (including a merger effected for the purpose of changing the Company's domicile), sale of assets or other



reorganization in which the Company is a party, appropriate and proportionate adjustments shall be made in the number and class of shares subject to the Plan and each Purchase Right and in the Purchase Price. If a majority of the shares which are of the same class as the shares that are subject to outstanding Purchase Rights are exchanged for, converted into, or otherwise become (whether or not pursuant to an Ownership Change Event) shares of another corporation (the “**New Shares**”), the Board may unilaterally amend the outstanding Purchase Rights to provide that such Purchase Rights are exercisable for New Shares. In the event of any such amendment, the number of shares subject to, and the Purchase Price of, the outstanding Purchase Rights shall be adjusted in a fair and equitable manner, as determined by the Board, in its sole discretion. Notwithstanding the foregoing, any fractional share resulting from an adjustment pursuant to this Section 4.2 shall be rounded down to the nearest whole number, and in no event may the Purchase Price be decreased to an amount less than the par value, if any, of the stock subject to the Purchase Right. The adjustments determined by the Board pursuant to this Section 4.2 shall be final, binding and conclusive.

## **5. ELIGIBILITY.**

**5.1 Employees Eligible to Participate in U.S. Program.** Each Employee of a Participating Company in the U.S. Program is eligible to participate in the Plan and shall be deemed an Eligible Employee, except the following:

(a) Any Employee who is customarily employed by the Participating Company Group for less than twenty (20) hours per week; or

(b) Any Employee who is customarily employed by the Participating Company Group for not more than five (5) months in any calendar year.

**5.2 Employees Eligible to Participate in Global Program.** To the extent that any Participating Company in the Global Program has Employees located in more than one local jurisdiction, the Board shall have the authority to determine whether such Employees are Eligible Employees on a jurisdiction-by-jurisdiction basis, and may otherwise excluded such Employees from participation in the Global Program.

**5.3 Exclusion of Certain Stockholders.** Notwithstanding any provision of the Plan to the contrary, no Employee shall be granted a Purchase Right under the Plan if, immediately after such grant, such Employee would own or hold options to purchase stock of the Company or of any Parent Corporation or Subsidiary Corporation possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of such corporation, as determined in accordance with Section 423(b)(3) of the Code. For purposes of this Section 5.3, the attribution rules of Section 424(d) of the Code shall apply in determining the stock ownership of such Employee.

## **6. OFFERINGS.**

### **6.1 Offering Periods.**

(a) Prior to February 1, 2009, the Plan shall be implemented by sequential Offerings of approximately twenty-four (24) months duration (an “**Offering Period**”); provided, however, that the first such Offering Period shall commence on the Effective Date and end on January 31, 2000 (the “**Initial Offering Period**”). Subsequent Offerings shall commence on the first day of February and August of each year and end on the last day of the second January and July, respectively, occurring thereafter.

(b) Beginning February 1, 2009, the Plan shall be implemented by sequential Offerings of approximately six (6) months duration, which shall run from the first day of February to the last day of July each year and from the first day of August each year to the last day in January in the following year.

(c) Notwithstanding the foregoing, the Board may establish a different duration for one or more future Offering Periods or different commencing or ending dates for such Offering Periods; provided, however, that no Offering Period may have a duration exceeding twenty-seven (27) months. If the first or last day of an Offering Period is not a day on which the national securities exchanges or Nasdaq Stock Market are open for trading, the Company shall specify the trading day that will be deemed the first or last day, as the case may be, of the Offering Period.

### **6.2 Purchase Periods.**

(a) Prior to February 1, 2009, each Offering Period shall consist of four (4) consecutive Purchase Periods of approximately six (6) months duration, or such other number or duration as the Board shall determine. The Purchase Period commencing on the Offering Date of the Initial Offering Period shall end on July 31, 1998. A Purchase Period commencing on or about February 1 shall end on or about the next July 31. A Purchase Period commencing on or about August 1 shall end on or about the next January 31.

(b) Beginning February 1, 2009, each Offering Period shall consist of one Purchase Period of approximately six (6) months duration.

(c) Notwithstanding the foregoing, the Board may establish a different duration for one or more future Purchase Periods or different commencing or ending dates for such Purchase Periods. If the first or last day of a Purchase Period is not a day on which the national securities exchanges or Nasdaq Stock Market are open for trading, the Company shall specify the trading day that will be deemed the first or last day, as the case may be, of the Purchase Period.

## **7. PARTICIPATION IN THE PLAN.**

**7.1 Initial Participation.** An Eligible Employee may become a Participant in an Offering Period by delivering a properly completed Subscription Agreement to the office designated by the Company not later than the close of business for such office on the Subscription Date established by the Company for such Offering Period. An Eligible Employee who does not

deliver a properly completed Subscription Agreement to the Company's designated office on or before the Subscription Date for an Offering Period shall not participate in the Plan for that Offering Period or for any subsequent Offering Period unless such Eligible Employee subsequently delivers a properly completed Subscription Agreement to the appropriate office of the Company on or before the Subscription Date for such subsequent Offering Period. An Employee who becomes an Eligible Employee after the Offering Date of an Offering Period shall not be eligible to participate in such Offering Period but may participate in any subsequent Offering Period provided such Employee is still an Eligible Employee as of the Offering Date of such subsequent Offering Period.

**7.2 Continued Participation.** A Participant shall automatically participate in the next Offering Period commencing immediately after the final Purchase Date of each Offering Period in which the Participant participates provided that such Participant remains an Eligible Employee on the Offering Date of the new Offering Period and has not either (a) withdrawn from the Plan pursuant to Section 12.1 or (b) terminated employment as provided in Section 13. A Participant who may automatically participate in a subsequent Offering Period, as provided in this Section, is not required to deliver any additional Subscription Agreement for the subsequent Offering Period in order to continue participation in the Plan. However, a Participant may deliver a new Subscription Agreement for a subsequent Offering Period in accordance with the procedures set forth in Section 7.1 if the Participant desires to change any of the elections contained in the Participant's then effective Subscription Agreement. Eligible Employees may not participate simultaneously in more than one Offering.

## **8. RIGHT TO PURCHASE SHARES.**

**8.1 Grant of Purchase Right.** Except as set forth below, on the Offering Date of each Offering Period, each Participant in such Offering Period shall be granted automatically a Purchase Right consisting of an option to purchase the lesser of (a) that number of whole shares of Stock determined by dividing Fifty Thousand Dollars (\$50,000) by the Fair Market Value of a share of Stock on such Offering Date or (b) ten thousand (10,000) shares of Stock. No Purchase Right shall be granted on an Offering Date to any person who is not, on such Offering Date, an Eligible Employee.

**8.2 Pro Rata Adjustment of Purchase Right.** Notwithstanding the provisions of Section 8.1, if the Board establishes an Offering Period of any duration other than twenty-four months, then (a) the dollar amount in Section 8.1 shall be determined by multiplying \$2,083.33 by the number of months (rounded to the nearest whole month) in the Offering Period and rounding to the nearest whole dollar, and (b) the share amount in Section 8.1 shall be determined by multiplying 416.66 shares by the number of months (rounded to the nearest whole month) in the Offering Period and rounding to the nearest whole share.

**8.3 Calendar Year Purchase Limitation.** Notwithstanding any provision of the Plan to the contrary, no Participant shall be granted a Purchase Right which permits his or her right to purchase shares of Stock under the Plan to accrue at a rate which, when aggregated with such Participant's rights to purchase shares under all other employee stock purchase plans of a Participating Company intended to meet the requirements of Section 423 of the Code, exceeds

Twenty-Five Thousand Dollars (\$25,000) in Fair Market Value (or such other limit, if any, as may be imposed by the Code) for each calendar year in which such Purchase Right is outstanding at any time. For purposes of the preceding sentence, the Fair Market Value of shares purchased during a given Offering Period shall be determined as of the Offering Date for such Offering Period. The limitation described in this Section 8.3 shall be applied in conformance with applicable regulations under Section 423(b)(8) of the Code.

**9. PURCHASE PRICE.**

The Purchase Price at which each share of Stock may be acquired in an Offering Period upon the exercise of all or any portion of a Purchase Right shall be established by the Board; provided, however, that the Purchase Price shall not be less than eighty-five percent (85%) of the lesser of (a) the Fair Market Value of a share of Stock on the Offering Date of the Offering Period or (b) the Fair Market Value of a share of Stock on the Purchase Date. Unless otherwise provided by the Board prior to the commencement of an Offering Period, the Purchase Price for that Offering Period shall be eighty-five percent (85%) of the lesser of (a) the Fair Market Value of a share of Stock on the Offering Date of the Offering Period, or (b) the Fair Market Value of a share of Stock on the Purchase Date.

**10. ACCUMULATION OF PURCHASE PRICE THROUGH PAYROLL DEDUCTION.**

Shares of Stock acquired pursuant to the exercise of all or any portion of a Purchase Right may be paid for only by means of payroll deductions from the Participant's Compensation accumulated during the Offering Period for which such Purchase Right was granted, subject to the following:

**10.1 Amount of Payroll Deductions.** Except as otherwise provided herein or prohibited by the law of a local jurisdiction, the amount to be deducted under the Plan from a Participant's Compensation on each payday during an Offering Period shall be determined by the Participant's Subscription Agreement. The Subscription Agreement shall set forth the percentage of the Participant's Compensation to be deducted on each payday during an Offering Period in whole percentages of not less than one percent (1%) (except as a result of an election pursuant to Section 10.3 to stop payroll deductions made effective following the first payday during an Offering) or more than fifteen percent (15%). Notwithstanding the foregoing, the Board may change the limits on payroll deductions effective as of any future Offering Date. In jurisdictions where payroll deductions are not permitted under local law, the Participants may participate in the Global Program by making contributions in the form that is acceptable and approved by the Board.

**10.2 Commencement of Payroll Deductions.** Payroll deductions shall commence on the first payday following the Offering Date and shall continue to the end of the Offering Period unless sooner altered or terminated as provided herein.

**10.3 Election to Change or Stop Payroll Deductions.** During an Offering Period, a Participant may elect to increase or decrease the rate of or to stop deductions from his or her Compensation by delivering to the Company's designated office an amended Subscription Agreement authorizing such change on or before the "Change Notice Date." The "**Change Notice**

**Date**” shall be a date prior to the beginning of the first pay period for which such election is to be effective as established by the Company from time to time and announced to the Participants. A Participant who elects to decrease the rate of his or her payroll deductions to zero percent (0%) shall nevertheless remain a Participant in the current Offering Period unless such Participant withdraws from the Plan as provided in Section 12.1.

**10.4 Administrative Suspension of Payroll Deductions.** The Company may, in its sole discretion, suspend a Participant’s payroll deductions under the Plan as the Company deems advisable to avoid accumulating payroll deductions in excess of the amount that could reasonably be anticipated to purchase the maximum number of shares of Stock permitted during a calendar year under the limit set forth in Section 8.3. Payroll deductions shall be resumed at the rate specified in the Participant’s then effective Subscription Agreement at the beginning of the next Purchase Period the Purchase Date of which falls in the following calendar year.

**10.5 Participant Accounts.** Individual bookkeeping accounts shall be maintained for each Participant. Except as otherwise required by the law of a local jurisdiction, all payroll deductions from a Participant’s Compensation shall be: (i) credited to such Participant’s Plan account, (ii) deposited with the general funds of the Company, and (iii) used by the Company for any corporate purpose.

**10.6 No Interest Paid.** Except as otherwise required by the law of a local jurisdiction, interest shall not be paid on sums deducted from a Participant’s Compensation pursuant to the Plan.

**10.7 Voluntary Withdrawal from Plan Account.** A Participant may withdraw all or any portion of the payroll deductions credited to his or her Plan account and not previously applied toward the purchase of Stock by delivering to the Company’s designated office a written notice on a form provided by the Company for such purpose. A Participant who withdraws the entire remaining balance credited to his or her Plan account shall be deemed to have withdrawn from the Plan in accordance with Section 12.1. Amounts withdrawn shall be returned to the Participant as soon as practicable after the withdrawal and may not be applied to the purchase of shares in any Offering under the Plan. The Company may from time to time establish or change limitations on the frequency of withdrawals permitted under this Section, establish a minimum dollar amount that must be retained in the Participant’s Plan account, or terminate the withdrawal right provided by this Section.

## **11. PURCHASE OF SHARES.**

**11.1 Exercise of Purchase Right.** On each Purchase Date of an Offering Period, each Participant who has not withdrawn from the Plan and whose participation in the Offering has not terminated before such Purchase Date shall automatically acquire pursuant to the exercise of the Participant’s Purchase Right the number of whole shares of Stock determined by dividing (a) the total amount of the Participant’s payroll deductions accumulated in the Participant’s Plan account during the Offering Period and not previously applied toward the purchase of Stock by (b) the Purchase Price. However, in no event shall the number of shares purchased by the Participant during an Offering Period exceed the number of shares subject to the Participant’s Purchase Right.

No shares of Stock shall be purchased on a Purchase Date on behalf of a Participant whose participation in the Offering or the Plan has terminated before such Purchase Date.

**11.2 Pro Rata Allocation of Shares.** In the event that the number of shares of Stock which might be purchased by all Participants in the Plan on a Purchase Date exceeds the number of shares of Stock available in the Plan as provided in Section 4.1, the Company shall make a pro rata allocation of the remaining shares in as uniform a manner as shall be practicable and as the Company shall determine to be equitable. Any fractional share resulting from such pro rata allocation to any Participant shall be disregarded.

**11.3 Delivery of Certificates.** As soon as practicable after each Purchase Date, the Company shall arrange the delivery to each Participant, as appropriate, of a certificate representing the shares acquired by the Participant on such Purchase Date; provided that the Company may deliver such shares to a broker that holds such shares in street name for the benefit of the Participant. Shares to be delivered to a Participant under the Plan shall be registered in the name of the Participant, or, if requested by the Participant, in the name of the Participant and his or her spouse, or, if applicable, in the names of the heirs of the Participant.

**11.4 Return of Cash Balance.** Any cash balance remaining in a Participant's Plan account following any Purchase Date shall be refunded to the Participant as soon as practicable after such Purchase Date. However, if the cash to be returned to a Participant pursuant to the preceding sentence is an amount less than the amount that would have been necessary to purchase an additional whole share of Stock on such Purchase Date, the Company may retain such amount in the Participant's Plan account to be applied toward the purchase of shares of Stock in the subsequent Purchase Period or Offering Period, as the case may be.

**11.5 Tax Withholding.** At the time a Participant's Purchase Right is exercised, in whole or in part, or at the time a Participant disposes of some or all of the shares of Stock he or she acquires under the Plan, the Participant shall make adequate provision for the foreign, federal, state and local tax withholding obligations of the Participating Company Group, if any, which arise upon exercise of the Purchase Right or upon such disposition of shares, respectively. The Participating Company Group may, but shall not be obligated to, withhold from the Participant's compensation the amount necessary to meet such withholding obligations.

**11.6 Expiration of Purchase Right.** Any portion of a Participant's Purchase Right remaining unexercised after the end of the Offering Period to which the Purchase Right relates shall expire immediately upon the end of the Offering Period.

**11.7 Reports to Participants.** Each Participant who has exercised all or part of his or her Purchase Right shall receive, as soon as practicable after the Purchase Date, a report of such Participant's Plan account setting forth the total payroll deductions accumulated prior to such exercise, the number of shares of Stock purchased, the Purchase Price for such shares, the date of purchase and the cash balance, if any, remaining immediately after such purchase that is to be refunded or retained in the Participant's Plan account pursuant to Section 11.4. The report required by this Section may be delivered in such form and by such means, including by electronic transmission, as the Company may determine.

## **12. WITHDRAWAL FROM OFFERING OR PLAN.**

**12.1 Voluntary Withdrawal from the Plan.** A Participant may withdraw from the Plan by signing and delivering to the Company's designated office a written notice of withdrawal on a form provided by the Company for such purpose. Such withdrawal may be elected at any time prior to the end of an Offering Period; provided, however, that if a Participant withdraws from the Plan after the Purchase Date of a Purchase Period, the withdrawal shall not affect shares of Stock acquired by the Participant on such Purchase Date. A Participant who voluntarily withdraws from the Plan is prohibited from resuming participation in the Plan in the same Offering from which he or she withdrew, but may participate in any subsequent Offering by again satisfying the requirements of Sections 5 and 7.1. The Company may impose, from time to time, a requirement that the notice of withdrawal from the Plan be on file with the Company's designated office for a reasonable period prior to the effectiveness of the Participant's withdrawal.

**12.2 Automatic Withdrawal from an Offering.** If the Fair Market Value of a share of Stock on a Purchase Date of an Offering Period (other than the final Purchase Date of such offering) is less than the Fair Market Value of a share of Stock on the Offering Date for such Offering Period, then every Participant shall automatically be (a) withdrawn from such Offering Period after the acquisition of shares of Stock on the Purchase Date and (b) enrolled in the new Offering Period effective on its Offering Date. A Participant may elect not to be automatically withdrawn from an Offering Period pursuant to this Section 12.2 by delivering to the Company's designated office not later than the close of business on the Offering Date of the new Offering Period a written notice indicating such election.

**12.3 Return of Payroll Deductions.** Upon a Participant's voluntary withdrawal from the Plan pursuant to Sections 12.1 or automatic withdrawal from an Offering pursuant to Section 12.2, the Participant's accumulated payroll deductions which have not been applied toward the purchase of shares of Stock (except, in the case of an automatic withdrawal pursuant to Section 12.2, for an amount necessary to purchase an additional whole share as provided in Section 11.4) shall be refunded to the Participant as soon as practicable after the withdrawal, without the payment of any interest, and the Participant's interest in the Plan or the Offering, as applicable, shall terminate. Such accumulated payroll deductions to be refunded in accordance with this Section may not be applied to any other Offering under the Plan.

## **13. TERMINATION OF EMPLOYMENT OR ELIGIBILITY.**

Upon a Participant's ceasing, prior to a Purchase Date, to be an Employee of the Participating Company Group for any reason, including retirement, disability or death, or the failure of a Participant to remain an Eligible Employee, the Participant's participation in the Plan shall terminate immediately. In such event, the payroll deductions credited to the Participant's Plan account since the last Purchase Date shall, as soon as practicable, be returned to the Participant or, in the case of the Participant's death, to the Participant's legal representative, and all of the Participant's rights under the Plan shall terminate. Except as otherwise required by the law of a local jurisdiction, interest shall not be paid on sums returned pursuant to this Section 13. A Participant whose participation has been so terminated may again become eligible to participate in the Plan by again satisfying the requirements of Sections 5 and 7.1.

## 14. CHANGE IN CONTROL.

### 14.1 Definitions.

(a) An “**Ownership Change Event**” shall be deemed to have occurred if any of the following occurs with respect to the Company: (i) the direct or indirect sale or exchange in a single or series of related transactions by the stockholders of the Company of more than fifty percent (50%) of the voting stock of the Company; (ii) a merger or consolidation in which the Company is a party; (iii) the sale, exchange, or transfer of all or substantially all of the assets of the Company; or (iv) a liquidation or dissolution of the Company.

(b) A “**Change in Control**” shall mean an Ownership Change Event or a series of related Ownership Change Events (collectively, the “**Transaction**”) wherein the stockholders of the Company immediately before the Transaction do not retain immediately after the Transaction, in substantially the same proportions as their ownership of shares of the Company’s voting stock immediately before the Transaction, direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the outstanding voting stock of the Company or the corporation or corporations to which the assets of the Company were transferred (the “**Transferee Corporation(s)**”), as the case may be. For purposes of the preceding sentence, indirect beneficial ownership shall include, without limitation, an interest resulting from ownership of the voting stock of one or more corporations which, as a result of the Transaction, own the Company or the Transferee Corporation(s), as the case may be, either directly or through one or more subsidiary corporations. The Board shall have the right to determine whether multiple sales or exchanges of the voting stock of the Company or multiple Ownership Change Events are related, and its determination shall be final, binding and conclusive.

**14.2 Effect of Change in Control on Purchase Rights.** In the event of a Change in Control, the surviving, continuing, successor, or purchasing corporation or parent corporation thereof, as the case may be (the “**Acquiring Corporation**”), may assume the Company’s rights and obligations under the Plan. If the Acquiring Corporation elects not to assume the Company’s rights and obligations under outstanding Purchase Rights, the Purchase Date of the then current Purchase Period shall be accelerated to a date before the date of the Change in Control specified by the Board, but the number of shares of Stock subject to outstanding Purchase Rights shall not be adjusted. All Purchase Rights which are neither assumed by the Acquiring Corporation in connection with the Change in Control nor exercised as of the date of the Change in Control shall terminate and cease to be outstanding effective as of the date of the Change in Control.

## 15. NONTRANSFERABILITY OF PURCHASE RIGHTS.

A Purchase Right may not be transferred in any manner otherwise than by will or the laws of descent and distribution and shall be exercisable during the lifetime of the Participant only by the Participant.



**16. COMPLIANCE WITH SECURITIES LAW.**

The issuance of shares under the Plan shall be subject to compliance with all applicable requirements of federal, state and foreign law with respect to such securities. A Purchase Right may not be exercised if the issuance of shares upon such exercise would constitute a violation of any applicable federal, state or foreign securities laws or other law or regulations or the requirements of any securities exchange or market system upon which the Stock may then be listed. In addition, no Purchase Right may be exercised unless (a) a registration statement under the Securities Act of 1933, as amended, shall at the time of exercise of the Purchase Right be in effect with respect to the shares issuable upon exercise of the Purchase Right, or (b) in the opinion of legal counsel to the Company, the shares issuable upon exercise of the Purchase Right may be issued in accordance with the terms of an applicable exemption from the registration requirements of said Act. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance and sale of any shares under the Plan shall relieve the Company of any liability in respect of the failure to issue or sell such shares as to which such requisite authority shall not have been obtained. As a condition to the exercise of a Purchase Right, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation, and to make any representation or warranty with respect thereto as may be requested by the Company.

**17. RIGHTS AS A STOCKHOLDER AND EMPLOYEE.**

A Participant shall have no rights as a stockholder by virtue of the Participant's participation in the Plan until the date of the issuance of a certificate for the shares purchased pursuant to the exercise of the Participant's Purchase Right (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date such certificate is issued, except as provided in Section 4.2. Nothing herein shall confer upon a Participant any right to continue in the employ of the Participating Company Group or interfere in any way with any right of the Participating Company Group to terminate the Participant's employment at any time.

**18. LEGENDS.**

The Company may at any time place legends or other identifying symbols referencing any applicable federal, state or foreign securities law restrictions or any provision convenient in the administration of the Plan on some or all of the certificates representing shares of Stock issued under the Plan. The Participant shall, at the request of the Company, promptly present to the Company any and all certificates representing shares acquired pursuant to a Purchase Right in the possession of the Participant in order to carry out the provisions of this Section. Unless otherwise specified by the Company, legends placed on such certificates may include but shall not be limited to the following:

“THE SHARES EVIDENCED BY THIS CERTIFICATE WERE ISSUED BY THE  
CORPORATION TO THE REGISTERED HOLDER UPON THE

PURCHASE OF SHARES UNDER AN EMPLOYEE STOCK PURCHASE PLAN AS DEFINED IN SECTION 423 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED. THE TRANSFER AGENT FOR THE SHARES EVIDENCED HEREBY SHALL NOTIFY THE CORPORATION IMMEDIATELY OF ANY TRANSFER OF THE SHARES BY THE REGISTERED HOLDER HEREOF. THE REGISTERED HOLDER SHALL HOLD ALL SHARES PURCHASED UNDER THE PLAN IN THE REGISTERED HOLDER'S NAME (AND NOT IN THE NAME OF ANY NOMINEE).”

**19. NOTIFICATION OF SALE OF SHARES.**

The Company may require the Participant to give the Company prompt notice of any disposition of shares acquired by exercise of a Purchase Right within two years from the date of granting such Purchase Right or one year from the date of exercise of such Purchase Right. The Company may require that until such time as a Participant disposes of shares acquired upon exercise of a Purchase Right, the Participant shall hold all such shares in the Participant's name (or, if elected by the Participant, in the name of the Participant and his or her spouse but not in the name of any nominee) until the lapse of the time periods with respect to such Purchase Right referred to in the preceding sentence. The Company may direct that the certificates evidencing shares acquired by exercise of a Purchase Right refer to such requirement to give prompt notice of disposition.

**20. NOTICES.**

All notices or other communications by a Participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

**21. INDEMNIFICATION.**

In addition to such other rights of indemnification as they may have as members of the Board or officers or employees of the Participating Company Group, members of the Board and any officers or employees of the Participating Company Group to whom authority to act for the Board or the Company is delegated shall be indemnified by the Company against all reasonable expenses, including attorneys' fees, actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan, or any right granted hereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Company) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such person is liable for gross negligence, bad faith or intentional misconduct in duties; provided, however, that within sixty (60) days after the institution of such action, suit or proceeding, such

person shall offer to the Company, in writing, the opportunity at its own expense to handle and defend the same.

**22. AMENDMENT OR TERMINATION OF THE PLAN.**

(a) The Board may at any time amend or terminate the Plan, except that (a) such termination shall not affect Purchase Rights previously granted under the Plan, except as permitted under the Plan, and (b) no amendment may adversely affect a Purchase Right previously granted under the Plan without the consent of the Participant to whom such Purchase Rights were granted (except to the extent permitted by the Plan or as may be necessary to qualify the Plan as an employee stock purchase plan pursuant to Section 423 of the Code or to obtain qualification or registration of the shares of Stock under applicable federal, state or foreign securities laws).

(b) Except as provided in Section 4.2, approval of the stockholders of the Company will be required for any amendment of the Plan for which stockholder approval is required by applicable law or listing requirements, including any amendment that (i) materially increases the number of shares of Common Stock available for issuance under the Plan, (ii) materially expands the class of individuals eligible to become Participants and receive Purchase Rights, (iii) materially increases the benefits accruing to Participants under the Plan or materially reduces the price at which shares of Common Stock may be purchased under the Plan, (iv) materially extends the term of the Plan, or (v) expands the types of awards available for issuance under the Plan, but in each of (i) through (v) above only to the extent stockholder approval is required by applicable law or listing requirements. In addition, an amendment to the Plan that authorizes the sale of more shares than are authorized for issuance under the Plan or changes the definition of the corporations that may be designated by the Board as Participating Companies must be approved by the stockholders of the Company within twelve (12) months of the adoption of such amendment.

(c) No Purchase Rights may be granted under the Plan after it is terminated.

## **APPENDIX A**

### **Participating Companies in U.S. Program** Power Integrations, Inc.

### **Participating Companies in Global Program**

Power Integrations, K.K.  
Power Integrations Ltd.  
Power Integrations Malaysia SDN. BHD.  
Power Integrations Singapore Pte. Ltd.  
Power Integrations Netherlands B.V. (excluding the Beijing Representative Office, Shanghai Representative Office, Shenzhen Representative Office, Chengdu Representative Office, Foshan Representative Office, Qingdao Representative Office and Xiamen Representative Office)  
Power Integrations GmbH  
Power Integrations Italy S.r.l.  
Power Integrations India Private Ltd.  
Power Integrations Canada ULC  
Power Integrations (Europe) Ltd.  
Power Integrations Switzerland GmbH  
Power Integrations U.K. Ltd.



**POWER INTEGRATIONS, INC.**  
**1997 EMPLOYEE STOCK PURCHASE PLAN**  
**NOTICE OF WITHDRAWAL**

NAME (Please print): \_\_\_\_\_  
(Last) (First) (Middle)

I hereby elect to withdraw from the Offering under Power Integrations, Inc. 1997 Employee Stock Purchase Plan (the "**Plan**") which began on \_\_\_\_\_, 20\_\_ and in which I am currently participating (the "**Current Offering**").

Elect either A or B below:

- A. I elect to terminate immediately my participation in the Current Offering and in the Plan.

I request that the Company cease all further payroll deductions from my Compensation under the Plan (provided that I have given sufficient notice prior to the next payday). I request that all payroll deductions credited to my account under the Plan (if any) not previously used to purchase shares under the Plan shall **not** be used to purchase shares on the next Purchase Date of the Current Offering.

Instead, I request that all such amounts be paid to me as soon as practicable. I understand that this election immediately terminates my interest in the Current Offering and in the Plan.

- B. I elect to terminate my participation in the Current Offering and in the Plan following my purchase of shares on next Purchase Date of the Current Offering.

I request that the Company cease all further payroll deductions from my Compensation under the Plan (provided that I have given sufficient notice prior to the next payday). I request that all payroll deductions credited to my account under the Plan (if any) not previously used to purchase shares under the Plan shall be used to purchase shares on the next Purchase Date of the Current Offering to the extent permitted by the Plan. I understand that this election will terminate my interest in the Current Offering and in the Plan immediately following such purchase. I request that any cash balance remaining in my account under the Plan after my purchase of shares be paid to me as soon as practicable.

I understand that by making this election I am terminating my interest in the Plan and that no further payroll deductions will be made (provided that I have given sufficient notice prior to the next payday) unless I elect in accordance with the Plan to become a participant in another Offering under the Plan by filing a new Subscription Agreement with the Company.

Date: \_\_\_\_\_

Signature: \_\_\_\_\_

**POWER INTEGRATIONS, INC.**  
**2016 INCENTIVE AWARD PLAN**

(AS APPROVED BY THE BOARD OF DIRECTORS ON MARCH 13, 2019)  
(AS APPROVED BY THE STOCKHOLDERS ON MAY 22, 2019)  
(AS ADJUSTED FOR THE 1-FOR-1 STOCK DIVIDEND ON AUGUST 19, 2020)  
(AS APPROVED BY THE BOARD OF DIRECTORS ON MARCH 11, 2021)  
(AS APPROVED BY THE STOCKHOLDERS ON MAY 21, 2021)

**1. GENERAL.**

(a) **Eligible Award Recipients.** Employees, Directors and Consultants are eligible to receive Awards.

(b) **Available Awards.** The Plan provides for the grant of the following types of Awards: (i) Restricted Stock Unit Awards; (ii) Performance Stock Unit Awards; and (iii) Performance Cash Awards. For the avoidance of doubt, no other forms of equity-based awards, including but not limited to stock options and stock appreciation rights, may be granted under the Plan.

(c) **Purpose.** The Plan, through the granting of Awards, is intended to help the Company secure and retain the services of eligible Award recipients and provide incentives for such persons to exert maximum efforts for the success of the Company and any Affiliate.

**2. ADMINISTRATION.**

(a) **Administration by Board.** The Board will administer the Plan. The Board may delegate administration of the Plan to a Committee or Committees, as provided in Section 2(c).

(b) **Powers of Board.** The Board will have the power, subject to, and within the limitations of, the express provisions of the Plan:

(i) To determine (A) who will be granted Awards; (B) when and how each Award will be granted; (C) what type of Award will be granted; (D) the provisions of each Award (which need not be identical), including when a person will be permitted to receive cash or Common Stock under the Award; (E) the number of shares of Common Stock subject to, or the cash value of, an Award; and (F) the Fair Market Value applicable to an Award.

(ii) To construe and interpret the Plan and Awards granted under it, and to establish, amend and revoke rules and regulations for administration of the Plan and Awards. The Board, in the exercise of these powers, may correct any defect, omission or inconsistency in the Plan or in any Award Agreement or in the written terms of a Performance Cash Award, in a manner and to the extent it will deem necessary or expedient to make the Plan or Award fully effective.

(iii) To settle all controversies regarding the Plan and Awards granted under it.

(iv) To accelerate, in whole or in part, the time at which an Award may vest (or at which cash or shares of Common Stock may be issued).

(v) To suspend or terminate the Plan at any time. Except as otherwise provided in the Plan or an Award Agreement, suspension or termination of the Plan will not impair a Participant's rights under his or her then-outstanding Award without his or her written consent except as provided in subsection (viii) below.

(vi) To amend the Plan in any respect the Board deems necessary or advisable, including, without limitation, to make the Plan or Awards granted under the Plan exempt from or compliant with the requirements for nonqualified deferred compensation under Section 409A of the Code, subject to the limitations, if any, of applicable law. However, if required by applicable law or listing requirements, and except as provided in Section 8(a) relating to Capitalization Adjustments, the Company will seek stockholder approval of any amendment of the Plan that (A) materially increases the number of shares of Common Stock available for issuance under the Plan; (B) materially expands the class of individuals eligible to receive Awards under the Plan; (C) materially increases the benefits accruing to Participants under the Plan, (D) materially reduces the price at which shares of Common Stock may be issued under the Plan; (E) materially extends the term of the Plan; or (F) materially expands the types of Awards available for issuance under the Plan. Except as provided in the Plan (including Section 2(b)(viii)) or an Award Agreement, no amendment of the Plan will impair a Participant's rights under an outstanding Award without the Participant's written consent.

(vii) To submit any amendment to the Plan for stockholder approval, including, but not limited to, amendments to the Plan intended to satisfy the requirements of Rule 16b-3.

(viii) To approve forms of Award Agreements for use under the Plan and to amend the terms of any one or more Awards, including, but not limited to, amendments to provide terms more favorable to the Participant than previously provided in the Award Agreement, subject to any specified limits in the Plan that are not subject to Board discretion; *provided, however*, that a Participant's rights under any Award will not be impaired by any such amendment unless (A) the Company requests the consent of the affected Participant; and (B) such Participant consents in writing. Notwithstanding the foregoing, (1) a Participant's rights will not be deemed to have been impaired by any such amendment if the Board, in its sole discretion, determines that the amendment, taken as a whole, does not materially impair the Participant's rights, and (2) subject to the limitations of applicable law, if any, the Board may amend the terms of any one or more Awards without the affected Participant's consent (A) to clarify the manner of exemption from, or to bring the Award into compliance with, Section 409A of the Code; or (B) to comply with other applicable laws or listing requirements.

(ix) Generally, to exercise such powers and to perform such acts as the Board deems necessary or expedient to promote the best interests of the Company and that are not in conflict with the provisions of the Plan or Awards.

(x) To adopt such procedures and sub-plans as are necessary or appropriate to permit participation in the Plan by Employees, Directors or Consultants who are foreign nationals or employed outside the United States (provided that Board approval will not be necessary for



immaterial modifications to the Plan or any Award Agreement that are required for compliance with the laws of the relevant foreign jurisdiction).

**(c) Delegation to Committee.**

**(i) General.** The Board may delegate some or all of the administration of the Plan to a Committee or Committees. If administration of the Plan is delegated to a Committee, the Committee will have, in connection with the administration of the Plan, the powers theretofore possessed by the Board that have been delegated to the Committee, including the power to delegate to a subcommittee of the Committee any of the administrative powers the Committee is authorized to exercise (and references in this Plan to the Board will thereafter be to the Committee or subcommittee, as applicable). Any delegation of administrative powers will be reflected in resolutions, not inconsistent with the provisions of the Plan, adopted from time to time by the Board or Committee (as applicable). The Committee may, at any time, abolish the subcommittee and/or revest in the Committee any powers delegated to the subcommittee. The Board may retain the authority to concurrently administer the Plan with the Committee and may, at any time, revest in the Board some or all of the powers previously delegated.

**(ii) Rule 16b-3 Compliance.** The Committee may consist solely of two (2) or more Non-Employee Directors, in accordance with Rule 16b-3.

**(d) Delegation to an Officer.** The Board may delegate to one or more Officers the authority to do one or both of the following (i) designate Employees who are not Officers to be recipients of Awards and the terms of such Awards, in each case to the extent permitted by applicable law; and (ii) determine the number of shares of Common Stock to be subject to such Awards granted to such Employees; *provided, however*, that the Board resolutions regarding such delegation will specify the total number of shares of Common Stock that may be subject to the Awards granted by such Officer and that such Officer may not grant an Award to himself or herself. Any such Awards will be granted using the relevant form of Award Agreement most recently approved for use by the Committee or the Board, unless otherwise provided in the resolutions approving the delegation authority. The Board may not delegate authority to an Officer who is acting solely in the capacity of an Officer (and not also as a Director) to determine the Fair Market Value pursuant to Section 12(w) below.

**(e) Effect of Board's Decision.** All determinations, interpretations and constructions made by the Board in good faith will not be subject to review by any person and will be final, binding and conclusive on all persons.

**3. SHARES SUBJECT TO THE PLAN.**

**(a) Share Reserve.**

**(i)** Subject to Section 8(a) relating to Capitalization Adjustments, the aggregate number of shares of Common Stock that may be issued pursuant to Awards from and after the Effective Date will not exceed seven million (7,000,000) shares (the "**Share Reserve**").

**(ii)** For clarity, the Share Reserve in this Section 3(a) is a limitation on the number of shares of Common Stock that may be issued pursuant to the Plan. Accordingly, this

Section 3(a) does not limit the granting of Awards except as provided in the Plan. Shares may be issued in connection with a merger or acquisition as permitted by NASDAQ Listing Rule 5635(c) or, if applicable, NYSE Listed Company Manual Section 303A.08, AMEX Company Guide Section 711 or other applicable rule, and such issuance will not reduce the number of shares available for issuance under the Plan.

**(b) Reversion of Shares to the Share Reserve.** If any shares of Common Stock issued pursuant to an Award are forfeited back to the Company because of the failure to meet a contingency or condition required to vest such shares in the Participant, then the shares that are forfeited will revert to and again become available for issuance under the Plan. If any shares of Common Stock subject to an Award are not delivered to a Participant because such shares are withheld for the payment of taxes, the number of shares subject to the Award that are not delivered to the Participant shall not remain available for subsequent issuance under the Plan.

**(c) Limitation on Grants to Non-Employee Directors.** The maximum number of shares subject to Awards granted under this Plan or otherwise during a single fiscal year to any Non-Employee Director, taken together with any cash fees paid to such Non-Employee Director during the fiscal year, will not exceed three hundred thousand dollars (\$300,000) in total value (calculating the value of any such Awards based on the grant date fair value of such Stock Awards for financial reporting purposes).

**(d) Source of Shares.** The stock issuable under the Plan will be shares of authorized but unissued or reacquired Common Stock, including shares repurchased by the Company on the open market or otherwise.

#### **4. ELIGIBILITY.**

Awards may be granted to Employees, Directors and Consultants; *provided, however*, that Awards may not be granted to Employees, Directors and Consultants who are providing Continuous Service only to any “parent” of the Company, as such term is defined in Rule 405, unless (i) the stock underlying such Awards is treated as “service recipient stock” under Section 409A of the Code (for example, because the Awards are granted pursuant to a corporate transaction such as a spin off transaction) or (ii) the Company, in consultation with its legal counsel, has determined that such Awards are otherwise exempt from (or, alternatively, comply with) the distribution requirements of Section 409A of the Code.

#### **5. PROVISIONS OF AWARDS**

**(a) Restricted Stock Unit Awards.** Each Restricted Stock Unit Award Agreement will be in such form and will contain such terms and conditions as the Board deems appropriate. The terms and conditions of Restricted Stock Unit Award Agreements may change from time to time, and the terms and conditions of separate Restricted Stock Unit Award Agreements need not be identical. Each Restricted Stock Unit Award Agreement will conform to (through incorporation of the provisions hereof by reference in the Agreement or otherwise) the substance of each of the following provisions:

**(i) Consideration.** At the time of grant of a Restricted Stock Unit Award, the Board will determine the consideration, if any, to be paid by the Participant upon delivery of each

share of Common Stock subject to the Restricted Stock Unit Award. The consideration to be paid (if any) by the Participant for each share of Common Stock subject to a Restricted Stock Unit Award may be paid in any form of legal consideration that may be acceptable to the Board, in its sole discretion, and permissible under applicable law.

**(ii) Vesting.** At the time of the grant of a Restricted Stock Unit Award, the Board may impose such restrictions on or conditions to the vesting of the Restricted Stock Unit Award as it, in its sole discretion, deems appropriate.

**(iii) Payment.** A Restricted Stock Unit Award may be settled by the delivery of shares of Common Stock, their cash equivalent, any combination thereof or in any other form of consideration, as determined by the Board and contained in the Restricted Stock Unit Award Agreement.

**(iv) Additional Restrictions.** At the time of the grant of a Restricted Stock Unit Award, the Board, as it deems appropriate, may impose such restrictions or conditions that delay the delivery of the shares of Common Stock (or their cash equivalent) subject to a Restricted Stock Unit Award to a time after the vesting of such Restricted Stock Unit Award.

**(v) Dividend Equivalents.** Dividend equivalents may be credited in respect of shares of Common Stock covered by a Restricted Stock Unit Award, as determined by the Board and contained in the Restricted Stock Unit Award Agreement. At the sole discretion of the Board, such dividend equivalents may be converted into additional shares of Common Stock covered by the Restricted Stock Unit Award in such manner as determined by the Board. Any additional shares covered by the Restricted Stock Unit Award credited by reason of such dividend equivalents will be subject to all of the same terms and conditions of the underlying Restricted Stock Unit Award Agreement to which they relate.

**(vi) Termination of Participant's Continuous Service.** Except as otherwise provided in the applicable Restricted Stock Unit Award Agreement, such portion of the Restricted Stock Unit Award that has not vested will be forfeited upon the Participant's termination of Continuous Service.

**(b) Performance Awards.**

**(i) Performance Stock Unit Awards.** A Performance Stock Unit Award is a Restricted Stock Unit Award that is granted or vests contingent upon the attainment during a Performance Period of certain Performance Goals. A Performance Stock Unit Award may, but need not, require the Participant's completion of a specified period of Continuous Service. The length of any Performance Period, the Performance Goals to be achieved during the Performance Period, and the measure of whether and to what degree such Performance Goals have been attained will be conclusively determined by the Board or Committee, in its sole discretion. In addition, to the extent permitted by applicable law and the applicable Award Agreement, the Board or Committee may determine that cash may be used in payment of Performance Stock Unit Awards.

**(ii) Performance Cash Awards.** A Performance Cash Award is a cash award that is payable contingent upon the attainment during a Performance Period of certain Performance Goals. A Performance Cash Award may also require the Participant's completion of a specified

period of Continuous Service. At the time of grant of a Performance Cash Award, the length of any Performance Period, the Performance Goals to be achieved during the Performance Period, and the measure of whether and to what degree such Performance Goals have been attained will be conclusively determined by the Board or Committee, in its sole discretion.

(iii) **Discretion.** The Board or Committee retains the discretion to reduce or eliminate the compensation or economic benefit due upon attainment of Performance Goals and to define the manner of calculating the Performance Criteria it selects to use for a Performance Period.

**6. COVENANTS OF THE COMPANY.**

(a) **Availability of Shares.** The Company will keep available at all times the number of shares of Common Stock reasonably required to satisfy then-outstanding Awards.

(b) **Securities Law Compliance.** The Company will seek to obtain from each regulatory commission or agency having jurisdiction over the Plan the authority required to grant Awards and to issue and sell shares of Common Stock upon settlement of the Awards; *provided, however*, that this undertaking will not require the Company to register under the Securities Act the Plan, any Award or any Common Stock issued or issuable pursuant to any such Award. If, after reasonable efforts and at a reasonable cost, the Company is unable to obtain from any such regulatory commission or agency the authority that counsel for the Company deems necessary for the lawful issuance and sale of Common Stock under the Plan, the Company will be relieved from any liability for failure to issue and sell Common Stock upon settlement of such Awards unless and until such authority is obtained. A Participant will not be eligible for the grant of an Award or the subsequent issuance of cash or Common Stock pursuant to the Award if such grant or issuance would be in violation of any applicable securities law.

(c) **No Obligation to Notify or Minimize Taxes.** The Company will have no duty or obligation to warn or otherwise advise such holder of a pending termination or expiration of an Award. The Company has no duty or obligation to minimize the tax consequences of an Award to the holder of such Award.

**7. MISCELLANEOUS.**

(a) **Corporate Action Constituting Grant of Awards.** Corporate action constituting a grant by the Company of an Award to any Participant will be deemed completed as of the date of such corporate action, unless otherwise determined by the Board, regardless of when the instrument, certificate, or letter evidencing the Award is communicated to, or actually received or accepted by, the Participant. In the event that the corporate records (e.g., Board consents, resolutions or minutes) documenting the corporate action constituting the grant contain terms (e.g., vesting schedule or number of shares) that are inconsistent with those in the Award Agreement or related grant documents as a result of a clerical error in the papering of the Award Agreement or related grant documents, the corporate records will control and the Participant will have no legally binding right to the incorrect term in the Award Agreement or related grant documents.

(b) **Stockholder Rights.** No Participant will be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares of Common Stock subject to an Award

unless and until (i) such Participant has satisfied all requirements for the issuance of shares of Common Stock under the Award pursuant to its terms, and (ii) the issuance of the Common Stock subject to such Award has been entered into the books and records of the Company.

**(c) No Employment or Other Service Rights.** Nothing in the Plan, any Award Agreement or any other instrument executed thereunder or in connection with any Award granted pursuant thereto will confer upon any Participant any right to continue to serve the Company or an Affiliate in the capacity in effect at the time the Award was granted or will affect the right of the Company or an Affiliate to terminate (i) the employment of an Employee with or without notice and with or without cause, (ii) the service of a Consultant pursuant to the terms of such Consultant's agreement with the Company or an Affiliate, or (iii) the service of a Director pursuant to the bylaws of the Company or an Affiliate, and any applicable provisions of the corporate law of the state in which the Company or the Affiliate is incorporated, as the case may be.

**(d) Change in Time Commitment.** In the event a Participant's regular level of time commitment in the performance of his or her services for the Company and any Affiliates is reduced (for example, and without limitation, if the Participant is an Employee of the Company and the Employee has a change in status from a full-time Employee to a part-time Employee) after the date of grant of any Award to the Participant, the Board has the right in its sole discretion to (x) make a corresponding reduction in the number of shares or cash amount subject to any portion of such Award that is scheduled to vest or become payable after the date of such change in time commitment, and (y) in lieu of or in combination with such a reduction, extend the vesting or payment schedule applicable to such Award. In the event of any such reduction, the Participant will have no right with respect to any portion of the Award that is so reduced or extended.

**(e) Investment Assurances.** The Company may require a Participant, as a condition of acquiring Common Stock under any Award, (i) to give written assurances satisfactory to the Company as to the Participant's knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company who is knowledgeable and experienced in financial and business matters and that he or she is capable of evaluating, alone or together with the purchaser representative, the merits and risks of accepting the Award; and (ii) to give written assurances satisfactory to the Company stating that the Participant is acquiring Common Stock subject to the Award for the Participant's own account and not with any present intention of selling or otherwise distributing the Common Stock. The foregoing requirements, and any assurances given pursuant to such requirements, will be inoperative if (A) the issuance of the shares upon the acquisition of Common Stock under the Award has been registered under a then currently effective registration statement under the Securities Act, or (B) as to any particular requirement, a determination is made by counsel for the Company that such requirement need not be met in the circumstances under the then applicable securities laws. The Company may, upon advice of counsel to the Company, place legends on stock certificates issued under the Plan as such counsel deems necessary or appropriate in order to comply with applicable securities laws, including, but not limited to, legends restricting the transfer of the Common Stock.

**(f) Withholding Obligations.** Unless prohibited by the terms of an Award Agreement, the Company may, in its sole discretion, satisfy any federal, state or local tax withholding obligation relating to an Award by any of the following means or by a combination

of such means: (i) causing the Participant to tender a cash payment; (ii) withholding shares of Common Stock from the shares of Common Stock issued or otherwise issuable to the Participant in connection with the Award; *provided, however*, that no shares of Common Stock are withheld with a value exceeding the minimum amount of tax required to be withheld by law (or such lesser amount as may be necessary to avoid classification of the Award as a liability for financial accounting purposes); (iii) withholding cash from an Award settled in cash; (iv) withholding payment from any amounts otherwise payable to the Participant; or (v) by such other method as may be set forth in the Award Agreement.

**(g) Electronic Delivery.** Any reference herein to a “written” agreement or document will include any agreement or document delivered electronically, filed publicly at [www.sec.gov](http://www.sec.gov) (or any successor website thereto) or posted on the Company’s intranet (or other shared electronic medium controlled by the Company to which the Participant has access).

**(h) Deferrals.** To the extent permitted by applicable law, the Board, in its sole discretion, may determine that the delivery of Common Stock or the payment of cash, upon the vesting or settlement of all or a portion of any Award may be deferred and may establish programs and procedures for deferral elections to be made by Participants. Deferrals by Participants will be made in accordance with Section 409A of the Code. Consistent with Section 409A of the Code, the Board may provide for distributions while a Participant is still an employee or otherwise providing services to the Company. The Board is authorized to make deferrals of Awards and determine when, and in what annual percentages, Participants may receive payments, including lump sum payments, following the Participant’s termination of Continuous Service, and implement such other terms and conditions consistent with the provisions of the Plan and in accordance with applicable law.

**(i) Compliance with Section 409A.** To the extent that the Board determines that any Award granted hereunder is subject to Section 409A of the Code, the Award Agreement evidencing such Award shall incorporate the terms and conditions necessary to avoid the consequences specified in Section 409A(a)(1) of the Code. To the extent applicable, the Plan and Award Agreements shall be interpreted in accordance with Section 409A of the Code. Notwithstanding anything to the contrary in this Plan (and unless the Award Agreement specifically provides otherwise), if the shares of Common Stock are publicly traded and a Participant holding an Award that constitutes “deferred compensation” under Section 409A of the Code is a “specified employee” for purposes of Section 409A of the Code, no distribution or payment of any amount shall be made upon a “separation from service” before a date that is six (6) months following the date of such Participant’s “separation from service” (as defined in Section 409A of the Code without regard to alternative definitions thereunder) or, if earlier, the date of the Participant’s death.

**(j) Clawback/Recovery.** All Awards granted under the Plan will be subject to recoupment in accordance with any clawback policy that the Company is required to adopt pursuant to the listing standards of any national securities exchange or association on which the Company’s securities are listed or as is otherwise required by the Dodd-Frank Wall Street Reform and Consumer Protection Act or other applicable law. In addition, the Board may impose such other clawback, recovery or recoupment provisions in an Award Agreement as the Board determines necessary or appropriate, including but not limited to a reacquisition right in respect of

previously acquired shares of Common Stock or other cash or property upon the occurrence of Cause. No recovery of compensation under such a clawback policy will be an event giving rise to a right to resign for “good reason” or “constructive termination” (or similar term) under any agreement with the Company.

**8. ADJUSTMENTS UPON CHANGES IN COMMON STOCK; OTHER CORPORATE EVENTS.**

**(a) Capitalization Adjustments.** In the event of a Capitalization Adjustment, the Board will appropriately and proportionately adjust: (i) the class(es) and maximum number of securities subject to the Plan pursuant to Section 3(a)(i), and (ii) the class(es) and number of securities and price per share of stock subject to outstanding Awards. The Board will make such adjustments, and its determination will be final, binding and conclusive.

**(b) Dissolution.** Except as otherwise provided in the Award Agreement, in the event of a Dissolution of the Company, all outstanding Awards (other than Awards consisting of vested and outstanding shares of Common Stock not subject to a forfeiture condition or the Company’s right of repurchase) will terminate immediately prior to the completion of such Dissolution, and the shares of Common Stock subject to the Company’s repurchase rights or subject to a forfeiture condition may be repurchased or reacquired by the Company notwithstanding the fact that the holder of such Award is providing Continuous Service, *provided, however*, that the Board may, in its sole discretion, cause some or all Awards to become fully vested and/or no longer subject to repurchase or forfeiture (to the extent such Awards have not previously expired or terminated) before the Dissolution is completed but contingent on its completion.

**(c) Transactions.** The following provisions will apply to Awards in the event of a Transaction unless otherwise provided in the Award Agreement or any other written agreement between the Company or any Affiliate and the Participant or unless otherwise expressly provided by the Board at the time of grant of an Award. In the event of a Transaction, then, notwithstanding any other provision of the Plan, the Board may take one or more of the following actions with respect to Awards, contingent upon the closing or completion of the Transaction:

**(i)** arrange for the surviving corporation or acquiring corporation (or the surviving or acquiring corporation’s parent company) to assume or continue the Award or to substitute a similar Award for the Award (including, but not limited to, an award to acquire the same consideration paid to the stockholders of the Company pursuant to the Transaction);

**(ii)** arrange for the assignment of any reacquisition or repurchase rights held by the Company in respect of Common Stock issued pursuant to the Award to the surviving corporation or acquiring corporation (or the surviving or acquiring corporation’s parent company);

**(iii)** accelerate the vesting, in whole or in part, of the Award to a date prior to the effective time of such Transaction as the Board determines (or, if the Board does not determine such a date, to the date that is five (5) days prior to the effective date of the Transaction);

**(iv)** arrange for the lapse, in whole or in part, of any reacquisition or repurchase rights held by the Company with respect to the Award;

(v) cancel or arrange for the cancellation of the Award, to the extent not vested prior to the effective time of the Transaction, in exchange for such cash consideration or no consideration, as the Board, in its sole discretion, may consider appropriate; and

(vi) make a payment, in such form as may be determined by the Board equal to the value of the property the Participant would have received upon the settlement of the Award immediately prior to the effective time of the Transaction. Payments under this provision may be delayed to the same extent that payment of consideration to the holders of the Common Stock in connection with the Transaction is delayed as a result of escrows, earn outs, holdbacks or any other contingencies.

The Board need not take the same action or actions with respect to all Awards or portions thereof or with respect to all Participants. The Board may take different actions with respect to the vested and unvested portions of an Award.

(d) **Change in Control.** An Award may be subject to additional acceleration of vesting upon or after a qualifying termination that occurs in connection with a Change in Control as may be provided in the Award Agreement for such Award or as may be provided in any other written agreement between the Company or any Affiliate and the Participant, but in the absence of such provision, no such acceleration will occur.

**9. PLAN TERM; EARLIER TERMINATION OR SUSPENSION OF THE PLAN.**

(a) **Suspension and Termination.** The Board may suspend or terminate the Plan at any time. Unless sooner terminated, the Plan shall automatically terminate on March 10, 2031. No Awards may be granted under the Plan while the Plan is suspended or after it is terminated.

(b) **No Impairment of Rights.** Suspension or termination of the Plan will not impair rights and obligations under any Award granted while the Plan is in effect except with the written consent of the affected Participant or as otherwise permitted in the Plan.

**10. EFFECTIVE DATE OF PLAN.**

This Plan will become effective on the Effective Date.

**11. CHOICE OF LAW.**

The laws of the State of Delaware will govern all questions concerning the construction, validity and interpretation of this Plan, without regard to that state's conflict of laws rules.

**12. DEFINITIONS.** As used in the Plan, the following definitions will apply to the capitalized terms indicated below:

(a) **"Affiliate"** means, at the time of determination, any "parent" or "subsidiary" of the Company as such terms are defined in Rule 405. The Board will have the authority to determine the time or times at which "parent" or "subsidiary" status is determined within the foregoing definition.



(b) “*Award*” means a grant of Restricted Stock Units or Performance Stock Units.

(c) “*Award Agreement*” means a written agreement between the Company and a Participant evidencing the terms and conditions of an Award.

(d) “*Board*” means the Board of Directors of the Company.

(e) “*Capitalization Adjustment*” means any change that is made in, or other events that occur with respect to, the Common Stock subject to the Plan or subject to any Award after the Effective Date without the receipt of consideration by the Company through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, large nonrecurring cash dividend, stock split, reverse stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or any similar equity restructuring transaction, as that term is used in Statement of Financial Accounting Standards Board Accounting Standards Codification Topic 718 (or any successor thereto). Notwithstanding the foregoing, the conversion of any convertible securities of the Company will not be treated as a Capitalization Adjustment.

(f) “*Cause*” will have the meaning ascribed to such term in any written agreement between the Participant and the Company defining such term and, in the absence of such agreement, such term means, with respect to a Participant, the occurrence of any of the following events: (i) such Participant’s failure to substantially perform his or her duties with the Company or an Affiliate; (ii) such Participant’s failure to substantially follow and comply with the specific and lawful directives of the Board or any officer of the Company or an Affiliate to whom such Participant directly or indirectly reports; (iii) such Participant’s commission of an act of fraud or dishonesty resulting in actual economic, financial or reputational injury to the Company or an Affiliate; (iv) such Participant’s engagement in illegal conduct, gross misconduct or an act of moral turpitude, involving economic, financial or reputational injury to the Company or an Affiliate; (v) such Participant’s material violation of any material written policy, guideline, code, handbook or similar document governing the conduct of directors, officers or employees of the Company or its Affiliates resulting in actual economic, financial or reputational injury to the Company or an Affiliate; (vi) such Participant’s intentional, material violation of any contract or agreement between the Participant and the Company or of any statutory duty owed to the Company; or (vii) such Participant’s unauthorized use or disclosure of the Company’s confidential information or trade secrets. The determination that a termination of the Participant’s Continuous Service is either for Cause or without Cause will be made by the Company, in its sole discretion. Any determination by the Company that the Continuous Service of a Participant was terminated with or without Cause for the purposes of outstanding Awards held by such Participant will have no effect upon any determination of the rights or obligations of the Company or such Participant for any other purpose.

(g) “*Change in Control*” means the occurrence, in a single transaction or in a series of related transactions, of any one or more of the following events:

(i) any Exchange Act Person becomes the Owner, directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the combined voting power of the Company’s then outstanding securities other than by virtue of a merger, consolidation or similar transaction. Notwithstanding the foregoing, a Change in Control will not be deemed to

occur (A) on account of the acquisition of securities of the Company directly from the Company, (B) on account of the acquisition of securities of the Company by an investor, any affiliate thereof or any other Exchange Act Person that acquires the Company's securities in a transaction or series of related transactions the primary purpose of which is to obtain financing for the Company through the issuance of equity securities, or (C) solely because the level of Ownership held by any Exchange Act Person (the "**Subject Person**") exceeds the designated percentage threshold of the outstanding voting securities as a result of a repurchase or other acquisition of voting securities by the Company reducing the number of shares outstanding, provided that if a Change in Control would occur (but for the operation of this sentence) as a result of the acquisition of voting securities by the Company, and after such share acquisition, the Subject Person becomes the Owner of any additional voting securities that, assuming the repurchase or other acquisition had not occurred, increases the percentage of the then outstanding voting securities Owned by the Subject Person over the designated percentage threshold, then a Change in Control will be deemed to occur;

(ii) there is consummated a merger, consolidation or similar transaction involving (directly or indirectly) the Company and, immediately after the consummation of such merger, consolidation or similar transaction, the stockholders of the Company immediately prior thereto do not Own, directly or indirectly, either (A) outstanding voting securities representing more than fifty percent (50%) of the combined outstanding voting power of the surviving Entity in such merger, consolidation or similar transaction or (B) more than fifty percent (50%) of the combined outstanding voting power of the parent of the surviving Entity in such merger, consolidation or similar transaction, in each case in substantially the same proportions as their Ownership of the outstanding voting securities of the Company immediately prior to such transaction;

(iii) there is consummated a sale, lease, exclusive license or other disposition of all or substantially all of the consolidated assets of the Company and its Subsidiaries, other than a sale, lease, license or other disposition of all or substantially all of the consolidated assets of the Company and its Subsidiaries to an Entity, more than fifty percent (50%) of the combined voting power of the voting securities of which are Owned by stockholders of the Company in substantially the same proportions as their Ownership of the outstanding voting securities of the Company immediately prior to such sale, lease, license or other disposition; or

(iv) individuals who, on the date the Plan is adopted by the Board, are members of the Board (the "**Incumbent Board**") cease for any reason to constitute at least a majority of the members of the Board; *provided, however*, that if the appointment or election (or nomination for election) of any new Board member was approved or recommended by a majority vote of the members of the Incumbent Board then still in office, such new member will, for purposes of this Plan, be considered as a member of the Incumbent Board.

Notwithstanding the foregoing definition or any other provision of this Plan, the term Change in Control will not include a sale of assets, merger or other transaction effected exclusively for the purpose of changing the domicile of the Company.

(h) "**Code**" means the Internal Revenue Code of 1986, as amended, including any applicable regulations and guidance thereunder.

(i) “*Committee*” means a committee of one or more Directors to whom authority has been delegated by the Board in accordance with Section 2(c).

(j) “*Common Stock*” means the common stock of the Company.

(k) “*Company*” means Power Integrations, Inc., a Delaware corporation.

(l) “*Consultant*” means any person, including an advisor, who is (i) engaged by the Company or an Affiliate to render consulting or advisory services and is compensated for such services, or (ii) serving as a member of the board of directors of an Affiliate and is compensated for such services. However, service solely as a Director, or payment of a fee for such service, will not cause a Director to be considered a “Consultant” for purposes of the Plan. Notwithstanding the foregoing, a person is treated as a Consultant under this Plan only if a Form S-8 Registration Statement under the Securities Act is available to register either the offer or the sale of the Company’s securities to such person.

(m) “*Continuous Service*” means that the Participant’s service with the Company or an Affiliate, whether as an Employee, Director or Consultant, is not interrupted or terminated. A change in the capacity in which the Participant renders service to the Company or an Affiliate as an Employee, Director or Consultant or a change in the Entity for which the Participant renders such service, provided that there is no interruption or termination of the Participant’s service with the Company or an Affiliate, will not terminate a Participant’s Continuous Service; *provided, however*, that if the Entity for which a Participant is rendering services ceases to qualify as an Affiliate, as determined by the Board, in its sole discretion, such Participant’s Continuous Service will be considered to have terminated on the date such Entity ceases to qualify as an Affiliate. For example, a change in status from an Employee of the Company to a Consultant of an Affiliate or to a Director will not constitute an interruption of Continuous Service. To the extent permitted by law, the Board or the chief executive officer of the Company, in that party’s sole discretion, may determine whether Continuous Service will be considered interrupted in the case of (i) any leave of absence approved by the Board or chief executive officer, including sick leave, military leave or any other personal leave, or (ii) transfers between the Company, an Affiliate, or their successors. Notwithstanding the foregoing, a leave of absence will be treated as Continuous Service for purposes of vesting in an Award only to such extent as may be provided in the Company’s leave of absence policy, in the written terms of any leave of absence agreement or policy applicable to the Participant, or as otherwise required by law.

(n) “*Corporate Transaction*” means the consummation, in a single transaction or in a series of related transactions, of any one or more of the following events:

(i) a sale or other disposition of all or substantially all, as determined by the Board, in its sole discretion, of the consolidated assets of the Company and its Subsidiaries;

(ii) a sale or other disposition of more than fifty percent (50%) of the outstanding securities of the Company;

(iii) a merger, consolidation or similar transaction following which the Company is not the surviving corporation; or

(iv) a merger, consolidation or similar transaction following which the Company is the surviving corporation but the shares of Common Stock outstanding immediately preceding the merger, consolidation or similar transaction are converted or exchanged by virtue of the merger, consolidation or similar transaction into other property, whether in the form of securities, cash or otherwise.

(o) “**Director**” means a member of the Board.

(p) “**Disability**” means, with respect to a Participant, the inability of such Participant to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or that has lasted or can be expected to last for a continuous period of not less than twelve (12) months, as provided in Sections 22(e)(3) and 409A(a)(2)(c)(i) of the Code, and will be determined by the Board on the basis of such medical evidence as the Board deems warranted under the circumstances.

(q) “**Dissolution**” means when the Company, after having executed a certificate of dissolution with the State of Delaware, has completely wound up its affairs. Conversion of the Company into a Limited Liability Company (or any other pass-through entity) will not be considered a “Dissolution” for purposes of the Plan.

(r) “**Effective Date**” means the effective date of this Plan document, which is the date of the annual meeting of stockholders of the Company held in 2016, provided this Plan is approved by the Company’s stockholders at such meeting.

(s) “**Employee**” means any person employed by the Company or an Affiliate. However, service solely as a Director, or payment of a fee for such services, will not cause a Director to be considered an “Employee” for purposes of the Plan.

(t) “**Entity**” means a corporation, partnership, limited liability company or other entity.

(u) “**Exchange Act**” means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

(v) “**Exchange Act Person**” means any natural person, Entity or “group” (within the meaning of Section 13(d) or 14(d) of the Exchange Act), except that “Exchange Act Person” will not include (i) the Company or any Subsidiary of the Company, (ii) any employee benefit plan of the Company or any Subsidiary of the Company or any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any Subsidiary of the Company, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, (iv) an Entity Owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their Ownership of stock of the Company; or (v) any natural person, Entity or “group” (within the meaning of Section 13(d) or 14(d) of the Exchange Act) that, as of the Effective Date, is the Owner, directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the combined voting power of the Company’s then outstanding securities.

(w) “**Fair Market Value**” means, as of any date, the value of the Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or traded on any established market, the Fair Market Value of a share of Common Stock will be, unless otherwise determined by the Board, the closing sales price for such stock as quoted on such exchange or market (or the exchange or market with the greatest volume of trading in the Common Stock) on the date of determination, as reported in a source the Board deems reliable.

(ii) Unless otherwise provided by the Board, if there is no closing sales price for the Common Stock on the date of determination, then the Fair Market Value will be the closing selling price on the last preceding date for which such quotation exists.

(iii) In the absence of such markets for the Common Stock, the Fair Market Value will be determined by the Board in good faith and in a manner that complies with Sections 409A and 422 of the Code.

(x) “*Non-Employee Director*” means a Director who either (i) is not a current employee or officer of the Company or an Affiliate, does not receive compensation, either directly or indirectly, from the Company or an Affiliate for services rendered as a consultant or in any capacity other than as a Director (except for an amount as to which disclosure would not be required under Item 404(a) of Regulation S-K promulgated pursuant to the Securities Act (“*Regulation S-K*”)), does not possess an interest in any other transaction for which disclosure would be required under Item 404(a) of Regulation S-K, and is not engaged in a business relationship for which disclosure would be required pursuant to Item 404(b) of Regulation S-K; or (ii) is otherwise considered a “non-employee director” for purposes of Rule 16b-3.

(y) “*Officer*” means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act.

(z) “*Own,*” “*Owned,*” “*Owner,*” “*Ownership*” A person or Entity will be deemed to “Own,” to have “Owned,” to be the “Owner” of, or to have acquired “Ownership” of securities if such person or Entity, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has or shares voting power, which includes the power to vote or to direct the voting, with respect to such securities.

(aa) “*Participant*” means a person to whom an Award is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Award.

(bb) “*Performance Cash Award*” means an award of cash granted pursuant to the terms and conditions of Section 5(b)(ii).

(cc) “*Performance Criteria*” means the one or more criteria that the Committee will select for purposes of establishing the Performance Goals for a Performance Period. The Performance Criteria that will be used to establish such Performance Goals may be based on any one of, or combination of, the following: (i) earnings (including earnings per share and net earnings); (ii) earnings before interest, taxes and depreciation; (iii) earnings before interest, taxes, depreciation and amortization; (iv) total stockholder return; (v) return on equity or average stockholder’s equity; (vi) return on assets, investment, or capital employed; (vii) stock price; (viii) margin (including gross or operating margin); (ix) income (before or after taxes); (x) operating income; (xi) operating income after taxes; (xii) pre-tax profit; (xiii) operating cash flow; (xiv)

orders, sales or revenue targets; (xv) increases in revenue or product revenue; (xvi) expenses and cost reduction goals; (xvii) improvement in or attainment of working capital levels; (xviii) economic value added (or an equivalent metric); (xix) market share; (xx) cash flow; (xxi) cash flow per share; (xxii) share price performance; (xxiii) debt reduction; (xxiv) implementation or completion of projects or processes; (xxv) customer satisfaction; (xxvi) stockholders' equity; (xxvii) capital expenditures; (xxviii) debt levels; (xxix) operating profit or net operating profit; (xxx) workforce diversity; (xxxii) growth of net income or operating income; (xxxii) billings; (xxxiii) quality measures; and (xxxiv) other measures of performance selected by the Board or Committee.

**(dd)** “*Performance Goals*” means, for a Performance Period, the one or more goals established by the Committee or Board for the Performance Period based upon the Performance Criteria. Performance Goals may be based on a Company-wide basis, with respect to one or more business units, divisions, Affiliates, or business segments, and in either absolute terms or relative to the performance of one or more comparable companies or the performance of one or more relevant indices. Unless specified otherwise by the Board or Committee (i) in the Award Agreement at the time the Award is granted or (ii) in such other document setting forth the Performance Goals at the time the Performance Goals are established, the Board or Committee will appropriately make adjustments in the method of calculating the attainment of Performance Goals for a Performance Period as follows: (1) to exclude restructuring and/or other nonrecurring charges; (2) to exclude exchange rate effects; (3) to exclude the effects of changes to generally accepted accounting principles; (4) to exclude the effects of any statutory adjustments to corporate tax rates; (5) to exclude the dilutive effects of acquisitions or joint ventures; (6) to assume that any business divested by the Company achieved performance objectives at maximum levels during the balance of a Performance Period following such divestiture; (7) to exclude the effect of any change in the outstanding shares of common stock of the Company by reason of any stock dividend or split, stock repurchase, reorganization, recapitalization, merger, consolidation, spin-off, combination or exchange of shares or other similar corporate change, or any distributions to common stockholders other than regular cash dividends; (8) to exclude the effects of stock based compensation and the award of bonuses under the Company's bonus plans; (9) to exclude costs incurred in connection with potential acquisitions or divestitures that are required to be expensed under generally accepted accounting principles; (10) to exclude the goodwill and intangible asset impairment charges that are required to be recorded under generally accepted accounting principles and (11) to exclude the effect of any other unusual, non-recurring gain or loss or any other adjustment made to arrive at the Company's non-GAAP financial information as presented in the Company's SEC filings.

**(ee)** “*Performance Period*” means the period of time selected by the Board or Committee over which the attainment of one or more Performance Goals will be measured for the purpose of determining a Participant's right to and the payment of an Award or a Performance Cash Award. Performance Periods may be of varying and overlapping duration, at the sole discretion of the Board or Committee.

**(ff)** “*Performance Stock Unit Award*” means an Award granted under the terms and conditions of Section 5(b)(i).

**(gg)** “*Plan*” means this Power Integrations, Inc. 2016 Incentive Award Plan.

(hh) “*Restricted Stock Unit Award*” means a right to receive shares of Common Stock which is granted pursuant to the terms and conditions of Section 5(a).

(ii) “*Restricted Stock Unit Award Agreement*” means a written agreement between the Company and a holder of a Restricted Stock Unit Award evidencing the terms and conditions of a Restricted Stock Unit Award grant. Each Restricted Stock Unit Award Agreement will be subject to the terms and conditions of the Plan.

(jj) “*Rule 16b-3*” means Rule 16b-3 promulgated under the Exchange Act or any successor to Rule 16b-3, as in effect from time to time.

(kk) “*Rule 405*” means Rule 405 promulgated under the Securities Act.

(ll) “*Rule 701*” means Rule 701 promulgated under the Securities Act.

(mm) “*Securities Act*” means the Securities Act of 1933, as amended.

(nn) “*Subsidiary*” means, with respect to the Company, (i) any corporation of which more than fifty percent (50%) of the outstanding capital stock having ordinary voting power to elect a majority of the board of directors of such corporation (irrespective of whether, at the time, stock of any other class or classes of such corporation will have or might have voting power by reason of the happening of any contingency) is at the time, directly or indirectly, Owned by the Company, and (ii) any partnership, limited liability company or other entity in which the Company has a direct or indirect interest (whether in the form of voting or participation in profits or capital contribution) of more than fifty percent (50%).

(oo) “*Transaction*” means a Corporate Transaction or a Change in Control.

## SECOND AMENDMENT TO CREDIT AGREEMENT

THIS AMENDMENT TO CREDIT AGREEMENT (this "Amendment") dated June 7, 2021, 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 amended by deleting "April 30, 2022" as the last day on which Bank will make advances under the Line of Credit, and by substituting for said date "June 7, 2026."

2. Section 1.2. (d) is hereby deleted in its entirety, and the following substituted therefor:

“(d) Letter of Credit Fees. Borrower shall pay to Bank (i) fees upon the issuance, extension or increase of each Letter of Credit equal to one and one-quarter percent (1.25%) per annum (computed on the basis of a 360-day year, actual days elapsed) of the face amount or increased amount thereof, as applicable and (ii) fees upon the payment or negotiation of each drawing under any Letter of Credit and fees upon the occurrence of any other activity with respect to any Letter of Credit (including without limitation, the transfer, amendment or cancellation of any Letter of Credit) determined in accordance with Bank's standard fees and charges then in effect for such activity, with such fees and commissions payable at the time of such drawing or activity or, if applicable, by such later date as may be specified in a billing for such amount sent by Bank to Borrower.”

3. Section 3.2 (b) is hereby deleted in its entirety, and the following substituted therefor:

"(b) Documentation. Bank shall have received all additional documents which may be required in connection with such extension of credit including without limitation, the following:

(i) For the issuance of a commercial letter of credit under any credit subject to this Agreement, Bank's standard Application for Commercial Letter of Credit.

(ii) For the issuance of a standby letter of credit under any credit subject to this Agreement, Bank's standard Application for Standby Letter of Credit.”

4. Section 4.2. is hereby deleted in its entirety, and the following substituted therefor:

"SECTION 4.2. ACCOUNTING RECORDS. Maintain adequate books and records in accordance with generally accepted accounting principles consistently applied, and permit any



representative of Bank, at any reasonable time, to inspect, audit and examine such books and records, to make copies of the same, and to inspect the properties of Borrower. If at any time any change in generally accepted accounting principles would affect the computation of any covenant (including the computation of any financial covenant) and/or pricing grid set forth in this Agreement or any other Loan Document, Borrower and Bank shall negotiate in good faith to amend such covenant and/or pricing grid to preserve the original intent in light of such change; provided, that, until so amended, (i) such covenant and/or pricing grid shall continue to be computed in accordance with the application of generally accepted accounting principles prior to such change and (ii) Borrower shall provide to Bank a written reconciliation in form and substance reasonably satisfactory to Bank, between calculations of such covenant and/or pricing grid made before and after giving effect to such change in generally accepted accounting principles."

5. Banks address in Section 7.2 is hereby deleted in its entirety, and the following substituted therefor:

"BANK: WELLS FARGO BANK, NATIONAL ASSOCIATION  
MAC A0112-145  
550 California Street, 14<sup>th</sup> Floor  
San Francisco, CA 94104"

6. 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 related to this amendment 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) Corporate Resolutions and Certificate of Incumbency Borrower.
- (iii) Such other documents 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.

7. 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.

8. 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 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.

9. Borrower hereby covenants that Borrower shall provide to Bank from time to time such other information as Bank may request for the purpose of enabling Bank to fulfill its regulatory and compliance requirements, standards and processes. Borrower hereby represents and warrants to Bank that all information provided from time to time by Borrower or any Third Party Obligor to Bank for the purpose of enabling Bank to fulfill its regulatory and compliance requirements, standards and processes was complete and correct at the time such information was provided and, except as specifically identified to Bank in a subsequent writing, remains complete and correct today, and shall be complete and correct at each time Borrower is required to reaffirm the representations and warranties set forth in the Credit Agreement.

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.	WELLS FARGO BANK, NATIONAL ASSOCIATION
By: <u>/s/ Balu Balakrishnan</u> BALU BALAKRISHNAN, CHIEF EXECUTIVE OFFICER AND PRESIDENT	By: <u>/s/ Elizabeth Gaynor</u> ELIZABETH GAYNOR, DIRECTOR

## FIRST MODIFICATION TO PROMISSORY NOTE

THIS MODIFICATION TO PROMISSORY NOTE (this "Modification") dated June 7, 2021, is entered into by and between POWER INTEGRATIONS, INC. ("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 Revolving Line of Credit Note in the stated amount of \$75,000,000.00, executed by Borrower and payable to the order of Bank, dated April 30, 2018, as modified from time to time (the "Note"), which Note is subject to the terms and conditions of a credit agreement between Borrower and Bank dated July 27, 2016, as amended from time to time (the "Agreement").

WHEREAS, Bank and Borrower have agreed to certain changes in the terms and conditions set forth in the Note, and have agreed to modify the Note to reflect said changes.

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

1. The following is hereby added to the Note:

#### 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 is not a loan document):

(a) Benchmark Replacement. If a Benchmark Transition Event or an Early Opt-in Election, as applicable, occurs, the applicable Benchmark Replacement will replace the then-current 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. Bank, in consultation with Borrower, will have the right to make Benchmark Replacement Conforming Changes from time to time and any amendments implementing such Benchmark Replacement 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) any occurrence of a Benchmark Transition Event or an Early Opt-in Election, as applicable, (ii) the implementation of any Benchmark Replacement, and (iii) the effectiveness of any Benchmark Replacement Conforming Changes. 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) Certain Defined Terms. As used in this Note, each of the following capitalized terms has the meaning given to such term below:

(i) “Benchmark” means, initially, LIBOR (including Daily One Month LIBOR, if applicable); provided, however, that if a Benchmark Transition Event or an Early Opt-in Election, as applicable, has occurred with respect to LIBOR or the 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.

(ii) “Benchmark Administrator” means, initially, ICE Benchmark Administration Limited, a United Kingdom company, or any successor administrator of the then-current Benchmark or any insolvency or resolution official with authority over such administrator.

(iii) “Benchmark Replacement” means the first alternative set forth in the order below that can be determined by Bank as of the applicable Benchmark Replacement Date:

(1) the sum of: (A) Term SOFR or, if Bank determines that Term SOFR for the Corresponding Tenor cannot be determined, Term SOFR for the longest tenor that can be determined by Bank that is shorter than the Corresponding Tenor, 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 or recommended by the Relevant Governmental Body for Term SOFR; provided, however, that this clause (1) shall not apply (i) to any borrowings under this Note if a Swap Agreement is in effect with respect to all or any portion of this Note as of the Benchmark Transition Event or Early Opt-in Election, and (ii) to any borrowings under this Note that bear interest at Daily One Month LIBOR;

(2) the sum of: (A) Daily Simple SOFR, 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 or recommended by the Relevant Governmental Body for Daily Simple SOFR; provided, however, that this clause (2) shall not apply to any borrowings under this Note if a Swap Agreement is in effect with respect to all or any portion of this Note as of the Benchmark Transition Event or Early Opt-in Election;

(3) the sum of: (A) the alternate rate of interest that has been selected by Bank as the replacement for the then-current Benchmark for the Corresponding Tenor (which, without limitation, may be compounded SOFR in arrears, term SOFR, Bank’s Prime Rate, or another benchmark selected by Bank); and (B) the applicable 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.

With respect to Bank’s decisions under this paragraph (3):

(i) if a Swap Agreement relating to a portion of this Note is in effect as of the Benchmark Transition Event or Early Opt-in Election, then Bank may without limitation, select (i) the benchmark referenced in the Swap Agreement, which may be the sum of a fallback rate and spread adjustment, for the entire balance of this Note, or (ii) the benchmark referenced in the Swap Agreement, which may be the sum of a fallback rate and spread adjustment, for the hedged portion of this Note, and the applicable Benchmark Replacement for the remaining non-

hedged portion of this Note; and

(ii) in the case of a replacement rate for Daily One Month LIBOR, Bank may, without limitation, select SOFR notwithstanding the availability or feasibility of determining a daily one month SOFR; and

(iii) Bank's selection of any applicable Benchmark Replacement shall give due consideration to (i) any selection or recommendation by the Relevant Governmental Body at such time for a replacement rate, the mechanism for determining such a rate, the methodology or conventions applicable to such rate, or the spread adjustment, or method for calculating or determining such spread adjustment, for such rate, or (ii) any evolving or then-prevailing market convention for determining a rate of interest as a replacement to the 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 alternate rate for U.S. dollar-denominated syndicated or bilateral credit facilities at such time.

Provided, however, during any period of time that the Benchmark Replacement would be less than zero percent (0.0%), the Benchmark Replacement shall be deemed to be zero percent (0.0%) for the purposes of this Note and the related loan documents, subject to any applicable floor rate provision.

(iv) "Benchmark Replacement Conforming Changes" means any technical, administrative or operational changes (including, without limitation, changes to the definition of "Interest Period," timing and frequency of determining rates and making payments of interest, prepayment provisions and other administrative matters) that Bank decides may be appropriate to reflect the adoption and implementation of such Benchmark Replacement and to permit the administration thereof by Bank.

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

(vi) "Benchmark Transition Event" means the occurrence of one or more of the following events with respect to the 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 the Benchmark permanently or indefinitely or (B) the Benchmark is no longer representative of underlying markets.

(vii) "Corresponding Tenor" means a tenor having approximately the same length as the Interest Period, provided, however, that the Corresponding Tenor for Daily One Month LIBOR shall be one day.

(viii) "Daily Simple SOFR" means, for any day, SOFR, with the conventions for this rate (which will include a lookback) being established by Bank in accordance with the conventions for this rate selected or recommended by the Relevant Governmental Body for determining "Daily Simple SOFR" for bilateral business loans; provided, that if Bank decides that any such convention is not administratively feasible for Bank, then Bank may establish another convention in its reasonable discretion.

(ix) "Early Opt-in Election" means the election by Bank to declare that the Benchmark will be replaced prior to the occurrence of a Benchmark Transition Event and the provision by Bank of written notice of such election to Borrower indicating that at least five (5) currently outstanding U.S. dollar-

denominated syndicated credit facilities at such time contain (as a result of amendment or as originally executed) Term SOFR plus a spread adjustment that has been selected or recommended by the Relevant Governmental Body.

(x) “Interest Period” means, initially, the applicable LIBOR Period, and if a Benchmark Replacement is applicable, the tenor of the Benchmark Replacement.

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

(xii) “SOFR” with respect to any day means the secured overnight financing rate published for such day by the Federal Reserve Bank of New York, as the administrator thereof, (or a successor administrator) on its website.

(xiii) “Swap Agreement” means a swap agreement by and between Borrower and Bank or its affiliates.

(xiv) “Term SOFR” means the forward-looking term rate for the Corresponding Tenor based on SOFR that has been selected or recommended by the Relevant Governmental Body.

(d) London Interbank Offered Rate Benchmark Transition Event. On March 5, 2021, the ICE Benchmark Administration (the “IBA”), the administrator of the London interbank offered rate, and the Financial Conduct Authority (the “FCA”), the regulatory supervisor of the IBA, announced in public statements (the “Announcements”) that the final publication or representativeness date for (i) 1-week and 2-month London interbank offered rate tenor settings will be December 31, 2021 and (ii) overnight, 1-month, 3-month, 6-month and 12-month London interbank offered rate tenor settings will be June 30, 2023. No successor administrator for the IBA was identified in such Announcements. The parties hereto agree and acknowledge that the Announcements resulted in the occurrence of a Benchmark Transition Event with respect to the London interbank offered rate pursuant to the terms of this Agreement and that any obligation of Bank to notify any parties of such Benchmark Transition Event pursuant to clause (c) of this Section titled “Benchmark Replacement Provisions” shall be deemed satisfied.

2. The effective date of this Modification shall be the date that all of the following conditions set forth in the 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 Modification, Bank shall not be obligated to extend credit under this Modification or any other Loan Document until all conditions to each extension of credit set forth in the Agreement have been fulfilled to Bank’s satisfaction.

- (a) Approval of Bank Counsel. All legal matters incidental to the effectiveness of this Modification 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 Modification and each other instrument or document required hereby.
  - (ii) Such other documents as Bank may require under any other Section of this Modification.

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

4. Borrower certifies that as of the date of this Modification there exists no Event of Default under the Note, 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 Modification to be effective as of the effective date set forth herein.

POWER INTEGRATIONS, INC.

WELLS FARGO BANK,  
NATIONAL ASSOCIATION

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

By: /s/ Elizabeth Gaynor  
ELIZABETH GAYNOR,  
DIRECTOR

[ ] = Certain confidential information contained in this document, marked by brackets, is omitted because it is both (i) not material and (ii) is the type of information that Power Integrations, Inc. treats as private or confidential.

AMENDMENT NUMBER THREE TO WAFER SUPPLY AGREEMENT

This Amendment Number Three (the "Amendment") is effective as of April 21, 2021 and amends the Wafer Supply Agreement that is effective as of October 1, 2010, as amended by Amendment Number One that is effective as of January 1, 2014, as amended by Amendment Number Two that is effective as of December 1, 2018 ("the AGREEMENT"), and is entered into by and between:

- (1) Power Integrations, Ltd. d.b.a. Power Integrations International, Ltd., a Cayman Islands corporation having its principal place of business at 4<sup>th</sup> Floor, Century Yard, Cricket Square, Elgin Avenue, P.O. Box 32322, Grand Cayman KY1-1209 ("POWER INTEGRATIONS"); and
- (2) X-FAB Semiconductor Foundries GmbH (formerly known as, and successor in interest of X-FAB Semiconductor Foundries AG) having its principal place of business at Haarbergstrasse 67, 99097 Erfurt, Germany ("COMPANY").

RECITALS

WHEREAS, the parties to this Amendment hereby agree to amend the AGREEMENT;

and

WHEREAS, in accordance with Section 18.10 of the AGREEMENT, the AGREEMENT may be amended only by an instrument in writing duly executed by an authorized representative of COMPANY and POWER INTEGRATIONS.

NOW THEREFORE, the parties agree as follows:

AMENDMENT

I. Section 10.4 is amended by the following:

The actual amount of the [\*] Equipment Cost paid by PI and received by X-FAB Texas is [\*].

II. Section 10.6 is deleted and replaced with the following:

10.6 The [\*] Equipment Cost that is to be repaid to POWER INTEGRATIONS by COMPANY as a [\*] Discount according to Section 10.4 is [\*].

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III. Section 19.1 is deleted in its entirety and replaced with:

19.1 Subject to the prior written approval of PI, X-FAB Texas will purchase or has purchased: (1) the following manufacturing equipment, which is, (a) a [\*] Tool specific to the [\*] process [], (b) a [\*] Tool, (c) [\*] Test Equipment, (d) a [\*] Tool, (e) a [\*] Tool, (f) two (2) [\*] tools, and (g) the [\*] Tool, (a) through (g) collectively the “[\*] Equipment”; (2) the installation of the [\*] Equipment; and (3) the fitting for the [\*] Equipment. X-FAB Texas will be responsible for the cost of items 2 and 3. Subject to PI’s prior written approval of the specific [\*] Equipment manufacturers, model numbers, and purchase price (the “[\*] Equipment Cost”), PI will reimburse X-FAB Texas for the [\*] Equipment Cost in accordance with Sections 10.4 and 10.5.

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

X-FAB Semiconductor Foundries GmbH

Power Integrations, Ltd. d.b.a. Power Integrations International, Ltd.

Name: Lloyd L. Whetzel

Name: Sunil Gupta

Signature: /s/ Lloyd L. Whetzel  
Title: CEO/President: X-FAB Texas, Inc.  
Date: May 13, 2021

Signature: /s/ Sunil Gupta  
Title: President and Director  
Date: May 11, 2021

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EXHIBIT 10.5

POWER INTEGRATIONS, INC.  
EXECUTIVE OFFICER BENEFITS AGREEMENT

THIS EXECUTIVE OFFICER BENEFITS AGREEMENT (the “*Agreement*”) is made and entered into as of June 14, 2021 (the “*Effective Date*”), by and between POWER INTEGRATIONS, INC., a Delaware corporation, (the “*Company*”) and Yang Chiah Yee (“*Executive*”).

RECITALS

A. Executive is an Executive Officer of the Company and possesses valuable knowledge of the Company, its business and operations, and the markets in which the Company competes.

B. The Company draws upon the knowledge, experience and advice of Executive in order to manage its business for the benefit of the Company’s stockholders.

C. The Board of Directors desires to supplement Executive’s employment arrangements so as to provide additional compensation and benefits to the Executive to encourage Executive to continue to devote his attention and dedication to the Company and to create additional incentives to continue his employment with the Company.

AGREEMENT

THEREFORE, in consideration of the mutual agreements, covenants and considerations contained herein, the undersigned hereby agree and acknowledge as follows:

1. Pursuant to Sections 21(k) or 21(s) of Exhibit A hereto, Executive shall first be eligible for the benefits under this Agreement upon the completion of one year of continuous service as an Executive Officer of the Company, unless the Board of Directors or Compensation Committee determines otherwise.

2. For the purposes of this Agreement the “*Option Effective Date*” shall mean the Effective Date.

3. This Agreement may only be modified or amended by a supplemental written agreement signed by Executive and the Company.

\* \* \* \* \*

IN WITNESS WHEREOF, the undersigned have executed this EXECUTIVE OFFICER BENEFITS AGREEMENT, intending to be legally bound as of the Effective Date.

**COMPANY:**

**POWER INTEGRATIONS, INC.**

By: /s/ BALU BALAKRISHNAN

Name: Balu Balakrishnan

Title: President and CEO

**EXECUTIVE:**

/s/ YANG CHIAH YEE

Yang Chiah Yee

Address for Notice: Executive's home address as reflected in the records of the Company

## EXHIBIT A

### TERMS OF EXECUTIVE OFFICER BENEFITS AGREEMENT

**1. Position and Duties.** Executive shall continue to be an at-will employee of the Company employed in his/her current position at his/her then current salary rate. Executive shall also be entitled to continue to participate in and to receive benefits on the same basis as other executive or senior staff members under any of the Company's employee benefit plans as in effect from time to time. In addition, Executive shall be entitled to the benefits afforded to other employees similarly situated under the Company's employment policies. Executive agrees to devote the business time, energy and skill necessary to execute his/her duties at the Company. These duties shall include, but not be limited to, any duties consistent with his/her position which may be assigned to Executive from time to time.

**2. Acceleration of Vesting of Stock Awards Upon a Change of Control.** In the event of a Change of Control, and provided that Executive's employment with the Company has not terminated prior to such date, Executive shall be entitled to the following benefits:

**(a)** All Retention Stock Awards granted by the Company to the Executive prior to the Change of Control shall have their vesting accelerated such that 25% of the then unvested shares subject to each Retention Stock Award will be deemed vested and exercisable or issuable as of the consummation of the Change of Control. Notwithstanding the foregoing, if the Change of Control does not require the assumption or substitution by the acquiring entity (or parent thereof) of all of the Company's obligations of the then outstanding Retention Stock Awards, then (i) if Executive is a New Executive, 50% of the then unvested shares subject to each Retention Stock Awards will be accelerated and deemed vested and exercisable prior to the consummation of the Change of Control; or (ii) if Executive is a Senior Executive, 100% of the then unvested shares subject to any Retention Stock Awards will be accelerated and deemed vested and exercisable prior to the consummation of the Change of Control. The shares vesting pursuant to this Section 2(a) will be exercisable, issued or converted and paid in accordance with Sections 2(c) and 20(a). Except as otherwise provided in the applicable award agreement, the portion of any unvested Retention Stock Award that is not assumed (or an appropriate substitution provided) and that does not vest based on this Section 2(a) will be forfeited by Executive and will be of no further force or effect.

**(b)** All Performance Stock Awards granted by the Company to the Executive prior to the Change of Control shall have their vesting accelerated immediately prior to consummation of such Change of Control so that 100% of the then unvested shares will be deemed vested at the applicable maximum achievable Performance Level. The shares vesting pursuant to this Section 2(b) will be exercisable, issued or converted and paid in accordance with Sections 2(c) and 20(a).

**(c)** In the event of a Change of Control, the Company undertakes to facilitate Executive's receipt of any of the benefits set forth in this Agreement by providing written notice to Executive, at least ten (10) days in advance of the closing of such transaction, which (i) indicates the anticipated timing and material economic terms of the anticipated transaction and (ii) references the Executive's rights under this Agreement. The Company shall also provide

appropriate Stock Award exercise forms and instructions to assist Executive in exercising his or her rights to acquire securities of the Company on or prior to the consummation of the Change of Control. Executive is strongly encouraged to consult with his or her tax and financial advisor prior to electing to exercise any option pursuant to this Agreement.

### **3. Termination Upon Change of Control.**

**(a) Severance Benefits.** In the event of the Executive's Termination Upon Change of Control, Executive shall be entitled to the following separation benefits:

**(i) Salary and Accrued Benefits.** All salary and accrued but unused vacation earned through the date of Executive's termination.

**(ii) Annual Performance Bonus.** Payment of a Prorated Portion of the cash value of Executive's Annual Performance Bonus measured as of the date of termination for the year in which such termination occurs.

**(iii) Expenses.** Within fourteen (14) days of submission of proper expense reports by the Executive, reimbursement by the Company for all expenses reasonably and necessarily incurred by the Executive in connection with the business of the Company prior to his termination of employment.

**(iv) Severance Payment.**

**(1)** if Executive is a New Executive, payment of an amount equal to six (6) months of Executive's Highest Annual Salary from the Company and 50% of the cash value of Executive's Annual Performance Bonus measured as of the date of termination at the applicable maximum achievable Performance Level as in effect as of the date of such termination to be paid in a lump sum on the sixtieth (60<sup>th</sup>) day following such termination as provided in Section 14; or

**(2)** if Executive is a Senior Executive, payment of an amount equal to (a) six (6) months of Executive's Highest Annual Salary from the Company and 50% of the cash value of Executive's Annual Performance Bonus measured as of the date of termination at the applicable maximum achievable Performance Level as in effect as of the date of such termination to be paid in a lump sum on the sixtieth (60<sup>th</sup>) day following such termination as provided in Section 14 and (b) up to an additional six (6) months of Executive's Highest Annual Salary and 50% of such Annual Performance Bonus measured as of the date of termination at the applicable maximum achievable Performance Level, less applicable withholding, shall be paid beginning six months after termination, subject to Section 14, in ratable monthly installments for six months or until Executive secures new employment, whichever occurs earlier.

**(v) Stock Awards.**

**(1)** The ability to exercise any and all outstanding vested options granted after the Option Effective Date (and any vested options granted prior to the Option Effective Date but only to the extent that such extension of exercisability would not require the Company to incur a compensation expense for financial statement purposes) for twelve (12)

months from the date of termination of employment.

(2) The vesting of all Stock Awards (to the extent such Stock Award does not also constitute a portion of Executive's Annual Performance Bonus) granted by the Company to the Executive and outstanding immediately prior to such Termination Upon Change of Control shall have their vesting accelerated, such that (i) if Executive is a New Executive, 50% of the then unvested shares subject to such Stock Award will be deemed vested and exercisable as of the date of termination of employment; or (ii) if Executive is a Senior Executive, 100% of the then unvested shares subject to such Stock Award will be deemed vested and exercisable as of the date of termination of employment. Any shares vesting pursuant to this Section 3(a)(v)(2) subject to a Performance Stock Award shall vest at the applicable maximum achievable Performance Level. The shares vesting pursuant to this Section 3(a)(v)(2) will be issued in accordance with Section 20(a). Except as otherwise provided in the applicable Stock Award agreement, the portion of any unvested Stock Award that does not vest based on this Section 3(a)(v)(2) will be forfeited by Executive and will be of no further force or effect.

**(b) Benefits Continuation.**

(i) In the event of Executive's Termination Upon Change of Control, Executive shall be entitled to elect continued medical and dental insurance coverage in accordance with the applicable provisions of the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, ("COBRA") and the Company shall pay such COBRA premiums for (i) six (6) months from the date of termination of employment, if Executive is a New Executive; or (ii) twelve (12) months from the date of termination of employment, if Executive is a Senior Executive. Notwithstanding the above, in the event Executive becomes eligible to be covered under another employer's group health plan (other than a plan which imposes a preexisting condition exclusion unless the preexisting condition exclusion does not apply) during the period provided for herein, the Company shall cease payment of the COBRA premiums; and

(ii) Executive shall receive the benefits, if any, under the Company's 401(k) Plan and other Company benefit plans to which he may be entitled pursuant to the terms of such plans.

**4. Termination of Employment.**

(a) **Severance Benefits.** In the event of the Executive's Termination of Employment, Executive shall be entitled to all separation benefits provided in Section 3(a)(i) ("**Salary and Accrued Benefits**"), Section 3(a)(ii) ("**Annual Performance Bonus**") and 3(a)(iii) ("**Expenses**") above. In addition, Executive shall be entitled to six (6) months of Executive's Highest Annual Salary and 50% of the cash value of Executive's Annual Performance Bonus at the applicable maximum achievable Performance Level as in effect as of the date of such termination, all less applicable withholding, paid in a lump sum within sixty (60) days of such termination as provided in Section 14.

**(b) Performance Stock Awards.**

(i) A Prorated Portion of all shares subject to Performance Stock Awards granted to the Executive by the Company and outstanding prior to such Termination of

Employment with a performance period greater than one (1) year and granted other than in connection with Executive's Annual Performance Bonus shall vest at such Performance Level as determined by the Board of Directors or Compensation Committee on the date of such determination.

(ii) Immediately prior to the consummation of any Change of Control to occur after Executive's Termination of Employment, a Prorated Portion of Executive's outstanding Performance Stock Awards with a performance period greater than one (1) year and granted other than in connection with Executive's Annual Performance Bonus will be deemed vested at the applicable maximum achievable Performance Level. The shares vesting pursuant to this Section 4(b) (ii) will be exercisable, issued or converted and paid in accordance with Sections 2(c) and 20(a).

**(c) Benefits Continuation.**

(i) In the event of Executive's Termination of Employment, Executive shall be entitled to elect continued medical and dental insurance coverage in accordance with the applicable provisions of COBRA and the Company shall pay such COBRA premiums for six (6) months from the date of Termination of Employment. Notwithstanding the above, in the event Executive becomes eligible to be covered under another employer's group health plan (other than a plan which imposes a preexisting condition exclusion unless the preexisting condition exclusion does not apply) during the period provided for herein, the Company shall cease payment of the COBRA premiums; and

(ii) Executive shall receive the benefits, if any, under the Company's 401(k) Plan and other Company benefit plans to which he may be entitled pursuant to the terms of such plans.

**5. Retirement Benefits.**

(a) In order to be eligible for the Retirement Benefits described in Section 5(b) below, the Executive must meet both of the following criteria:

(i) At the time of Executive's termination of employment with the Company (other than in circumstances in which such termination (i) constitutes a termination with Cause or (ii) does not qualify as a Separation from Service), the Executive has (1) achieved the age of 50 and served the Company for at least 15 years; or (2) achieved the age of 55 and served the Company for at least 10 years; provided, however, if such termination of employment also constitutes a Termination of Employment or a Termination Upon Change of Control, Executive must elect within thirty (30) days of such termination to receive either the benefits provided in Section 3 or Section 4, as applicable, or the benefits provided in this Section 5; and

(ii) At any time during which the Executive is receiving Retirement Benefits, the Executive shall not (1) be employed or on contract full time by a third party (excluding a non-profit organization described in Section 501(c)(3) of the Code) or (2) engage in Competition. If the Executive engages in either (1) or (2), then all Retirement Benefits shall terminate immediately and permanently.

(b) If both conditions in Sections 5(a)(i) and 5(a)(ii) above are satisfied, the Executive shall be entitled, subject to Section 14, to receive the following “*Retirement Benefits*.”

(i) **Option Exercisability.** The ability to exercise any and all options granted after the Option Effective Date (and any options granted prior to the Option Effective Date but only to the extent that such extension of exercisability would not require the Company to incur a compensation expense for financial statement purposes) to the extent such options are vested as of the date of termination of employment for the earlier of: (i) the term of the option, (ii) the termination of the option in connection with any Change of Control, or (iii) five years;

(ii) **Performance Stock Awards.** The benefits provided under Section 4(b) (“*Performance Stock Awards*”); and

(iii) **Medical and Dental Coverage.** The Company shall pay the Executive’s medical and dental premiums until the Executive achieves the age of Medicare eligibility, and additionally, if the Executive’s medical and dental coverage on the date of termination included the Executive’s dependents, the premiums of such dependents until the Executive achieves the age of Medicare eligibility as follows:

(A) **COBRA Continuation Coverage.** Upon the termination of Executive’s active employment with the Company, Executive shall be entitled to elect continued medical and dental insurance coverage in accordance with the applicable provisions of COBRA and the Company shall pay such COBRA premiums.

(B) **Coverage After COBRA & Prior to Medicare Eligibility.** In the event the Executive is not eligible for Medicare coverage at the end of his maximum applicable COBRA coverage period, then, the Executive shall identify and locate either or both an individual conversion policy through the insurer providing insurance coverage in connection with the Company sponsored medical and dental plans available to active employees (the “*Conversion Policy*”), and/or a supplemental individual policy or an individual policy on the open market (the “*Individual Policy*”) to be effective upon the termination of his COBRA continuation coverage so that, when the coverages for Executive provided by the Conversion Policy and/or the Individual Policy are combined, such coverages provide substantially similar medical and dental benefits in the aggregate as those provided under the medical and dental plans sponsored by the Company at such time, or at any time after the termination of Executive’s employment, for active employees (the “*Comparable Coverage*”). The Company shall be responsible for the payment of any Conversion Policy premiums and/or Individual Policy premiums for the Comparable Coverage which payment shall not exceed the cost of premiums for medical and dental coverage for then active employees. If Executive is at such time eligible to participate under the Company Plans, Executive will be entitled to so participate.

(C) **Coverage After COBRA & Upon Medicare Eligibility.** In the event the Executive is eligible for Medicare coverage at the end of his maximum applicable COBRA coverage period, the Executive may identify and locate a Medicare supplemental policy, which may include, to the extent permitted, the medical and dental plans sponsored by the Company at such time for active employees (the “*Company Plans*”), that, when combined with the coverage provided by Medicare, provides Comparable Coverage. If Executive is at such time



eligible to participate under the Company Plans, Executive will be entitled to so participate; provided that Executive shall be solely responsible for the payment of any Medicare premiums and/or Medical supplemental policy premiums for the Comparable Coverage (including, if applicable, any premiums under the Company Plans).

**(D) Taxes, Coverage.** The Executive shall be responsible for any taxes that may be attributable to or result from the payments made by the Company in accordance with this Section 5(b)(iii) or receipt of medical and dental benefits attributable to or result from such payments. Notwithstanding Section 5(b)(iii)(A) or (B), in the event Executive becomes eligible to be covered under another employer's group health plan (other than a plan which imposes a preexisting condition exclusion to the extent permissible by law, unless the preexisting condition exclusion does not apply) during the period provided for herein, the Company shall cease payment of any premiums. The Company will use commercially reasonable efforts to provide that Executive will continue to be eligible for coverage as provided under this Section 5(b)(iii) under the Company Plans, unless the Board of Directors or Compensation Committee determines that such coverage would create an undue burden on the Company.

**6. Termination of Employment due to Death or Permanent Disability.**

**(a)** In the event of (i) the Executive's death during his employment with the Company and the Executive having satisfied the criteria provided at Section 5(a)(i) as of or prior to the date of his death or (ii) the Executive's death during the period while Executive was receiving Retirement Benefits as a result of compliance with the criteria provided at Section 5(a)(i) and 5(a)(ii), (1) the Executive's legal representative or any person empowered to act on his behalf under his will or under the then applicable laws of descent and distribution shall be entitled to the benefits pursuant to Section 5(b)(i) ("**Option Exercisability**") and Section 5(b)(ii) ("**Performance Stock Awards**") and (2) the Executive's dependents, to the extent applicable, shall be entitled to the benefits pursuant to Section 5(b)(iii)(A)-(D) ("**Medical and Dental Coverage**") for that period of time until the Executive would have achieved the age of Medicare eligibility if the Executive had lived.

**(b)** In the event of the Executive's Permanent Disability during his employment with the Company and the Executive having satisfied the criteria provided at Section 5(a)(i), the Executive, and to the extent applicable, his dependents, shall be entitled to the benefits provided in Section 5(b)(i) ("**Option Exercisability**"), Section 5(b)(ii) ("**Performance Stock Awards**") and 5(b)(iii)(A)-(D) ("**Medical and Dental Coverage**").

**7. Payment of Taxes.** All payments made to Executive under this Agreement shall be subject to all applicable federal and state income, employment and payroll taxes, including all withholding taxes.

**8. Parachute Payment.** Executive is strongly encouraged to review the following provision and consult with his or her tax and financial advisor concerning the application of any personal tax consequences related to any payments provided for under this Agreement and the following provision. In the event that any of the payments and benefits provided for in this Agreement or otherwise payable to the Executive (a "**280G Payment**") would (i) constitute a "parachute payment" within the meaning of Section 280G of the Code, and (ii) but for this

sentence, be subject to the excise tax imposed by Section 4999 of the Code (the “**Excise Tax**”), then any such 280G Payment pursuant to this Agreement (a “**Payment**”) shall be equal to the Reduced Amount. The “**Reduced Amount**” shall be either (i) the largest portion of the Payment that would result in no portion of the Payment (after reduction) being subject to the Excise Tax or (ii) the largest portion, up to and including the total, of the Payment, whichever amount (i.e., the amount determined by clause (i) or by clause (ii)), after taking into account all applicable federal, state and local employment taxes, income taxes, and the Excise Tax (all computed at the highest applicable marginal rate), results in the receipt by Executive, on an after-tax basis, of the greater economic benefit notwithstanding that all or some portion of the Payment may be subject to the Excise Tax. If a reduction in a Payment is required pursuant to the preceding sentence and the Reduced Amount is determined pursuant to clause (x) of the preceding sentence, the reduction shall occur in the manner (the “**Reduction Method**”) that results in the greatest economic benefit for Executive. If more than one method of reduction will result in the same economic benefit, the items so reduced will be reduced pro rata (the “**Pro Rata Reduction Method**”). Notwithstanding the foregoing, if the Reduction Method or the Pro Rata Reduction Method would result in any portion of the Payment being subject to taxes pursuant to Section 409A that would not otherwise be subject to taxes pursuant to Section 409A, then the Reduction Method and/or the Pro Rata Reduction Method, as the case may be, shall be modified so as to avoid the imposition of taxes pursuant to Section 409A as follows: (A) as a first priority, the modification shall preserve to the greatest extent possible, the greatest economic benefit for Executive as determined on an after-tax basis; (B) as a second priority, Payments that are contingent on future events (e.g., being terminated without cause), shall be reduced (or eliminated) before Payments that are not contingent on future events; and (C) as a third priority, Payments that are “deferred compensation” within the meaning of Section 409A shall be reduced (or eliminated) before Payments that are not deferred compensation within the meaning of Section 409A.

Unless the Company and the Executive otherwise agree in writing, any determination required under this Section 8 shall be made in writing by independent public accountants appointed by the Company and reasonably acceptable to the Executive (the “**Accountants**”), whose determination shall be conclusive and binding upon the Executive and the Company for all purposes. The Company shall bear all costs the Accountants may reasonably incur in connection with such determination, and the Company and the Executive shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section 8.

**9. Exclusive Remedy.** The payments and benefits provided for in Section 3, Section 4, Section 5 or Section 15 shall constitute the Executive’s sole and exclusive remedy for any alleged injury or other damages arising out of the cessation of the employment relationship between the Executive and the Company. The parties hereto agree that irreparable damage would occur if any of the provisions of this Agreement were not performed in accordance with these specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to enforce specifically the terms and provisions hereof, this being in addition to any other remedy to which they are entitled at law or in equity.

**10. Proprietary and Confidential Information.** The Executive agrees to continue to abide by the terms and conditions of any Company’s confidentiality and/or proprietary rights agreement between the Executive and the Company.

**11. Arbitration.** Any claim, dispute or controversy arising out of this Agreement, the

interpretation, validity or enforceability of this Agreement or the alleged breach thereof shall be submitted by the parties to binding arbitration by the American Arbitration Association in San Jose, California or elsewhere by mutual agreement. The selection of the arbitrator and the arbitration procedure shall be governed by the Commercial Arbitration Rules of the American Arbitration Association. All costs and expenses of arbitration or litigation, including but not limited to reasonable attorneys fees and other costs reasonably incurred by the Executive, shall be paid by the Company. Judgment may be entered on the award of the arbitration in any court having jurisdiction.

**12. Interpretation.** Executive and the Company agree that this Agreement shall be interpreted in accordance with and governed by the laws of the State of California, without regard to such state's conflict of laws rules.

**13. Conflict in Benefits.** This Agreement shall supersede all prior arrangements, whether written or oral, and understandings regarding the subject matter of this Agreement. To the extent Executive is entitled to severance or other benefits upon termination of employment under this Agreement and any other agreement, including any change in control agreement entered into by the Company and the Executive, entered into prior to the Effective Date, the benefits payable under this Agreement shall supersede and replace any other such agreement. However, this Agreement is not intended to and shall not affect, limit or terminate (i) any plans, programs, or arrangements of the Company that are regularly made available to a significant number of employees of the Company, (ii) the Company's equity incentive plans, (iii) any agreement or arrangement with the Executive that has been reduced to writing and which does not relate to the subject matter hereof, or (iv) any agreements or arrangements hereafter entered into by the parties in writing, except as otherwise expressly provided herein.

**14. Release of Claims.** Executive shall receive the severance benefits or the Retirement Benefits pursuant to this Agreement only if Executive executes and returns to the Company, within the applicable time period set forth therein but in no event more than sixty (60) days following the date of Executive's Separation from Service, a release of claims (the "**Release of Claims**") in favor of the Company in a form reasonably satisfactory to the Company, and permits such Release of Claims to become effective in accordance with its terms on or prior to such sixtieth day (the "**Release Agreement Deadline**"). If the Release of Claims does not become effective by the Release Agreement Deadline, the Executive will forfeit any right to severance benefits or Retirement Benefits pursuant to this Agreement. Regardless of whether the Release of Claims becomes effective prior to the Release Agreement Deadline, any severance benefits or Retirement Benefits payable prior to the Release Agreement Deadline shall be paid on the Release Agreement Deadline, with the remainder of the payments to be made as originally scheduled. Except to the minimum extent that payments must be delayed pursuant to Section 20(c) because Executive is a "specified employee" or until the effectiveness (or deemed effectiveness) of the Release of Claims, all amounts will be paid as soon as practicable in accordance with the Company's normal payroll practices following Executive's Separation from Service. Notwithstanding the foregoing, the Release of Claims shall not be construed to waive any right to indemnification or contribution otherwise available to Executive under law or rules of corporate governance with respect to claims by third parties for actions or omissions in Executive's role as an officer of the Company.

**15. Successors and Assigns.**

**(a) Successors of the Company.** The Company will require any successor or assign (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, expressly, absolutely and unconditionally to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession or assignment had taken place. Failure of the Company to obtain such agreement prior to the effectiveness of any such succession transaction shall be a breach of this Agreement and shall entitle the Executive to terminate his or her employment with the Company within three (3) months thereafter and to receive the benefits provided under Section 3 of this Agreement in the event of a Termination Upon Change of Control; provided, however, that (i) such termination of employment must be a Separation from Service and (ii) the Executive must deliver a Release of Claims as provided in Section 14. As used in this Agreement, "Company" shall mean the Company as defined above and any successor or assign to its business and/or assets as aforesaid which executes and delivers the agreement provided for in this Section 15 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

**(b) Heirs of Executive.** This Agreement shall inure to the benefit of and be enforceable by the Executive's personal and legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

**16. Notices.** For purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, as follows:

if to the Company:

Power Integrations, Inc.  
5245 Hellyer Avenue  
San Jose, California 95138  
Attn: Chief Executive Officer or Chief Financial Officer

and if to the Executive, at the address specified in this Agreement. Notice may also be given at such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

**17. No Representations.** Executive acknowledges that he/she is not relying and has not relied on any promise, representation or statement made by or on behalf of the Company which is not set forth in this Agreement.

**18. Validity.** If any one or more of the provisions (or any part thereof) of this Agreement shall be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions (or any part thereof) shall not in any way be affected or impaired thereby.

**19. Consultation with Legal and Financial Advisors.** Executive acknowledges that

his Agreement confers significant legal rights, and may also involve the waiver of rights under other agreements; that the Company has encouraged Executive to consult with Executive's personal legal and financial advisers; and that Executive has had adequate time to consult with Executive's advisers before signing this Agreement.

**20. Application of Section 409A and Other Limitations.** Executive is strongly encouraged to review the following provisions and consult with his or her tax and financial advisor concerning the application of any personal tax consequences related to any payments provided for under this Agreement and the following provisions.

**(a)** If any Stock Award (other than stock options) vesting pursuant to Section 2(a), Section 2(b), Section 3(a)(v)(2) or Section 4(b)(ii):

**(i)** does not constitute "deferred compensation" within the meaning of Section 409A, the shares vesting pursuant to such events will be issued (1) in respect of Section 2(a), Section 2(b) and Section 4(b)(ii) immediately prior to the consummation of the Change of Control, and (2) in respect of Section 3(a)(v)(2) on the sixtieth (60<sup>th</sup>) day following the Termination Upon Change of Control as further provided in Section 14 hereof.

**(ii)** does constitute "deferred compensation" within the meaning of Section 409A, the shares vesting pursuant to such events will be issued (1) in respect of Section 2(a), Section 2(b) and Section 4(b)(ii) immediately prior to the Change of Control, provided such payment can be made without adverse personal tax consequences to the Executive, or else the shares vesting pursuant to Section 2(a), Section 2(b) and Section 4(b)(ii) will be converted into the same consideration received by the holders of the Company's common stock pursuant to the Change of Control, and such consideration will be issued in accordance with the delivery schedule for such Stock Award in effect immediately prior to the Change of Control and (2) in respect of Section 3(a)(v)(2) will be issued in accordance with the delivery schedule for such Stock Award in effect immediately prior to the Termination Upon Change of Control.

**(b) Extension of Stock Option Exercise Period.** Notwithstanding anything to the contrary in this Agreement, in the event any extended exercise period provided for in this Agreement shall result in a portion of a stock option becoming subject to the provisions of Section 409A, the extended exercise period of such portion of such stock option shall be automatically shortened by the minimum extent necessary to prevent such portion of such option from becoming subject to Section 409A. In no event will any provisions in this Agreement providing for an extended exercise period result in the extension of the exercise period of any stock option beyond the maximum permitted term of such stock option as provided under the applicable equity incentive plan and stock option award agreement in effect for such stock option, assuming for the purposes of this Section 20(b) no termination of Executive's employment with the Company.

**(c) Other Benefits.** Notwithstanding anything to the contrary herein, the following provisions apply to the extent any benefits ("**Benefits**") provided herein other than those described in Section 20(b) are subject to Section 409A: (A) The Benefits are intended to qualify for an exemption from application of Section 409A or comply with the requirements of Section 409A to the extent necessary to avoid adverse personal tax consequences under Section 409A, and any ambiguities herein shall be interpreted accordingly. (B) Benefits contingent on a termination

of employment shall not commence until Executive has a Separation from Service. (C) Each installment of a Benefit is a separate “payment” for purposes of Treas. Reg. Section 1.409A-2(b)(2) (i). (D) Each Benefit is intended to satisfy the exemptions from application of Section 409A provided under Treasury Regulations Sections 1.409A-1(b)(4), 1.409A-1(b)(5) and 1.409A-1(b)(9) to the maximum extent available. However, if such exemptions are not available and Executive is, upon Executive’s Separation from Service, a “specified employee” for the purposes of Section 409A, then, solely to the extent necessary to avoid adverse personal tax consequences under Section 409A, the timing of the Benefit payments otherwise payable prior to such date shall be delayed until the earlier of (x) six (6) months and one day after Executive’s Separation from Service, or (y) Executive’s death, and any payments otherwise scheduled to be made after such date shall be paid as originally scheduled. (E) To the extent that any reimbursements payable to Executive pursuant to Section 3(a) (iii) are subject to the provisions of Section 409A, the following provisions will apply in addition to the provisions of any applicable expense reimbursement policy: (a) to be eligible to obtain reimbursement for such expenses Executive must submit expense reports within 45 days after the expense is incurred, (b) any such reimbursements will be paid no later than the earlier of (x) thirty (30) days after the date Executive submits receipts for the expenses or (y) December 31 of the year following the year in which the expense was incurred, (c) the amount of expenses reimbursed in one year will not affect the amount eligible for reimbursement in any subsequent year, and (d) the right to reimbursement under this Agreement will not be subject to liquidation or exchange for another benefit.

**(d) Payment of Health Care Benefits.** Notwithstanding anything to the contrary set forth herein, if the Company determines, in its sole discretion, that it cannot provide the COBRA premium, Conversion Policy premium, Individual Policy premium, or other medical and dental coverage premiums (together the “*Health Care Benefits*”) contemplated under this Agreement without potentially incurring financial costs or penalties under applicable law (including, without limitation, Section 2716 of the Public Health Service Act), the Company shall in lieu thereof pay Executive a taxable cash amount, which payment shall be made regardless of whether Executive or Executive’s eligible family members elect health care continuation coverage (the “*Health Care Benefit Payment*”). Subject to any further delay in payment required by Section 14 of this Agreement, the Health Care Benefit Payment shall be paid in monthly installments on the same schedule that such amounts would otherwise have been paid to the insurer. The Health Care Benefit Payment shall be equal to (a) the amount that the Company would have otherwise paid to provide the Health Care Benefits for the duration of the applicable severance period (which amount shall be calculated based on the premium for the first month of coverage), plus (b) an additional amount such that after payment of all taxes, Executive retains an amount equal to the Company’s aggregate cost of otherwise providing the Health Care Benefits. For purposes of calculating the “additional amount” in clause (b) of the preceding sentence, Executive shall be deemed to have: paid federal income taxes at the highest marginal rate of federal income and employment taxation for the calendar year in which the Health Care Benefit Payment is to be made, and paid applicable state and local income taxes at the highest rate of taxation for the calendar year in which the Health Care Benefit Payment is to be made, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes.

**21. Definitions.** As used in this Agreement, unless the context requires a different meaning, the following terms shall have the meanings set forth herein:

(a) “**2007 Equity Incentive Plan**” means that certain 2007 Equity Incentive Plan, as amended, as originally adopted by the Board of Directors on September 10, 2007, and any successor plan thereto.

(b) “**Annual Performance Bonus**” means the Executive’s current annual performance incentive bonus at the applicable maximum achievable Performance Level, whether consisting of cash or Stock Awards, as determined by the Board of Directors or Compensation Committee on an annual basis.

(c) “**Cause**” means:

(i) A material act of theft, dishonesty, fraud, intentional falsification of any employment or Company records or the commission of any criminal act which impairs Executive’s ability to perform his/her duties under this Agreement;

(ii) A material improper disclosure of the Company’s confidential, business or proprietary information by Executive;

(iii) Any action by Executive intentionally causing or expected to cause material harm to the reputation and standing of the Company, or gross negligence or willful misconduct in the performance of Executive’s assigned duties (but not mere unsatisfactory performance); or

(iv) The Executive’s conviction (including any plea of guilty or nolo contendere) for a felony causing material harm to the reputation and standing of the Company, as determined by the Company in good faith.

(d) “**Change of Control**” means:

(i) Any “**person**” (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), other than a trustee or other fiduciary holding securities of the Company under an employee benefit plan of the Company becomes the “beneficial owner” (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of (A) the outstanding shares of common stock of the Company or (B) the combined voting power of the Company’s then-outstanding securities;

(ii) The Company is party to a merger or consolidation which results in the holders of voting securities of the Company outstanding immediately prior thereto failing to continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 50% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation;

(iii) There occurs a change in the Board of Directors of the Company within a two-year period, as a result of which fewer than a majority of the Directors are Incumbent Directors. For purposes of this Agreement, an “Incumbent Director” is any director who is either:

(A) A director of the Company as of January 1, 2013; or

**(B)** A director who is elected or nominated for election to the Board of Directors of the Company with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but shall not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Company).

**(iv)** The sale or disposition of 50% or more of the Company's assets (or consummation of any transaction having similar effect); or

**(v)** The dissolution or liquidation of the Company.

**(e)** "**Code**" means the Internal Revenue Code of 1986, as amended.

**(f)** "**Company**" shall mean Power Integrations, Inc., and following a Change of Control, any successor or assign to its business and/or assets that agrees or otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

**(g)** "**Competition**" shall mean rendering services for any organization or engaging in any business directly competitive with the Company or materially contrary or harmful to the interests of the Company, including, but not limited to (i) accepting employment with, or serving as a consultant, advisor or in any other capacity to, the division or other portion of the business of any employer which competes directly with the Company; (ii) materially acting against the interest of the Company or (iii) personally recruiting, directly or indirectly, any person who is then an employee of the Company.

**(h)** "**Executive Officer**" means any employee of the Company designated an executive officer by the Board of Directors or Compensation Committee.

**(i)** "**Good Reason**" means the occurrence of any of the following conditions, without Executive's written consent, which condition(s) remain(s) in effect 20 days after written notice to the Board of Directors from Executive of such condition(s), if such notice is given within one year of the occurrence of such condition(s):

**(i)** A material decrease or planned decrease in Executive's annual salary, the cash value of Executive's Annual Performance Bonus or employee benefits following a Change of Control;

**(ii)** A demotion, a material reduction in Executive's position, responsibilities or duties or a material, adverse change in Executive's substantive functional responsibilities or duties, provided, however, that in the event of a Change of Control, Executive will be deemed demoted and his position, responsibilities or duties materially reduced or his substantive functional responsibilities or duties materially adversely changed if Executive is not responsible for at least substantially the same function that Executive had in the Company prior to the Change of Control.

**(iii)** The relocation of Executive's work place for the Company to a location more than fifty (50) miles from the current location of Executive's work place or a material adverse change in the working conditions or established working hours which persist for



a period of six continuous months; or

(iv) Any material breach of this Agreement by the Company.

(j) “**Highest Annual Salary**” means Executive’s highest annual salary in any of the three years preceding the applicable date of determination, provided, however, that if the Executive’s then effective annual salary would be Executive’s highest annual salary upon completion of the current year of service, then Highest Annual Salary shall mean Executive’s then effective annual salary.

(k) “**New Executive**” means an Executive who has served as an executive of the Company for fewer than five years. Executive’s service to the Company as an executive will be deemed to begin upon the date of commencement of employment as an Executive Officer or upon the date of promotion to an Executive Officer position. A New Executive will be first eligible for the benefits under this Agreement upon the completion of one year of continuous service as an Executive Officer of the Company, unless the Board of Directors or Compensation Committee determines otherwise.

(l) “**Performance Level**” means the pay out amounts (whether in cash or Stock Awards) based upon the satisfaction of one or more performance criteria as determined by the Board of Directors or Compensation Committee.

(m) “**Performance Stock Award**” means any Stock Award subject to vesting upon the achievement of any Performance Level regardless of the length of any performance period.

(n) “**Permanent Disability**” means that:

(i) The Executive has been incapacitated by bodily injury or disease so as to be prevented thereby from engaging in the performance of the Executive’s duties;

(ii) Such total incapacity shall have continued for a period of six consecutive months;

(iii) Such incapacity will, in the opinion of a qualified physician, be permanent and continuous during the remainder of the Executive’s life; and

(iv) Such incapacity results in Executive’s Separation from Service.

(o) “**Prorated Portion**” means a fraction the numerator of which is the number of days in an applicable performance period prior to such Executive’s termination of employment and the denominator of which is the total number of days in an applicable performance period.

(p) “**Release of Claims**” means the release of claims required by Section 14 of this Agreement.

(q) “**Retention Stock Award**” means any Stock Award subject to vesting upon the completion of time-based vesting criteria.

(r) “**Section 409A**” means Section 409A of the Code and the regulations and other guidance thereunder and any state law of similar effect.

(s) “**Senior Executive**” means an Executive who has served continuously as an executive of the Company for at least five years. Executive’s service to the Company as an executive will be deemed to begin upon the date of commencement of employment as an Executive Officer or upon the date of promotion to an Executive Officer position, unless the Board of Directors or Compensation Committee determines otherwise.

(t) “**Separation from Service**” means a “separation from service” for the purposes of Section 409A with respect to the Company.

(u) “**Stock Award**” shall (i) have the same meaning as the term “Award” under the Company’s 2016 Incentive Award Plan, as amended from time to time and any successor plan thereto, and (ii) mean any equity or equity-based incentive award granted by the Company to Executive, whether or not such award was granted under an equity incentive plan adopted by the Company.

(v) “**Termination of Employment**” means Executive’s Separation from Service that results from:

(i) Any termination of employment of the Executive by the Company without Cause; or

(ii) Any resignation by the Executive for Good Reason.

“Termination of Employment” shall not include any termination of the employment of the Executive (a) by the Company for Cause; (b) as a result of Permanent Disability of the Executive; (c) as a result of the death of the Executive; (d) as a result of the voluntary termination of employment by the Executive for reasons other than Good Reason; or (e) a Termination Upon Change of Control.

(w) “**Termination Upon Change of Control**” means Executive’s Separation from Service that results from:

(i) Any termination of the employment of the Executive by the Company without Cause on or within eighteen (18) months after (i) the occurrence of a Change of Control; or (ii) the date that the person serving as of the Effective Date as Chief Executive Officer of the Company ceases to serve in such office; or

(ii) Any resignation by the Executive for Good Reason within eighteen (18) months after (i) the occurrence of a Change of Control or (ii) the date that the person serving as of the Effective Date as Chief Executive Officer of the Company ceases to serve in such office.

“Termination Upon Change of Control” shall not include any termination of the employment of the Executive (a) by the Company for Cause; (b) as a result of the Permanent Disability of the Executive; (c) as a result of the death of the Executive; or (d) as a result of the voluntary termination of employment by the Executive for reasons other than Good Reason.

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**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: July 29, 2021

By: /s/ BALU BALAKRISHNAN

Balu Balakrishnan  
Chief Executive Officer

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**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: July 29, 2021

By: /s/ SANDEEP NAYYAR

Sandeep Nayyar  
Chief Financial Officer

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**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, 2021, 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: July 29, 2021

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.*

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**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, 2021, 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: July 29, 2021

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.*

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