

**POWER INTEGRATIONS, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(in thousands, except per share amounts)  
(Unaudited)

	THREE MONTHS ENDED DECEMBER 31		YEAR ENDED DECEMBER 31	
	2005	2004	2005	2004
NET REVENUES	\$ 37,876	\$ 33,581	\$ 144,134	\$ 136,636
COST OF REVENUES	18,526	17,356	72,813	71,409
GROSS PROFIT	19,350	16,225	71,321	65,227
OPERATING EXPENSES:				
Research and development	4,048	3,826	16,355	16,162
Sales and marketing	4,990	3,806	17,689	15,273
General and administrative	2,388	1,957	9,114	7,702
Patent litigation	2,413	135	5,489	400
Total Operating Expenses	13,839	9,724	48,647	39,537
INCOME FROM OPERATIONS	5,511	6,501	22,674	25,690
OTHER INCOME, net	1,049	325	3,367	1,054
INCOME BEFORE PROVISION FOR INCOME TAXES	6,560	6,826	26,041	26,744
PROVISION FOR INCOME TAXES	1,107	2,310	5,141	6,377
NET INCOME	\$ 5,453	\$ 4,516	\$ 20,900	\$ 20,367
EARNINGS PER SHARE:				
Basic	\$ 0.19	\$ 0.15	\$ 0.71	\$ 0.66
Diluted	\$ 0.18	\$ 0.14	\$ 0.68	\$ 0.63
SHARES USED IN PER SHARE CALCULATION:				
Basic	29,460	30,886	29,568	30,802
Diluted	30,654	31,934	30,734	32,414

**POWER INTEGRATIONS, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Unaudited)  
(in thousands)

	<u>December 31,</u> <u>2005</u>	<u>December 31,</u> <u>2004</u>
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash, cash equivalents and short-term investments	\$ 130,501	\$ 111,146
Accounts receivable	13,488	12,230
Inventories	18,441	25,354
Deferred tax assets	1,095	3,878
Prepaid expenses and other current assets	<u>2,067</u>	<u>2,600</u>
Total current assets	165,592	155,208
PROPERTY AND EQUIPMENT, net	48,635	51,718
INVESTMENTS	-	23,411
DEFERRED TAX ASSETS	4,274	1,923
OTHER ASSETS	<u>14,014</u>	<u>3,172</u>
	<u>\$ 232,515</u>	<u>\$ 235,432</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
CURRENT LIABILITIES:		
Accounts payable	\$ 5,059	\$ 8,612
Accrued payroll and related expenses	6,049	4,672
Taxes payable	7,773	5,696
Deferred income on sales to distributors	3,479	3,058
Other accrued liabilities	<u>1,357</u>	<u>882</u>
Total current liabilities	23,717	22,920
STOCKHOLDERS' EQUITY:		
Common stock	29	30
Additional paid-in capital	98,288	122,895
Cumulative translation adjustment	(121)	(114)
Retained earnings	<u>110,602</u>	<u>89,701</u>
Total stockholders' equity	208,798	212,512
	<u>\$ 232,515</u>	<u>\$ 235,432</u>