

Audit Committee (Charter)

POWER INTEGRATIONS, INC. CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

I. STATEMENT OF POLICY

This Charter specifies the scope of the responsibilities of the Audit 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 oversee the accounting and financial reporting processes of the Company and the audits of the Company’s financial statements. The Committee shall also review the qualifications, independence and performance, and approve the terms of engagement, of the Company’s independent auditor, review the performance of the Company’s internal audit function and prepare any reports required of the Committee under rules of the Securities and Exchange Commission (“SEC”).

The Company shall provide appropriate funding (including ordinary administrative expenses), as determined by the Committee to be necessary or appropriate, to permit the Committee to perform its duties under this Charter, to compensate its advisors and to compensate any registered public accounting firm engaged for the purpose of rendering or issuing an audit report or related work or performing other audit, review or attest services for the Company. The Committee, at its discretion, has the authority to initiate special investigations, and, hire special legal, accounting or other outside advisors or experts to assist the Committee, as it deems necessary to fulfill its duties under this Charter. The Committee may also 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.

The Committee's function is one of oversight only and shall not relieve the responsibilities of the Company's management for preparing financial statements, which accurately and fairly present the Company's financial results and condition, or the responsibilities of the independent auditors relating to the audit or review of financial statements. Nothing in this Charter is intended to preclude or impair the protection provided in section 141(e) of the Delaware General Corporation Law for good faith reliance by members of the Committee on reports or other information provided by others.

II. ORGANIZATION AND MEMBERSHIP REQUIREMENTS

The Committee shall comprise three or more directors selected by the Board, each of whom shall be independent in compliance with the rules and regulations of the SEC and shall satisfy the independence and experience requirements of The Nasdaq Stock Market; *provided, however*, that, to the extent permitted by the Nasdaq rules and the rules and regulations of the SEC, the Committee may have one member who does not meet the applicable independence requirements.

Each member of the Committee must be able to read and understand fundamental financial statements, including a balance sheet, income statement and cash flow statement, and otherwise comply with the experience requirements of The Nasdaq Stock Market. In addition, at least one member of the Audit Committee shall satisfy the additional Nasdaq financial sophistication requirements that at least one member of the Committee must possess. The members of the Committee shall be appointed by the Board on the recommendation of the Nominating and Governance Committee 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.

III. MEETINGS

The Committee shall meet as often as it determines, but not less frequently than quarterly. The Committee may form and delegate authority to subcommittees, or to one or more members of the Committee, when appropriate. The Committee shall meet with management and the independent auditor in separate executive sessions as appropriate. The Committee shall meet with the independent auditor and management to review the Company's financial statements and financial reports. Each member of 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. The Committee shall have authority to require that any of the Company's personnel, counsel, accountants (including the independent auditor) or investment bankers, or any other consultant or advisor to the Company attend any meeting of the Committee or meet with any member of the Committee or any of its special legal, accounting or other advisors and consultants. 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 policy, the Committee shall be charged with the following functions and processes with the understanding, however, that the Committee may supplement or (except as otherwise required by applicable laws or rules) deviate from these activities as appropriate under the circumstances:

A. Oversight of the Company's Independent Auditor

1. Be directly and solely responsible for the appointment, compensation, retention and oversight of any independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) engaged by the Company for the purpose of preparing or issuing an audit report or performing audit, review or attest services for the Company, with any such auditor reporting directly to the Committee.

2. Periodically review and actively discuss with the independent auditor (i) the matters required to be discussed by Auditing Standard 1301, *Communications with Audit Committees*, as adopted by the Public Company Accounting Oversight Board ("PCAOB") in Rule 3200T, as may be amended, and (ii) any formal written statements received from the independent

auditor (or prospective independent auditor) required by applicable requirements of the PCAOB, including without limitation, descriptions of (x) all relationships between the auditor and the Company, (y) any disclosed relationships or services that may impact the independent auditor's objectivity and independence and (z) whether any of the Company's senior finance personnel were recently employed by the independent auditor.

3. Evaluate annually the qualifications, performance and independence of the independent auditor, including a review of whether the independent auditor's quality-control procedures are adequate and a review and evaluation of the lead partner of the independent auditor, taking into account the opinions of management and the Company's internal auditors, if any, and report to the Board on its conclusions, together with any recommendations for additional action.

4. Consult with the independent auditor to assure the rotation of the lead audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit every five years, consider issues related to the timing of such rotation and the transition to new lead and reviewing partners, and consider whether, in order to assure continuing auditor independence, there should be regular rotation of the audit firm, and report to the Board on its conclusions.

5. Approve in advance the engagement of the independent auditor for all audit services and non-audit services, based on independence, qualifications and, if applicable, performance, and approve the fees and other terms of any such engagement; *provided, however*, that (i) the Committee may establish pre-approval policies and procedures for any engagement to render such services, provided that such policies and procedures (x) are detailed as to particular services, (y) do not involve delegation to management of the Committee's responsibilities hereunder and (z) provide that, at its next scheduled meeting, the Committee is informed as to each such service for which the independent auditor is engaged pursuant to such policies and procedures, and (ii) the Committee may delegate to one or more members of the Committee the authority to grant pre-approvals for such services, provided that (a) the decisions of such member(s) to grant any such pre-approval shall be presented to the Committee at its next scheduled meeting and (b) the Committee has established policies and procedures for such pre-approval of services consistent with the requirements of clauses (i)(x) and (y) above.

6. Meet with the independent auditor prior to the audit to discuss the planning and staffing of the audit.

7. Approve as necessary the termination of the engagement of the independent auditor.

8. Establish policies for the hiring of employees or former employees of the independent auditor who participated in any capacity in the audit of the Company, taking into account the impact of such policies on auditor independence.

9. Review with the independent auditor any accounting adjustments that were noted or proposed by the auditor but that were "passed" (as immaterial or otherwise), any "management" or "internal control" letter or schedule of unadjusted differences issued, or

proposed to be issued, by the auditor to the Company, or any other material written communication provided by the auditor to the Company's management.

10. Review with the independent auditor the critical accounting policies and practices used by the Company, all alternative treatments of financial information within generally accepted accounting principles ("GAAP") that the independent auditor has discussed with management, the ramifications of the use of such alternative disclosures and treatments and the treatment preferred by the independent auditor.

B. Review of Financial Reporting, Policies and Processes

1. Review and discuss with management and the independent auditor the results of the annual audit, including the independent auditor's assessment of the quality, not just acceptability, of accounting principles, the reasonableness of significant judgments and estimates (including material changes in estimates), any material audit adjustments proposed by the independent auditor and any adjustments proposed but not recorded, the adequacy of the disclosures in the financial statements and any other matters required to be communicated to the Committee by the independent auditor under the standards of the PCAOB, as appropriate. Recommend to the Board whether the audited financial statements should be included in the Company's annual report on Form 10-K.

2. Review and discuss with management and the independent auditor, as appropriate, the results of the independent auditor's review of the Company's quarterly financial statements, prior to public disclosure of quarterly financial information, if practicable, or filing with the SEC of the Company's Quarterly Reports on Form 10-Q, and any other matters required to be communicated to the Committee by the independent auditor under standards of the PCAOB.

3. Review and discuss with management and the independent auditor any other certification, report, opinion or review rendered by the independent auditor.

4. Review and discuss earnings press releases, including any "non-GAAP" or adjusted financial information provided in SEC filings or earnings press releases.

5. Periodically meet separately with management and with the independent auditor.

6. Review with management its assessment of the effectiveness and adequacy of the Company's internal control over financial reporting structure and procedures for financial reporting ("Internal Controls"), review annually with the independent auditor the audit of the Internal Controls and the report on the assessment made by management of the Internal Controls, and consider with management, the internal auditors, if any, and the independent auditor whether any changes to the Internal Controls are appropriate in light of management's assessment or the independent auditor's audit of the Internal Controls.

7. To the extent that it deems appropriate, review with management its evaluation of the Company's procedures and controls designed to assure that information required to be disclosed in its periodic public reports is recorded, processed, summarized and reported in such reports within the time periods specified by the SEC for the filing of such reports ("Disclosure

Controls”), and consider whether any changes are appropriate in light of management’s evaluation of the effectiveness of such Disclosure Controls.

8. Review and discuss with management and the independent auditor any off-balance sheet transactions or structures and their effect on the Company’s financial results and operations, as well as the disclosure regarding such transactions and structures in the Company’s public filings.

9. Review with the independent auditor and management the extent to which changes or improvements in financial or accounting practices, as approved by the Committee, have been implemented.

10. Review and discuss with management the Company’s Corporate Investment Policy on an annual basis, and approve any changes proposed to be made to such policy and report any such changes as are approved by the Committee to the Board.

C. Related Person Transactions, Legal Compliance and Ethics

1. Review with the chief executive and chief financial officer of the Company any report on significant deficiencies in the design or operation of the Internal Controls that could adversely affect the Company’s ability to record, process, summarize or report financial data, any material weaknesses in Internal Controls identified to the auditors, and any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s Internal Controls.

2. Review and approve any related-person transactions, after reviewing each such transaction for potential conflicts of interests and other improprieties.

3. Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters. Adopt, as necessary, appropriate remedial measures or actions with respect to such complaints or concerns.

4. Review periodically the Company’s Code of Business Conduct and Ethics (the “Code of Conduct”) for all employees and directors, which meets the requirements of Item 406 of the SEC’s Regulation S-K, and recommend to the Board such changes to the Code of Conduct as the Committee shall deem appropriate, and adopt procedures for monitoring and enforcing compliance with the Code of Conduct and the prompt disclosure to the public of any change in, or waiver of, the Code of Conduct.

5. As requested by the Board, review and investigate conduct alleged by the Board to be in violation of the Company’s Code of Conduct, and adopt as necessary or appropriate, remedial, disciplinary, or other measures with respect to such conduct.

6. Investigate any matter brought to the attention of the Committee within the scope of its duties if, in the judgment of the Committee, such investigation is necessary or appropriate.

7. Review with the Company's general counsel, if any, and report to the Board on compliance with the Company's Code of Conduct.

8. Discuss with management and the independent auditor any correspondence with regulators or governmental agencies that raise material issues regarding the Company's financial statements or accounting policies.

9. Review with counsel, the independent auditors and management, as appropriate, any significant regulatory or other legal or accounting initiatives or matters that may have a material impact on the Company's financial statements, compliance programs and policies if, in the judgment of the Committee, such review is necessary or appropriate.

10. Prepare the report required by the rules of the SEC to be included in the Company's annual proxy statement.

11. Evaluate the cooperation received by the independent auditor during its audit examination, including any significant difficulties with the audit or any restrictions on the scope of its activities or access to required records, data and information, significant disagreements with management and management's response, if any.

12. Review with the independent auditor, as appropriate, communications between the audit team and the firm's national office with respect to accounting or auditing issues presented by the engagement.

13. Review and discuss with management and, as appropriate, the independent auditor, the Company's major financial risk exposures and the steps taken by management to monitor and control these exposures.

14. Review and reassess the Charter's adequacy as appropriate, but no less than once per year.

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