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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2024

OR

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

Commission file number: 000-51026

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

Delaware
(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 48,672,000 shares of the registrant’s common stock issued and outstanding as of April 26, 2024.

MONOLITHIC POWER SYSTEMS, INC.

Form 10-Q
For the Quarter Ended March 31, 2024

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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)

	March 31, 2024	December 31, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 488,273	\$ 527,843
Short-term investments	798,116	580,633
Accounts receivable, net	194,428	179,858
Inventories	395,990	383,702
Other current assets	99,685	147,463
Total current assets	<u>1,976,492</u>	<u>1,819,499</u>
Property and equipment, net	375,573	368,952
Acquisition-related intangible assets, net	9,518	-
Goodwill	27,311	6,571
Deferred tax assets, net	32,784	28,054
Other long-term assets	157,023	211,277
Total assets	<u>\$ 2,578,701</u>	<u>\$ 2,434,353</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 103,471	\$ 62,958
Accrued compensation and related benefits	70,541	56,286
Other accrued liabilities	137,868	115,791
Total current liabilities	<u>311,880</u>	<u>235,035</u>
Income tax liabilities	66,337	60,724
Other long-term liabilities	86,927	88,655
Total liabilities	<u>465,144</u>	<u>384,414</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: 48,667 and 48,028, respectively	1,176,382	1,129,937
Retained earnings	977,724	947,064
Accumulated other comprehensive loss	(40,549)	(27,062)
Total stockholders' equity	<u>2,113,557</u>	<u>2,049,939</u>
Total liabilities and stockholders' equity	<u>\$ 2,578,701</u>	<u>\$ 2,434,353</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 March 31,	
	2024	2023
Revenue	\$ 457,885	\$ 451,065
Cost of revenue	205,444	192,285
Gross profit	252,441	258,780
Operating expenses:		
Research and development	75,990	63,709
Selling, general and administrative	80,964	70,795
Total operating expenses	156,954	134,504
Operating income	95,487	124,276
Other income, net	9,540	5,297
Income before income taxes	105,027	129,573
Income tax expense	12,486	19,771
Net income	\$ 92,541	\$ 109,802
Net income per share:		
Basic	\$ 1.90	\$ 2.32
Diluted	\$ 1.89	\$ 2.26
Weighted-average shares outstanding:		
Basic	48,635	47,234
Diluted	48,928	48,655

See accompanying notes to unaudited condensed consolidated financial statements.

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

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2024	2023
Net income	\$ 92,541	\$ 109,802
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	(13,822)	2,919
Change in unrealized gains and losses on available-for-sale securities, net of tax of \$(248) and \$311, respectively	335	2,213
Other comprehensive income (loss), net of tax:	(13,487)	5,132
Comprehensive income	<u>\$ 79,054</u>	<u>\$ 114,934</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			
Three Months Ended March 31, 2024					
Balance as of January 1, 2024	48,028	\$ 1,129,937	\$ 947,064	\$ (27,062)	\$ 2,049,939
Net income	-	-	92,541	-	92,541
Other comprehensive loss	-	-	-	(13,487)	(13,487)
Dividends and dividend equivalents declared (\$1.25 per share)	-	-	(61,881)	-	(61,881)
Common stock issued under the employee equity incentive plan	634	-	-	-	-
Common stock issued under the employee stock purchase plan	11	4,606	-	-	4,606
Repurchases of common stock	(6)	(4,076)	-	-	(4,076)
Stock-based compensation expense	-	45,915	-	-	45,915
Balance as of March 31, 2024	48,667	\$ 1,176,382	\$ 977,724	\$ (40,549)	\$ 2,113,557

	Common Stock and Additional Paid-in Capital		Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount			
Three Months Ended March 31, 2023					
Balance as of January 1, 2023	47,107	\$ 975,276	\$ 716,403	\$ (23,077)	\$ 1,668,602
Net income	-	-	109,802	-	109,802
Other comprehensive income	-	-	-	5,132	5,132
Dividends and dividend equivalents declared (\$1.00 per share)	-	-	(49,130)	-	(49,130)
Common stock issued under the employee equity incentive plan	295	1,110	-	-	1,110
Common stock issued under the employee stock purchase plan	9	3,737	-	-	3,737
Stock-based compensation expense	-	37,008	-	-	37,008
Balance as of March 31, 2023	47,411	\$ 1,017,131	\$ 777,075	\$ (17,945)	\$ 1,776,261

See accompanying notes to unaudited condensed consolidated financial statements.

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

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2024	2023
Cash flows from operating activities:		
Net income	\$ 92,541	\$ 109,802
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,251	9,987
Amortization of premium (discount) on available-for-sale securities	(4,123)	260
Gain on deferred compensation plan investments	(4,019)	(2,534)
Deferred taxes, net	248	(622)
Stock-based compensation expense	45,926	37,009
Other	(63)	-
Changes in operating assets and liabilities:		
Accounts receivable	(14,578)	(1,558)
Inventories	(11,596)	16,063
Other assets	74,477	213
Accounts payable	35,934	(880)
Accrued compensation and related benefits	14,698	13,422
Income tax liabilities	3,011	20,137
Other accrued liabilities	7,344	17,508
Net cash provided by operating activities	<u>248,051</u>	<u>218,807</u>
Cash flows from investing activities:		
Purchases of property and equipment	(15,991)	(8,854)
Purchases of investments	(365,856)	(129,321)
Maturities and sales of investments	149,766	152,698
Cash paid for acquisition, net of cash acquired	(33,284)	-
Contributions to deferred compensation plan, net	(650)	(2,209)
Net cash provided by (used in) investing activities	<u>(266,015)</u>	<u>12,314</u>
Cash flows from financing activities:		
Property and equipment purchased on extended payment terms	(978)	(374)
Proceeds from common stock issued under the employee equity incentive plan	-	1,110
Proceeds from common stock issued under the employee stock purchase plan	4,606	3,737
Repurchases of common stock	(4,076)	-
Dividends and dividend equivalents paid	(49,553)	(36,725)
Net cash used in financing activities	<u>(50,001)</u>	<u>(32,252)</u>
Effect of change in exchange rates	(4,818)	1,497
Net increase (decrease) in cash, cash equivalents and restricted cash	(72,783)	200,366
Cash, cash equivalents and restricted cash, beginning of period	561,181	288,729
Cash, cash equivalents and restricted cash, end of period	<u>\$ 488,398</u>	<u>\$ 489,095</u>
Supplemental disclosures for cash flow information:		
Cash paid (refunded) for income taxes, net	\$ 725	\$ (1,300)
Non-cash investing and financing activities:		
Liability accrued for property and equipment purchases	\$ 5,995	\$ 2,482
Liability accrued for dividends and dividend equivalents	\$ 61,892	\$ 49,219

See accompanying notes to unaudited condensed consolidated financial statements.

MONOLITHIC POWER SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

I. 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 U.S. generally accepted accounting principles (“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, 2023, filed with the SEC on February 29, 2024.

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, 2024 or for any other future periods.

Summary of Significant Accounting Policies

There have been no changes to the Company’s significant accounting policies during the three months ended March 31, 2024. In addition to those described in the Company’s audited consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2023, the Company is subject to the following significant accounting policy due to the recent acquisition.

Goodwill and Acquisition-Related Intangible Assets

Goodwill represents the excess of fair value of purchase consideration over fair value of net tangible and identifiable intangible assets acquired as of the date of an acquisition. In-process research and development (“IPR&D”) assets represent the fair value of incomplete research and development (“R&D”) projects that had not reached technological feasibility as of the date of acquisition. IPR&D assets are initially capitalized at fair value as intangible assets with indefinite lives. When IPR&D projects are completed, they are reclassified as amortizable intangible assets and are amortized over their estimated useful lives. Alternatively, if IPR&D projects are abandoned, they are impaired and expensed as R&D costs. Acquisition-related intangible assets with finite lives consist of developed technologies, which are amortized on a straight-line basis over their estimated remaining useful lives. The amortization expense is recorded in cost of revenue in the Condensed Consolidated Statements of Operations.

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.

New Accounting Pronouncements Not Yet Adopted as of March 31, 2024

In November 2023, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*, which aims to improve disclosures regarding a public entity’s reportable segments, primarily through more comprehensive disclosures around significant segment expenses. The standard is effective for annual periods beginning January 1, 2024 and for interim periods beginning January 1, 2025, and should be applied retroactively to all prior periods presented. The Company is evaluating the potential effect that the updated standard will have on its financial statement disclosures.

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*, which aims to improve an entity’s income tax disclosures around its effective rate reconciliation, income taxes paid, disaggregation of income before income taxes and income tax expense. The guidance will be effective for annual periods beginning January 1, 2025. The standard should be applied prospectively but retrospective application is permitted. The Company does not expect the adoption of this standard to have a material impact on its 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”), power modules as well as dies in wafer form. These product sales accounted for 99% of the Company’s total revenue for both the three months ended March 31, 2024 and 2023. The remaining revenue primarily includes royalty revenue from licensing arrangements and revenue from wafer testing services performed for third parties. See Note 8 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 March 31, 2024 and 2023, 85% and 81% 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, 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 issues invoices.

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. Certain 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 price, 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. The Company's accounts receivables 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 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 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 customers without credit terms, 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 March 31, 2024 and December 31, 2023, customer prepayments totaled \$2.7 million and \$2.8 million, respectively. For the three months ended March 31, 2024, the Company recognized all revenue that was included in the customer prepayment balance as of December 31, 2023.

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 Company’s 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 cease being available for new awards on June 11, 2030. As of March 31, 2024, 3.9 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 March 31,	
	2024	2023
Cost of revenue	\$ 1,398	\$ 1,147
Research and development	10,447	8,614
Selling, general and administrative (“SG&A”)	34,081	27,248
Total stock-based compensation expense	\$ 45,926	\$ 37,009
Tax benefit related to stock-based compensation (1)	\$ 708	\$ 423

(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 or 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 or services to 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, 2024	102	\$ 411.11	482	\$ 397.77	1,502	\$ 152.89	2,086	\$ 222.04
Granted	21	\$ 632.98	240 (1)	\$ 609.22	-	-	261	\$ 610.67
Vested	(14)	\$ 372.30	(57)	\$ 287.31	(563)	\$ 68.48	(634)	\$ 94.76
Forfeited	(2)	\$ 467.30	-	-	-	-	(2)	\$ 423.45
Outstanding at March 31, 2024	107	\$ 458.67	665	\$ 489.68	939	\$ 203.38	1,711	\$ 330.53

(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 \$403.0 million and \$141.6 million for the three months ended March 31, 2024 and 2023, respectively. As of March 31, 2024, the total intrinsic value of all outstanding RSUs was \$1.1 billion, based on the closing stock price of \$677.42. As of March 31, 2024, unamortized compensation expense related to all outstanding RSUs was \$339.5 million with a weighted-average remaining recognition period of approximately two years.

Time-Based RSUs:

For the three months ended March 31, 2024, the Compensation Committee granted 21,000 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.

2024 PSUs:

In February 2024, the Compensation Committee granted 50,000 PSUs to the executive officers, which represent a target number of shares that can be earned based on the degree of achievement of three sets of performance goals (“2024 Executive PSUs”). For the first goal, the executive officers can earn up to 300% of the target number of the 2024 Executive PSUs based on the achievement of the Company’s average three-year (2024 through 2026) 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 an additional 100% of the target number of the 2024 Executive PSUs if the Company achieves a reduction in 2026 of 25% global combined Scope 1 and Scope 2 greenhouse gas emissions against the 2022 baseline. For the third goal, the executive officers can earn 50% of the target number of the 2024 Executive PSUs if more than one-third of the Company’s total 2026 revenue in the automotive market is generated from Electronic Vehicle (“EV”) automakers. In addition, for the third goal, the executive officers can earn 50% of the target number of the 2024 Executive PSUs if total 2026 revenue from products enabling EV powertrains and EV 48V systems grows to 200% of the 2023 baseline. For the first goal, a percentage of the 2024 Executive PSUs will fully vest on December 31, 2026, depending on the degree to which the pre-determined goal is met during the performance period. The 2024 Executive PSUs related to the second and the third goal will fully vest on December 31, 2026 if the pre-determined goals are met during the performance period. Assuming the achievement of the highest level of the performance goals, the total stock-based compensation cost for the 2024 Executive PSUs will be \$154.3 million.

In February 2024, the Compensation Committee granted 11,000 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 2025 revenue goals for certain regions or product line divisions, or based on the degree of achievement of the Company’s average two-year (2024 and 2025) revenue growth rate compared against the analog industry’s average two-year revenue growth rate as published by the SIA (“2024 Non-Executive PSUs”). The maximum number of shares that an employee can earn is either 200% or 300% of the target number of the 2024 Non-Executive PSUs, depending on the job classification of the employee. 50% of the 2024 Non-Executive PSUs will vest in the first quarter of 2026 depending on the degree to which the pre-determined goals are met during the performance period. The remaining 2024 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 2024 Non-Executive PSUs will be \$17.7 million.

The 2024 Executive PSUs and the 2024 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 \$632.98. The Company determined the grant date fair value of the 2024 Executive PSUs and the 2024 Non-Executive PSUs using a Monte Carlo simulation model with the following assumptions: stock price of \$632.98, simulation term of three years, expected volatility of 49.4%, risk-free interest rate of 4.1%, and expected dividend yield of 0.8%. 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 March 31, 2024 and 2023, 11,000 and 9,000 shares were issued under the 2004 ESPP, respectively. As of March 31, 2024, 4.4 million shares were available for future issuance under the 2004 ESPP.

The intrinsic value of the shares issued was \$3.5 million and \$0.7 million for the three months ended March 31, 2024 and 2023, respectively. As of March 31, 2024, the unamortized expense was \$1.1 million, which will be recognized through the third quarter of 2024. The Black-Scholes model was used to value the employee stock purchase rights with the following weighted-average assumptions:

	Three Months Ended March 31,	
	2024	2023
Expected term (in years)	0.5	0.5
Expected volatility	42.4%	55.8%
Risk-free interest rate	5.3%	5.0%
Dividend yield	0.7%	0.8%

Cash proceeds from the shares issued under the 2004 ESPP were \$4.6 million and \$3.7 million for the three months ended March 31, 2024 and 2023, respectively.

4. ACQUISITION

On January 3, 2024 (the “Acquisition Date”), the Company acquired 100% of the outstanding capital stock of Axign B.V. (“Axign”), a Dutch company that designs and develops class-D audio ICs, targeting applications ranging from portable consumer speakers to automotive and professional-grade multi-speaker systems. Commencing on the Acquisition Date, Axign became a wholly-owned subsidiary of the Company and its results of operations have been included in the Company’s consolidated financial statements.

Purchase Consideration

The preliminary purchase consideration was approximately \$33.7 million in cash and includes an estimated working capital adjustment and other adjustments.

Cash paid at the Acquisition Date included \$3.8 million that is being held in an escrow account for a one-year period until Axign’s satisfaction of certain representations and warranties.

In connection with the acquisition, the Company incurred \$0.4 million in transaction costs that were expensed as incurred and included in selling, general and administrative expenses in the Condensed Consolidated Statements of Operations.

Preliminary Purchase Price Allocation

The preliminary purchase price allocation for Axign is as follows (in thousands):

	Preliminary Estimated Net Asset Fair Value
Inventory	\$ 720
Other tangible assets acquired, net of liabilities assumed	1,948
Intangible assets:	
Developed technology	8,337
IPR&D	1,612
Total identifiable net assets acquired	12,617
Goodwill	21,066
Total net assets acquired	<u>\$ 33,683</u>

The intangible asset acquired with a finite life includes the core developed technology with an estimated remaining useful life of eight years. The acquired intangible asset with an indefinite life includes an incomplete R&D project that had not reached technological feasibility as of the Acquisition Date. The fair values of the developed technology and the IPR&D were determined using the income approach.

The goodwill arising from the acquisition was primarily attributed to the assembled workforce and synergies that are anticipated to enable the Company to develop solutions with lower power consumption in the consumer and automotive markets using Axign’s digital feedback technology. The goodwill is not expected to be deductible for tax purposes.

The Company is still in the process of determining the final fair values of the assets acquired and liabilities assumed. As a result, the purchase price allocation for Axign is not complete as of March 31, 2024. The Company expects to finalize the allocation by the quarter ending June 30, 2024. Final determination of the fair values could result in an adjustment to the preliminary purchase price allocation with a corresponding adjustment to goodwill.

5. BALANCE SHEET COMPONENTS***Inventories***

Inventories consist of the following (in thousands):

	March 31, 2024	December 31, 2023
Raw materials	\$ 108,425	\$ 118,917
Work in process	141,703	112,750
Finished goods	145,862	152,035
Total	<u>\$ 395,990</u>	<u>\$ 383,702</u>

Other Current Assets

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

	March 31, 2024	December 31, 2023
Prepaid wafer expenses	\$ 60,000	\$ -
Prepaid expenses	21,588	28,964
RSU tax withholding proceeds receivable	15	20,141
Other receivables	-	50,000
Restricted cash	-	33,204
Other	18,082	15,154
Total	<u>\$ 99,685</u>	<u>\$ 147,463</u>

As of March 31, 2024 and December 31, 2023, the Company held \$60 million in prepaid wafer expenses and \$50 million in other receivables, respectively, related to deposits made to a supplier under a long-term wafer supply agreement. See Note 9 for further details. The restricted cash included in other current assets as of December 31, 2023 was related to preliminary purchase consideration held in a trust account in connection with the Company's acquisition of Axign and was paid in January 2024. See Note 4 for further details.

Other Long-Term Assets

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

	March 31, 2024	December 31, 2023
Deferred compensation plan assets	\$ 83,050	\$ 78,381
Prepaid wafer purchases	60,000	120,000
Other	13,973	12,896
Total	<u>\$ 157,023</u>	<u>\$ 211,277</u>

Prepaid wafer purchases relate to a deposit made to a supplier under a long-term wafer supply agreement. See Note 9 for further details.

Other Accrued Liabilities

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

	March 31, 2024	December 31, 2023
Dividends and dividend equivalents	\$ 69,291	\$ 57,697
Stock rotation and sales returns	30,208	18,843
Warranty	12,873	16,906
Income tax payable	8,032	8,063
Other	17,464	14,282
Total	<u>\$ 137,868</u>	<u>\$ 115,791</u>

As of March 31, 2024, stock rotation and sales returns included a \$24.7 million stock rotation reserve, compared with a \$16.7 million reserve as of December 31, 2023. 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):

	March 31, 2024	December 31, 2023
Deferred compensation plan liabilities	\$ 78,085	\$ 80,903
Operating lease liabilities	5,920	5,565
Dividend equivalents	2,922	2,187
Total	<u>\$ 86,927</u>	<u>\$ 88,655</u>

6. LEASES

Lessee

The Company has operating leases primarily for administrative, sales and marketing offices, manufacturing operations and R&D 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):

	Financial Statement Line Item	March 31, 2024	December 31, 2023
Operating lease ROU assets	Other long-term assets	\$ 8,910	\$ 8,355
Operating lease liabilities	Other accrued liabilities	\$ 2,635	\$ 2,303
	Other long-term liabilities	\$ 5,920	\$ 5,565

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

	Three Months Ended March 31,	
	2024	2023
Lease costs:		
Operating lease costs	\$ 897	\$ 716
Other	550	538
Total lease costs	<u>\$ 1,447</u>	<u>\$ 1,254</u>

	Three Months Ended March 31,	
	2024	2023
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	\$ 673	\$ 864
ROU assets obtained in exchange for new operating lease liabilities	\$ 1,462	\$ 4,545

	March 31, 2024	December 31, 2023
Weighted-average remaining lease term (in years)	4.3	4.7
Weighted-average discount rate	4.5%	4.3%

As of March 31, 2024, the maturities of the lease liabilities were as follows (in thousands):

2024 (remaining nine months)	\$ 2,244
2025	2,411
2026	1,636
2027	1,418
2028	771
Thereafter	868
Total remaining lease payments	<u>9,348</u>
Less: imputed interest	(793)
Total lease liabilities	<u>\$ 8,555</u>

As of March 31, 2024, operating leases that have not yet commenced are not material.

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 two years. One of these leases includes a tenant option to renew the lease term for up to five years.

For the three months ended March 31, 2024 and 2023, income related to lease payments was \$0.2 million and \$0.5 million, respectively. As of March 31, 2024, future income related to lease payments was as follows (in thousands):

2024 (remaining nine months)	\$	554
2025		228
2026		40
Total	\$	<u>822</u>

7. 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):

	Three Months Ended March 31,	
	2024	2023
Numerator:		
Net income	\$ 92,541	\$ 109,802
Denominator:		
Weighted-average outstanding shares — basic	48,635	47,234
Effect of dilutive securities	293	1,421
Weighted-average outstanding shares — diluted	<u>48,928</u>	<u>48,655</u>
Net income per share:		
Basic	\$ 1.90	\$ 2.32
Diluted	\$ 1.89	\$ 2.26

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

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. Shares are retired upon repurchase. The Company repurchased 6,100 shares of its common stock for an aggregate purchase price of \$4.1 million during the three months ended March 31, 2024.

Stock repurchased under the program may be made through open market repurchases, privately negotiated transactions or other structures in accordance with applicable state and federal securities laws, at times and in amounts as management deems appropriate. The timing and the number of any repurchased common stock will be determined by the Company's management based on its evaluation of market conditions, legal requirements, share price, and other factors. The repurchase program does not obligate the Company to purchase any particular number of shares, and may be suspended, modified, or discontinued at any time without prior notice.

The U.S. Inflation Reduction Act of 2022 requires a 1% excise tax based on the value of certain stock repurchases in excess of stock issued for employee compensation made after December 31, 2022. This provision did not have an impact on the Company's condensed consolidated financial statements for the three months ended March 31, 2024.

8. 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 electronics solutions for the enterprise data, storage and computing, automotive, communications, consumer and industrial markets. The Company's chief operating decision maker is its Chief Executive Officer, who reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. The Company derives a majority of its revenue from sales to customers located outside North America, with geographic revenue based on the customers' ship-to locations.

The Company sells its products primarily to 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 March 31,	
	2024	2023
Distributor A	41%	20%
Distributor B	13%	21%

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	March 31,	December 31,
	2024	2023
Distributor A	49%	42%
Distributor B	14%	13%
Distributor C	*	10%

* Represents less than 10%

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

Country or Region	Three Months Ended March 31,	
	2024	2023
China	\$ 263,040	\$ 225,052
Taiwan	100,450	48,833
South Korea	35,537	45,680
Europe	17,742	43,103
United States	14,820	31,017
Southeast Asia	13,239	26,432
Japan	12,948	30,815
Other	109	133
Total	\$ 457,885	\$ 451,065

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

Product Family	Three Months Ended March 31,	
	2024	2023
Direct Current ("DC") to DC	\$ 415,975	\$ 425,181
Lighting Control	41,910	25,884
Total	\$ 457,885	\$ 451,065

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

Country	March 31,	December 31,
	2024	2023
China	\$ 188,698	\$ 184,685
United States	121,775	119,430
Taiwan	38,084	39,419
Other	27,016	25,418
Total	\$ 375,573	\$ 368,952

9. 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 generally based on a specific assessment of the products sold with warranties when a customer asserts a claim for warranty or for a product defect.

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

	Three Months Ended March 31,	
	2024	2023
Balance at beginning of period	\$ 16,906	\$ 24,082
Warranties issued	100	362
Repairs, replacement and refund	(4,015)	(672)
Changes in liability for pre-existing warranties	(118)	(4,046)
Balance at end of period	\$ 12,873	\$ 19,726

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 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 R&D 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 March 31, 2024, the Company had remaining prepayments under this agreement of \$120.0 million, of which \$60.0 million was classified as short-term.

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Total estimated future unconditional purchase commitments to all suppliers and other parties, net of the \$120.0 million prepayment, as of March 31, 2024 were as follows (in thousands):

2024 (remaining nine months)	\$	269,531
2025		329,050
2026		1,600
2027		29,993
Total	\$	<u>630,174</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 March 31, 2024, there were no material pending legal proceedings to which the Company was a party.

10. CASH, CASH EQUIVALENTS, INVESTMENTS AND RESTRICTED CASH

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

	March 31, 2024	December 31, 2023
Cash	\$ 363,038	\$ 392,329
Money market funds	125,235	135,514
Certificates of deposit	166,157	127,123
Corporate debt securities	60,380	95,101
U.S. treasuries and government agency bonds	571,579	358,409
Auction-rate securities backed by student-loan notes	518	567
Total	<u>\$ 1,286,907</u>	<u>\$ 1,109,043</u>

	March 31, 2024	December 31, 2023
Reported as:		
Cash and cash equivalents	\$ 488,273	\$ 527,843
Short-term investments	798,116	580,633
Investment within other long-term assets	518	567
Total	<u>\$ 1,286,907</u>	<u>\$ 1,109,043</u>

The following table summarizes the contractual maturities of the short-term and long-term available-for-sale investments as of March 31, 2024 (in thousands):

	Amortized Cost	Fair Value
Due in less than 1 year	\$ 738,665	\$ 737,861
Due in 1 - 5 years	60,667	60,255
Due in greater than 5 years	525	518
Total	<u>\$ 799,857</u>	<u>\$ 798,634</u>

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

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

March 31, 2024				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Money market funds	\$ 125,235	\$ -	\$ -	\$ 125,235
Certificates of deposit	166,157	-	-	166,157
Corporate debt securities	61,353	1	(974)	60,380
U.S. treasuries and government agency bonds	571,822	7	(250)	571,579
Auction-rate securities backed by student-loan notes	525	-	(7)	518
Total	\$ 925,092	\$ 8	\$ (1,231)	\$ 923,869

December 31, 2023				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Money market funds	\$ 135,514	\$ -	\$ -	\$ 135,514
Certificates of deposit	127,123	-	-	127,123
Corporate debt securities	96,636	4	(1,539)	95,101
U.S. treasuries and government agency bonds	358,177	327	(95)	358,409
Auction-rate securities backed by student-loan notes	574	-	(7)	567
Total	\$ 718,024	\$ 331	\$ (1,641)	\$ 716,714

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):

March 31, 2024						
	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate debt securities	\$ 5,436	\$ (9)	\$ 51,943	\$ (965)	\$ 57,379	\$ (974)
U.S. treasuries and government agency bonds	509,959	(250)	-	-	509,959	(250)
Auction-rate securities backed by student-loan notes	-	-	518	(7)	518	(7)
Total	\$ 515,395	\$ (259)	\$ 52,461	\$ (972)	\$ 567,856	\$ (1,231)

December 31, 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	\$ 20,792	\$ (19)	\$ 70,806	\$ (1,520)	\$ 91,598	\$ (1,539)
U.S. treasuries and government agency bonds	97,599	(95)	-	-	97,599	(95)
Auction-rate securities backed by student-loan notes	-	-	567	(7)	567	(7)
Total	\$ 118,391	\$ (114)	\$ 71,373	\$ (1,527)	\$ 189,764	\$ (1,641)

An impairment exists when the fair value of an investment is less than its amortized cost basis. As of March 31, 2024 and December 31, 2023, 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.

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):

	March 31, 2024	December 31, 2023
Cash and cash equivalents	\$ 488,273	\$ 527,843
Restricted cash included in other current assets	-	33,204
Restricted cash included in other long-term assets	125	134
Total cash, cash equivalents and restricted cash reported on the Condensed Consolidated Statements of Cash Flows	<u>\$ 488,398</u>	<u>\$ 561,181</u>

The restricted cash included in other current assets as of December 31, 2023 was related to preliminary purchase consideration held in a trust account in connection with the Company's acquisition of Axign and was paid in January 2024. See Note 4 for additional information. As of March 31, 2024 and December 31, 2023, restricted cash included in other long-term assets was related to 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.

11. FAIR VALUE MEASUREMENTS

Fair Value Hierarchy

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

- Level 1 —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.

Financial Assets Measured at Fair Value on a Recurring Basis

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

	March 31, 2024			
	Total	Level 1	Level 2	Level 3
Money market funds	\$ 125,235	\$ 125,235	\$ -	\$ -
Certificates of deposit	166,157	-	166,157	-
Corporate debt securities	60,380	-	60,380	-
U.S. treasuries and government agency bonds	571,579	-	571,579	-
Auction-rate securities backed by student-loan notes	518	-	-	518
Mutual funds and money market funds under deferred compensation plan	57,373	57,373	-	-
Total	\$ 981,242	\$ 182,608	\$ 798,116	\$ 518

	December 31, 2023			
	Total	Level 1	Level 2	Level 3
Money market funds	\$ 135,514	\$ 135,514	\$ -	\$ -
Certificates of deposit	127,123	-	127,123	-
Corporate debt securities	95,101	-	95,101	-
U.S. treasuries and government agency bonds	358,409	-	358,409	-
Auction-rate securities backed by student-loan notes	567	-	-	567
Mutual funds and money market funds under deferred compensation plan	54,836	54,836	-	-
Total	\$ 771,550	\$ 190,350	\$ 580,633	\$ 567

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

12. DEFERRED COMPENSATION PLAN

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

	March 31, 2024	December 31, 2023
Deferred compensation plan asset components:		
Cash surrender value of corporate-owned life insurance policies	\$ 25,677	\$ 23,545
Fair value of mutual funds and money market funds	57,373	54,836
Total	<u>\$ 83,050</u>	<u>\$ 78,381</u>
Deferred compensation plan assets reported in:		
Other long-term assets	<u>\$ 83,050</u>	<u>\$ 78,381</u>
Deferred compensation plan liabilities reported in:		
Accrued compensation and related benefits (short-term)	\$ 7,534	\$ 384
Other long-term liabilities	78,085	80,903
Total	<u>\$ 85,619</u>	<u>\$ 81,287</u>

13. OTHER INCOME, NET

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

	Three Months Ended March 31,	
	2024	2023
Interest income	\$ 6,914	\$ 4,808
Amortization of discount (premium) on available-for-sale securities	4,123	(260)
Gain on deferred compensation plan investments	4,019	2,534
Charitable contributions	(5,850)	(2,000)
Other	334	215
Total	<u>\$ 9,540</u>	<u>\$ 5,297</u>

14. 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 March 31, 2024 was \$12.5 million, or 11.9% of pre-tax income. The effective tax rate was 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 rate relative to the federal statutory rate was partially offset by the inclusion of the global intangible low-taxed income ("GILTI") tax.

The income tax expense for the three months ended March 31, 2023 was \$19.8 million, or 15.3% of pre-tax income. The effective tax rate was 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 rate relative to the federal statutory rate was partially offset by the inclusion of the GILTI tax.

On December 27, 2023, the Bermuda Corporate Income Tax Act of 2023 (the "Bermuda CIT Act") was enacted and signed into law. It includes a 15% CIT applicable to Bermuda businesses that are multinational enterprises ("MNE") with annual revenue of €750M or more beginning in 2025. The Bermuda CIT Act also includes an Economic Transition Adjustment ("ETA") that requires MNEs to revalue their assets and liabilities, excluding goodwill, at their fair value as of September 30, 2023. There is an election to opt out of the ETA. As the Bermuda CIT Act is not effective until January 1, 2025, the Company is evaluating whether or not to adopt this ETA. Based on the information available, the Company has not recorded any changes to income tax expense related to the Bermuda CIT Act as of March 31, 2024.

15. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

	Unrealized Losses on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Total
Balance as of January 1, 2024	\$ (2,184)	\$ (24,878)	\$ (27,062)
Other comprehensive income (loss) before reclassifications	87	(13,822)	(13,735)
Tax effect	248	-	248
Net current period other comprehensive income (loss)	335	(13,822)	(13,487)
Balance as of March 31, 2024	\$ (1,849)	\$ (38,700)	\$ (40,549)

16. 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):

	Three Months Ended March 31,	
	2024	2023
Dividend declared per share	\$ 1.25	\$ 1.00
Total amount	\$ 60,834	\$ 47,330

As of March 31, 2024 and December 31, 2023, accrued dividends totaled \$60.8 million and \$47.9 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 March 31, 2024 and December 31, 2023, accrued dividend equivalents totaled \$11.4 million and \$11.9 million, respectively.

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 mission statement to reduce energy and material consumption to improve all aspects of quality of life and create a sustainable future;
- the effects of macroeconomic factors, including the global economic downturn, the Russia-Ukraine conflict and the Middle East conflict on the semiconductor industry and our business;
- the effect that liquidity of our investments has on our capital resources;
- the continuing application of our products in the enterprise data, storage and computing, automotive, communications, consumer and industrial markets;
- estimates of our future liquidity requirements;
- the cyclical nature of the semiconductor industry;
- 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;
- expectations regarding protection of our proprietary technology;
- business outlook for the remainder of 2024 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 expected 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 expected 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 continue our stock repurchase program and pay cash dividends and dividend equivalents;
- the factors that differentiate us from our competitors; and
- our ability to adequately remediate our material weakness.

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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 global economic downturn, the Russia-Ukraine conflict and the Middle East 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 global company that provides high-performance, semiconductor-based power electronics solutions. MPS’s mission is to reduce energy and material consumption to improve all aspects of quality of life and create a sustainable future. Founded in 1997 by our CEO Michael Hsing, MPS has three core strengths: deep system-level knowledge, strong semiconductor design expertise, and innovative proprietary technologies in the areas of semiconductor processes, system integration, and packaging. These combined advantages are designed to enable MPS to deliver reliable, compact, and monolithic solutions that are highly energy-efficient, cost-effective, and environmentally responsible while providing a consistent return on investment to our stockholders.

We operate in the cyclical semiconductor industry. We are subject to industry downturns, but 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, revenue and expenses 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 93% and 84% of our total revenue for the three months ended March 31, 2024 and 2023, respectively.

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

Macroeconomic Conditions and Regulations

The semiconductor industry 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.

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 global economic downturn, Russia-Ukraine conflict and the Middle East conflict. Actual results could differ from these estimates and assumptions, and any such differences may be material to our condensed consolidated financial statements.

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 March 31,			
	2024		2023	
	(In thousands, except percentages)			
Revenue	\$ 457,885	100.0%	\$ 451,065	100.0%
Cost of revenue	205,444	44.9	192,285	42.6
Gross profit	252,441	55.1	258,780	57.4
Operating expenses:				
Research and development	75,990	16.6	63,709	14.1
Selling, general and administrative	80,964	17.7	70,795	15.7
Total operating expenses	156,954	34.3	134,504	29.8
Operating income	95,487	20.8	124,276	27.6
Other income, net	9,540	2.1	5,297	1.1
Income before income taxes	105,027	22.9	129,573	28.7
Income tax expense	12,486	2.7	19,771	4.4
Net income	\$ 92,541	20.2%	\$ 109,802	24.3%

Revenue

The following table summarizes our revenue by end market:

End Market	Three Months Ended March 31,			
	2024	% of Revenue	2023	% of Revenue
	(In thousands, except percentages)			
Enterprise Data	\$ 149,727	32.7%	\$ 47,163	10.5%
Storage and Computing	106,121	23.2	119,822	26.6
Automotive	87,092	19.0	105,342	23.3
Communications	46,645	10.2	67,906	15.1
Consumer	38,074	8.3	63,363	14.0
Industrial	30,226	6.6	47,469	10.5
Total	\$ 457,885	100.0%	\$ 451,065	100.0%

Revenue for the three months ended March 31, 2024 was \$457.9 million, an increase of \$6.8 million, or 1.5%, from \$451.1 million for the three months ended March 31, 2023. The increase in revenue was primarily due to higher average selling prices resulting primarily from product mix, which was partially offset by lower shipment volume.

For the three months ended March 31, 2024, revenue from the enterprise data market increased \$102.6 million, or 217.5%, from the same period in 2023. This increase was primarily due to higher sales of our power management solutions for AI applications. Revenue from the storage and computing market decreased \$13.7 million, or 11.4%, from the same period in 2023. This decrease was primarily due to lower sales of storage applications, partially offset by higher sales of commercial notebooks. Revenue from the automotive market decreased \$18.3 million, or 17.3%, from the same period in 2023. This decrease was primarily due to lower sales of our highly integrated applications supporting infotainment, USB connector and body electronics. Revenue from the communications market decreased \$21.3 million, or 31.3%, from the same period in 2023. This decrease was primarily driven by lower demand for infrastructure related products. Revenue from the consumer market decreased \$25.3 million, or 39.9%, from the same period in 2023. This decrease was broad-based and primarily driven by lower sales of products for home appliances and gaming. Revenue from the industrial market decreased \$17.2 million, or 36.3%, from the same period in 2023. This decrease was mainly driven by lower sales of security and industrial meters applications.

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.

	Three Months Ended March 31,	
	2024	2023
	(In thousands, except percentages)	
Cost of revenue	\$ 205,444	\$ 192,285
As a percentage of revenue	44.9%	42.6%
Gross profit	\$ 252,441	\$ 258,780
Gross margin	55.1%	57.4%

Cost of revenue was \$205.4 million, or 44.9% of revenue, for the three months ended March 31, 2024, and \$192.3 million, or 42.6% of revenue, for the three months ended March 31, 2023. The \$13.2 million increase in cost of revenue was primarily driven by product mix, higher inventory write-downs and higher warranty expenses, partially offset by lower shipment volume.

Gross margin was 55.1% for the three months ended March 31, 2024, compared with 57.4% for the three months ended March 31, 2023. The decrease in gross margin was mainly driven by an increase in 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.

	Three Months Ended March 31,	
	2024	2023
	(In thousands, except percentages)	
R&D expenses	\$ 75,990	\$ 63,709
As a percentage of revenue	16.6%	14.1%

R&D expenses were \$76.0 million, or 16.6% of revenue, for the three months ended March 31, 2024, and \$63.7 million, or 14.1% of revenue, for the three months ended March 31, 2023. The \$12.3 million increase in R&D expenses was primarily due to a \$5.8 million increase in cash compensation expenses, a \$3.5 million increase in stock-based compensation expenses and related employer payroll taxes, and a \$1.1 million increase in third party service fees.

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.

	Three Months Ended March 31,	
	2024	2023
	(In thousands, except percentages)	
SG&A expenses	\$ 80,964	\$ 70,795
As a percentage of revenue	17.7%	15.7%

SG&A expenses were \$81.0 million, or 17.7% of revenue, for the three months ended March 31, 2024, and \$70.8 million, or 15.7% of revenue, for the three months ended March 31, 2023. The \$10.2 million increase in SG&A expenses was driven by a \$10.5 million increase in stock-based compensation expenses and related employer payroll taxes.

Other Income, Net

Other income, net, was \$9.5 million for the three months ended March 31, 2024, compared with \$5.3 million for the three months ended March 31, 2023. The increase in other income was primarily due to an increase of \$6.5 million in net interest income and \$1.5 million in income related to changes in the value of deferred compensation plan investments, partially offset by an increase 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 March 31, 2024 was \$12.5 million, or 11.9% of pre-tax income. The effective tax rate was 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 rate relative to the federal statutory rate was partially offset by the inclusion of the GILTI tax.

The income tax expense for the three months ended March 31, 2023 was \$19.8 million, or 15.3% of pre-tax income. The effective tax rate was 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 rate relative to the federal statutory rate was partially offset by the inclusion of the GILTI tax.

The Organization for Economic Co-operation and Development enacted model rules for a new global minimum tax framework, also known as Pillar Two, and certain governments globally have enacted, or are in the process of enacting, legislation considering these model rules. These rules did not have a material impact on our taxes for the three months ended March 31, 2024.

In December 2023, the Bermuda CIT Act was enacted and signed into law. See Note 14 for further details.

Liquidity and Capital Resources

	March 31, 2024	December 31, 2023
	(In thousands, except percentages)	
Cash and cash equivalents	\$ 488,273	\$ 527,843
Short-term investments	798,116	580,633
Total cash, cash equivalents and short-term investments	<u>\$ 1,286,389</u>	<u>\$ 1,108,476</u>
Percentage of total assets	49.9%	45.5%
Total current assets	\$ 1,976,492	\$ 1,819,499
Total current liabilities	(311,880)	(235,035)
Working capital	<u>\$ 1,664,612</u>	<u>\$ 1,584,464</u>

As of March 31, 2024, we had cash and cash equivalents of \$488.3 million and short-term investments of \$798.1 million, compared with cash and cash equivalents of \$527.8 million and short-term investments of \$580.6 million as of December 31, 2023. As of March 31, 2024, \$310.3 million of cash and cash equivalents and \$769.4 million of short-term investments were held by our international subsidiaries. We have repatriated and may continue to repatriate cash from our Bermuda subsidiary 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:

	Three Months Ended March 31,	
	2024	2023
	(In thousands)	
Net cash provided by operating activities	\$ 248,051	\$ 218,807
Net cash provided by (used in) investing activities	(266,015)	12,314
Net cash used in financing activities	(50,001)	(32,252)
Effect of change in exchange rates	(4,818)	1,497
Net increase (decrease) in cash, cash equivalents and restricted cash	<u>\$ (72,783)</u>	<u>\$ 200,366</u>

For the three months ended March 31, 2024, the \$29.2 million increase in cash provided by operating activities compared to the same period in 2023 was primarily due to the collection of \$50.0 million of other receivables related to a long-term wafer supply agreement, partially offset by increased inventory purchases. This increase was also affected by changes in other working capital.

For the three months ended March 31, 2024, the \$278.3 million increase in cash used in investing activities compared to the same period in 2023 was primarily due to an increase of \$236.5 million in purchases of investments and \$33.3 million paid for the acquisition of Axign.

For the three months ended March 31, 2024, the \$17.7 million increase in cash used in financing activities compared to the same period in 2023 was primarily due to an increase of \$12.8 million in dividend and dividend equivalent payments.

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 \$1,286.4 million as of March 31, 2024, 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 R&D 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 March 31, 2024, we had remaining prepayments under this agreement of \$120.0 million, of which \$60.0 million was classified as short-term.

As of March 31, 2024, total estimated future unconditional purchase commitments to all suppliers and other parties, net of the \$120.0 million prepayment, were \$630.2 million, of which \$341.3 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 March 31, 2024, 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 March 31, 2024, these obligations totaled \$8.6 million, of which \$2.6 million was classified as short-term.

Capital Return to Stockholders

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. Shares are retired upon repurchase. We repurchased 6,100 shares of our common stock for an aggregate purchase price of \$4.1 million during the three months ended March 31, 2024. As of March 31, 2024, \$632.2 million remained available for future repurchases under the program.

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 March 31, 2024, accrued dividends totaled \$60.8 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 March 31, 2024, these obligations totaled \$81.0 million.

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, 2023. During the three months ended March 31, 2024, 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, 2023.

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, and due to the finding of the material weakness described below, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2024, our disclosure controls and procedures were not 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.

As previously reported in our Annual Report on Form 10-K for the year ended December 31, 2023, during the year-end financial reporting process of fiscal year 2023, a material weakness was identified in internal control over financial reporting within the Company’s demand forecast process regarding excess and obsolete inventory. The material weakness resulted from ineffective design of the controls related to management’s review and documentation of the Company’s inventory demand information and other assumptions used to determine the inventory carrying value adjustments necessary to record such quantities at the lower of their cost or net realizable value.

A material weakness is a deficiency, or a combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company’s annual or interim consolidated financial statements will not be prevented or detected on a timely basis. This material weakness did not result in a misstatement to the audited consolidated financial statements for the year ended December 31, 2023.

Notwithstanding the material weakness in internal control over financial reporting described above, management believes and has concluded that the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with GAAP.

Ongoing Remediation of Previously Identified Material Weakness

With respect to the material weakness described above, management, under the oversight of the Audit Committee, has implemented measures designed to ensure that control deficiencies contributing to the material weakness are remediated, such that these controls are designed, implemented, and operating effectively. However, the weakness will not be considered remediated until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. The Company will monitor the effectiveness of its remediation plan and refine its remediation plan as appropriate.

Changes in Internal Control over Financial Reporting

As described above, we are taking steps to remediate the material weakness in our internal control over financial reporting. Other than in connection with the remediation process described above, no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the quarter ended March 31, 2024 that has materially affected, or is 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 March 31, 2024, there were no material pending legal proceedings to which we were a party.

Item 1A. Risk Factors

The Company's business, reputation, results of operations, financial condition and stock price can be affected by a number of factors, whether currently known or unknown, including those described in Part I, Item 1A of the Annual Report on Form 10-K for the year ended December 31, 2023 under the heading "Risk Factors." When any one or more of these risks materialize from time to time, the Company's business, reputation, results of operations, financial condition and stock price can be materially and adversely affected. There have been no material changes to the Company's risk factors since the filing of the Annual Report on Form 10-K for the year ended December 31, 2023.

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

Issuer Purchases of Equity Securities

In October 2023, our Board of Directors approved a stock repurchase program authorizing us to repurchase up to \$640.0 million in the aggregate of our common stock through October 29, 2026. Shares are retired upon repurchase. We repurchased 6,100 shares of our common stock for an aggregate purchase price of \$4.1 million during the three months ended March 31, 2024.

Stock repurchases under the program may be made through open market repurchases, privately negotiated transactions or other structures in accordance with applicable state and federal securities laws, at times and in amounts as management deems appropriate. The timing and the number of shares of any repurchased common stock will be determined by our management based on the evaluation of market conditions, legal requirements, stock price, and other factors. The repurchase program does not obligate us to purchase any particular number of shares and may be suspended, modified, or discontinued at any time without prior notice.

The following table represents details of our stock repurchase transactions during the three months ended March 31, 2024:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
(In thousands, except per share amounts)				
January 1, 2024 – January 31, 2024	2	\$ 602.62	2	\$ 634,993
February 1, 2024 – February 29, 2024	2	\$ 700.62	2	\$ 633,592
March 1, 2024 – March 31, 2024	2	\$ 704.53	2	\$ 632,183
Total	6	\$ 668.17	6	

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 March 31, 2024:

Name and Title	Adoption Date	Plan Duration	Intended Sale Amount (in shares)
Victor K. Lee, Director	February 28, 2024	Through February 28, 2025	Up to 1,000
Saria Tseng, Executive Vice President, Strategic Corporate Development, General Counsel and Corporate Secretary	February 29, 2024	Through February 28, 2025	Up to 38,951

The following table summarizes the termination of trading plans intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) during the three months ended March 31, 2024:

Name and Title	Termination Date	Plan Duration	Intended Sale Amount (in shares)	Sold Amount (in shares)
Deming Xiao, Executive Vice President, Global Operations	February 12, 2024	Through December 31, 2024	Up to 138,180	11,515

During the three months ended March 31, 2024, no pre-existing trading plans intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) were modified, 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

Exhibit No.	Description
31.1	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	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)

* 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: May 3, 2024

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