

Compensation Committee (Charter)

POWER INTEGRATIONS, INC. CHARTER FOR THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

I. PURPOSE

This Charter specifies the scope of the responsibilities of the Compensation Committee (the “Committee”) of the Board of Directors (the “Board”) of Power Integrations, Inc. (the “Company”) and the manner in which those responsibilities shall be performed, including its structure, processes and membership requirements.

The primary purpose of the Committee is to discharge the Board’s responsibilities relating to compensation and benefits of the Company’s executive officers and non-employee directors. In carrying out these responsibilities, the Committee shall review all components of executive officer and non-employee director compensation for consistency with the Committee’s compensation philosophy as in effect from time to time.

The Committee is also responsible for reviewing and discussing with management the Company’s disclosures contained under the caption “Compensation Discussion and Analysis” (“CD&A”) for use in any of the Company’s annual reports on Form 10-K, registration statements, proxy statements or information statements, and preparing and reviewing the Committee report on executive compensation included in the Company’s annual proxy statement in accordance with applicable rules and regulations of the Securities and Exchange Commission (the “SEC”) in effect from time to time.

II. ORGANIZATION AND MEMBERSHIP REQUIREMENTS

The Committee shall be comprised of at least three directors, each of whom shall satisfy the applicable independence requirements of Nasdaq, provided that one director who does not meet the independence criteria of Nasdaq may, subject to approval of the Board, serve on the Committee pursuant to, and subject to the limitations under, the “exceptional and limited circumstances” exception as provided under the rules of Nasdaq. A director shall not serve as a member of the Committee if the Chief Executive Officer or another executive officer of the Company serves on the compensation committee of another company that employs that director as an executive officer.

The members shall be appointed by the Board and shall serve until their successors are duly elected and qualified or their earlier resignation or removal. Any member of the Committee may be replaced by the Board. The Board shall designate the chair of the Committee. The Committee may from time to time delegate duties or responsibilities to subcommittees or to one member of the Committee.

The Committee shall have the authority to obtain advice or assistance from consultants, legal counsel, accounting or other advisors as appropriate, to perform its duties hereunder and to determine the terms, costs and fees for such engagements. Without limitation, the Committee

shall have the sole authority to retain or terminate any consulting firm used to evaluate non-employee director, Chief Executive Officer or executive compensation, and to determine and approve the terms of engagement the fees and costs for such engagements. The fees and costs of any consultant or advisor engaged by the Committee to assist it in performing any duties hereunder shall be borne by the Company.

The Committee shall have full access to all books, records, facilities and personnel of the Company as deemed necessary or appropriate by any member of the Committee to discharge his or her responsibilities hereunder, including human resources personnel preparing the CD&A for the Company's reports to be filed with the SEC.

III. MEETINGS

The Committee shall meet as often as it deems appropriate, but not less frequently than once each year to review the compensation and awards of the executive officers and other employees of the Company, and otherwise perform its duties under this charter.

A majority of the members shall represent a quorum of the Committee, and, if a quorum is present, any action approved by at least a majority of the members present shall represent the valid action of the Committee. Any actions taken by the Committee during any period in which one or more members fail for any reason to meet the membership requirements set forth above shall be nonetheless duly authorized actions of the Committee for all corporate purposes.

The Committee shall maintain written minutes of its meetings, which minutes will be filed with the minutes of the meetings of the Board. The Committee will present its recommendations to the Board in form and substance as determined by the Committee or as otherwise directed by the Board.

IV. COMMITTEE AUTHORITY AND RESPONSIBILITIES

To implement the Committee's purpose and policies, the Committee shall be charged with the following duties and responsibilities. The Committee may supplement and, except as otherwise required by applicable law or the requirements of NASDAQ, deviate from these activities as appropriate under the circumstances:

- 1.** With respect to the Chief Executive Officer:
 - a.** Determine all compensation, including incentive-based compensation and equity compensation awards;
 - b.** Develop and review annual performance objectives and goals relevant to compensation and awards for the Chief Executive Officer and evaluate the performance of the Chief Executive Officer in light of these goals and objectives; and
 - c.** In determining the incentive component for the Chief Executive Officer's compensation, the Committee should seek to achieve an appropriate level of risk and reward, taking into consideration the Company's performance

and relative shareholder return, the value of similar incentive awards to chief executive officers at comparable companies, the awards given to the Company's Chief Executive Officer in past years, and such other criteria as the Committee deems advisable.

The Chief Executive Officer may not be present during the voting or deliberations upon his or her compensation.

2. Review incentive-based compensation plans in which the Company's executive officers participate, and determine the salaries, incentive and equity compensation for executive officers, and oversee the evaluation of management.

3. Approve all employment, severance, or change-in-control agreements, special or supplemental benefits, or provisions including the same, applicable to executive officers. The Committee shall review and approve the individual and corporate performance goals and objectives of the Company's other executive officers (as that term is defined in Rule 3b-7 under the Exchange Act) that are periodically established. The Committee shall determine the compensation and other terms of employment of these executive officers, taking into consideration the executive officer's success in achieving his or her individual performance goals and objectives and the corporate performance goals and objectives deemed relevant to the officer as established by the Committee.

4. Propose the adoption, amendment, and termination of stock option plans, stock appreciation rights plans, pension and profit sharing plans, stock bonus plans, stock purchase plans, bonus plans, deferred compensation plans, and other similar programs ("Compensation Plans"). The Committee shall have full power and authority to administer the Compensation Plans, establish guidelines, interpret plan documents, select participants, approve grants and awards, and exercise such other power and authority as may be permitted or required under such plans.

5. Grant rights, participation and interests in Compensation Plans to eligible participants.

6. Approve and annually review the levels and any adjustments to the salary, bonus and equity award ranges for non-executive officers and other employees of the Company, and authorize the Chief Executive Officer to approve the compensation levels for such non-executive officers and other employees of the Company within such ranges.

7. Review and approve such other compensation matters as the Board or the Chief Executive Officer wishes to have the Committee approve.

8. Review and recommend to the Board all compensation to be paid to the non-employee directors of the Company for their service on the Board and its committees, other than compensation received pursuant to automatic equity award grants under stockholder approved equity compensation plans.

9. Periodically review and advise the Board concerning both regional and industry-wide compensation practices and trends in order to assess the adequacy and

competitiveness of the Company's compensation programs for the Chief Executive Officer, other executive officers and non-employee directors relative to comparable companies in the Company's industry.

10. Review and discuss with management the Company's disclosures contained under the caption "Compensation Discussion and Analysis" ("CD&A") for use in any of the Company's annual reports on Form 10-K, registration statements, proxy statements or information statements ("SEC Filings"), make recommendations to the Board that the CD&A be approved for inclusion in the Company's SEC Filings, and prepare and include a report on the CD&A in such SEC Filings if and as required.

11. Review and evaluate the results of any advisory votes of the Company's stockholders regarding executive compensation.

12. Review with the Chief Executive Officer the plans for succession to the offices of the Company's executive officers and make recommendations to be considered by the Board with respect to the selection of appropriate individuals to succeed to these positions.

13. Perform such other activities consistent with this Charter, the Company's Bylaws and governing law, as the Committee or the Board deems necessary or appropriate.

14. Make regular reports to the Board regarding the foregoing.

15. Review and reassess the adequacy of this Charter as appropriate and recommend any proposed changes to the Board for approval.

16. Review and evaluate the Committee's own performance on an annual basis.