



Power Integrations Reports Financial Results for Fourth Quarter of 2005

Quarterly Net Revenues Increased 13 Percent Year-Over-Year to a Record \$37.9 Million

Gross Margin Increased to 51.1 Percent

SAN JOSE, Calif. - February 2, 2006 - Power Integrations (Nasdaq: POWI), the leader in high-voltage analog integrated circuits for power conversion, today announced its financial results for the quarter and fiscal year ended December 31, 2005.

The company reported record quarterly net revenues of \$37.9 million, up 13 percent compared to the year-ago quarter and up 4 percent sequentially. Revenue growth was driven primarily by industrial and communications revenues, which increased 63 percent and 15 percent respectively on a year-over-year basis. Gross margin for the fourth quarter was 51.1 percent, up from 48.3 percent in the year-ago quarter and 49.5 percent in the prior quarter.

Operating margin for the quarter was 14.6 percent, including a 6.3-point impact from expenses related to the company's patent litigation against System General Corp. and Fairchild Semiconductor. This compares to operating margins of 19.4 percent in the year-ago quarter and 15.0 percent in the prior quarter. Patent-litigation expenses totaled \$2.4 million in the fourth quarter, up from \$0.1 million in the year-ago quarter and \$1.8 million in the prior quarter.

Net income for the quarter was \$5.5 million, or \$0.18 per diluted share, compared to \$5.7 million or \$0.18 per diluted share in the prior quarter and \$4.5 million or \$0.14 per diluted share in the year-ago quarter. Patent-litigation expenses reduced the company's fourth-quarter earnings by \$0.06 per diluted share.

For the full year 2005, net revenues totaled \$144.1 million, an increase of 5 percent compared to the prior year. Gross margin for the full year was 49.5 percent, up from 47.7 percent in 2004. Full-year operating margin was 15.7 percent, down from 18.8 percent in 2004 as a result of patent-litigation expenses, which reduced the full-year operating margin by 3.8 percentage points.

Net income for 2005 was \$20.9 million, or \$0.68 per diluted share, up from \$20.4 million or \$0.63 per diluted share in 2004. Patent-litigation expenses totaled \$5.5 million for the full year, reducing net income by \$0.14 per diluted share. Nevertheless, cash flow from operations increased to \$35.7 million for the full year, up from \$30.1 million in 2004.

"We capped off a successful year with a strong fourth quarter," said Balu Balakrishnan, president and CEO of Power Integrations. "Fourth-quarter revenues grew 13 percent year-over-year driven by nearly 20 percent growth in unit shipments, and we achieved a substantial increase in our gross margin.

"We improved our gross margin throughout 2005 while expanding our market share and reducing inventories by nearly 30 percent over the course of the year," continued Balakrishnan. "We also grew our net income and cash flow for the year despite significant patent-litigation expenses. While patent litigation is a temporary drag on our operating results, protecting our intellectual property is critical to maximizing our long-term profitability.

"We have strong momentum entering 2006," added Balakrishnan. "2005 was a record year in terms of design wins, and we have a number of incremental growth drivers coming into play in the year ahead. Energy-efficiency standards for external power supplies are having a major impact on markets such as cordless phones and cell phones. We have recently won designs for Panasonic and Sharp cordless phones, and we have ongoing design activity related to a number of other major cordless and cell-phone OEMs. In all, our LinkSwitch® products won more than 60 designs in the fourth quarter, indicating that linear power supplies are being replaced at an accelerating rate.

"Other key drivers for 2006 and beyond include new products such as TinySwitch®-III and LinkSwitch-LP, an expanded sales force, and emerging markets such as power over Ethernet and LED lighting," continued Balakrishnan. "We also look forward to the conclusion of our two legal actions to protect our patents against infringement. 2006 should be an exciting year for Power Integrations."

Additional Highlights

- **Cash and investments as of December 31, 2005 totaled \$130.5 million, up from \$121.8 million at the end of the prior quarter. During the fourth quarter the company repurchased approximately 250,000 shares of stock for a total of \$5.4 million.**
- **Inventories declined to \$18.4 million from \$22.3 million at the end of the prior quarter. Inventory turns increased sequentially to 4.0 from 3.4. Days' sales outstanding declined sequentially from 36 to 32.**
- **Power Integrations received 14 U.S. patents and 1 foreign patent during the year, bringing the company's totals to 131 U.S. and 82 foreign patents.**

Revenue Mix by Product Family and End Market
