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

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended September 30, 2023

OR

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

Commission file number: 000-51026

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**Monolithic Power Systems, Inc.**  
(Exact name of registrant  
as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**77-0466789**  
(I.R.S. Employer  
Identification Number)

**5808 Lake Washington Blvd. NE, Kirkland, Washington 98033**  
(Address of principal executive offices)(Zip Code)

**(425) 296-9956**  
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value \$0.001 per share	MPWR	The NASDAQ Global Select Market

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

There were 47,912,000 shares of the registrant’s common stock issued and outstanding as of November 1, 2023.

MONOLITHIC POWER SYSTEMS, INC.

Form 10-Q  
For the Quarter Ended September 30, 2023

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## MONOLITHIC POWER SYSTEMS, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except par value)  
(unaudited)

	September 30, 2023	December 31, 2022
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 421,178	\$ 288,607
Short-term investments	621,123	449,266
Accounts receivable, net	185,820	182,714
Inventories	397,288	447,290
Other current assets	109,967	42,742
Total current assets	<u>1,735,376</u>	<u>1,410,619</u>
Property and equipment, net	358,226	357,157
Goodwill	6,571	6,571
Deferred tax assets, net	23,676	35,252
Other long-term assets	204,240	249,286
Total assets	<u>\$ 2,328,089</u>	<u>\$ 2,058,885</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 64,707	\$ 61,461
Accrued compensation and related benefits	64,634	88,260
Other accrued liabilities	120,677	113,679
Total current liabilities	<u>250,018</u>	<u>263,400</u>
Income tax liabilities	55,806	53,509
Other long-term liabilities	77,401	73,374
Total liabilities	<u>383,225</u>	<u>390,283</u>
Commitments and contingencies		
Stockholders' equity:		
Common stock and additional paid-in capital: \$0.001 par value; shares authorized: 150,000; shares issued and outstanding: 47,911 and 47,107, respectively	1,092,569	975,276
Retained earnings	899,398	716,403
Accumulated other comprehensive loss	(47,103)	(23,077)
Total stockholders' equity	<u>1,944,864</u>	<u>1,668,602</u>
Total liabilities and stockholders' equity	<u>\$ 2,328,089</u>	<u>\$ 2,058,885</u>

See accompanying notes to unaudited condensed consolidated financial statements.

## MONOLITHIC POWER SYSTEMS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per-share amounts)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenue	\$ 474,867	\$ 495,418	\$ 1,367,060	\$ 1,334,136
Cost of revenue	211,326	204,516	597,064	553,393
Gross profit	263,541	290,902	769,996	780,743
Operating expenses:				
Research and development	64,787	67,263	192,184	178,497
Selling, general and administrative	63,188	71,768	205,645	212,353
Total operating expenses	127,975	139,031	397,829	390,850
Operating income	135,566	151,871	372,167	389,893
Other income (expense), net	2,289	5	14,129	(5,720)
Income before income taxes	137,855	151,876	386,296	384,173
Income tax expense	16,692	27,539	55,827	65,591
Net income	\$ 121,163	\$ 124,337	\$ 330,469	\$ 318,582
Net income per share:				
Basic	\$ 2.54	\$ 2.66	\$ 6.96	\$ 6.83
Diluted	\$ 2.48	\$ 2.57	\$ 6.78	\$ 6.60
Weighted-average shares outstanding:				
Basic	47,780	46,829	47,501	46,643
Diluted	48,792	48,349	48,734	48,295

See accompanying notes to unaudited condensed consolidated financial statements.

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

(in thousands)

(unaudited)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Net income	\$ 121,163	\$ 124,337	\$ 330,469	\$ 318,582
Other comprehensive loss, net of tax:				
Foreign currency translation adjustments	(4,838)	(26,081)	(28,099)	(49,844)
Change in unrealized gains and losses on available-for-sale securities, net of tax of \$(156), \$130, \$(625) and \$865, respectively	1,132	(1,157)	4,073	(7,960)
Other comprehensive loss, net of tax:	<u>(3,706)</u>	<u>(27,238)</u>	<u>(24,026)</u>	<u>(57,804)</u>
Comprehensive income	<u>\$ 117,457</u>	<u>\$ 97,099</u>	<u>\$ 306,443</u>	<u>\$ 260,778</u>

See accompanying notes to unaudited condensed consolidated financial statements.

MONOLITHIC POWER SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(in thousands, except per-share amounts)  
(unaudited)

	Common Stock and Additional Paid-in Capital		Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount			
<b>Three Months Ended September 30, 2023</b>					
Balance as of July 1, 2023	47,611	\$ 1,055,130	\$ 827,356	\$ (43,397)	\$ 1,839,089
Net income	-	-	121,163	-	121,163
Other comprehensive loss	-	-	-	(3,706)	(3,706)
Dividends and dividend equivalents declared (\$1.00 per share)	-	-	(49,121)	-	(49,121)
Common stock issued under the employee equity incentive plan	291	4	-	-	4
Common stock issued under the employee stock purchase plan	9	3,831	-	-	3,831
Stock-based compensation expense	-	33,604	-	-	33,604
Balance as of September 30, 2023	<u>47,911</u>	<u>\$ 1,092,569</u>	<u>\$ 899,398</u>	<u>\$ (47,103)</u>	<u>\$ 1,944,864</u>

	Common Stock and Additional Paid-in Capital		Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount			
<b>Three Months Ended September 30, 2022</b>					
Balance as of July 1, 2022	46,787	\$ 891,888	\$ 545,920	\$ (14,686)	\$ 1,423,122
Net income	-	-	124,337	-	124,337
Other comprehensive loss	-	-	-	(27,238)	(27,238)
Dividends and dividend equivalents declared (\$0.75 per share)	-	-	(36,617)	-	(36,617)
Common stock issued under the employee equity incentive plan	147	1,014	-	-	1,014
Common stock issued under the employee stock purchase plan	7	3,091	-	-	3,091
Stock-based compensation expense	-	43,000	-	-	43,000
Balance as of September 30, 2022	<u>46,941</u>	<u>\$ 938,993</u>	<u>\$ 633,640</u>	<u>\$ (41,924)</u>	<u>\$ 1,530,709</u>

	Common Stock and Additional Paid-in Capital		Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount			
<b>Nine Months Ended September 30, 2023</b>					
Balance as of January 1, 2023	47,107	\$ 975,276	\$ 716,403	\$ (23,077)	\$ 1,668,602
Net income	-	-	330,469	-	330,469
Other comprehensive loss	-	-	-	(24,026)	(24,026)
Dividends and dividend equivalents declared (\$3.00 per share)	-	-	(147,474)	-	(147,474)
Common stock issued under the employee equity incentive plan	786	1,118	-	-	1,118
Common stock issued under the employee stock purchase plan	18	7,568	-	-	7,568
Stock-based compensation expense	-	108,607	-	-	108,607
Balance as of September 30, 2023	<u>47,911</u>	<u>\$ 1,092,569</u>	<u>\$ 899,398</u>	<u>\$ (47,103)</u>	<u>\$ 1,944,864</u>

	Common Stock and Additional Paid-in Capital		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount			
<b>Nine Months Ended September 30, 2022</b>					
Balance as of January 1, 2022	46,256	\$ 803,226	\$ 424,879	\$ 15,880	\$ 1,243,985
Net income	-	-	318,582	-	318,582
Other comprehensive loss	-	-	-	(57,804)	(57,804)
Dividends and dividend equivalents declared (\$2.25 per share)	-	-	(109,821)	-	(109,821)
Common stock issued under the employee equity incentive plan	671	4,345	-	-	4,345
Common stock issued under the employee stock purchase plan	14	5,877	-	-	5,877
Stock-based compensation expense	-	125,545	-	-	125,545
Balance as of September 30, 2022	<u>46,941</u>	<u>\$ 938,993</u>	<u>\$ 633,640</u>	<u>\$ (41,924)</u>	<u>\$ 1,530,709</u>

See accompanying notes to unaudited condensed consolidated financial statements.

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

 (in thousands)  
 (unaudited)

	<b>Nine Months Ended September 30,</b>	
	<b>2023</b>	<b>2022</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 330,469	\$ 318,582
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	29,940	28,349
Amortization of premium (discount) on available-for-sale securities	(1,591)	3,682
(Gain) loss on deferred compensation plan investments	(3,411)	8,607
Gain on sales of equity investment	(1,424)	-
Deferred taxes, net	10,927	(1,217)
Stock-based compensation expense	108,603	125,723
Other	(23)	97
Changes in operating assets and liabilities:		
Accounts receivable	(3,103)	(48,608)
Inventories	49,989	(138,241)
Other assets	(21,423)	(172,050)
Accounts payable	6,915	6,274
Accrued compensation and related benefits	(22,355)	45,054
Income tax liabilities	(12,797)	5,734
Other accrued liabilities	14,184	12,485
Net cash provided by operating activities	<u>484,900</u>	<u>194,471</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(43,772)	(46,002)
Purchases of investments	(492,638)	(18,327)
Maturities and sales of investments	328,181	104,991
Contributions to deferred compensation plan, net	(4,466)	(2,993)
Net cash provided by (used in) investing activities	<u>(212,695)</u>	<u>37,669</u>
<b>Cash flows from financing activities:</b>		
Property and equipment purchased on extended payment terms	(2,732)	(1,587)
Proceeds from common stock issued under the employee equity incentive plan	1,118	4,345
Proceeds from common stock issued under the employee stock purchase plan	7,568	5,877
Dividends and dividend equivalents paid	(135,265)	(101,564)
Net cash used in financing activities	<u>(129,311)</u>	<u>(92,929)</u>
Effect of change in exchange rates	(10,323)	(12,275)
Net increase in cash, cash equivalents and restricted cash	132,571	126,936
Cash, cash equivalents and restricted cash, beginning of period	288,729	189,389
Cash, cash equivalents and restricted cash, end of period	<u>\$ 421,300</u>	<u>\$ 316,325</u>
Supplemental disclosures for cash flow information:		
Cash paid for income taxes, net	\$ 73,678	\$ 61,430
Non-cash investing and financing activities:		
Liability accrued for property and equipment purchases	\$ 2,893	\$ 4,710
Liability accrued for dividends and dividend equivalents	\$ 52,509	\$ 39,672

See accompanying notes to unaudited condensed consolidated financial statements.



MONOLITHIC POWER SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

**1. BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements have been prepared by Monolithic Power Systems, Inc. (the “Company” or “MPS”) in accordance with the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) have been condensed or omitted in accordance with these accounting principles, rules and regulations. The information in this report should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2022, filed with the SEC on February 24, 2023.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the Company’s financial position, results of operations and cash flows for the interim periods presented. The financial statements contained in this Quarterly Report on Form 10-Q are not necessarily indicative of the results that may be expected for the year ending December 31, 2023 or for any other future periods.

*Use of Estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenue and expenses during the reporting period. Significant estimates and assumptions used in these condensed consolidated financial statements primarily include those related to revenue recognition, inventory valuation, valuation of share-based awards, contingencies and income tax valuation allowances. Actual results could differ from these estimates and assumptions, and any such differences may be material to the Company’s condensed consolidated financial statements.

**2. REVENUE RECOGNITION**

*Revenue from Product Sales*

The Company generates revenue primarily from product sales, which include assembled and tested integrated circuits (“ICs”), as well as dies in wafer form. These product sales accounted for 99% of the Company’s total revenue for both the three and nine months ended September 30, 2023, and 98% of the Company’s total revenue for both the three and nine months ended September 30, 2022. The remaining revenue primarily includes royalty revenue from licensing arrangements and revenue from wafer testing services performed for third parties, which have not been significant for the periods presented. See Note 7 for the disaggregation of the Company’s revenue by geographic region and by product family.

The Company sells its products primarily through third-party distributors, value-added resellers, original equipment manufacturers (“OEMs”), original design manufacturers (“ODMs”) and electronic manufacturing service (“EMS”) providers. For the three months ended September 30, 2023 and 2022, 77% and 83% of the Company’s product sales were made through distribution arrangements, respectively. For the nine months ended September 30, 2023 and 2022, 79% and 83% of the Company’s product sales were made through distribution arrangements, respectively. These distribution arrangements contain enforceable rights and obligations specific to those distributors and not the end customers. Purchase orders, which are generally governed by sales agreements or the Company’s standard terms of sale, set the final terms for unit price, quantity, shipping and payment agreed between the Company and the customer. The Company considers purchase orders to be the contracts with customers. The unit price as stated on the purchase orders is considered the observable, stand-alone selling price for the arrangements.

The Company recognizes revenue when it satisfies a performance obligation by transferring control of the promised goods or services to its customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. The Company excludes taxes assessed by government authorities, such as sales taxes, from revenue.

Product sales consist of a single performance obligation that the Company satisfies at a point in time. The Company recognizes product revenue from distributors and direct end customers when the following events have occurred: (a) the Company has transferred physical possession of the products, (b) the Company has a present right to payment, (c) the customer has legal title to the products, and (d) the customer bears significant risks and rewards of ownership of the products. In accordance with the shipping terms specified in the contracts, these criteria are generally met when the products are shipped from the Company’s facilities (such as the “Ex Works” shipping term) or delivered to the customers’ locations (such as the “Delivered Duty Paid” shipping term).

Under certain consignment agreements, revenue is not recognized when the products are shipped and delivered to be held at customers’ designated locations because the Company continues to control the products and retain ownership, and the customers do not have an unconditional obligation to pay. The Company recognizes revenue when the customers consume the products from the consigned inventory locations, at which time control transfers to the customers and the Company invoices them for payment.

***Variable Consideration***

The Company accounts for price adjustments and stock rotation rights as variable consideration that reduces the transaction price and recognizes that reduction in the same period the associated revenue is recognized. Four U.S.-based distributors have price adjustment rights when they sell the Company's products to their end customers at a price that is lower than the distribution price invoiced by the Company. When the Company receives claims from the distributors that products have been sold to the end customers at the lower prices, the Company issues the distributors credit memos for the price adjustments. The Company estimates the price adjustments using the expected value method based on an analysis of historical claims, at both the distributor and product level, as well as an assessment of any known trends of product sales mix. Other U.S. distributors and non-U.S. distributors do not have price adjustment rights. The Company records a credit against accounts receivable for the estimated price adjustments, with a corresponding reduction to revenue.

Certain distributors have limited stock rotation rights that permit the return of a small percentage of the previous six months' purchases in accordance with the contract terms. The Company estimates the stock rotation returns using the expected value method based on an analysis of historical returns, and the current level of inventory in the distribution channel. The Company records a liability for the stock rotation reserve, with a corresponding reduction to revenue. In addition, the Company recognizes an asset for product returns which represents the right to recover products from the customers related to stock rotations, with a corresponding reduction to cost of revenue.

***Contract Balances***

Accounts Receivable:

The Company records a receivable when it has an unconditional right to receive consideration after the performance obligations are satisfied. As of September 30, 2023 and December 31, 2022, accounts receivable totaled \$185.8 million and \$182.7 million, respectively. The Company's accounts receivable are short-term, with standard payment terms generally ranging from 30 to 90 days. The Company does not require its customers to provide collateral to support accounts receivable. The Company assesses the collectability by reviewing accounts receivable on a customer-by-customer basis. To manage credit risk, management performs ongoing credit evaluations of the customers' financial condition, monitors payment performance, and assesses current economic conditions, as well as reasonable and supportable forecasts of future economic conditions, that may affect collectability of the outstanding receivables. For certain high-risk customers, the Company requires standby letters of credit or advance payments prior to shipments of goods. The Company did not recognize any write-offs of accounts receivable or record any allowance for credit losses for the periods presented.

Contract Liabilities:

For certain customers located in Asia, the Company requires cash payments two weeks before the products are scheduled to be shipped to the customers. The Company records these payments received in advance of performance as customer prepayments within current accrued liabilities. As of September 30, 2023 and December 31, 2022, customer prepayments totaled \$1.5 million and \$3.6 million, respectively. The decrease in the customer prepayment balance for the nine months ended September 30, 2023 resulted from a decrease in unfulfilled customer orders for which the Company had received payments. For the nine months ended September 30, 2023, the Company recognized substantially all of the revenue that was included in the customer prepayment balance as of December 31, 2022.

***Practical Expedients***

The Company has elected the practical expedient to expense sales commissions as incurred because the amortization period would have been one year or less.

The Company's standard payment terms generally require customers to pay 30 to 90 days after the Company satisfies the performance obligations. For those customers who are required to pay in advance, the Company satisfies the performance obligations generally within a quarter. For these reasons, the Company has elected not to determine whether contracts with customers contain significant financing components.

The Company’s unsatisfied performance obligations primarily include products held in consignment arrangements and customer purchase orders for products that the Company has not yet shipped. Because the Company expects to fulfill these performance obligations within one year, the Company has elected not to disclose the amount of these remaining performance obligations.

### 3. STOCK-BASED COMPENSATION

#### 2014 Equity Incentive Plan

In April 2013, the Board of Directors adopted the 2014 Equity Incentive Plan (the “2014 Plan”), which the Company’s stockholders approved in June 2013. In October 2014, the Board of Directors approved certain amendments to the 2014 Plan. The amended 2014 Plan became effective on November 13, 2014, and provided for the issuance of up to 5.5 million shares. In April 2020, the Board of Directors further amended and restated the amended 2014 Plan (the “Amended and Restated 2014 Plan”), which the Company’s stockholders approved in June 2020. The Amended and Restated 2014 Plan became effective on June 11, 2020, and provides for the issuance of up to 10.5 million shares. The Amended and Restated 2014 Plan will expire on June 11, 2030. As of September 30, 2023, 4.2 million shares remained available for future issuance under the Amended and Restated 2014 Plan.

#### Stock-Based Compensation Expense

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Cost of revenue	\$ 1,020	\$ 1,186	\$ 3,317	\$ 3,691
Research and development (“R&D”)	8,479	9,287	26,406	26,875
Selling, general and administrative (“SG&A”)	24,103	32,524	78,880	95,157
Total stock-based compensation expense	\$ 33,602	\$ 42,997	\$ 108,603	\$ 125,723
Tax benefit related to stock-based compensation (1)	\$ 667	\$ 654	\$ 1,753	\$ 1,879

(1) Amount reflects the tax benefit related to stock-based compensation recorded for equity awards that are expected to generate tax deductions when they vest in future periods. Equity awards granted to the Company’s executive officers are subject to the tax deduction limitations set by Section 162(m) of the Internal Revenue Code.

#### Restricted Stock Units (“RSUs”)

The Company’s RSUs include time-based RSUs, RSUs with performance conditions (“PSUs”), RSUs with market conditions (“MSUs”), and RSUs with both market and performance conditions (“MPSUs”). Vesting of awards with performance conditions or market conditions is subject to the achievement of pre-determined performance/market goals and the approval of such achievement by the Compensation Committee of the Board of Directors (the “Compensation Committee”). All awards include service conditions which require continued employment with the Company. A summary of RSU activity is presented in the table below (in thousands, except per-share amounts):

	Time-Based RSUs		PSUs and MPSUs		MSUs		Total	
	Number of Shares	Weighted-Average Grant Date Fair Value Per Share	Number of Shares	Weighted-Average Grant Date Fair Value Per Share	Number of Shares	Weighted-Average Grant Date Fair Value Per Share	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
Outstanding at January 1, 2023	106	\$ 327.13	748	\$ 275.70	1,805	\$ 126.57	2,659	\$ 176.50
Granted	45	\$ 479.76	226 (1)	\$ 449.34	31	\$ 330.95	302	\$ 445.50
Vested	(42)	\$ 288.51	(504)	\$ 257.41	(240)	\$ 23.57	(786)	\$ 187.56
Forfeited	(5)	\$ 376.82	(4)	\$ 312.12	(14)	\$ 104.16	(23)	\$ 192.23
Outstanding at September 30, 2023	104	\$ 406.52	466	\$ 380.12	1,582	\$ 146.51	2,152	\$ 209.67

(1) Amount reflects the number of awards that may ultimately be earned based on management’s probability assessment of the achievement of performance conditions at each reporting period.

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The intrinsic value related to vested RSUs was \$148.9 million and \$62.3 million for the three months ended September 30, 2023 and 2022, respectively. The intrinsic value related to vested RSUs was \$388.6 million and \$277.9 million for the nine months ended September 30, 2023 and 2022, respectively. As of September 30, 2023, the total intrinsic value of all outstanding RSUs was \$987.4 million, based on the closing stock price of \$462.00. As of September 30, 2023, unamortized compensation expense related to all outstanding RSUs was \$236.5 million with a weighted-average remaining recognition period of approximately two years.

Cash proceeds from vested PSUs with a purchase price requirement totaled \$1.1 million and \$4.3 million for the nine months ended September 30, 2023 and 2022, respectively.

### Time-Based RSUs:

For the nine months ended September 30, 2023, the Compensation Committee granted 45,000 RSUs with service conditions to non-executive employees and non-employee directors. The RSUs generally vest over four years for employees and one year for directors, subject to continued service with the Company.

### 2023 PSUs:

In February 2023, the Compensation Committee granted 69,000 PSUs to the executive officers, which represent a target number of shares that can be earned based on the degree of achievement of two sets of performance goals ("2023 Executive PSUs"). For the first goal, the executive officers can earn up to 300% of the target number of the 2023 Executive PSUs based on the achievement of the Company's average three-year (2023 through 2025) revenue growth rate in excess of the analog industry's average three-year revenue growth rate as published by the Semiconductor Industry Association (the "SIA"). For the second goal, the executive officers can earn up to an additional 200% of the target number of the 2023 Executive PSUs if the Company secures additional manufacturing capacity outside of Mainland China during a three-year performance period. For both goals, a percentage of the 2023 Executive PSUs will fully vest on December 31, 2025, depending on the degree to which the pre-determined goals are met during the performance periods. Assuming the achievement of the highest level of the performance goals, the total stock-based compensation cost for the 2023 Executive PSUs is \$156.2 million.

In February 2023, the Compensation Committee granted 13,000 PSUs to certain non-executive employees, which represent a target number of shares that can be earned based on the degree of achievement of the Company's 2024 revenue goals for certain regions or product line divisions, or based on the degree of achievement of the Company's average two-year (2023 and 2024) revenue growth rate compared against the analog industry's average two-year revenue growth rate as published by the SIA ("2023 Non-Executive PSUs"). The maximum number of shares that an employee can earn is either 200% or 300% of the target number of the 2023 Non-Executive PSUs, depending on the job classification of the employee. 50% of the 2023 Non-Executive PSUs will vest in the first quarter of 2025 depending on the degree to which the pre-determined goals are met during the performance period. The remaining 2023 Non-Executive PSUs will vest over the following two years on a quarterly basis. Assuming the achievement of the highest level of performance goals, the total stock-based compensation cost for the 2023 Non-Executive PSUs is \$13.9 million.

The 2023 Executive PSUs and the 2023 Non-Executive PSUs contain a purchase price feature, which requires the employees to pay the Company \$30 per share upon vesting of the shares. The \$30 purchase price requirement is deemed satisfied and waived if the Company's stock price on the last trading day of the performance period is \$30 higher than the grant date stock price of \$467.62. The Company determined the grant date fair value of the 2023 Executive PSUs and the 2023 Non-Executive PSUs using a Monte Carlo simulation model with the following assumptions: stock price of \$467.62, simulation term of four years, expected volatility of 51.0%, risk-free interest rate of 3.9%, and expected dividend yield of 0.9%. There is no illiquidity discount because the awards do not contain any post-vesting sales restrictions.

**2004 Employee Stock Purchase Plan (as amended and restated, the “2004 ESPP”)**

On August 16, 2023, the 2004 ESPP was amended and restated to, among other changes, provide for the issuance of up to 4.4 million shares of the Company’s common stock. The 2004 ESPP will expire on August 16, 2038.

For the three months ended September 30, 2023 and 2022, 9,000 and 7,000 shares were issued under the 2004 ESPP, respectively. For the nine months ended September 30, 2023 and 2022, 18,000 and 14,000 shares were issued under the 2004 ESPP, respectively. As of September 30, 2023, 4.4 million shares were available for future issuance under the 2004 ESPP.

The intrinsic value of the shares issued was \$0.7 million and \$0.9 million for the three months ended September 30, 2023 and 2022, respectively. The intrinsic value of the shares issued was \$1.4 million and \$1.6 million for the nine months ended September 30, 2023 and 2022, respectively. As of September 30, 2023, the unamortized expense was \$1.2 million, which will be recognized through the first quarter of 2024. The Black-Scholes model was used to value the employee stock purchase rights with the following weighted-average assumptions:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
Expected term (in years)	0.5	0.5	0.5	0.5
Expected volatility	50.8%	63.2%	53.3%	50.6%
Risk-free interest rate	5.5%	3.1%	5.3%	1.9%
Dividend yield	0.8%	0.6%	0.8%	0.6%

Cash proceeds from the shares issued under the 2004 ESPP were \$7.6 million and \$5.9 million for the nine months ended September 30, 2023 and 2022, respectively.

**4. BALANCE SHEET COMPONENTS**

***Inventories***

Inventories consist of the following (in thousands):

	<b>September 30, 2023</b>	<b>December 31, 2022</b>
Raw materials	\$ 126,840	\$ 126,760
Work in process	94,417	134,071
Finished goods	176,031	186,459
Total	<u>\$ 397,288</u>	<u>\$ 447,290</u>

***Other Current Assets***

Other current assets consist of the following (in thousands):

	<b>September 30, 2023</b>	<b>December 31, 2022</b>
Prepaid wafer purchase	\$ 50,000	\$ -
RSU tax withholding proceeds receivable	14,777	14,480
Prepaid expenses	29,202	11,045
Accrued interest receivable	3,693	8,752
Other	12,295	8,465
Total	<u>\$ 109,967</u>	<u>\$ 42,742</u>

Prepaid wafer purchase of \$50.0 million relates to a deposit made to a supplier under a long-term wafer supply agreement. See Note 8 for further details.

**Other Long-Term Assets**

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

	<b>September 30, 2023</b>	<b>December 31, 2022</b>
Prepaid wafer purchase	\$ 120,000	\$ 170,000
Deferred compensation plan assets	70,899	63,022
Other	13,341	16,264
Total	<u>\$ 204,240</u>	<u>\$ 249,286</u>

Prepaid wafer purchase relates to a deposit made to a supplier under a long-term wafer supply agreement. See Note 8 for further details.

**Other Accrued Liabilities**

Other accrued liabilities consist of the following (in thousands):

	<b>September 30, 2023</b>	<b>December 31, 2022</b>
Dividends and dividend equivalents	\$ 58,909	\$ 42,170
Warranty	17,043	24,082
Stock rotation and sales returns	28,343	14,931
Income tax payable	467	15,595
Other	15,915	16,901
Total	<u>\$ 120,677</u>	<u>\$ 113,679</u>

As of September 30, 2023, stock rotation and sales returns included a \$25.0 million stock rotation reserve, compared with a \$14.3 million reserve as of December 31, 2022. The change in the reserve is affected by the timing of customer returns and the level of inventory in the distribution channel.

**Other Long-Term Liabilities**

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

	<b>September 30, 2023</b>	<b>December 31, 2022</b>
Deferred compensation plan liabilities	\$ 69,327	\$ 64,863
Dividend equivalents	2,316	6,847
Other	5,758	1,664
Total	<u>\$ 77,401</u>	<u>\$ 73,374</u>

**5. LEASES**

*Lessee*

The Company has operating leases primarily for administrative, sales and marketing offices, manufacturing operations and research and development facilities, employee housing units and certain equipment. These leases have remaining lease terms from less than one year to seven years. Some of these leases include options to renew the lease term for up to five years or on a month-to-month basis. The Company does not have finance lease arrangements.

The following table summarizes the balances of operating lease right-of-use (“ROU”) assets and liabilities (in thousands):

	<b>Financial Statement Line Item</b>	<b>September 30, 2023</b>	<b>December 31, 2022</b>
Operating lease ROU assets	Other long-term assets	\$ 8,571	\$ 4,288
Operating lease liabilities	Other accrued liabilities	\$ 2,225	\$ 2,133
	Other long-term liabilities	\$ 5,758	\$ 1,664

The following tables summarize certain information related to the leases (in thousands, except percentages and years):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
<b>Lease costs:</b>				
Operating lease costs	\$ 852	\$ 656	\$ 2,327	\$ 2,061
Other	480	454	1,572	1,259
Total lease costs	<u>\$ 1,332</u>	<u>\$ 1,110</u>	<u>\$ 3,899</u>	<u>\$ 3,320</u>

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
<b>Cash paid for amounts included in the measurement of lease liabilities:</b>				
Operating cash flows for operating leases	\$ 629	\$ 649	\$ 2,267	\$ 2,115
ROU assets obtained in exchange for new operating lease liabilities	\$ 2,086	\$ 13	\$ 6,921	\$ 1,071

	<b>September 30, 2023</b>	<b>December 31, 2022</b>
Weighted-average remaining lease term (in years)	4.8	2.1
Weighted-average discount rate	4.2%	2.1%

As of September 30, 2023, the maturities of the lease liabilities were as follows (in thousands):

2023 (remaining three months)	\$ 598
2024	2,397
2025	1,762
2026	1,193
2027	1,201
Thereafter	1,603
Total remaining lease payments	8,754
Less: imputed interest	(771)
Total lease liabilities	<u>\$ 7,983</u>

As of September 30, 2023, the Company had no operating leases that had not yet commenced.

**Lessor**

The Company owns certain office buildings and leases a portion of these properties to third parties under arrangements that are classified as operating leases. These leases have remaining lease terms ranging from less than one year to three years. Some of these leases include options to renew the lease term for up to five years.

For the three months ended September 30, 2023 and 2022, income related to lease payments was \$0.4 million and \$0.6 million, respectively. For the nine months ended September 30, 2023 and 2022, income related to lease payments was \$1.2 million and \$1.7 million, respectively. As of September 30, 2023, future income related to lease payments was as follows (in thousands):

2023 (remaining three months)	\$	316
2024		750
2025		226
2026		40
Total	\$	<u>1,332</u>

**6. NET INCOME PER SHARE**

Basic net income per share is computed by dividing net income by the weighted-average number of shares of common stock outstanding for the period. Diluted net income per share reflects the potential dilution that would occur if outstanding securities or other contracts to issue common stock were exercised or converted into shares of common stock, and calculated using the treasury stock method. Contingently issuable shares, including equity awards with performance conditions or market conditions, are considered outstanding shares of common stock and included in the basic net income per share as of the date that all necessary conditions to earn the awards have been satisfied. Prior to the end of the contingency period, the number of contingently issuable shares included in the diluted net income per share is based on the number of shares, if any, that would be issuable under the terms of the arrangement at the end of the reporting period.

The Company's RSUs contain forfeitable rights to receive cash dividend equivalents, which are accumulated and paid to the employees when the underlying RSUs vest. Dividend equivalents accumulated on the underlying RSUs are forfeited if the employees do not fulfill the requisite service requirement and, as a result, the awards do not vest. Accordingly, these awards are not treated as participating securities in the net income per share calculation.

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
<b>Numerator:</b>				
Net income	\$ 121,163	\$ 124,337	\$ 330,469	\$ 318,582
<b>Denominator:</b>				
Weighted-average outstanding shares - basic	47,780	46,829	47,501	46,643
Effect of dilutive securities	1,012	1,520	1,233	1,652
Weighted-average outstanding shares - diluted	<u>48,792</u>	<u>48,349</u>	<u>48,734</u>	<u>48,295</u>
<b>Net income per share:</b>				
Basic	\$ 2.54	\$ 2.66	\$ 6.96	\$ 6.83
Diluted	\$ 2.48	\$ 2.57	\$ 6.78	\$ 6.60

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



## 7. SEGMENT, SIGNIFICANT CUSTOMERS AND GEOGRAPHIC INFORMATION

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

The Company sells its products primarily through third-party distributors and value-added resellers, and directly to OEMs, ODMs and EMS providers. The following table summarizes those customers with sales equal to 10% or more of the Company's total revenue:

Customer	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Distributor A	27%	25%	23%	24%
Distributor B	21%	18%	21%	18%
Distributor C	11%	10%	10%	11%

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

The following table summarizes those customers with accounts receivable equal to 10% or more of the Company's total accounts receivable:

Customer	September 30, 2023	December 31, 2022
Distributor A	37%	29%
Distributor B	17%	23%

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

Country or Region	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
China	\$ 234,924	\$ 265,053	\$ 676,148	\$ 720,911
Taiwan	103,537	58,920	222,582	185,025
South Korea	41,698	52,613	128,047	136,031
Europe	29,827	44,885	109,278	101,279
United States	23,565	24,965	82,153	62,384
Japan	18,605	22,399	77,708	63,690
Southeast Asia	22,538	26,458	70,678	64,460
Other	173	125	466	356
Total	<u>\$ 474,867</u>	<u>\$ 495,418</u>	<u>\$ 1,367,060</u>	<u>\$ 1,334,136</u>

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

Product Family	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Direct Current ("DC") to DC	\$ 447,394	\$ 462,982	\$ 1,290,750	\$ 1,264,081
Lighting Control	27,473	32,436	76,310	70,055
Total	\$ 474,867	\$ 495,418	\$ 1,367,060	\$ 1,334,136

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

Country	September 30,		December 31,	
	2023	2022	2023	2022
China	\$ 182,646	\$ 200,508		
United States	118,957	113,996		
Taiwan	32,956	20,074		
Other	23,667	22,579		
Total	\$ 358,226	\$ 357,157		

## 8. COMMITMENTS AND CONTINGENCIES

### *Product Warranties*

The Company generally provides either a one- or two-year warranty against defects in materials and workmanship and will repair the products, provide replacements at no charge to customers or issue a refund. As they are considered assurance-type warranties, the Company does not account for them as separate performance obligations. Warranty reserve requirements are mainly based on a specific assessment when a customer asserts a claim for warranty or a product defect.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Balance at beginning of period	\$ 17,654	\$ 25,209	\$ 24,082	\$ 20,989
Warranties issued	1,858	1,141	2,800	1,616
Repairs, replacement and refund	(367)	(306)	(2,619)	(1,825)
Changes in liability for pre-existing warranties	(2,102)	(3,400)	(7,220)	1,864
Balance at end of period	\$ 17,043	\$ 22,644	\$ 17,043	\$ 22,644

Changes in liability for pre-existing warranties result from changes in estimates for warranties issued in prior periods.

### *Purchase Commitments*

The Company has outstanding purchase obligations with its suppliers and other parties that require the future purchases of goods or services. The purchase obligations primarily consist of wafer and other inventory purchases, assembly and other manufacturing services, construction of manufacturing and research and development facilities, purchases of production and other equipment, and license arrangements.

In May 2022, the Company entered into a long-term supply agreement in order to secure manufacturing production capacity for silicon wafers over a four-year period. As of September 30, 2023, the Company had made prepayments under this agreement of \$170.0 million, of which \$50.0 million was classified as short-term.

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Total estimated future unconditional purchase commitments to all suppliers and other parties as of September 30, 2023 were as follows (in thousands):

2023 (remaining three months)	\$	48,638
2024		317,194
2025		290,663
Total	\$	<u>656,495</u>

**Litigation**

The Company is a party to actions and proceedings in the ordinary course of business, including challenges to the enforceability or validity of its intellectual property, claims that the Company's products infringe on the intellectual property rights of others, and employment matters. The Company may also be subject to litigation initiated by its stockholders. These proceedings often involve complex questions of fact and law and may require the expenditure of significant funds and the diversion of other resources to prosecute and defend. The Company defends itself vigorously against any such claims. As of September 30, 2023, there were no material pending legal proceedings to which the Company was a party.

**9. CASH, CASH EQUIVALENTS, INVESTMENTS AND RESTRICTED CASH**

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

	<b>September 30, 2023</b>	<b>December 31, 2022</b>
Cash	\$ 377,324	\$ 273,145
Money market funds	43,854	15,462
Certificates of deposit	123,368	130,467
Corporate debt securities	130,614	292,586
Commercial paper	4,976	17,928
U.S. treasuries and government agency bonds	362,165	8,285
Auction-rate securities backed by student-loan notes	600	1,711
Total	<u>\$ 1,042,901</u>	<u>\$ 739,584</u>
	<b>September 30, 2023</b>	<b>December 31, 2022</b>
Reported as:		
Cash and cash equivalents	\$ 421,178	\$ 288,607
Short-term investments	621,123	449,266
Investment within other long-term assets	600	1,711
Total	<u>\$ 1,042,901</u>	<u>\$ 739,584</u>

The following table summarizes the contractual maturities of the short-term and long-term available-for-sale investments as of September 30, 2023 (in thousands):

	<b>Amortized Cost</b>	<b>Fair Value</b>
Due in less than 1 year	\$ 405,120	\$ 403,201
Due in 1 - 5 years	219,510	217,922
Due in greater than 5 years	600	600
Total	<u>\$ 625,230</u>	<u>\$ 621,723</u>

Gross realized gains and losses recognized on the sales of available-for-sale investments were not material for the periods presented.

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The following tables summarize the unrealized gain and loss positions related to the available-for-sale investments (in thousands):

	September 30, 2023				
	Amortized Cost	Unrealized Gains	Unrealized Losses		Fair Value
Money market funds	\$ 43,854	\$ -	\$ -	\$ -	\$ 43,854
Certificates of deposit	123,368	-	-	-	123,368
Corporate debt securities	133,442	3	(2,831)	-	130,614
Commercial paper	4,976	-	-	-	4,976
U.S. treasuries and government agency bonds	362,844	17	(696)	-	362,165
Auction-rate securities backed by student-loan notes	600	-	-	-	600
<b>Total</b>	<b>\$ 669,084</b>	<b>\$ 20</b>	<b>\$ (3,527)</b>	<b>\$ -</b>	<b>\$ 665,577</b>

	December 31, 2022				
	Amortized Cost	Unrealized Gains	Unrealized Losses		Fair Value
Money market funds	\$ 15,462	\$ -	\$ -	\$ -	\$ 15,462
Certificates of deposit	130,467	-	-	-	130,467
Corporate debt securities	300,529	18	(7,961)	-	292,586
Commercial paper	17,928	-	-	-	17,928
U.S. treasuries and government agency bonds	8,487	-	(202)	-	8,285
Auction-rate securities backed by student-loan notes	1,770	-	(59)	-	1,711
<b>Total</b>	<b>\$ 474,643</b>	<b>\$ 18</b>	<b>\$ (8,222)</b>	<b>\$ -</b>	<b>\$ 466,439</b>

The following tables present information about the available-for-sale investments that had been in a continuous unrealized loss position for less than 12 months and for greater than 12 months (in thousands):

	September 30, 2023					
	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate debt securities	\$ 29,476	\$ (79)	\$ 97,133	\$ (2,752)	\$ 126,609	\$ (2,831)
U.S. treasuries and government agency bonds	237,004	(693)	1,497	(3)	238,501	(696)
Auction-rate securities backed by student-loan notes	-	-	600	-	600	-
<b>Total</b>	<b>\$ 266,480</b>	<b>\$ (772)</b>	<b>\$ 99,230</b>	<b>\$ (2,755)</b>	<b>\$ 365,710</b>	<b>\$ (3,527)</b>

	December 31, 2022					
	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate debt securities	\$ 72,943	\$ (973)	\$ 202,074	\$ (6,988)	\$ 275,017	\$ (7,961)
U.S. treasuries and government agency bonds	987	(2)	7,298	(200)	8,285	(202)
Auction-rate securities backed by student-loan notes	-	-	1,711	(59)	1,711	(59)
<b>Total</b>	<b>\$ 73,930</b>	<b>\$ (975)</b>	<b>\$ 211,083</b>	<b>\$ (7,247)</b>	<b>\$ 285,013</b>	<b>\$ (8,222)</b>

An impairment exists when the fair value of an investment is less than its amortized cost basis. As of September 30, 2023 and December 31, 2022, the Company did not consider the impairment of its investments to be a result of credit losses. The Company typically invests in highly rated securities, with the primary objective of minimizing the potential risk of principal loss. The Company's investment policy generally requires securities to be investment grade and limits the amount of credit exposure to any one issuer. When evaluating a debt security for impairment, management reviews factors such as the Company's intent to sell, or whether it will more likely than not be required to sell, the security before recovery of its amortized cost basis, the extent to which the fair value of the security is less than its cost, the financial condition of the issuer and the credit quality of the investment.

**Non-Marketable Equity Investment**

In November 2020, the Company made an equity investment in a privately held Swiss company (the “Investee”) that was accounted for under the measurement alternative. In April 2022, the Company made an additional investment in the form of a convertible loan. One member of the Company’s Board of Directors is an executive officer of a company that has a commercial relationship with the Investee. In addition, the Company’s Chief Executive Officer had a personal investment in the Investee and was on the Investee’s board of directors. In May 2023, the Company sold all its investments in the Investee for \$7.4 million and recorded a gain of \$1.4 million, which was included as a component of other income (expense), net, in the Condensed Consolidated Statements of Operations.

**Restricted Cash**

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported on the Condensed Consolidated Balance Sheets to the amounts reported on the Condensed Consolidated Statements of Cash Flows (in thousands):

	September 30, 2023	December 31, 2022
Cash and cash equivalents	\$ 421,178	\$ 288,607
Restricted cash included in other long-term assets	122	122
Total cash, cash equivalents and restricted cash reported on the Condensed Consolidated Statements of Cash Flows	<u>\$ 421,300</u>	<u>\$ 288,729</u>

As of September 30, 2023 and December 31, 2022, restricted cash included a security deposit that is set aside in a bank account and cannot be withdrawn by the Company under the terms of a lease agreement. The restriction will end upon the expiration of the lease.

**10. FAIR VALUE MEASUREMENTS**

The following tables summarize the fair value of the Company's financial assets measured on a recurring basis (in thousands):

	<b>September 30, 2023</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Money market funds	\$ 43,854	\$ 43,854	\$ -	\$ -
Certificates of deposit	123,368	-	123,368	-
Corporate debt securities	130,614	-	130,614	-
Commercial paper	4,976	-	4,976	-
U.S. treasuries and government agency bonds	362,165	-	362,165	-
Auction-rate securities backed by student-loan notes	600	-	-	600
Mutual funds and money market funds under deferred compensation plan	49,825	49,825	-	-
<b>Total</b>	<b>\$ 715,402</b>	<b>\$ 93,679</b>	<b>\$ 621,123</b>	<b>\$ 600</b>

	<b>December 31, 2022</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Money market funds	\$ 15,462	\$ 15,462	\$ -	\$ -
Certificates of deposit	130,467	-	130,467	-
Corporate debt securities	292,586	-	292,586	-
Commercial paper	17,928	-	17,928	-
U.S. treasuries and government agency bonds	8,285	-	8,285	-
Auction-rate securities backed by student-loan notes	1,711	-	-	1,711
Mutual funds and money market funds under deferred compensation plan	43,933	43,933	-	-
<b>Total</b>	<b>\$ 510,372</b>	<b>\$ 59,395</b>	<b>\$ 449,266</b>	<b>\$ 1,711</b>

- Level 1 —includes instruments with quoted prices in active markets for identical assets.
- Level 2 —includes instruments for which the valuations are based upon quoted market prices in active markets involving similar assets or inputs other than quoted prices that are observable for the assets. The market inputs used to value these instruments generally consist of market yields, recently executed transactions, broker/dealer quotes or alternative pricing sources with reasonable levels of price transparency. Pricing sources may include industry standard data providers, security master files from large financial institutions, and other third-party sources used to determine a daily market value.
- Level 3 —includes instruments for which the valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

Redemptions and changes in the fair value of the auction-rate securities classified as Level 3 assets were not material for the periods presented.

## 11. DEFERRED COMPENSATION PLAN

The following table summarizes the deferred compensation plan balances on the Condensed Consolidated Balance Sheets (in thousands):

	<b>September 30, 2023</b>	<b>December 31, 2022</b>
<b>Deferred compensation plan asset components:</b>		
Cash surrender value of corporate-owned life insurance policies	\$ 21,074	\$ 19,089
Fair value of mutual funds and money market funds	49,825	43,933
<b>Total</b>	<b>\$ 70,899</b>	<b>\$ 63,022</b>
<b>Deferred compensation plan assets reported in:</b>		
Other long-term assets	\$ 70,899	\$ 63,022
<b>Deferred compensation plan liabilities reported in:</b>		
Accrued compensation and related benefits (short-term)	\$ 4,191	\$ 118
Other long-term liabilities	69,327	64,863
<b>Total</b>	<b>\$ 73,518</b>	<b>\$ 64,981</b>

## 12. OTHER INCOME (EXPENSE), NET

The components of other income (expense), net, are as follows (in thousands):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
Interest income	\$ 6,071	\$ 3,584	\$ 16,844	\$ 10,378
Amortization of discount (premium) on available-for-sale securities	1,647	(1,102)	1,591	(3,682)
Gain (loss) on deferred compensation plan investments	(1,611)	(1,330)	3,411	(8,607)
Charitable contributions	(3,850)	(1,700)	(9,650)	(4,700)
Gain on sales of equity investments	-	-	1,424	-
Other	32	553	509	891
<b>Total</b>	<b>\$ 2,289</b>	<b>\$ 5</b>	<b>\$ 14,129</b>	<b>\$ (5,720)</b>

### 13. INCOME TAXES

The income tax provision or benefit for interim periods is generally determined using an estimate of the Company's annual effective tax rate and adjusted for discrete items, if any, in the relevant period. Each quarter the estimate of the annual effective tax rate is updated, and if the Company's estimated tax rate changes, a cumulative adjustment is made.

The income tax expense for the three months ended September 30, 2023 was \$16.7 million, or 12.1% of pre-tax income. The income tax expense for the nine months ended September 30, 2023 was \$55.8 million, or 14.5% of pre-tax income. The effective tax rates were lower than the federal statutory rate of 21% primarily due to foreign income from the Company's subsidiaries in Bermuda and China being taxed at lower statutory tax rates, and excess tax benefits from stock-based compensation. The decrease in the effective tax rates relative to the federal statutory rate was partially offset by the inclusion of the global intangible low-taxed income ("GILTI") tax and the addition of a valuation allowance against China deferred tax assets arising from the indefinite extension of the R&D super deduction policy in China.

The income tax expense for the three months ended September 30, 2022 was \$27.5 million, or 18.1% of pre-tax income. The income tax expense for the nine months ended September 30, 2022 was \$65.6 million, or 17.1% of pre-tax income. The effective tax rates were lower than the federal statutory rate of 21% primarily due to foreign income from the Company's subsidiaries in Bermuda and China being taxed at lower statutory tax rates, and excess tax benefits from stock-based compensation. The decrease in the effective tax rates relative to the federal statutory rate was partially offset by the inclusion of the GILTI tax.

On August 9, 2022, the U.S. government enacted the U.S. CHIPS and Science Act of 2022 (the "CHIPS Act") to provide certain financial and tax incentives to the semiconductor industry, primarily for manufacturing activities within the United States. On August 16, 2022, the Inflation Reduction Act of 2022 (the "IRA") was enacted and signed into law. The IRA, among other things, introduced a new 15% corporate minimum tax, based on adjusted financial statement income of certain large corporations, and imposes a 1% surcharge on stock repurchases. This excise tax was effective January 1, 2023. The Company does not believe the CHIPS Act or the IRA had a material impact on the Company's income tax provisions, results of operations or financial condition for the three and nine months ended September 30, 2023.

### 14. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

	Unrealized Gains (Losses) on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Total
Balance as of January 1, 2023	\$ (7,727)	\$ (15,350)	\$ (23,077)
Other comprehensive income before reclassifications	2,524	2,919	5,443
Tax effect	(311)	-	(311)
Net current period other comprehensive income	2,213	2,919	5,132
Balance as of March 31, 2023	(5,514)	(12,431)	(17,945)
Other comprehensive loss before reclassifications	886	(26,180)	(25,294)
Tax effect	(158)	-	(158)
Net current period other comprehensive loss	728	(26,180)	(25,452)
Balance as of June 30, 2023	(4,786)	(38,611)	(43,397)
Other comprehensive loss before reclassifications	1,288	(4,838)	(3,550)
Tax effect	(156)	-	(156)
Net current period other comprehensive loss	1,132	(4,838)	(3,706)
Balance as of September 30, 2023	\$ (3,654)	\$ (43,449)	\$ (47,103)



## 15. DIVIDENDS AND DIVIDEND EQUIVALENTS

### *Cash Dividend Program*

The Company has a dividend program approved by the Board of Directors, pursuant to which the Company intends to pay quarterly cash dividends on its common stock. Based on the Company's historical practice, stockholders of record as of the last business day of the quarter are entitled to receive the quarterly cash dividends when and if declared by the Board of Directors, which are payable to the stockholders in the following month. The Board of Directors declared the following cash dividends (in thousands, except per-share amounts):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Dividend declared per share	\$ 1.00	\$ 0.75	\$ 3.00	\$ 2.25
Total amount	\$ 47,832	\$ 35,145	\$ 142,692	\$ 105,082

As of September 30, 2023 and December 31, 2022, accrued dividends totaled \$47.8 million and \$35.3 million, respectively.

The declaration of any future cash dividends is at the discretion of the Board of Directors and will depend on, among other things, the Company's financial condition, results of operations, capital requirements, business conditions, and other factors that the Board of Directors may deem relevant, as well as a determination that cash dividends are in the best interests of the Company's stockholders.

The Company anticipates that cash used for future dividend payments will come from its domestic cash, cash generated from ongoing U.S. operations, and cash repatriated from its Bermuda subsidiary. The Company also anticipates that earnings from other foreign subsidiaries will continue to be indefinitely reinvested.

### *Cash Dividend Equivalent Rights*

The Company's RSUs contain rights to receive cash dividend equivalents, which entitle employees who hold RSUs to the same dividend value per share as holders of common stock. The dividend equivalents are accumulated and paid to the employees when the underlying RSUs vest. Dividend equivalents accumulated on the underlying RSUs are forfeited if the employees do not fulfill the requisite service requirement and, as a result, the awards do not vest. As of September 30, 2023 and December 31, 2022, accrued dividend equivalents totaled \$13.4 million and \$13.8 million, respectively.

## 16. SUBSEQUENT EVENT

### *Stock Repurchase Program*

In October 2023, the Board of Directors approved a new stock repurchase program authorizing the Company to repurchase up to \$640.0 million in the aggregate of its common stock through October 29, 2026. The repurchases will be funded from available working capital and cash repatriation from its Bermuda subsidiary.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

- the above-average industry growth of product and market areas that we have targeted;
- our plan to increase our revenue through the introduction of new products within our existing product families as well as in new product categories and families;
- our belief that we may incur significant legal expenses that vary with the level of activity in each of our current or future legal proceedings;
- the effect that liquidity of our investments has on our capital resources;
- the continuing application of our products in the storage and computing, enterprise data, automotive, industrial, communications and consumer markets;
- estimates of our future liquidity requirements;
- the cyclical nature of the semiconductor industry;
- the effects of macroeconomic factors, including the 2023 banking crisis, the global economic downturn, the Russia-Ukraine conflict and the Israel-Gaza conflict on the semiconductor industry and our business;
- protection of our proprietary technology;
- business outlook for the remainder of 2023 and beyond;
- the factors that we believe will impact our business, operations and financial condition, as well as our ability to achieve revenue growth;
- the percentage of our total revenue from various end markets;
- our ability to identify, acquire and integrate companies, businesses and products, and achieve the anticipated benefits from such acquisitions and integrations;
- the impact of various tax laws and regulations on our income tax provision, financial position and cash flows;
- our plan to repatriate cash from our subsidiary in Bermuda;
- our intention and ability to execute our stock repurchase program and pay cash dividends and dividend equivalents; and
- the factors that differentiate us from our competitors.

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In some cases, words such as “would,” “could,” “may,” “should,” “predict,” “potential,” “targets,” “continue,” “anticipate,” “expect,” “intend,” “plan,” “believe,” “seek,” “estimate,” “project,” “forecast,” “will,” the negative of these terms or other variations of such terms and similar expressions relating to the future identify forward-looking statements. All forward-looking statements are based on our current outlook, expectations, estimates, projections, beliefs and plans or objectives about our business, our industry and the global economy, including our expectations regarding the potential impacts of macroeconomic factors, such as the ongoing banking crisis, the global economic downturn, the Russia-Ukraine conflict and the Israel-Gaza conflict on the semiconductor industry and our business. These statements are not guarantees of future performance and are subject to significant risks and uncertainties. Actual events or results could differ materially and adversely from those expressed in any such forward-looking statements. Risks and uncertainties that could cause actual results to differ materially include those set forth throughout this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K including, in particular, in the sections entitled “Risk Factors.” Except as required by law, we disclaim any duty, and undertake no obligation, to update any forward-looking statements, whether as a result of new information relating to existing conditions, future events or otherwise or to release publicly the results of any future revisions we may make to forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Readers are cautioned not to place undue reliance on such statements, which speak only as of the date of this Quarterly Report on Form 10-Q and entail significant risks. Readers should carefully review future reports and documents that we file from time to time with the SEC, such as our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and any Current Reports on Form 8-K.

### **Overview**

We are a fabless company with a global footprint that provides high-performance, semiconductor-based power electronic solutions. Incorporated in 1997, our three core strengths include deep system-level knowledge, strong semiconductor expertise, and innovative proprietary technologies in the areas of semiconductor processes, system integration, and packaging. These combined advantages enable us to deliver reliable, compact, and monolithic solutions found in storage and computing, enterprise data, automotive, industrial, communications and consumer applications. Our mission is to reduce energy and material consumption to improve all aspects of quality of life. We believe that we differentiate ourselves by offering solutions that are more highly integrated, smaller in size, more energy-efficient, more accurate with respect to performance specifications and, consequently, more cost-effective than many competing solutions. We plan to continue to introduce new products within our existing product families, as well as in new innovative product categories.

We operate in the cyclical semiconductor industry. While we are not immune from industry downturns, we have targeted product and market areas that we believe have the ability to offer above average industry performance over the long term. Historically, our revenue has generally been higher in the second half of the year than in the first half although various factors, such as market conditions and the timing of key product introductions, could impact this trend.

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

Following the introduction of a product, our sales cycle generally takes a number of quarters after we receive an initial customer order for a new product to ramp up. Typical supply chain lead times for orders are generally 16 to 26 weeks. These factors, combined with the fact that our customers can cancel or reschedule orders without significant penalty to the customer, make the forecasting of our orders and revenue difficult.

We derive most of our revenue from sales through distribution arrangements and direct sales to customers in Asia, where our products are incorporated into end-user products. Our revenue from direct and indirect sales to customers in Asia was 89% and 86% of our total revenue for the three months ended September 30, 2023 and 2022, respectively, and 86% and 88% of our total revenue for the nine months ended September 30, 2023 and 2022, respectively.

We derive a majority of our revenue from the sales of our DC to DC converter products which serve the storage and computing, enterprise data, automotive, industrial, communications and consumer markets. We believe our ability to achieve revenue growth will depend, in part, on our ability to develop new products, enter new market segments, gain market share, manage litigation risk, diversify our customer base and continue to secure manufacturing capacity.

### **Macroeconomic Conditions and Regulations**

The semiconductor industry has been facing, and continues to face, a number of macro-economic challenges including reduced consumer spending, fluctuations in demand for semiconductors, rising inflation, increased interest rates, and fluctuations in currency rates. We remain cautious in light of continued challenging macroeconomic conditions and will continue to monitor the potential impact on our operations. The extent and duration of the direct and indirect impact of macroeconomic events on our business, results of operations and overall financial position remain uncertain and depend on future developments.

We closely monitor changes to export control laws, trade regulations and other trade requirements. To date, no restrictions have had a material impact on our revenue and operations. We will continue to monitor any changes to export control laws, trade regulations and other trade requirements and are committed to complying with all applicable trade laws, regulations and other requirements.

## **Cybersecurity Risk Management**

We are committed to protecting our information technology (“IT”) assets, including computers, systems, corporate networks and sensitive data, from unauthorized access or attack. We have established an internal global IT policy handbook as well as IT security management control procedures designed to:

- Create information security awareness and define responsibilities among our employees and business partners;
- Implement controls to identify IT risks and monitor the use of our systems and information resources;
- Establish key policies and processes to adequately and timely respond to security threats;
- Maintain disaster recovery and business continuity plans; and
- Ensure compliance with applicable laws and regulations regarding the management of information security.

We require all new employees to attend an IT security training orientation. In addition, on a regular basis, our IT team updates training materials related to our policies and procedures and shares news and articles related to cybersecurity awareness, both of which are stored on our intranet and available to all employees. For example, we continue to provide guidelines and training to employees related to the proper usage of generative artificial intelligence (“AI”) applications for work purposes.

Our IT Steering Committee, which consists of our senior management and IT team, meets on a regular basis to review initiatives and projects to improve IT security, as well as resources and budgets for our cybersecurity compliance and education efforts. In 2021, we completed the ISO 27001 certification, a globally recognized information security standard. We also currently maintain an insurance policy that provides certain coverage for losses we incur due to data breaches and other cybersecurity incidents.

The Audit Committee of our Board of Directors, which consists of three independent members, is responsible for the oversight of our cybersecurity risk program. At least quarterly, the Audit Committee reviews reports and updates from our Chief Financial Officer and IT senior management about major risk exposures, their potential impact on our business operations, and management’s strategies to assess, monitor and mitigate those risks. The Audit Committee also provides updates of their oversight and findings to the Board of Directors.

We believe we have adequate resources and sufficient policies, procedures and oversight in place to identify and manage our IT security risks to our business operations. To date, we do not believe we have experienced any material information security breaches and have not incurred significant operating expenses related to information security breaches.

## **Critical Accounting Policies and Estimates**

In preparing our condensed consolidated financial statements in accordance with GAAP, we are required to make estimates, assumptions and judgments that affect the amounts reported in our financial statements and the accompanying disclosures. Estimates and judgments used in the preparation of our condensed consolidated financial statements are, by their nature, uncertain and unpredictable, and depend upon, among other things, many factors outside of our control, including demand for our products, economic conditions and other current and future events, such as macroeconomic factors, including the impact of the banking crisis earlier this year and the global economic downturn. Actual results could differ from these estimates and assumptions, and any such differences may be material to our condensed consolidated financial statements.

As of the date of issuance of these condensed consolidated financial statements, we are not aware of any specific event or circumstance that would require our management to update the significant estimates and assumptions used in the preparation of the condensed consolidated financial statements included in this Report, as compared to those disclosed in the Annual Report on Form 10-K for the year ended December 31, 2022. As new events continue to evolve and additional information becomes available, any changes to these estimates and assumptions will be recognized in the condensed consolidated financial statements as soon as they become known.

## Results of Operations

The table below sets forth the data on the Condensed Consolidated Statements of Operations as a percentage of revenue:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2023		2022		2023		2022	
	(in thousands, except percentages)							
Revenue	\$ 474,867	100.0%	\$ 495,418	100.0%	\$ 1,367,060	100.0%	\$ 1,334,136	100.0%
Cost of revenue	211,326	44.5	204,516	41.3	597,064	43.7	553,393	41.5
Gross profit	263,541	55.5	290,902	58.7	769,996	56.3	780,743	58.5
Operating expenses:								
Research and development	64,787	13.6	67,263	13.6	192,184	14.1	178,497	13.4
Selling, general and administrative	63,188	13.3	71,768	14.4	205,645	15.0	212,353	15.9
Total operating expenses	127,975	26.9	139,031	28.0	397,829	29.1	390,850	29.3
Operating income	135,566	28.6	151,871	30.7	372,167	27.2	389,893	29.2
Other income (expense), net	2,289	0.5	5	-	14,129	1.1	(5,720)	(0.4)
Income before income taxes	137,855	29.1	151,876	30.7	386,296	28.3	384,173	28.8
Income tax expense	16,692	3.6	27,539	5.6	55,827	4.1	65,591	4.9
Net income	\$ 121,163	25.5%	\$ 124,337	25.1%	\$ 330,469	24.2%	\$ 318,582	23.9%

## Revenue

The following table summarizes our revenue by end market:

End Market	Three Months Ended September 30,				Nine Months Ended September 30,			
	2023	% of Revenue	2022	% of Revenue	2023	% of Revenue	2022	% of Revenue
	(in thousands, except percentages)							
Storage and Computing	\$ 129,462	27.3%	\$ 112,880	22.8%	\$ 373,827	27.3%	\$ 331,754	24.9%
Enterprise Data	98,938	20.8	75,274	15.2	194,083	14.2	182,982	13.7
Automotive	95,171	20.0	87,073	17.5	304,907	22.3	202,638	15.2
Industrial	42,141	8.9	58,713	11.9	139,339	10.2	163,116	12.2
Communications	46,786	9.9	72,296	14.6	163,985	12.0	187,169	14.0
Consumer	62,369	13.1	89,182	18.0	190,919	14.0	266,477	20.0
Total	\$ 474,867	100.0%	\$ 495,418	100.0%	\$ 1,367,060	100.0%	\$ 1,334,136	100.0%

Revenue for the three months ended September 30, 2023 was \$474.9 million, a decrease of \$20.5 million, or 4.1%, from \$495.4 million for the three months ended September 30, 2022. The decrease in revenue was primarily due to lower shipment volume, which was partially offset by higher average selling prices resulting primarily from product mix.

For the three months ended September 30, 2023, revenue from the storage and computing market increased \$16.6 million, or 14.7%, from the same period in 2022. This increase was primarily due to higher sales in commercial notebooks, partially offset by lower sales of storage applications. Revenue from the enterprise data market increased \$23.7 million, or 31.4%, from the same period in 2022. This increase was primarily due to higher demand for generative AI applications, partially offset by lower sales of cloud-based CPU server applications. Revenue from the automotive market increased \$8.1 million, or 9.3%, from the same period in 2022. This increase was primarily due to higher sales of our highly integrated solutions for advanced driver assistance systems. Revenue from the industrial market decreased \$16.6 million, or 28.2%, from the same period in 2022. This decrease was mainly driven by lower sales of power sources, security and industrial equipment applications. Revenue from the communications market decreased \$25.5 million, or 35.3%, from the same period in 2022. This decrease was primarily driven by lower demand for infrastructure related products. Revenue from the consumer market decreased \$26.8 million, or 30.1%, from the same period in 2022. This decrease was broad-based and primarily driven by lower sales of products for home appliances.

Revenue for the nine months ended September 30, 2023 was \$1,367.1 million, an increase of \$33.0 million, or 2.5%, from \$1,334.1 million for the nine months ended September 30, 2022. The increase in revenue was primarily due to increases in the average selling prices resulting primarily from product mix, which was partially offset by lower shipment volume.

For the nine months ended September 30, 2023, revenue from the storage and computing market increased \$42.1 million, or 12.7%, from the same period in 2022. This increase was primarily due to higher sales in commercial notebooks and graphic card applications. Revenue from the enterprise data market increased \$11.1 million, or 6.1%, from the same period in 2022. This increase was primarily due to higher demand for generative AI applications, partially offset by lower sales of our cloud-based CPU server applications. Revenue from the automotive market increased \$102.3 million, or 50.5%, from the same period in 2022. This increase was broad-based and included higher sales of our highly integrated solutions for advanced driver assistance systems, body electronics and digital cockpits. Revenue from the industrial market decreased \$23.8 million, or 14.6%, from the same period in 2022. This decrease was mainly driven by lower sales of power sources, security and industrial equipment applications, partially offset by higher sales in industrial meter applications. Revenue from the communications market decreased \$23.2 million, or 12.4%, from the same period in 2022. This decrease primarily reflected lower revenue related to infrastructure related products. Revenue from the consumer market decreased \$75.6 million, or 28.4%, from the same period in 2022. This decrease was broad-based and primarily driven by lower sales of products for home appliances, gaming, mobile devices and smart TVs.

### Cost of Revenue and Gross Margin

Cost of revenue primarily consists of costs incurred to manufacture, assemble and test our products, as well as warranty costs, inventory-related and other overhead costs, and stock-based compensation expenses.

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
	(in thousands, except percentages)			
Cost of revenue	\$ 211,326	\$ 204,516	\$ 597,064	\$ 553,393
As a percentage of revenue	44.5%	41.3%	43.7%	41.5%
Gross profit	\$ 263,541	\$ 290,902	\$ 769,996	\$ 780,743
Gross margin	55.5%	58.7%	56.3%	58.5%

Cost of revenue was \$211.3 million, or 44.5% of revenue, for the three months ended September 30, 2023, and \$204.5 million, or 41.3% of revenue, for the three months ended September 30, 2022. The \$6.8 million increase in cost of revenue was primarily driven by product mix partially offset by lower shipment volume and lower inventory write-downs.

Gross margin was 55.5% for the three months ended September 30, 2023, compared with 58.7% for the three months ended September 30, 2022. The decrease in gross margin was mainly driven by product mix, partially offset by lower inventory write-downs as a percentage of revenue.

Cost of revenue was \$597.1 million, or 43.7% of revenue, for the nine months ended September 30, 2023, and \$553.4 million, or 41.5% of revenue, for the nine months ended September 30, 2022. The \$43.7 million increase in cost of revenue was primarily driven by product mix and higher manufacturing overhead costs, partially offset by lower shipment volume and lower inventory write-downs and warranty expenses.

Gross margin was 56.3% for the nine months ended September 30, 2023, compared with 58.5% for the nine months ended September 30, 2022. The decrease in gross margin was mainly driven by product mix and higher manufacturing overhead costs, partially offset by lower inventory write-downs and warranty expenses as a percentage of revenue.

### Research and Development

R&D expenses primarily consist of cash compensation and benefits, stock-based compensation and deferred compensation for design and product engineers, expenses related to new product development and supplies, and facility costs.

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
	(in thousands, except percentages)			
R&D expenses	\$ 64,787	\$ 67,263	\$ 192,184	\$ 178,497
As a percentage of revenue	13.6%	13.6%	14.1%	13.4%

R&D expenses were \$64.8 million, or 13.6% of revenue, for the three months ended September 30, 2023, and \$67.3 million, or 13.6% of revenue, for the three months ended September 30, 2022. The \$2.5 million decrease in R&D expenses was primarily due to a \$6.5 million decrease in cash compensation expenses. This decrease was partially offset by a \$4.0 million increase in new product development expenses.

R&D expenses were \$192.2 million, or 14.1% of revenue, for the nine months ended September 30, 2023, and \$178.5 million, or 13.4% of revenue, for the nine months ended September 30, 2022. The \$13.7 million increase in R&D expenses was primarily due to a \$17.8 million increase in new product development expenses, and a \$4.7 million increase in expenses related to the changes in the value of deferred compensation plan liabilities, partially offset by a \$9.5 million decrease in cash compensation expenses.

**Selling, General and Administrative**

SG&A expenses primarily include cash compensation and benefits, stock-based compensation and deferred compensation for sales, marketing and administrative personnel, sales commissions, travel expenses, facilities costs, third party service fees and litigation expenses.

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
	(in thousands, except percentages)			
SG&A expenses	\$ 63,188	\$ 71,768	\$ 205,645	\$ 212,353
As a percentage of revenue	13.3%	14.4%	15.0%	15.9%

SG&A expenses were \$63.2 million, or 13.3% of revenue, for the three months ended September 30, 2023, and \$71.8 million, or 14.4% of revenue, for the three months ended September 30, 2022. The \$8.6 million decrease in SG&A expenses was driven by an \$8.4 million decrease in stock-based compensation expenses, and a \$3.3 million decrease in net litigation expenses, partially offset by a \$1.5 million increase in travel and professional service expenses and a \$1.4 million increase in cash compensation expenses.

SG&A expenses were \$205.6 million, or 15.0% of revenue, for the nine months ended September 30, 2023, and \$212.4 million, or 15.9% of revenue, for the nine months ended September 30, 2022. The \$6.8 million decrease in SG&A expenses was driven by a \$16.3 million decrease in stock-based compensation expenses, and a \$4.4 million decrease in cash compensation expenses, partially offset by an \$8.0 million increase in expense related to changes in the value of the deferred compensation plan liabilities, and a \$7.0 million increase consisting mostly of travel related expenses, professional services and software licensing fees.

**Other Income (Expense), Net**

Other income, net, was \$2.3 million for the three months ended September 30, 2023, compared with \$5 thousand for the three months ended September 30, 2022. The increase in other income was primarily due to an increase of \$5.2 million in net interest income, partially offset by an increase of \$2.2 million in charitable contributions.

Other income, net, was \$14.1 million for the nine months ended September 30, 2023, compared with other expense, net, of \$5.7 million for the nine months ended September 30, 2022. The increase in other income was primarily due to an increase of \$12.0 million in income related to changes in the value of the deferred compensation plan investments and an increase of \$11.7 million in net interest income, partially offset by an increase of \$5.0 million in charitable contributions.

**Income Tax Expense**

The income tax provision for interim periods is generally determined using an estimate of our annual effective tax rate and adjusted for discrete items, if any, in the relevant period. Each quarter the estimate of the annual effective tax rate is updated, and if our estimated tax rate changes, a cumulative adjustment is made.

The income tax expense for the three months ended September 30, 2023 was \$16.7 million, or 12.1% of pre-tax income. The income tax expense for the nine months ended September 30, 2023 was \$55.8 million, or 14.5% of pre-tax income. The effective tax rates were lower than the federal statutory rate of 21% primarily due to foreign income from our subsidiaries in Bermuda and China being taxed at lower statutory tax rates, and excess tax benefits from stock-based compensation. The decrease in the effective tax rates relative to the federal statutory rate was partially offset by the inclusion of the GILTI tax and the addition of a valuation allowance against China deferred tax assets arising from the indefinite extension of the R&D super deduction policy in China.

The income tax expense for the three months ended September 30, 2022 was \$27.5 million, or 18.1% of pre-tax income. The income tax expense for the nine months ended September 30, 2022 was \$65.6 million, or 17.1% of pre-tax income. The effective tax rates were lower than the federal statutory rate of 21% primarily due to foreign income from our subsidiaries in Bermuda and China being taxed at lower statutory tax rates, and excess tax benefits from stock-based compensation. The decrease in the effective tax rates relative to the federal statutory rate was partially offset by the inclusion of the GILTI tax.

In August 2022, the CHIPS Act and the IRA were enacted and signed into law, neither of which had a material impact on our income tax provisions, results of operations or financial condition for the three and nine months ended September 30, 2023. See Note 13 for further details.

**Liquidity and Capital Resources**

	<b>September 30, 2023</b>	<b>December 31, 2022</b>
	(in thousands, except percentages)	
Cash and cash equivalents	\$ 421,178	\$ 288,607
Short-term investments	621,123	449,266
<b>Total cash, cash equivalents and short-term investments</b>	<b>\$ 1,042,301</b>	<b>\$ 737,873</b>
Percentage of total assets	44.8%	35.8%
<b>Total current assets</b>	<b>\$ 1,735,376</b>	<b>\$ 1,410,619</b>
<b>Total current liabilities</b>	<b>(250,018)</b>	<b>(263,400)</b>
Working capital	<u>\$ 1,485,358</u>	<u>\$ 1,147,219</u>

As of September 30, 2023, we had cash and cash equivalents of \$421.2 million and short-term investments of \$621.1 million, compared with cash and cash equivalents of \$288.6 million and short-term investments of \$449.3 million as of December 31, 2022. As of September 30, 2023, \$365.8 million of cash and cash equivalents and \$544.4 million of short-term investments were held by our international subsidiaries. We have repatriated and may continue to repatriate cash from our Bermuda subsidiary with minimal tax impact to fund our expenditures in future periods. We anticipate that earnings from other foreign subsidiaries will continue to be indefinitely reinvested.

*Summary of Cash Flows*

The following table summarizes our cash flow activities:

	<b>Nine Months Ended September 30,</b>	
	<b>2023</b>	<b>2022</b>
	(in thousands)	
Net cash provided by operating activities	\$ 484,900	\$ 194,471
Net cash provided by (used in) investing activities	(212,695)	37,669
Net cash used in financing activities	(129,311)	(92,929)
Effect of change in exchange rates	(10,323)	(12,275)
<b>Net increase in cash, cash equivalents and restricted cash</b>	<b>\$ 132,571</b>	<b>\$ 126,936</b>

For the nine months ended September 30, 2023, the \$290.4 million increase in cash provided by operating activities compared to the prior period was primarily due to decreased prepaid wafer expenses, decreased inventory purchases, increased accounts receivable collections and other changes in working capital.

For the nine months ended September 30, 2023, the \$250.4 million increase in cash used in investing activities compared to the prior period was primarily due to an increase of \$474.3 million in purchases of investments, partially offset by an increase of \$223.2 million in sales of investments.

For the nine months ended September 30, 2023, the \$36.4 million increase in cash used in financing activities compared to the prior period was primarily due to an increase of \$33.7 million in dividend and dividend equivalent payments.

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

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



### **Cash Requirements**

Although consequences of economic uncertainty and macroeconomic conditions and other factors could adversely affect our liquidity and capital resources in the future, and our cash requirements may fluctuate based on the timing and extent of many factors such as those discussed above, we believe that our balances of cash, cash equivalents and short-term investments of \$1,042.3 million as of September 30, 2023, along with cash generated by ongoing operations, will be sufficient to satisfy our liquidity requirements for the next 12 months and beyond.

Our material cash requirements include the following contractual and other obligations:

#### *Purchase Obligations*

Purchase obligations represent commitments to our suppliers and other parties requiring the purchases of goods or services. Our purchase obligations primarily consist of wafer and other inventory purchases, assembly and other manufacturing services, construction of manufacturing and research and development facilities, purchases of production and other equipment, and license arrangements.

In May 2022, we entered into a long-term supply agreement in order to secure manufacturing production capacity for silicon wafers over a four-year period. As of September 30, 2023, the Company had made prepayments under this agreement of \$170.0 million, of which \$50.0 million was classified as short-term.

As of September 30, 2023, total estimated future unconditional purchase commitments to all suppliers and other parties were \$656.5 million, of which \$343.2 million was classified as short-term.

#### *Transition Tax Liability*

The transition tax liability represents the one-time, mandatory deemed repatriation tax imposed on previously deferred foreign earnings under the U.S. Tax Cuts and Jobs Act enacted in December 2017 (the "2017 Tax Act"). As permitted by the 2017 Tax Act, we have elected to pay the tax liability in installments on an interest-free basis through 2025. As of September 30, 2023, the remaining liability totaled \$11.1 million, of which \$4.9 million was classified as short-term.

#### *Operating Leases*

Operating lease obligations represent the undiscounted remaining lease payments primarily for our leased facilities and equipment. As of September 30, 2023, these obligations totaled \$8.0 million, of which \$2.2 million was classified as short-term.

#### *Dividends*

We currently have a dividend program approved by our Board of Directors, pursuant to which we intend to pay quarterly cash dividends on our common stock. Based on our historical practice, stockholders of record as of the last business day of the quarter are entitled to receive the quarterly cash dividends when and if declared by the Board of Directors, which are payable to the stockholders in the following month. As of September 30, 2023, accrued dividends totaled \$47.8 million. The declaration of any future cash dividends is at the discretion of our Board of Directors and will depend on, among other things, our financial condition, results of operations, capital requirements, business conditions and other factors that our Board of Directors may deem relevant, as well as a determination that cash dividends are in the best interests of our stockholders.

#### *Other Long-Term Obligations*

Other long-term obligations primarily include payments for deferred compensation plan liabilities and accrued dividend equivalents. As of September 30, 2023, these obligations totaled \$71.6 million.

#### *Stock Repurchase Program*

In October 2023, our Board of Directors approved a new stock repurchase program authorizing us to repurchase up to \$640.0 million in the aggregate of our common stock through October 29, 2026. The repurchases will be funded from available working capital and cash repatriation from our Bermuda subsidiary.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

For a discussion of market risks, refer to Item 7A, “Quantitative and Qualitative Disclosures about Market Risk” in our Annual Report on Form 10-K for the year ended December 31, 2022. During the three and nine months ended September 30, 2023, there were no material changes or developments that would have materially altered, or were reasonably likely to materially alter, the market risk assessment performed as of December 31, 2022.

### **Item 4. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934 as of the end of the period covered by this Quarterly Report on Form 10-Q.

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2023, our disclosure controls and procedures were designed at a reasonable assurance level and were effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

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

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

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

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

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

We are a party to actions and proceedings in the ordinary course of business, including challenges to the enforceability or validity of our intellectual property, claims that our products infringe on the intellectual property rights of others, and employment matters. We may also be subject to litigation initiated by our stockholders. These proceedings often involve complex questions of fact and law and may require the expenditure of significant funds and the diversion of other resources to prosecute and defend. We defend ourselves vigorously against any such claims. As of September 30, 2023, there were no material pending legal proceedings to which we were a party.

### Item 1A. Risk Factors

Our business involves numerous risks and uncertainties, including but not limited to the material risks described below. This section should be read in conjunction with all of the other information in this Quarterly Report on Form 10-Q and our other filings with the SEC. If any of these risks materialize from time to time, then our business, reputation, financial condition, operating results, and growth prospects could be materially and adversely affected. In such an event, the trading price of our common stock could decline, and you could lose all or part of your investment in our common stock. Additional risks, trends and uncertainties may arise that could also harm our business, reputation, financial condition, operating results, and growth prospects.

Our past financial performance should not be considered to be a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods. These risks involve forward-looking statements and our actual results may differ substantially from those discussed in these forward-looking statements.

#### Risk Factors Summary

The following summary description sets forth an overview of the material risks we are exposed to in the normal course of our business activities. The summary does not purport to be complete and is qualified in its entirety by reference to the full risk factor discussion immediately following this summary description. We encourage you to read the full risk factor discussion carefully.

Our revenue and expenses are difficult to predict, have varied significantly in the past, and could fluctuate significantly in the future due to numerous risks and uncertainties, many of which are beyond our control. As a result, we may not be profitable on a quarterly or annual basis. Our business, results of operations and financial condition, as well as your investment in our common stock, could be materially and adversely affected by any of the following material risks:

- our dependence on the markets in Asia for our customer base, which may expose us to political, cultural, regulatory, economic, foreign currency and operational risks;
- changes in general economic conditions in the countries where our products are sold or used, particularly those in China;
- the impact of extensive Chinese government regulations, reduction or elimination of incentives, and uncertainties with respect to China's legal system, on us and our manufacturing partners and suppliers;
- changes in international trade policy, such as tariffs on imports of foreign goods and regulations restricting the export of goods and services, between the U.S. and China;
- political and other risks in Taiwan and Hong Kong due to their tense relationships with China;
- fluctuations in the value of the U.S. Dollar relative to other currencies, including the Renminbi;
- our reliance on key suppliers in China, which may expose us to political, cultural, regulatory, economic, foreign currency, operational and capacity shortage risks;
- our ability to achieve growth rates or financial performance comparable to past years;
- changes in general demand for electronic products in the end markets that we serve;
- our ability to accurately forecast sales and expenses due to the nature of our business as a component supplier;
- our ability to timely develop and introduce new products, and the acceptance of our new products in the marketplace;

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- our dependency on a limited number of customers, including distributors and value-added resellers, for a significant portion of our revenue;
- potential product liability risks due to defects or failures to meet specifications;
- lengthy sales cycles for our products balanced against the fixed nature of a substantial portion of our expenses;
- availability of adequate manufacturing capacity from our suppliers, and our ability to increase product sales and revenue in spite of capacity issues;
- increases in unanticipated costs as a result of increasing manufacturing capacity;
- our dependency on third-party suppliers for wafer purchases and potential increases in prices for wafers due to general capacity shortages;
- our ability to deliver products on a timely basis despite disruptions in our relationships with assembly and test subcontractors;
- our ability to manage our inventory levels, including the levels of inventory held by our distributors;
- increases in manufacturing costs due to commodity price increases;
- the highly cyclical nature of the semiconductor industry, and increased competition due to industry consolidation;
- competition from companies with greater financial and technological resources and customers developing products internally;
- the impact of system upgrades, cyberattacks or other system security, data protection and privacy breaches on our business operations;
- the impact of various U.S. and international laws and regulations regarding data protection on our business operations;
- our significant investment of resources in research and development that may not result in increased future sales;
- our ability to realize the anticipated benefits of any business acquisitions and other strategic investments;
- financial reporting, including the impact of new tax laws on our tax provision and tax planning;
- our failure to comply with various governmental laws and regulations, including those related to environmental, social and governance (“ESG”) initiatives or our failure to meet our own ESG goals and targets;
- our ability to successfully defend ourselves in legal proceedings and protect our intellectual property, and the significant increase in legal expenses as a result of such proceedings;
- the loss of key personnel;
- risks associated with owning our stock, including volatility in our trading price due to our business and financial performance, analyst downgrades, failure to meet our own or analyst expectations, changes to our dividend program, and dilution from issuance of additional shares;
- health risks, climate crises and other natural disasters; and
- financial market, economy and geopolitical uncertainties.

## **Risks Associated with Our Significant Operations in Asia, Particularly in China**

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

We derive most of our revenue from customers located in Asia through direct sales or indirect sales through distribution arrangements and value-added reseller agreements with parties located in Asia. As a result, we are subject to significant risks due to this geographic concentration of business and operations. For the three and nine months ended September 30, 2023, 89% and 86% of our revenue was from customers in Asia, respectively. There are risks inherent in doing business in Asia, and internationally in general, including:

- changes in, or impositions of, legislative or regulatory requirements or restrictions, including tax and trade laws in the U.S. and in the countries in which we manufacture or sell our products, and government action to restrict our ability to sell to foreign customers where sales of products may require export licenses;
- trade restrictions imposed by the U.S. related to goods imported from regions in China with records of forced labor and other human rights issues;
- currency exchange rate fluctuations impacting intercompany transactions;
- fluctuations in the value of the U.S. Dollar relative to other foreign currencies, which could affect the competitiveness of our products;
- transportation delays and other supply chain issues;
- changes in tax regulations in China that may impact our tax status in Chengdu, Hangzhou and other regions where we have significant operations;
- tariffs imposed by China and the U.S. that may impact our sales;
- multi-tiered distribution channels that may diminish visibility to end customer pricing and purchase patterns;
- international political relationships and acts or threats of war;
- terrorism and threats of terrorism;
- adverse weather conditions or other natural disasters that may affect our operations in China and cause work stoppages;
- work stoppages related to employee dissatisfaction;
- economic, social and political instability;
- longer accounts receivable collection cycles;
- enforcing contracts generally; and
- less effective protection of intellectual property and contractual arrangements.

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

***Our business has been and may be significantly impacted by worldwide economic conditions, in particular changing economic conditions in China.***

Our operations and performance depend significantly on global economic conditions. Adverse macroeconomic conditions, including inflation, slowing growth, recession, stagflation, new or increased tariffs and other barriers to trade, tighter credit, higher interest rates, currency fluctuations, higher unemployment, labor shortages, lower capital expenditures by businesses, and lower consumer confidence and spending, have in the past, and could in the future, have a material adverse effect on logistics, demand for our products, and our product and operational costs. For example, for several consecutive quarters, some of our customers have cancelled, decreased or delayed their existing and future orders with us, which harms our business and financial results and makes our forecasting much more difficult. In addition, volatility in the credit markets could severely diminish our direct and indirect customers' liquidity and capital availability, which could materially harm our business.

Demand for our products is a function of the health of the economies in the U.S., Europe, China and the rest of Asia. We cannot predict the timing, strength or duration of any economic disruptions, such as those resulting from the global economic downturn, the Russia-Ukraine conflict, the Israel-Gaza conflict or subsequent economic recovery worldwide, in our industry, or in the different markets that we serve. We also may not accurately assess the impact of changing market and economic conditions on our business and operations. These and other economic factors could have a material adverse effect on demand for our products and on our financial condition and operating results.

In particular, since we have significant operations in China, our business development plans, results of operations and financial condition may be materially and adversely affected by significant political, social and economic developments in China. The current stagnation in China's economy has adversely impacted, and could further adversely impact our customers, prospective customers, suppliers, distributors and partners in China, which could have a material adverse effect on our operating results and financial condition. There is no guarantee that the current economic downturn, whether actual or perceived, any further decrease in economic growth rates or an otherwise uncertain economic outlook in China will not continue nor persist in the future, that they will not be protracted, or that governments will respond adequately to control and reverse such conditions, which has adversely affected, and could materially and adversely continue to affect, our business, financial condition and results of operations.

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

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

- challenges to hire and maintain a qualified workforce;
- natural disasters such as earthquakes, flooding, severe heatwaves or droughts, which could result in power shortages or water restrictions in our facilities;
- challenges to maintain appropriate and acceptable manufacturing controls; and
- higher than anticipated overhead and other operational costs.

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

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

We have manufacturing and testing facilities in China and most of our manufacturing partners and suppliers are located in China. The Chinese government has broad discretion and authority to regulate the technology industry in China. Additionally, the Chinese government has implemented policies from time to time to regulate economic expansion in China. It exercises significant control over China's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

Any additional regulations or the amendment of previously implemented regulations could require us and our manufacturing partners and suppliers to change our business plans, increase our costs, or limit our ability to sell products and conduct business activities in China, which could materially and adversely affect our business and operating results.

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

***Uncertainties with respect to China's legal system, including uncertainties regarding the enforcement of laws, and sudden or unexpected changes in policies, laws and regulations in China could materially and adversely affect our operations.***

China's legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions under the civil law system may be cited for reference but have limited precedential value. Since China's legal system continues to rapidly evolve, the interpretations and enforcement of these laws and regulations are not always uniform and involve uncertainties. In addition, any new or amended laws and regulations related to, among other things, foreign investments and manufacturing could have a material adverse effect on our business and our ability to operate business in China.

From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. Any administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention. Since China's administrative and court authorities have significant discretion in interpreting and implementing statutory provisions and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection than those that may be provided in other jurisdictions. These uncertainties may impede our ability to enforce contracts in China and could materially and adversely affect our business and results of operations.

Furthermore, China's legal system is based in part on government policies and internal rules, some of which are not published on a timely basis, or at all, and may have retroactive effects. As a result, we may not be aware of our violation of any of these policies and rules until some time after the violation may have occurred. Such unpredictability towards our contractual, property and procedural rights and any failure to quickly respond to changes in the regulatory environment in China could materially and adversely affect our business and impede our ability to continue our operations and proceed with our future business plans in China.

***We are subject to export laws, trade policies and restrictions including international tariffs that could materially and adversely affect our business and results of operations.***

We are subject to U.S. laws and regulations that could limit and restrict the export of some of our products and services and may restrict our transactions with certain customers, business partners and other individuals, including, in certain cases, dealings with or between our employees and subsidiaries. In certain circumstances, export controls and economic sanctions may prohibit the export of certain products, services and technologies, and in other circumstances we may be required to obtain an export license before exporting the controlled item. Compliance with these laws and regulations has not materially limited our operations or our sales, but could in the future, which would materially and adversely affect our business and results of operations. We maintain an export compliance program but there are risks that our compliance controls could be circumvented, exposing us to legal liabilities, sanctions and restrictions on our business. We must also comply with export restrictions and laws imposed by other countries affecting trade and investments. Although these restrictions and laws have not materially restricted our operations in the past, they could do so in the future, which would materially and adversely affect our business and results of operations. In addition, U.S. laws and regulations and sanctions, or threat of sanctions, that could limit or restrict the export of some of our products and services to our customers would materially harm our business and may also encourage our customers to develop their own solutions to replace our products, or seek to obtain a greater supply of similar or substitute products from our competitors that are not subject to these restrictions, which could materially and adversely affect our business, financial condition and results of operations.

Since the beginning of 2018, there has been increasing rhetoric, in some cases coupled with legislative or executive action, from several U.S. and foreign leaders regarding tariffs against foreign imports of certain materials. More specifically, there have been several rounds of U.S. tariffs on Chinese goods that have taken effect in the past few years, some of which prompted retaliatory Chinese tariffs on U.S. goods. The institution of trade tariffs both globally and between the U.S. and China specifically carries the risk of negatively affecting both countries' overall economic condition, as well as our business and financial results. If these tariffs continue or additional tariffs are imposed in the future, they could have a negative impact on us as we have significant operations in China and the U.S.

Additionally, the imposition of tariffs is dependent upon the classification of goods under the U.S. Harmonized Tariff System ("HTS") and the country of origin of the goods. Determination of the HTS and the origin of the goods is a technical matter that can be subjective in nature. Accordingly, although we believe our classifications of both HTS and origin are appropriate, there is no certainty that our assessment will be consistent with that of the U.S. government. If the U.S. government does not agree with our determinations, we could be required to pay additional amounts, including potential penalties.

***We face political and other risks conducting business in Taiwan and Hong Kong, particularly due to their tense relationships with China.***

We have significant business operations in Taiwan, and many of our manufacturing partners and suppliers are located in Taiwan. Accordingly, our business, financial condition and results of operations may be affected by changes in governmental and economic policies in Taiwan, social instability and diplomatic and social developments in or affecting Taiwan due to its unique international political status. Although significant economic and cultural relations have been established between Taiwan and China, we cannot assure that relations between Taiwan and China will not face political, military or economic uncertainties in the future. Any deterioration in the relations between Taiwan and China, and other factors affecting military, political or economic conditions in Taiwan, could disrupt our business operations and materially and adversely affect our results of operations.

In addition, the Chinese government has promulgated new regulations impacting economic and political stability within Hong Kong where many of our customers are located. Due to the sensitive political climate these regulations created, there are increasing risks that this China's national security law may trigger sanctions or other forms of restrictions by foreign governments including the U.S., which could affect companies conducting business in Hong Kong. It is difficult for us to predict the impact, if any, the implementation of the national security law will have on our business, as such impact will depend on future developments, which are highly uncertain and cannot be predicted.

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

Several of our manufacturing and other suppliers are and will continue to be primarily located in China for the foreseeable future. In connection with the global economic downturn, there has been an increased level of global currency fluctuation and volatility. If the value of the Renminbi rises against the U.S. Dollar, there could be an increase in our manufacturing costs relative to competitors who have manufacturing facilities located outside of China, which could adversely affect our financial results and operations. In addition, our sales are primarily denominated in the U.S. Dollar. If the value of the U.S. Dollar rises against other currencies, it may adversely affect the demand for our products in international markets, which could negatively and materially impact our business and results of operations.

We incur foreign currency exchange gains or losses related to certain transactions, including intercompany transactions between the U.S. and our foreign subsidiaries, that are denominated in currencies other than the functional currencies. Fluctuations in the value of the U.S. Dollar relative to foreign currencies could increase the amount of foreign currency exchange losses we record, which could have an adverse impact on our results of operations.

***A significant portion of our manufacturing capacity comes from suppliers in China, which exposes us to political, cultural, regulatory, economic, foreign exchange, and operational risks.***

A significant portion of our manufacturing, assembly and packaging capacity comes from key suppliers located in China. As a result, we are subject to significant political, regulatory, economic, foreign exchange, and operational risks due to this geographic concentration in our business. Although our management has established long-term strategy to diversify capacity in jurisdictions outside of China, there is no guarantee that we will be able to identify, qualify and engage additional foundry partners and assembly and packaging suppliers in other jurisdictions in order to mitigate these risks, or that the quality, price or terms of such production will be sufficient, or acceptable to us, any of which could negatively and materially harm our business and results of operations.

**Risks Associated with Product Demand and Sales**

***We may not achieve growth rates or financial performance comparable to past years.***

In the past, our revenue increased significantly in certain years due to increased sales of certain of our products. We are subject to numerous risks and factors that could cause a decrease in our growth rates, or a decline in revenue compared to past periods, including increased competition, loss of certain of our customers, unfavorable changes in our operations, reduced global electronics demand, a deterioration in market conditions including as a result of the global economic downturn, end-customer market downturn, market acceptance and penetration of our current and future products, and litigation. A material decrease in our growth rates, or a decline in revenue could adversely affect our stock price and results of operations.

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

We believe that the application of our products in the storage and computing, enterprise data, automotive and consumer markets will continue to account for the majority of our revenue. If we are not able to accurately predict new end markets to serve or if the demand for our products declines in certain of our current major end markets, our revenue would decrease compared to prior year periods and our results of operations and financial condition would be materially and adversely affected. In addition, as technology evolves, the requirement to integrate the functionalities of various components, including our discrete semiconductor products, onto a single chip and/or onto other components of systems containing our products increases. Should our customers require integrated solutions that we do not offer, demand for our products could decrease, and our business, financial condition and results of operations would be materially and adversely affected.



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

Because we provide components for end products and systems, demand for our products is influenced by our customers' end product demand. As a result, we may have difficulty in accurately forecasting our revenue and expenses. Our expenses and revenue depend on the timing, size, and speed of commercial introductions of end products and systems that incorporate our products, all of which are inherently difficult to forecast, as well as the ongoing demand for previously introduced end products and systems. In addition, demand for our products is influenced by our customers' ability to manage their inventory. Our sales to distributors are also subject to higher volatility because they service demand from multiple levels of the supply chain which, in itself, is inherently difficult to forecast. All of these factors continue to be exacerbated by the adverse effects of macroeconomic factors, including inflation, increased interest rates, supply chain disruptions, decreased economic output, fluctuations in currency rates, the Russia-Ukraine conflict and the Israel-Gaza conflict. If our customers, including distributors, reduce their orders from us, do not manage their inventory correctly or misjudge their customers' demand, our shipments to and orders from our customers may vary significantly or decline on a quarterly basis, and we may have difficulty forecasting our expenses and inventory levels, which could reduce our revenue, result in inventory write offs, and adversely affect our financial condition and results of operations.

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

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

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

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

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

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

- timely and efficient completion of process design and device structure improvements;
- timely and efficient implementation of manufacturing, assembly, and test processes;
- the ability to secure and effectively utilize fabrication capacity in different geometries;
- product performance;
- product availability and pricing;
- product quality and reliability; and
- effective marketing, sales and services.

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

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

We market our products through distribution arrangements and value-added resellers, and through our direct sales and applications support organization to customers that include OEMs, ODMs and EMS providers. Receivables from our customers are generally not secured by any type of collateral and are subject to the risk of being uncollectible. Significant deterioration in the liquidity or financial condition of any such major customers or any group of our customers could have a material adverse impact on the collectability of our accounts receivable and our future operating results. While we could partner with other distributors or value-added resellers to replace any of our customers, the change in business partners could interrupt our operations, cause us to have to identify and qualify new partners, and have a materially adverse impact on our business, financial condition and results of operations.

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

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

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

In addition, product liability claims may be asserted by our customers. Although we currently have insurance, there can be no assurance that we have obtained sufficient insurance coverage or that asserted claims will be within the scope of coverage. Our insurance providers could deny or challenge these claims, and as a result, reimbursement to us is not guaranteed or could be delayed. If coverage is denied, we may not have sufficient resources to pay for these claims. Furthermore, we may experience a significant increase in premiums and therefore decide to self-insure, which may not meet the expectations or requirements of certain customers. All of these factors could have a material and adverse impact on our business, financial condition and results of operations.

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

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

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

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

### **Risks Associated with Supply and Manufacturing**

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

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

*There may be unanticipated costs associated with increasing our third-party suppliers' manufacturing capacity.*

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

- the costs and expense associated with such activities, including requirements to make long-term purchase commitments and upfront cash deposits to our suppliers;
- the availability of modern foundries to be developed, acquired, leased or otherwise made available to us or our third-party suppliers;
- the ability of foundries and our third-party suppliers to obtain the advanced equipment used in the production of our products;
- delays in identifying and negotiating agreements with new foundries and suppliers; and
- environmental, engineering or manufacturing qualification problems relating to existing or new foundry facilities, including delays in qualification of new foundries by our customers.

These and other risks may affect the ultimate cost and timing of any expansion of our third-party supplier capacity. If our manufacturing costs increase, including as a result of inflationary pressure, or we experience supply constraints, we may be required to raise the prices of our products to remain profitable, which could result in a loss of customers. If we are unable to increase or maintain our manufacturing capacity, we may be unable to meet demand, which would harm our revenue and results of operations and may result in a loss of customers as they seek supply from other sources.

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

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

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

In addition, adverse macroeconomic conditions, such as inflationary pressures resulting from worldwide supply chain constraints and other factors, have increased, and may continue to increase, the prices we pay to our suppliers. As a result of the increased costs, we have raised, and may be required to further raise the prices of our products in order to remain profitable, which could result in a loss of customers and reduced revenue.

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

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

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

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

As a fabless semiconductor company, we purchase our inventory from third-party manufacturers. We place orders with our manufacturers based on existing and expected orders from our customers for particular products. While most of our contracts with our customers and distributors include lead time requirements and cancellation penalties that are designed to protect us from misalignment between customer orders and inventory levels, we must nonetheless make some predictions when we place orders with our manufacturers. Some of our customers and distributors may nevertheless cancel orders as a result of the impacts of the global economic downturn, their own specific business challenges or for other reasons. In the event that our predictions are inaccurate due to unexpected increases in orders or unavailability of products within the timeframe that is required, we may have insufficient inventory to meet our customers' demands. In addition, a perceived negative trend in market conditions could lead us to decrease the manufacturing volume of our products to avoid excess inventory. If we inaccurately assess market conditions for our products, we would have insufficient inventory to meet our customer demands resulting in lost potential revenue. In the event that we order products that we are unable to sell due to a decrease in orders, unexpected order cancellations, injunctions due to patent litigation, import/export restrictions or product returns, we may have excess inventory which, if not sold, may need to be written down or would result in a decrease in our revenue in future periods as the excess inventory at our distributors is sold. If any of these situations were to arise, it could have a material impact on our business, financial condition and results of operations.

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

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

#### **Risks Associated with Industry Dynamics and Competition**

***The highly cyclical nature of the semiconductor industry, which has resulted in significant and sometimes prolonged downturns, could materially and adversely affect our financial condition and results of operations.***

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

***Industry consolidation may lead to increased competition and may harm our operating results.***

In recent years, there has been a trend toward semiconductor industry consolidation. We expect this trend to continue as companies attempt to improve the leverage of growing research and development costs, strengthen or hold their market positions in an evolving industry, or become unable to continue operations unless they find an acquirer or consolidate with another company. In addition, companies that are strategic alliance partners in some areas of our business may acquire or form alliances with our competitors, thereby reducing their business with us. We believe that semiconductor industry consolidation may result in stronger competitors that are better able to compete as sole-source suppliers of multiple products for customers. This could lead to more variability in our operating results and could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

In addition, from time to time, governments may provide subsidies or make other investments that could give competitive advantages to many semiconductor companies. For example, in August 2022, the U.S. enacted the CHIPS Act, which, among other things, provides funding to increase domestic production and research and development in the semiconductor industry. Because we operate a fabless business model, we do not believe we will be eligible for such investments from the U.S. government. Many of our competitors will benefit from the investments, which will help increase their production capacities, shorten their lead times and gain market share. These competitive pressures could materially and adversely affect our business, financial condition and results of operations.

***We may face competition from customers developing products internally.***

Our customers generally have substantial technological capabilities and financial resources. Some customers have traditionally used these resources to develop their own products internally. The future prospects for our products in these markets are dependent in part upon our customers' acceptance of our products as an alternative to their internally developed products. Future sales prospects also are dependent upon acceptance of third-party sourcing for products as an alternative to in-house development. Customers may continue to increase their use of internally developed components. They may also decide to develop or acquire components, technologies or products that are similar to, or that may be substituted for, our products. If any of these situations were to occur, our business, financial condition and results of operations could be materially and adversely affected.

**Risks Associated with IT and Cybersecurity**

***Implementation of enhanced enterprise resource planning ("ERP") or other IT systems could result in significant disruptions to our operations.***

From time to time, we may implement new ERP software solutions or upgrade existing systems. Implementation of these solutions and systems is highly dependent on coordination of system providers and internal business teams. We may experience difficulties as we transition to these new or upgraded systems and processes, including system downtime causing interruptions in business operations. In addition, transitioning to these new systems may require significant capital investments and personnel resources. Difficulties in implementing new or upgraded information systems or any significant system failures could disrupt our operations and financial reporting, which could have a material adverse effect on our capital resources, financial condition or results of operations.

***Certain software we use is from open-source code sources, which, under certain circumstances, may lead to unintended consequences and, therefore, could materially adversely affect our business, financial condition, operating results and cash flow.***

We use open-source software in connection with certain of our products and services, and we intend to continue to use open-source software in the future. From time to time, there have been claims challenging the ownership of open-source software against companies that incorporate open-source software into their products or services or alleging that these companies have violated the terms of an open-source license. As a result, we could be subject to lawsuits by parties claiming ownership of what we believe to be open-source software or alleging that we have violated the terms of an open-source license. Litigation could be costly for us to defend, have a negative effect on our operating results and financial condition or require us to devote additional research and development resources to change our solutions. In addition, if we were to combine our proprietary software solutions with open-source software in certain circumstances, we could, under certain open-source licenses, be required to publicly release the source code of our proprietary software solutions, which could harm our business and ability to compete. If we inappropriately use open-source software, we may be required to re-engineer our solutions, discontinue the sale of our solutions, release the source code of our proprietary software to the public at no cost or take other remedial actions, which could increase our costs, harm our ability to compete and have a material adverse effect on our business, operating results and financial condition. There is also a risk that open-source licenses could be construed in a way that could impose unanticipated conditions or restrictions on our ability to commercialize our solutions, which could adversely affect our business, operating results and financial condition.

***System security risks, data protection or privacy breaches, cyberattacks, systems integration issues and unauthorized use of AI tools could disrupt our internal operations and/or harm our reputation, and any such disruption or harm could cause a reduction in our expected revenue, increase our expenses, negatively impact our results of operation or otherwise adversely affect our stock price.***

Experienced hackers may be able to penetrate our network security and misappropriate or compromise our confidential and proprietary information, create system disruptions or cause shutdowns. As AI capabilities improve, threat actors may quickly develop more sophisticated and convincing attacks. These attacks could be crafted with an AI tool to directly attack information systems with increased speed and efficiency or create more effective phishing emails. The costs to us to eliminate or alleviate cyber or other security problems, bugs, viruses, worms, malicious software programs and security vulnerabilities could be significant, and our efforts to address these problems may not be successful and could result in interruptions and delays that may impede our sales, manufacturing, distribution, financial reporting or other critical functions.

In the ordinary course of business, we store sensitive data on our internal systems, network and servers, such as proprietary business and financial information, and confidential data pertaining to our customers, suppliers and business partners. Maintaining security of sensitive information on our networks and the protection features of our solutions are both critical to our operations and business strategy. We devote significant resources to network security, data encryption, and other security measures to protect our systems and data. However, these security measures cannot provide absolute security. Although we make significant efforts to maintain the security and integrity of our systems and solutions, any destructive or intrusive breach could compromise our networks, creating system disruptions or slowdowns, and the information stored on our networks could be accessed, publicly disclosed, lost or stolen. Remote working arrangements, the Russia-Ukraine conflict, the Israel-Gaza conflict, and AI-powered cybersecurity threats have also heightened our potential exposure to cyberattacks, which could put the sensitive data we store on our internal systems at risk. If any of these types of security breaches were to occur and we were unable to protect sensitive data, our reputation and relationships with our business partners and customers could be materially harmed, and we could be exposed to risks of litigation and possible significant liability.

Portions of our IT infrastructure may also experience interruptions, delays or cessations of service or produce errors in connection with systems integration or migration work that takes place from time to time. We may not be successful in implementing new systems and transitioning data, which could cause business disruptions and our remediation efforts may be expensive, time consuming, disruptive and resource-intensive. Such disruptions could adversely impact our ability to fulfill orders in a timely manner and interrupt other processes. Delayed sales or a loss of customers resulting from these disruptions could adversely affect our financial results, stock price and reputation.

Unauthorized use or disclosure of, or access to, any personal information maintained by us or on our behalf, whether through breach of our systems, breach of the systems of our suppliers or vendors by an unauthorized party, or through employee error, theft or misuse, or otherwise, could harm our business. If any such unauthorized use or disclosure of, or access to, such personal information was to occur, our operations could be seriously disrupted, and we could be subject to demands, claims and litigation by private parties, and investigations, related actions, and penalties by regulatory authorities. In addition, we could incur significant costs in notifying affected individuals and entities and otherwise complying with the multitude of foreign, federal, state and local laws and regulations relating to the unauthorized access to, or use or disclosure of, personal information. Finally, any perceived or actual unauthorized access to, or use or disclosure of, such information could harm our reputation and substantially impair our ability to attract and retain customers, which could have an adverse impact on our business, financial condition and results of operations.

Our ability to manage and aggregate data may be limited by the effectiveness of our policies, programs, processes, systems and practices that govern how data is acquired, validated, used, stored, protected, processed and shared. Failure to manage data effectively and to aggregate data in an accurate and timely manner may limit our ability to manage current and emerging risks, as well as to manage changing business needs. While we restrict the use of third-party and open-source AI tools, such as ChatGPT, our employees and consultants may use these tools on an unauthorized basis and our partners may use these tools, which poses additional risks relating to the protection of data, including the potential exposure of our proprietary confidential information to unauthorized recipients and the misuse of our or third-party intellectual property. Use of AI tools may result in allegations or claims against us related to violation of third-party intellectual property rights, unauthorized access to or use of proprietary information and failure to comply with open-source software requirements. AI tools may also produce inaccurate responses that could lead to errors in our decision-making, product development or other business activities, which could have a negative impact on our business, operating results and financial condition. Our ability to mitigate these risks will depend on our continued effective maintaining, training, monitoring and enforcement of appropriate policies and procedures governing the use of AI tools, and the results of any such use, by us or our partners.

***We are subject to various U.S. and international laws, policies and other regulations regarding data protection.***

Privacy, cyber security, and data protection are becoming increasingly significant issues. To address these issues, the Standing Committee of the National People's Congress promulgated the Cyber Security Law of the People's Republic of China (the "Cyber Security Law"), which took effect on June 1, 2017. The Cyber Security Law sets forth various requirements relating to the collection, use, storage, disclosure and security of data, among other things. On June 10, 2021, the National People's Congress passed the Data Security Law of the People's Republic of China (the "Data Security Law"), which became effective on September 1, 2021. The Data Security Law is the first comprehensive data security legislation in China, which becomes a key supplement to the Cyber Security Law and aims to regulate a wide range of issues in relation to the collection, storage, processing, use, provision, transaction and publication of any kind of data. Various Chinese agencies are expected to issue additional regulations in the future to define these requirements more precisely. For example, the Personal Information Protection Law ("PIPL"), took effect on November 1, 2021. PIPL is aimed at protecting and controlling the use and transfer of personal data in China. There is significant uncertainty in how regulators will interpret and enforce the law, and it contains provisions that allow substantial government oversight and include fines for failure to obtain required approval from China's cyber and data protection regulators for cross-border transfers of personal data.

Effective May 25, 2018, the European Union ("EU") implemented the General Data Protection Regulation ("GDPR"), a broad data protection framework that expands the scope of EU data protection law to non-European Union entities that process, or control the processing of, the personal data of EU subjects. The GDPR allows for the imposition of fines and corrective action on entities that improperly use, disclose or secure the personal data of EU subjects, including through a data security breach. In addition, an increasing number of states in the U.S. have enacted laws containing similar requirements to the GDPR for businesses collecting or processing personal data. For example, the State of California enacted the California Consumer Privacy Act of 2018 ("CCPA"), which was significantly amended by the California Privacy Rights Act, and sets forth comprehensive privacy and security obligations regarding the collection and processing of personal data of eligible California residents. Other states have, or are expected to, enact similar or more expansive legislation regarding the collection and processing of personal data.

These regulatory requirements may increase our costs of compliance. Any failure to fully comply with the Cyber Security Law, the Data Security Law, PIPL, GDPR, CCPA, and other applicable laws and regulations could lead to significant fines and regulatory corrective actions, along with reputational damage or third-party lawsuits, which could adversely affect our business and results of operations. In addition, data security breaches experienced by us could result in the loss of trade secrets or other intellectual property, public disclosure of sensitive commercial data, and the exposure of personal data (including sensitive personal data) of our employees, customers, suppliers and others. Such incidents could subject us to significant monetary damages, regulatory enforcement actions and/or criminal prosecution, and cause us to lose customers and their related revenue in the future.

**Risks Associated with Strategic Investments and Initiatives**

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

Our success depends on us investing significant amounts of resources in research and development. We expect to continue investing heavily in research and development in the future in order to keep innovating and introducing new products in a timely manner and increase our revenue and profitability. Increased investments in research and development will increase our operating expenses, which may negatively impact our operating results, and we may not achieve the return on these investments that we anticipate, or be able to reduce such expenses in a timely manner if we experience a downturn in sales. Also, if we are unable to properly manage and effectively utilize our research and development resources, we could see material adverse effects on our business, financial condition and operating results.

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



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

As part of our business strategy, from time to time we review acquisition prospects that would complement our current product offerings, enhance our design capability or offer other competitive opportunities. As a result of completing acquisitions, we could use a significant portion of our available cash, cash equivalents and short-term investments, issue equity securities that would dilute current stockholders' percentage ownership, or incur substantial debt or contingent liabilities. Such actions could impact our financial condition, operating results and the price of our common stock.

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

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

- unexpected losses of key employees or customers of the acquired companies or businesses;
- integrating the acquired company's standards, processes, procedures and controls with our operations;
- coordinating new product and process development;
- hiring additional management and other critical personnel;
- increasing the scope, geographic diversity and complexity of our operations;
- difficulties in consolidating facilities and transferring processes and know-how;
- difficulties in the assimilation of acquired operations, technologies or products;
- the risk of undisclosed liabilities of the acquired businesses and potential legal disputes with founders or stockholders of acquired companies;
- our inability to commercialize acquired technologies;
- the risk that the future business potential as projected is not realized and as a result, we may be required to take an impairment charge related to goodwill or acquired intangibles that would impact our profitability;
- difficulties in assessing the fair value of earn-out arrangements;
- diversion of management's attention from other business concerns; and
- adverse effects on existing business relationships with customers.

Alternatively, third parties may be interested in acquiring us. We will continue to consider, evaluate and negotiate any such transactions as our board of directors deems appropriate and in the best interest of our stockholders. Such potential transactions may divert the attention of management, and cause us to incur various costs and expenses in investigating, evaluating and negotiating such transactions, whether or not they are consummated.



## **Risks Associated with Financial Reporting**

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

Due to the complexity associated with the calculation of our tax provision, including the effects of the enactment of new tax laws, we engage third-party tax advisors to assist us in the calculation. If we or our tax advisors fail to resolve or fully understand certain issues that we may have had in the past and issues that may arise in the future, we could be subject to errors, which, if material, would result in a restatement of our financial statements. Restatements are generally costly and could adversely impact our results of operations, damage our reputation, and/or have a negative impact on the trading price of our common stock.

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

Our future effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates, by changes in the valuation of our deferred tax assets, or by changes in tax laws, regulations, accounting principles or interpretations thereof and discrete items. In addition, we are subject to potential future examinations of our income tax returns by the Internal Revenue Service and tax authorities in various jurisdictions where we have business operations. We assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from any examinations will not have an adverse effect on our financial condition and results of operations.

### ***Our international operations subject us to potentially significant tax consequences, which could adversely affect our results of operations.***

We conduct our international operations through wholly-owned subsidiaries, branches and representative offices and report our taxable income in various jurisdictions worldwide based upon our business operations in those jurisdictions. Such corporate structures are subject to complex transfer pricing, permanent establishment challenges and other local regulations administered by taxing authorities in various jurisdictions. The relevant taxing authorities may disagree with our determinations as to the income and expenses attributable to specific jurisdictions. If such a disagreement were to occur, and our positions were not sustained, we could be required to pay additional taxes, interest and penalties, resulting in higher effective tax rates, reduced cash flows and lower overall profitability of our operations. Additionally, our future worldwide tax rate and financial position may be affected by changes in the relevant tax laws, interpretation of such tax laws or the influence of certain tax policy efforts, including in the EU and the Organization for Economic Cooperation and Development.

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

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

## **Risks Associated with Regulatory Compliance, Intellectual Property Protection and Litigation**

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

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

***Our business is subject to various governmental laws and regulations, and compliance with these regulations may impact our revenue and cause us to incur significant expense. If we fail to maintain compliance with applicable regulations or obtain government licenses and approvals for our desired international trading activities or technology transfers, we may be forced to recall products and cease their distribution, and we could be subject to civil or criminal penalties.***

Our business is subject to various significant laws and other legal requirements imposed by the U.S. and other countries we conduct business in, including export control laws such as the Export Administration Act, the Export Administration Regulations and other laws, regulations and requirements governing international trade and technology transfer. These laws and regulations are complex, change frequently and have generally become more stringent over time. We may be required to incur significant expense to comply with these regulations or to remedy violations of these regulations. In addition, if our customers fail to comply with these regulations, we may be required to suspend sales to these customers, which could negatively impact our results of operations. We must conform the manufacture and distribution of our products to various laws and adapt to regulatory requirements in many countries as these requirements change. If we fail to comply with these requirements in the manufacture or distribution of our products, we could be required to pay civil penalties, face criminal prosecution and, in some cases, be prohibited from distributing our products commercially until the products are brought into compliance.

***Environmental laws and regulations could cause a disruption in our business and operations.***

We are subject to various foreign, federal, state and local laws and regulations that govern the environment, including those restricting the presence of certain substances in electronic products and making manufacturers of those products financially responsible for the collection, treatment, recycling and disposal of certain products. Such laws and regulations have been passed in several jurisdictions in which we operate, including various EU member countries and countries in Asia. There can be no assurance that similar laws and regulations will not be implemented in other jurisdictions resulting in additional costs, possible delays in delivering products, and even the discontinuance of existing and planned future products if the costs were to become prohibitive.

***We are subject to increasing regulatory and reporting standards related to ESG matters, which could increase our expenses.***

In recent years, there has been an increase in public awareness and requirements from regulators, investors, customers and other key stakeholders focusing on ESG compliance efforts, including those related to environmental sustainability and social responsibility. For example, the SEC has proposed new rules that require public companies to provide detailed disclosures of their climate-related risks, greenhouse gas emissions data, and net-zero transition plans, and in October 2023, California passed two bills that will require companies to disclose greenhouse gas emissions data and climate-related financial risks. In addition, many of our customers increasingly include stringent environmental and other non-standard compliance requirements in their contracts with us or request significant amount of data from us for their Scope 3 emissions reporting. While we are committed to maintaining strong ESG strategies, practices, policies and disclosures, there can be no assurance that we will be able to achieve our goals, or that our compliance initiatives will be deemed sufficiently robust by regulators, stockholders, customers and other key stakeholders. The achievement of our goals and initiatives may be impacted by factors that are outside our control. Some of our stakeholders may disagree with our goals and initiatives, and the focus and views of our stakeholders may change and evolve over time and vary depending on the jurisdictions in which we operate. Any failure, or perceived failure, by us to achieve our goals, implement new initiatives, comply with federal, state or international laws and regulations, or meet evolving and varied stakeholder expectations and views, could result in litigation, regulatory action or other legal claims, penalties, injunction or other remedies against us, damage our reputation and materially and adversely affect our business, financial condition and results of operations.

Furthermore, our compliance efforts, including the collection, assessment and reporting of ESG data, are subject to evolving reporting standards and can be costly, complex and time-consuming. In addition, climate change concerns and the potential associated environmental impact could result in the proposal and passage of additional laws and regulations in various jurisdictions that may affect us, our suppliers and customers. Such laws and regulations could cause us to incur additional compliance costs, and failure to comply with the regulatory standards in a timely manner could result in penalties and fines. These operational, legal, compliance and other risks could damage our reputation and materially and adversely affect our business, financial condition and results of operations.

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

Historically, we have incurred significant expenses in connection with various legal proceedings that vary with the level of activity in the proceeding. It is difficult for us to forecast our legal expenses for any given quarter, which adversely affects our ability to forecast our expected results of operations in general. We may also be subject to unanticipated legal proceedings, which would result in us incurring unexpected legal expenses. If we fail to meet the expectations of securities or industry analysts as a result of unexpected changes in our legal expenses, our stock price could be materially and adversely affected.

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

The semiconductor industry is characterized by frequent claims of infringement and litigation regarding patent and other intellectual property rights. Patent infringement is an ongoing risk, in part because other companies in our industry could have patent rights that may not be identifiable when we initiate development efforts. Litigation may be necessary to enforce our intellectual property rights, and we may have to defend ourselves, and in some circumstances our key customers or suppliers, against additional infringement claims. Such litigation is very costly. Further, in connection with these legal proceedings, we may be required to post bonds to defend our intellectual property rights in certain countries for an indefinite period of time, until such dispute is resolved. If our legal expenses materially increase or exceed anticipated amounts, our capital resources and financial condition could be adversely affected. If we are not successful in any of our intellectual property defenses, we may have to cease production of certain products, design around such technologies, or pay royalty payments, any of which could harm our financial condition and our business. Our management team may also be required to devote a great deal of time and effort to these legal proceedings, which could divert management's attention from focusing on our operations, which could adversely affect our business.

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

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

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

From time to time, we are a party to various legal proceedings. If we are not successful in litigation that could be brought against us or our customers, we could be ordered to pay monetary fines and/or damages, including expenses and damages against our customers. If we are found liable for willful patent infringement, damages could be significant. We and/or our customers could also be prevented from selling some or all of our products. Moreover, our customers and end users could decide not to use our products, and our products and our customers' accounts payable to us could be seized. Finally, interim developments in these proceedings could increase the volatility in our stock price as the market assesses the impact of such developments on the likelihood that we will or will not ultimately prevail in these proceedings. Even if resolved favorably, such proceedings can be very expensive and time consuming, and may divert management's attention from other business operations.

**Risks Associated with Human Capital Management**

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

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

***If we fail to retain key employees in our sales, engineering, finance and legal functions or to make continued improvements to our internal systems, our business may suffer.***

If we fail to continue to adequately staff our sales, engineering, financial and legal positions, maintain or upgrade our business systems and maintain internal controls that meet the demands of our business, we may not be able to effectively execute our business strategy. The operation of our business also depends upon our ability to retain these employees, as these employees hold a significant amount of institutional knowledge about us and our products and, if they were to terminate their employment, our sales, operations and internal control over financial reporting could be adversely affected.

## Risks Associated with Ownership of Our Stock

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

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

- actual or anticipated results of operations and financial performance, including our ability to accurately forecast future demand for our products;
- actual or anticipated manufacturing capacity limitations;
- our ability to develop new products, enter new market segments, gain market share, manage litigation risk, diversify our customer base and successfully secure manufacturing capacity;
- our ability to maintain or increase our gross margins;
- costs of increasing wafer capacity and qualifying additional third-party wafer fabrication facilities;
- our loss of key customers;
- investments in sales and marketing resources to enter new markets;
- commencement of or developments relating to litigation;
- cyberattacks or other system security, data protection and privacy breaches;
- the inclusion, exclusion or deletion of our common stock from any major trading indices, such as the S&P 500 Index;
- our sale of common stock or other securities in the future;
- any mergers, acquisitions or divestitures of assets undertaken by us;
- our ability to obtain governmental licenses and approvals for international trading activities or technology transfers, including export licenses;
- our ability to meet or exceed the guidance that we provide to our investors and analysts;
- our ability to pay quarterly cash dividends to stockholders;
- our ability to meet or exceed our, our investors' or analysts' expectations;
- market reactions to guidance from other semiconductor companies or third-party research groups;
- market reactions to merger and acquisition activities in the semiconductor industry, and rumors or expectations of further consolidation in the industry;
- investor perceptions of us and our business strategies;
- the breadth and liquidity of the market for our common stock;
- trading activity in our common stock, including short positions;
- actions by institutional or other large stockholders;
- changes in the estimation of the future size and growth rate of our markets;

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- introduction of new products by us or our competitors;
- general economic, industry and market conditions worldwide, including the global economic downturn;
- developments generally affecting the semiconductor industry;
- terrorist acts or acts of war, including the ongoing Russia-Ukraine conflict and the Israel-Gaza conflict;
- epidemics and pandemics;
- developments with respect to intellectual property rights;
- conditions and trends in technology industries;
- changes in market valuation or earnings of our competitors;
- government debt default;
- changes in corporate tax laws;
- government policies and regulations on international trade policies and restrictions, including tariffs on imports of foreign goods;
- export controls, trade and economic sanctions and regulations, and other regulatory or contractual limitations on our ability to sell or develop our products in certain foreign markets, particularly in China;
- ratings published by third-party organizations with respect to our ESG compliance efforts;
- our compliance with regulatory mandates focusing on ESG issues, including climate risks and social initiatives; and
- our performance against the ESG guidelines set by institutional stockholders and customers, and our ability to meet or exceed their expectations.

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

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

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

***Short positions in our stock could have a substantial impact on the trading price of our stock.***

Historically, there have been “short” positions in our common stock. The anticipated downward pressure on our stock price due to actual or anticipated sales of our stock by some institutions or individuals who engage in short sales of our common stock could cause our stock price to decline. Such stock price decreases could encourage further short-sales that could place additional downward pressure on our stock price. This could lead to further increases in the existing short position in our common stock and cause decreases and volatility in our stock price. The volatility of our stock may cause the value of a stockholder’s investment to decline rapidly. Additionally, if our stock price declines, it may be more difficult for us to raise capital and may have other adverse effects on our business.

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

We have a dividend program approved by our Board of Directors, pursuant to which we intend to pay quarterly cash dividends on our common stock. The declaration of any future cash dividends is at the discretion of our Board of Directors and will depend on, among other things, our financial condition, results of operations, capital requirements, business conditions, and other factors that our Board of Directors may deem relevant, as well as a determination that cash dividends are in the best interests of our stockholders. Our dividend payments may change from time to time, and we cannot provide assurance that we will continue to declare dividends in any particular amounts or at all. A reduction in or elimination of our dividend payments could have a negative effect on the price of our common stock and on the return achieved by our stockholders.

*We cannot guarantee that our stock repurchase program will enhance long-term stockholder value.*

In October 2023, our Board of Directors approved a new stock repurchase program authorizing the repurchase of up to \$640 million in the aggregate of our common stock. The repurchase program will expire on October 29, 2026. The amount, timing and execution of our stock repurchase program may fluctuate based on market conditions and our priorities for the use of our cash. We are not obligated to repurchase a specified number or dollar value of shares, on any particular timetable, or at all. Furthermore, there can be no assurance that any stock repurchased under this program will be at favorable prices. The repurchase program may be suspended or terminated at any time and, even if fully implemented, may not enhance long-term stockholder value.

*If we issue additional shares of stock in the future, it may have a dilutive effect on our stockholders.*

We may issue additional shares of common stock in the future in order to raise additional capital to fund our global operations or in connection with an acquisition. Any issuance of our common stock may result in immediate dilution to our stockholders. In addition, the issuance of a significant amount of our common stock may require additional regulatory compliance, such as stockholder approval.

### **General Risk Factors**

*Our worldwide operations are subject to economic and geopolitical uncertainty, health risks, climate crises and other natural disasters, which could have a material adverse effect on our business operations.*

Our offices in California and Washington, the production facilities of our third-party wafer suppliers, our IC testing and manufacturing facilities, a portion of our assembly and research and development activities, and certain other critical business operations are located in or near seismically active regions and are subject to periodic earthquakes. We do not maintain earthquake insurance and could be materially and adversely affected in the event of a major earthquake. Much of our revenue, as well as our manufacturers and assemblers, are concentrated in Asia, particularly in China. Such concentration increases the risk that earthquakes or other natural disasters, labor strikes, epidemics and pandemics, and/or health advisories could disrupt our operations and have a material adverse impact on our business and results of operations. For example, in 2022, China experienced a severe heatwave during the summer months in the Sichuan province, which resulted in widespread power shortages, rolling backouts and temporary business shutdowns imposed by the local governments. Although we were able to successfully execute our contingency plan and our operations were not materially and adversely disrupted by the events, we cannot guarantee that we will be able to mitigate the operational risks caused by extreme weather conditions or other events in the future.

In addition, we rely heavily on our internal information and communications systems and on systems or support services from third parties to manage our operations efficiently and effectively. Any of these are subject to failure due to a natural disaster or other disruptions. System-wide or local failures that affect our information processing could have material adverse effects on our business, financial condition and results of operations.

Furthermore, worldwide political conditions may create uncertainties that could adversely affect our business. The U.S. and other regions where we conduct business have been and may continue to be affected by conflicts that could, among other things, disrupt our supply chain, and impact customer demands and component prices. For example, the U.S. and other countries have imposed economic sanctions and export control measures on Russia due to the conflict in Ukraine. Although such measures have not significantly affected our business or operations, future developments could adversely affect our operating results and financial condition.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Not applicable.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

Certain of our executive officers have entered into trading plans pursuant to Rule 10b5-1(c) of the Securities Exchange Act of 1934, as amended. A trading plan is a written document that pre-establishes the amounts, prices and dates (or formula for determining the amounts, prices and dates) of future purchases or sales of our common stock, including the exercise and sale of shares acquired pursuant to the 2004 ESPP, and upon vesting of RSUs.

The following table summarizes the adoption of trading plans intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) during the three months ended September 30, 2023:

Name and Title	Adoption Date	Plan Duration	Intended Sale Amount (in shares)
Michael Hsing, President, Chief Executive Officer and Director	August 23, 2023	Through December 31, 2024	Up to 96,000
Maurice Sciammas, Senior Vice President of Worldwide Sales and Marketing	August 30, 2023	Through December 31, 2024	Up to 44,000
Deming Xiao, President of Asia Operations	August 31, 2023	Through December 31, 2024	Up to 138,180
Bernie Blegen, Executive Vice President and Chief Financial Officer	August 18, 2023	Through August 15, 2025	Up to 52,500

During the three months ended September 30, 2023, no pre-existing trading plans intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) were modified or terminated, and no other written trading arrangements that are not intended to qualify for the Rule 10b5-1(c) affirmative defense were adopted, modified, or terminated.

**Item 6. Exhibits**

<b>Exhibit No.</b>	<b>Description</b>
31.1	<a href="#">Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2	<a href="#">Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32.1*	<a href="#">Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS	Inline 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
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

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



**MONOLITHIC POWER SYSTEMS, INC**

**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.

MONOLITHIC POWER SYSTEMS, INC.

Dated: November 8, 2023

By: /s/ T. Bernie Blegen  
T. Bernie Blegen  
Chief Financial Officer  
(Duly Authorized Officer and Principal  
Financial and Accounting Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO  
SECURITIES EXCHANGE ACT RULES 13a-14(a) and 15d-14(a), AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael Hsing, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Monolithic Power Systems, 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(s) 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(s) 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.

Date: November 8, 2023

/s/ Michael Hsing  
Michael Hsing  
Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO  
SECURITIES EXCHANGE ACT RULES 13a-14(a) and 15d-14(a), AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, T. Bernie Blegen, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Monolithic Power Systems, 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(s) 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(s) 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.

Date: November 8, 2023

/s/ T. Bernie Blegen  
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T. Bernie Blegen  
Chief Financial Officer

The following certification shall not be deemed "filed" for purposes of section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND  
CHIEF FINANCIAL OFFICER PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Monolithic Power Systems, Inc., a Delaware corporation, for the quarter ended September 30, 2023 (the "Report"), as filed with the Securities and Exchange Commission, each of the undersigned officers of Monolithic Power Systems, Inc. certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the accompanying Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Monolithic Power Systems, Inc. for the periods presented therein.

Date: November 8, 2023

/s/ Michael Hsing  
Michael Hsing  
Chief Executive Officer

Date: November 8, 2023

/s/ T. Bernie Blegen  
T. Bernie Blegen  
Chief Financial Officer