

**POWER INTEGRATIONS, INC.**  
**CORPORATE GOVERNANCE GUIDELINES**

**I. BOARD COMPOSITION**

**A. Size of the Board.** The Company's Bylaws provide that the Board of Directors (the "Board") shall fix the size of the Board from time to time. As of the date of the revision to this policy, the Board was comprised of eight members (seven of whom are independent). The Board will periodically review the appropriate size of the Board.

**B. Majority of Independent Directors.** It is the policy of the Board that a majority of the directors will not be current employees of the Company and will otherwise meet appropriate standards of independence. In determining independence, the Board will consider the definition of "independent director" in the listing standards of The Nasdaq Stock Market, Inc. ("Nasdaq") (Marketplace Rule 4200) as well as other factors that will contribute to effective oversight and decision-making by the Board.

**C. Management Directors.** The Board anticipates that the Company's Chief Executive Officer ("CEO") will be nominated annually to serve on the Board. The Board may also appoint or nominate other members of the Company's management whose experience and role at the Company are expected to help the Board fulfill its responsibilities. As of the date of this revision to this policy, the Company's CEO is the only member of Company management who serves on the Board.

**D. Chair; Lead Independent Director.** The Board will periodically appoint a Chair. Both independent and management directors, including the CEO, are eligible for appointment as the Chair. The Chair, or if the Chair is not an independent director, one of the independent directors, may be designated by the Board to be the "lead independent director." The lead independent director shall periodically schedule or conduct separate meetings of the independent directors, which shall be no less frequent than twice per year, and may perform various other duties.

**E. Selection of Board Nominees.** The Board will be responsible for the selection of nominees for election or appointment to the Board. The Nominating and Governance Committee shall recommend candidates for election to the Board. The Nominating and Governance Committee considers nominees recommended by directors, stockholders and others using the same criteria to evaluate all candidates. Candidates for director nominees are evaluated by the Nominating and Governance Committee in the context of the current composition of the Board, the operating requirements of the Company and the long-term interests of stockholders. The Nominating and Governance Committee may engage, if it deems appropriate, a professional search firm to compile a list of potential candidates. The Nominating and Governance Committee conducts any appropriate and necessary interviews of the possible candidates and inquiries into their backgrounds and qualifications after considering the function and needs of the Board. The Nominating and Governance Committee meets to discuss and consider such candidates' qualifications and then selects a nominee for recommendation to the Board by majority vote.

Stockholders who wish to recommend individuals for consideration by the Nominating and Governance Committee to become nominees for election to the Board may do so by delivering a written recommendation to the Nominating and Governance Committee at the following address: 5245 Hellyer Avenue, San Jose, CA 95138 by January 1 of the year in which such director is to be elected. Submissions must include the full name of the proposed nominee, a description of the proposed nominee's business experience for at least the previous five years, complete biographical information, a description of the proposed nominee's qualifications as a director and a representation that the nominating stockholder is a beneficial or record owner of the Company's stock. Any such submission must be accompanied by the written consent of the proposed nominee to be named as a nominee and to serve as a director if elected.

**F. Board Membership Criteria.** The Nominating and Governance Committee believes that nominees for director of the Company should possess the following minimum criteria:

- Being able to read and understand basic financial statements;
- Being over 21 years of age; and
- Having the highest personal integrity and ethics.

The Nominating and Governance Committee also intends to consider the following additional criteria for nominees for director of the Company:

- Possessing relevant expertise upon which to be able to offer advice and guidance to management;
- Having sufficient time to devote to the affairs of the Company;
- Demonstrated experience in his or her field;
- Having the ability to exercise sound business judgment; and
- Having the commitment to rigorously represent the long-term interests of the Company's stockholders.

In addition, when conducting its assessment, the Nominating and Governance Committee considers any criteria for director qualifications set by the Board, as well as diversity, skills, and such other factors as it deems appropriate given the current needs of the Board and the Company to maintain a balance of knowledge, experience and capability. In the case of incumbent directors whose terms of office are set to expire, the Nominating and Governance Committee reviews such directors' overall service to the Company during their term, including the number of meetings attended, level of participation, quality of performance, and any other relationships and transactions that might impair such directors' independence.

In the case of new director candidates, the Nominating and Governance Committee also determines whether the nominee should be independent for Nasdaq purposes, which determination is based upon applicable Nasdaq listing standards, applicable SEC rules and regulations and the advice of counsel, if necessary.

Board members are expected to prepare for, attend and participate in meetings of the Board and committees on which they serve, and are strongly encouraged to attend the Company's annual meetings of stockholders.

**G. Board Compensation.** The Board, through the Compensation Committee, will review, with the assistance of management or outside consultants if desired, appropriate compensation policies for the non-employee directors serving on the Board and its committees. This review may consider board compensation practices of other public companies, contributions to Board functions, service as committee chairs and other appropriate factors. The Compensation Committee shall provide recommendations for changes in the compensation of non-employee directors as it feels appropriate.

**H. Other Board Memberships.** Without specific approval from the Board, no director may serve on more than six public company boards (including the Company's Board). Without specific approval from the Board, the Company's CEO may serve on no more than two public company boards (including the Company's Board).

**I. Board Evaluations.** The Board shall conduct a self-evaluation as appropriate and at least bi-annually.

**J. Majority Voting For Election of Directors.** The Board (or any committee thereof) shall nominate for re-election as director in an uncontested election of directors only those candidates who have tendered an irrevocable resignation as a director, which resignation shall be conditioned upon both (A) such director failing to have received more "for" votes than "withheld" votes in an uncontested election and (B) acceptance by the Board of such resignation.

If, in an uncontested election, a director fails to have received more "for" votes than "withheld" votes for election, then, within 90 days following certification of the shareholder vote, the Nominating and Governance Committee will act to determine whether to accept the director's conditional resignation and will submit such recommendation for prompt consideration by the Board, and the Board will act on the Nominating and Governance Committee's recommendation. The Nominating and Governance Committee and the Board may consider any factors they deem relevant in deciding whether to accept a director's conditional resignation.

A director shall not participate in the Nominating and Governance Committee recommendation or Board action regarding whether to accept the conditional resignation of such director. If directors constituting a majority of the members of the Nominating and Governance Committee fail to receive the required vote in favor of his or her election in the same uncontested election, then the independent directors, excluding the directors who failed to receive the required vote, shall appoint a committee amongst themselves to consider the conditional resignations and recommend to the Board whether to accept them. If the directors, excluding the directors who failed to receive the required vote, shall be of an insufficient number to comprise a quorum of the Board, then all directors may participate in the action regarding whether to accept the conditional resignations.

If the Board shall determine not to accept the resignation of a director, the Board will promptly disclose its decision-making process and decision to reject the conditional resignation in a Form 8-K furnished to the Securities and Exchange Commission.

**K. Stock Ownership Guidelines.** In order to align the interests of the Company's directors with the Company's stockholders, the Board believes that directors should have a significant financial stake in the Company. Accordingly, the Board believes that each director who has served on the Board for three years (excluding service prior to the date of adoption by the Board of these Stock Ownership Guidelines) should own not less than 1,000 shares of the Company's common stock. At its discretion, the Board may evaluate whether this requirement should be waived in the case of any director, who, because of his or her personal circumstances, would incur a hardship by complying with this requirement.

## **II. BOARD MEETINGS AND MATERIALS**

**A. Scheduling of Full Board Meetings.** Board meetings will be scheduled in advance, ordinarily for a full day every quarter at the Company's principal executive office or at other locations agreed upon by the Board.

**B. Agenda and Materials.** The CEO will have primary responsibility for preparing the agenda, subject to the approval of the Chairman, or lead independent director if the Chairman is not independent, for each meeting and arranging for it to be sent in advance of the meeting to the directors along with appropriate written information and background materials so that Board meeting time may be conserved and discussion time focused on questions that the Board has about the materials. Each Board committee, and each individual director, is encouraged to suggest items for inclusion on the agenda. The Board reserves authority to meet in executive sessions to discuss sensitive matters without distribution of written materials.

**C. Independent Directors Discussions.** Following each regularly scheduled Board meeting and at other times as reasonably requested by any independent director, it is the policy of the Board that the independent members of the Board meet separately without management directors to discuss such matters as the independent directors consider appropriate. The Chairman, or lead independent director if the Chairman is not independent, chairs these meetings of the independent directors. The Company's independent auditors, finance staff and other employees may be invited to attend these meetings.

**D. Board Presentations and Access to Information.** The Board encourages the presentation at meetings by managers who can provide additional insight into matters being discussed or who have potential that the CEO believes should be given exposure to the Board. The Company's executive management will afford each Board member with access to the Company's employees and the independent auditors. The Board encourages management to arrange presentations at Board meetings by the Company's managers and

provide other reports that will enhance the flow of meaningful financial and business information to the Board.

**E. Orientation/Continuing Education.** Management, with oversight from the Nominating and Governance Committee, shall establish as appropriate an orientation program for each new director, that shall include meetings with senior management and a visit to the Company's main headquarters facilities. Incumbent directors shall also be invited to attend the orientation program. Each director is expected to participate in continuing education programs as necessary in order to maintain the necessary level of expertise to perform his or her responsibilities.

### **III. BOARD COMMITTEES**

**A. Committees.** The current three standing committees of the Board are the Audit Committee, Compensation Committee, and Nominating and Governance Committee. From time to time the Board may establish a new committee or disband a current committee depending upon the circumstances.

**B. Committee Member Selection.** The Board will designate the members and Chair of each committee, endeavoring to match the committee's function and needs for expertise with individual skills and experience of the appointees to the committee. The membership of the Audit, Compensation, and Nominating and Governance Committees shall consist solely of independent directors, which directors shall also meet applicable criteria for independence under Nasdaq, SEC and/or tax rules applicable to such committees, except where the committee's charter provides for an exception consistent with applicable law and regulations.

**C. Committee Functions.** The number and content of committee meetings and other matters of committee governance will be determined by each committee in light of the authority delegated by the full Board to the committee, the committee's charter and applicable regulations or principles. The Company will provide to each committee access to employees and other resources to enable committee members to carry out their responsibilities. The full authority and responsibilities of each committee is fixed by resolution of the full Board and the committee's charter. Committee charters are available on the Company's website at [www.powerint.com](http://www.powerint.com) in the "Company Info – Corporate Governance" section, and a brief description of committee functions is available in the Company's most recent annual proxy statement.

### **IV. MANAGEMENT RESPONSIBILITIES**

**A. Management Succession and Development Planning.** The CEO will review with the Board succession and development plans for senior executive officers. The Board may from time to time ask the Compensation Committee to undertake specific reviews concerning management succession planning.

**B. Financial Reporting, Legal Compliance and Ethical Conduct.** The Board's governance and oversight functions do not relieve the Company's executive management of the primary responsibility for preparing financial statements which accurately and fairly present the Company's financial results and condition. Executive management shall maintain systems, procedures and a corporate culture that promote compliance with legal and regulatory requirements and the ethical conduct of the Company's business.

**C. Corporate Communications.** The Board believes that executive management has the primary responsibility to communicate with investors, the press, employees and other constituencies that are involved with the Company, and to set policies for those communications.

**D. Compensation "Claw-Back".** The Compensation Committee of the Board shall make the earning and payment of any cash or stock award bonuses to "officers" (as defined in Rule 16(a)-1(f) promulgated under the Securities and Exchange Act of 1934) be conditioned on an agreement to repay a portion of such bonuses in the event of a restatement resulting from intentional misconduct by such officers. Specifically, in the event of intentional misconduct that results in an accounting restatement of any financial statement filed in the twelve (12) months prior to the payout of the bonus due to material noncompliance by the Company with any financial reporting requirements of the federal securities laws, the officers determined by the Board to have engaged in such intentional misconduct will reimburse the Company the difference between the amount of any bonus received that was based on the original financial statements and the amount of the bonus such officer would have received had the amount of the bonus been calculated based on the restated financial statements.

**E. CEO Stock Ownership Guidelines.** In order to align the interests of the Company's Chief Executive Officer ("CEO") with the Company's stockholders, the Board believes that the CEO should have a significant financial stake in the Company. Accordingly, the Board believes that a CEO who has served as such for five years (excluding service prior to the date of adoption by the Board of these CEO Stock Ownership Guidelines) should own an aggregate number of shares of the Company's common stock as shall have a value equal to or exceeding the CEO's then current annual base salary. At its discretion, the Board may evaluate whether this requirement should be waived, or the date for compliance extended, in the case of a CEO, who, because of his or her personal circumstances, would incur a hardship by complying with this requirement, including in the event of the CEO ceasing to be in compliance as a result of a decrease in the price of the Company's common stock.