

POWER INTEGRATIONS INC

FORM 10-Q (Quarterly Report)

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, DC 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2014

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number 0-23441

POWER INTEGRATIONS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
Incorporation or organization)

94-3065014
(I.R.S. Employer
Identification No.)

5245 Hellyer Avenue, San Jose, California, 95138

(Address of principal executive offices) (Zip code)

(408) 414-9200

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Shares Outstanding at April 18, 2014
Common Stock, \$.001 par value	30,419,313

POWER INTEGRATIONS, INC.

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Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q includes a number of forward-looking statements that involve many risks and uncertainties. Forward-looking statements are identified by the use of the words “would”, “could”, “will”, “may”, “expect”, “believe”, “should”, “anticipate”, “if”, “future”, “intend”, “plan”, “estimate”, “potential”, “targets”, “seek” or “continue” and similar words and phrases, including the negatives of these terms, or other variations of these terms, that denote future events. These statements reflect our current views with respect to future events and our potential financial performance and are subject to risks and uncertainties that could cause our actual results and financial position to differ materially and adversely from what is projected or implied in any forward-looking statements included in this Form 10-Q. These factors include, but are not limited to, the risks described under Item 1A of Part II — “Risk Factors,” Item 2 of Part I — “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Quarterly Report on Form 10-Q, including, but not limited to: our quarterly operating results are volatile and difficult to predict, and if we fail to meet the expectations of public market analysts or investors, the market price of our common stock may decrease significantly; if demand for our products declines in our major end markets, our net revenues will decrease; intense competition in the high-voltage power supply industry may lead to a decrease in our average selling price and reduced sales volume of our products; if we are unable to adequately protect or enforce our intellectual property rights, we could lose market share, incur costly litigation expenses, suffer incremental price erosion or lose valuable assets, any of which could harm our operations and negatively impact our profitability; if we do not prevail in our litigation, we will have expended significant financial resources, potentially without any benefit, and may also suffer the loss of rights to use some technologies; and our international sales activities account for a substantial portion of our net revenues, which subjects us to substantial risks. We make these forward-looking statements based upon information available on the date of this Form 10-Q, and we have no obligation (and expressly disclaim any obligation) to update or alter any forward-looking statements, whether as a result of new information or otherwise except as otherwise required by securities regulations.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	March 31,	December 31,
	2014	2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 83,967	\$ 92,928
Short-term marketable securities	133,684	109,179
Accounts receivable, net of allowances of \$105 and \$120 in 2014 and 2013, respectively (Note 2)	16,421	12,389
Inventories	47,934	42,235
Deferred tax assets	2,059	2,059
Prepaid expenses and other current assets	17,027	18,632
Total current assets	301,092	277,422
PROPERTY AND EQUIPMENT, net	92,142	90,141
INTANGIBLE ASSETS, net	38,478	40,334
GOODWILL	80,599	80,599
DEFERRED TAX ASSETS (Note 9)	5,686	9,449
OTHER ASSETS	3,332	3,476
Total assets	<u>\$ 521,329</u>	<u>\$ 501,421</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 23,600	\$ 20,772
Accrued payroll and related expenses	8,046	8,900
Taxes payable	1,768	2,266
Deferred tax liabilities	1,325	943
Deferred income on sales to distributors	17,844	15,727
Other accrued liabilities	1,698	1,810
Total current liabilities	54,281	50,418
LONG-TERM INCOME TAXES PAYABLE (Note 9)	2,612	6,885
DEFERRED TAX LIABILITIES	4,991	5,273
OTHER LIABILITIES	2,267	2,159
Total liabilities	64,151	64,735
COMMITMENTS AND CONTINGENCIES (Notes 9, 11 and 12)		
STOCKHOLDERS' EQUITY:		
Common stock	30	30
Additional paid-in capital	234,667	223,660
Accumulated other comprehensive loss	(315)	(470)
Retained earnings	222,796	213,466
Total stockholders' equity	457,178	436,686
Total liabilities and stockholders' equity	<u>\$ 521,329</u>	<u>\$ 501,421</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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

	Three Months Ended	
	March 31,	
	2014	2013
NET REVENUES	\$ 83,073	\$ 77,040
COST OF REVENUES	37,096	37,176
GROSS PROFIT	45,977	39,864
OPERATING EXPENSES:		
Research and development	13,490	12,272
Sales and marketing	12,110	10,781
General and administrative	7,646	7,734
Total operating expenses	33,246	30,787
INCOME FROM OPERATIONS	12,731	9,077
OTHER INCOME		
Other income, net	257	217
Total other income	257	217
INCOME BEFORE PROVISION FOR (BENEFIT FROM) INCOME TAXES	12,988	9,294
PROVISION FOR (BENEFIT FROM) INCOME TAXES	625	(1,609)
NET INCOME	\$ 12,363	\$ 10,903
EARNINGS PER SHARE:		
Basic	\$ 0.41	\$ 0.38
Diluted	\$ 0.40	\$ 0.37
SHARES USED IN PER SHARE CALCULATION:		
Basic	30,239	28,754
Diluted	31,167	29,783

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

POWER INTEGRATIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In thousands)

	Three Months Ended	
	March 31,	
	2014	2013
Net income	\$ 12,363	\$ 10,903
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments, net of \$0 tax in the quarters ended March 31, 2014 and 2013 (Note 2)	(6)	(151)
Unrealized gain (loss) on marketable securities, net of \$0 tax in the quarters ended March 31, 2014 and 2013 (Note 2)	147	(54)
Amortization of defined benefit pension items, net of tax of \$4 and \$4 in the quarters ended March 31, 2014 and 2013, respectively (Note 2)	14	14
Total other comprehensive income (loss)	155	(191)
Total comprehensive income	<u>\$ 12,518</u>	<u>\$ 10,712</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

POWER INTEGRATIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Three Months Ended March 31,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 12,363	\$ 10,903
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,971	3,975
Amortization of intangibles	1,856	1,842
Loss on sale of property and equipment	159	—
Stock-based compensation expense	3,915	3,636
Amortization of premium on marketable securities	394	104
Deferred income taxes	3,864	(3,236)
Reduction in accounts receivable allowances	(15)	(20)
Change in operating assets and liabilities:		
Accounts receivable	(4,017)	(7,393)
Inventories	(5,652)	893
Prepaid expenses and other assets	1,825	3,928
Accounts payable	1,088	2,832
Taxes payable and accrued liabilities	(5,624)	1,172
Deferred income on sales to distributors	2,116	2,936
Net cash provided by operating activities	<u>16,243</u>	<u>21,572</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(4,465)	(3,950)
Purchases of marketable securities	(24,751)	(19,422)
Proceeds from maturities of marketable securities	—	1,500
Net cash used in investing activities	<u>(29,216)</u>	<u>(21,872)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock under employee stock plans	7,045	8,705
Payments of dividends to stockholders	(3,033)	(2,310)
Net cash provided by financing activities	<u>4,012</u>	<u>6,395</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(8,961)	6,095
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	92,928	63,394
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 83,967</u>	<u>\$ 69,489</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Unpaid property and equipment	<u>\$ 4,602</u>	<u>\$ 1,469</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash refund for income taxes, net of payments	<u>\$ (1,942)</u>	<u>\$ (3,698)</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

POWER INTEGRATIONS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION:

The condensed consolidated financial statements include the accounts of Power Integrations, Inc., a Delaware corporation (the “Company”), and its wholly owned subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation.

While the financial information furnished is unaudited, the condensed consolidated financial statements included in this report reflect all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for the fair presentation of the results of operations for the interim periods covered and the financial condition of the Company at the date of the interim balance sheet in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The results for interim periods are not necessarily indicative of the results for the entire year. The condensed consolidated financial statements should be read in conjunction with the Power Integrations, Inc. consolidated financial statements and the notes thereto for the year ended December 31, 2013, included in its Form 10-K filed on February 13, 2014, with the Securities and Exchange Commission.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

No material changes have been made to the Company's significant accounting policies disclosed in Note 2, *Summary of Significant Accounting Policies*, in its Annual Report on Form 10-K, filed on February 13, 2014, for the year ended December 31, 2013. The accounting policy information below is to aid in the understanding of the financial information disclosed.

Cash and Cash Equivalents

The Company considers cash invested in highly liquid financial instruments with maturities of three months or less at the date of purchase to be cash equivalents.

Marketable Securities

The Company generally holds securities until maturity; however, they may be sold under certain circumstances including, but not limited to, when necessary for the funding of acquisitions and other strategic investments. As a result the Company classifies its investment portfolio as available-for-sale. The Company classifies all investments with an original maturity date greater than three months as short-term investments in its Condensed Consolidated Balance Sheet. As of March 31, 2014, and December 31, 2013, the Company's marketable securities consisted primarily of highly liquid corporate securities, commercial paper and other high-quality commercial securities.

Amortized cost and estimated fair market value of investments classified as available-for-sale at March 31, 2014, are as follows (in thousands):

	Amortized	Gross Unrealized		Estimated Fair
	Cost	Gains	Losses	Market Value
Investments due in less than 3 months:				
Commercial paper	\$ 3,722	\$ 1	\$ —	\$ 3,723
Total	\$ 3,722	\$ 1	\$ —	\$ 3,723
Investments due in 4-12 months:				
Corporate securities	\$ 16,502	\$ 63	\$ —	\$ 16,565
Total	\$ 16,502	\$ 63	\$ —	\$ 16,565
Investments due between 12 months and 5-years:				
Corporate securities	\$ 116,826	\$ 300	\$ (7)	\$ 117,119
Total	\$ 116,826	\$ 300	\$ (7)	\$ 117,119
Total investment securities	\$ 137,050	\$ 364	\$ (7)	\$ 137,407

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Amortized cost and estimated fair market value of investments classified as available-for-sale at December 31, 2013 , are as follows (in thousands):

	Amortized		Gross Unrealized		Estimated Fair Market Value
	Cost		Gains	Losses	
Investments due in less than 3 months:					
Commercial paper	\$ 3,098	\$	1	\$ —	\$ 3,099
Total	\$ 3,098	\$	1	\$ —	\$ 3,099
Investments due in 4-12 months:					
Corporate securities	\$ 6,007	\$	33	\$ —	\$ 6,040
Total	\$ 6,007	\$	33	\$ —	\$ 6,040
Investments due between 12 months and 5-years:					
Corporate securities	\$ 102,963	\$	202	\$ (26)	\$ 103,139
Total	\$ 102,963	\$	202	\$ (26)	\$ 103,139
Total investment securities	\$ 112,068	\$	236	\$ (26)	\$ 112,278

As of March 31, 2014 and December 31, 2013 , the Company evaluated the nature of the investments with a loss position which were primarily high-quality corporate securities, and determined the unrealized losses were not other-than-temporary.

Revenue Recognition

Product revenues consist of sales to original equipment manufacturers (“OEMs”), merchant power supply manufacturers and distributors. Approximately 75% of the Company's net product sales were made to distributors in the three months ended March 31, 2014 , and 75% in the twelve months ended December 31, 2013 . The Company applies the provisions of Accounting Standard Codification (“ASC”) 605-10 (“ASC 605-10”) and all related appropriate guidance. Revenue is recognized when all of the following criteria have been met: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred, (3) the price is fixed or determinable, and (4) collectability is reasonably assured. Customer purchase orders are generally used to determine the existence of an arrangement. Delivery is considered to have occurred when title and risk of loss have transferred to the Company's customer. The Company evaluates whether the price is fixed or determinable based on the payment terms associated with the transaction and whether the sales price is subject to refund or adjustment. With respect to collectability, the Company performs credit checks for new customers and performs ongoing evaluations of its existing customers' financial condition and requires letters of credit whenever deemed necessary.

Sales to international OEM customers and merchant power supply manufacturers that are shipped from the Company's facility in California are pursuant to “delivered at frontier” (“DAF”) shipping terms. As such, title to the product passes to the customer when the shipment reaches the destination country and revenue is recognized upon the arrival of the product in that country. Sales to international OEMs and merchant power supply manufacturers for shipments from the Company's facility outside of the United States are pursuant to “EX Works” (“EXW”) shipping terms, meaning that title to the product transfers to the customer upon shipment from the Company's foreign warehouse. Shipments to OEMs and merchant power supply manufacturers in the Americas are pursuant to “free on board” (“FOB”) point of origin shipping terms meaning that title is passed to the customer upon shipment. Revenue is recognized upon title transfer for sales to OEMs and merchant power supply manufacturers, assuming all other criteria for revenue recognition are met.

Sales to most of the Company's distributors are made under terms allowing certain price adjustments and rights of return on the Company's products held by its distributors. As a result of these rights, the Company defers the recognition of revenue and the costs of revenues derived from sales to distributors until the Company's distributors report that they have sold the Company's products to their customers. The Company's recognition of such distributor revenue is based on point of sale reports received from the distributors, at which time the price is no longer subject to adjustment and is fixed, and the products are no longer subject to return to the Company except pursuant to warranty terms. The gross profit that is deferred as a result of this policy is reflected as “deferred income on sales to distributors” in the accompanying condensed consolidated balance sheets. The total deferred revenue as of March 31, 2014 , and December 31, 2013 , was approximately \$29.2 million and \$25.5

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

million , respectively. The total deferred cost as of March 31, 2014 , and December 31, 2013 , was approximately \$11.3 million and \$9.8 million , respectively.

Frequently, distributors need to sell at a price lower than the standard distribution price in order to win business. At or soon after the distributor invoices its customer, the distributor submits a “ship and debit” price adjustment claim to the Company to adjust the distributor's cost from the standard price to the pre-approved lower price. After verification by the Company, a credit memo is issued to the distributor for the ship and debit claim. The Company maintains a reserve for unprocessed claims and future ship and debit price adjustments. The reserve appears as a reduction to accounts receivable in the Company's accompanying consolidated balance sheets. To the extent future ship and debit claims significantly exceed amounts estimated, there could be a material impact on the deferred revenue and deferred margin ultimately recognized. To evaluate the adequacy of its reserves, the Company analyzes historical ship and debit payments and levels of inventory in the distributor channels.

Sales to certain distributors of the Company are made under terms that do not include rights of return or price concessions after the product is shipped to the distributor. Accordingly, product revenue is recognized upon shipment and title transfer assuming all other revenue recognition criteria are met.

Common Stock Repurchases and Cash Dividend

In October 2012, the Company's board of directors authorized the use of \$50 million for the repurchase of the Company's common stock, with repurchases to be executed according to pre-defined price/volume guidelines set by the board of directors. As of March 31, 2014 , the Company had \$29.5 million available for future stock repurchases. The Company did not purchase shares in the three-month periods ended March 31, 2014 and 2013, as the price of the Company's stock exceeded the maximum price set forth in the guidelines mentioned above. Authorization of future stock repurchase programs is at the discretion of the board of directors and will depend on the Company's financial condition, results of operations, capital requirements, business conditions and other factors.

In January 2013, the Company's board of directors declared quarterly cash dividend payments in the amount of \$0.08 per share to be paid to stockholders of record at the end of each quarter in 2013. Dividend payouts totaling approximately \$2.3 million each were paid on March 29, 2013 and June 28, 2013, and approximately \$2.4 million was paid on each of September 30, 2013 and December 31, 2013.

In October 2013, the Company's board of directors declared four quarterly cash dividends in the amount of \$0.10 per share to be paid to stockholders of record at the end of each quarter in 2014. In April 2014, the board of directors declared that the payouts for the third and fourth quarters of 2014 shall increase to \$0.12 per share. The first quarterly dividend payout, totaling approximately \$3.0 million , was paid on March 31, 2014 . The declaration of any future cash dividend is at the discretion of the board of directors and will depend on the Company's financial condition, results of operations, capital requirements, business conditions and other factors, as well as a determination that cash dividends are in the best interests of the Company's stockholders.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. On an ongoing basis, the Company evaluates its estimates, including those related to revenue recognition, income tax, stock-based compensation and inventories. These estimates are based on historical facts and various other assumptions that the Company believes to be reasonable at the time the estimates are made.

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Components of the Company's Condensed Consolidated Balance Sheet

Accounts Receivable (in thousands):

	March 31, 2014	December 31, 2013
Accounts receivable trade	\$ 47,842	\$ 42,410
Accrued ship and debit and rebate claims	(31,316)	(29,901)
Allowance for doubtful accounts	(105)	(120)
Total	<u>\$ 16,421</u>	<u>\$ 12,389</u>

Prepaid Expenses and Other Current Assets (in thousands):

	March 31, 2014	December 31, 2013
Prepaid legal fees	\$ 5,129	\$ 6,267
Prepaid income tax	4,048	7,521
Prepaid maintenance agreements	725	947
Interest receivable	678	519
Supplier prepayment	1,511	757
Other	4,936	2,621
Total	<u>\$ 17,027</u>	<u>\$ 18,632</u>

Changes in accumulated other comprehensive income (loss) for the three months ended March 31, 2014 (in thousands):

	Unrealized Gains and Losses on Available- for-Sale Securities	Defined Benefit Pension Items	Foreign Currency Items	Total
Beginning balance at December 31, 2013	\$ 210	\$ (780)	\$ 100	\$ (470)
Other comprehensive income (loss) before reclassifications	147	—	(6)	141
Amounts reclassified from accumulated other comprehensive income (loss)	—	14 ⁽¹⁾	—	14
Net-current period other comprehensive income (loss)	147	14	(6)	155
Ending balance at March 31, 2014	<u>\$ 357</u>	<u>\$ (766)</u>	<u>\$ 94</u>	<u>\$ (315)</u>

(1) This component of accumulated other comprehensive income is included in the computation of net periodic pension cost for the three months ended March 31, 2014 .

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Changes in accumulated other comprehensive income (loss) for the quarter ended March 31, 2013 (in thousands):

	Unrealized Gains and Losses on Available- for-Sale Securities	Defined Benefit Pension Items	Foreign Currency Items	Total
Beginning balance at December 31, 2012	\$ 138	\$ (560)	\$ 129	\$ (293)
Other comprehensive income before reclassifications	(54)	—	(151)	(205)
Amounts reclassified from accumulated other comprehensive income	—	14 ⁽¹⁾	—	14
Net-current period other comprehensive income	(54)	14	(151)	(191)
Ending balance at March 31, 2013	\$ 84	\$ (546)	\$ (22)	\$ (484)

(1) This component of accumulated other comprehensive income is included in the computation of net periodic pension cost for the three months ended March 31, 2013.

3. STOCK PLANS AND SHARE-BASED COMPENSATION:

Stock Plans

As of March 31, 2014, the Company had two stock-based compensation plans (the "Plans") which are described below.

2007 Equity Incentive Plan

The 2007 Equity Incentive Plan (the "2007 Plan") was adopted by the board of directors on September 10, 2007, and approved by the stockholders on November 7, 2007, as an amendment and restatement of the 1997 Stock Option Plan (the "1997 Plan"). The 2007 Plan provides for the grant of incentive stock options, nonstatutory stock options, restricted stock awards, restricted stock unit awards ("RSUs"), stock appreciation rights, performance-based awards ("PSUs"), long-term performance based awards ("PRSUs") and other stock awards to employees, directors and consultants. As of March 31, 2014, the maximum remaining number of shares that may be issued under the 2007 Plan was 6,870,264 shares, which includes options granted but not exercised and awards granted but unvested and shares remaining available for issuance under the 1997 Plan, including shares subject to outstanding options and stock awards under the 1997 Plan. Pursuant to the 2007 Plan, the exercise price for incentive stock options and nonstatutory stock options is generally at least 100% of the fair market value of the underlying shares on the date of grant. Options generally vest over 48 months measured from the date of grant. Options generally expire no later than ten years after the date of grant, subject to earlier termination upon an optionee's cessation of employment or service.

Beginning January 27, 2009, grants pursuant to the Directors Equity Compensation Program (that was adopted by the board of directors on January 27, 2009) to nonemployee directors have been made primarily under the 2007 Plan. The Directors Equity Compensation Program provides for grants to outside directors as follows: effective annually, upon the first trading day of July, each outside director would receive a grant of an equity award with an aggregate value of \$100,000, which will become exercisable or vest immediately prior to the Company's next year Annual Meeting of Stockholders, subject to the director's continued service. At each outside director's election, such award would consist entirely of RSUs or entirely of stock options. The quantity of options would be calculated by dividing \$100,000 by the Black-Scholes value on the date of grant. The quantity of RSUs issued would be calculated by dividing \$100,000 by the grant date fair value. Further, on the date of election of a new outside director, such new director would receive such grant as continuing outside directors receive on the first trading day of July; provided, however, that such grant is prorated for the portion of the year that such new outside director will serve until the next first trading day of July. The Directors Equity Compensation Program will remain in effect at the discretion of the board of directors or the compensation committee of the board.

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On July 28, 2009, the 2007 Plan was amended generally to prohibit outstanding options or stock appreciation rights from being cancelled in exchange for cash without stockholder approval.

1997 Employee Stock Purchase Plan

Under the 1997 Employee Stock Purchase Plan (the "Purchase Plan"), eligible employees may apply accumulated payroll deductions, which may not exceed 15% of an employee's compensation, to the purchase of shares of the Company's common stock at periodic intervals. The purchase price of stock under the Purchase Plan is equal to 85% of the lower of (i) the fair market value of the Company's common stock on the first day of each offering period, or (ii) the fair market value of the Company's common stock on the purchase date (as defined in the Purchase Plan). Each offering period consists of one purchase period of approximately six months duration. An aggregate of 3,000,000 shares of common stock were reserved for issuance to employees under the Purchase Plan. As of March 31, 2014, 2,646,861 shares had been purchased and 353,139 shares were reserved for future issuance under the Purchase Plan.

Stock-Based Compensation

The Company applies the provisions of ASC 718-10. Under the provisions of ASC 718-10, the Company recognizes the fair value of stock-based compensation in financial statements over the requisite service period of the individual grants, which generally equals a four-year vesting period. The Company uses estimates of volatility, expected term, risk-free interest rate, dividend yield and forfeitures in determining the fair value of these awards and the amount of compensation expense to recognize. The Company uses the straight-line method to amortize all stock awards granted over the requisite service period of the award, and uses historical data to estimate pre-vesting forfeitures, recognizing expense only for those awards that are expected to vest.

Determining Fair Value of Stock Options

The Company uses the Black-Scholes valuation model for valuing stock option grants using the following assumptions and estimates:

Expected Volatility . The Company calculates expected volatility based on the historical price volatility of the Company's stock.

Expected Term . The Company utilizes a model which uses historical exercise, cancellation and outstanding option data to calculate the expected term of stock option grants.

Risk-Free Interest Rate . The Company bases the risk-free interest rate used in the Black-Scholes valuation model on the implied yield available on a U.S. Treasury note with a term approximately equal to the expected term of the underlying grants.

Dividend Yield . The dividend yield was calculated by dividing the annual dividend by the average closing price of the Company's common stock on a quarterly basis.

The following table summarizes the stock-based compensation expense recognized in accordance with ASC 718-10 for the three months ended March 31, 2014, and March 31, 2013 (in thousands).

	Three Months Ended	
	March 31,	
	2014	2013
Cost of revenues	\$ 219	\$ 264
Research and development	1,212	1,106
Sales and marketing	935	829
General and administrative	1,549	1,437
Total stock-based compensation expense	<u>\$ 3,915</u>	<u>\$ 3,636</u>

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock compensation expense in the three months ended March 31, 2014, was \$3.9 million (comprising approximately \$0.5 million related to stock options, \$0.5 million related to performance-based awards, \$2.6 million related to restricted stock units and \$0.3 million related to the Purchase Plan). Stock compensation expense in the three months ended March 31, 2013, was \$3.6 million (comprising approximately \$1.0 million related to stock options, \$0.4 million related to performance-based awards, \$1.9 million related to restricted stock units and \$0.3 million related to the Purchase Plan).

The following table summarizes total compensation expense related to unvested awards not yet recognized, net of expected forfeitures, and the weighted-average period over which it is expected to be recognized as of March 31, 2014.

	March 31, 2014	
	Unrecognized Compensation Expense for Unvested Awards	Weighted Average Remaining Recognition Period
	(In thousands)	(In years)
Options	\$ 1,497	1.44
Performance-based awards	1,706	0.75
Long term performance-based awards	2,156	2.75
Restricted stock units	20,511	2.38
Purchase plan	396	0.50
Total unrecognized compensation expense	<u>\$ 26,266</u>	

The Company did not grant stock options in the three months ended March 31, 2014 or March 31, 2013, and therefore no fair-value assumptions were reported for those periods.

The fair value of employees' stock purchase rights under the Purchase Plan was estimated using the Black-Scholes model with the following weighted-average assumptions:

	Three Months Ended March 31,	
	2014	2013
Risk-free interest rates	0.07%	0.11%
Expected volatility rates	30%	33%
Expected dividend yield	0.66%	0.80%
Expected term of purchase right (in years)	0.5	0.5
Weighted-average estimated fair value of purchase rights	\$13.31	\$9.14

A summary of stock option activity under the Plans, excluding performance-based awards and restricted stock units, as of March 31, 2014, and changes during the three months then ended is presented below:

	Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2014	1,691	\$27.34		
Granted	—	—		
Exercised	(176)	\$27.26		
Forfeited or expired	—	—		
Outstanding at March 31, 2014	<u>1,515</u>	<u>\$27.35</u>	<u>4.30</u>	<u>\$ 58,210</u>
Exercisable at March 31, 2014	<u>1,400</u>	<u>\$26.29</u>	<u>4.03</u>	<u>\$ 55,288</u>
Vested and expected to vest at March 31, 2014	<u>1,512</u>	<u>\$27.32</u>	<u>4.29</u>	<u>\$ 58,145</u>

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company did not grant stock options in the three months ended March 31, 2014 and March 31, 2013. Since 2010 the Company's equity grants to new hires and its annual incentive grants to non-executive employees have been primarily in the form of RSUs. The total intrinsic value of options exercised during the three months ended March 31, 2014 and 2013, was approximately \$5.8 million and \$5.2 million, respectively.

Performance-based Awards ("PSUs")

Under the performance-based awards program, the Company grants awards in the first half of the performance year in an amount equal to twice the target number of shares to be issued if the target performance metrics are met. The number of shares that are released at the end of the performance year can range from zero to 200% of the targeted number depending on the Company's performance. In 2014, the performance metrics of this program are annual targets consisting of net revenue and non-GAAP operating earnings. Each performance-based award granted from the 2007 Plan will reduce the number of shares available for issuance under the 2007 Plan by 2.0 shares.

During the three months ended March 31, 2014, the Company granted approximately 44,000 annual performance-based awards. As the net revenue and non-GAAP operating earnings are considered performance conditions, expenses associated with these awards, net of estimated forfeitures, are recorded throughout the year depending on the number of shares expected to be earned based on progress toward the performance targets. The cost of performance-based awards is determined using the fair value of the Company's common stock on the grant date, reduced by the discounted present value of dividends expected to be declared before the awards vest. If the performance conditions are not achieved, no compensation cost is recognized and any previously recognized compensation is reversed.

In January 2014, it was determined that approximately 83,000 shares of the approximately 100,000 performance-based awards granted in 2013, less forfeitures, vested in aggregate. The 2013 performance metrics consisted of revenue, non-GAAP operating income and strategic-goals for such awards. Accordingly, 83,000 performance-based awards were released to the Company's employees and executives in the first quarter of 2014.

A summary of performance-based awards outstanding as of March 31, 2014, and activity during the three months then ended, is presented below:

	Shares (in thousands)	Weighted- Average Grant Date Fair Value Per Share	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2014	100	\$38.48		
Granted	44	\$58.55		
Vested	(83)	\$38.48		
Change in units due to performance achievement for PSUs vested in the year	(17)	\$38.48		
Forfeited or expired	—	—		
Outstanding at March 31, 2014	44	\$58.55	0.75	\$ 2,868
Outstanding and expected to vest at March 31, 2014	37		0.75	\$ 2,466

The weighted-average grant-date fair value per share of performance-based awards granted in the three months ended March 31, 2014 and 2013 was approximately \$58.55, and \$36.43, respectively. The grant-date fair value of awards released, which were fully vested, in the three months ended March 31, 2014 and 2013, was approximately \$3.2 million and \$2.0 million, respectively.

Long-Term Performance-based Awards ("PRSUs")

The Company's PRSU program provides for the issuance of PRSUs which will vest based on Company performance measured against the 2014 PRSU Plan's established 2016 revenue target. The PRSUs were granted in an amount equal to twice

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the target number of shares to be issued if the target performance metric is met. The actual number of shares the recipient receives is determined at the end of a three-year performance period based on results achieved versus the Company's performance goal, and may range from zero to 200% of the targeted number. The performance goal for PRSUs granted in fiscal 2014 was based on the Company's adjusted annual revenue growth. Each long-term performance-based award granted from the 2007 Plan will reduce the number of shares available for issuance under the 2007 Plan by 2.0 shares.

Recipients of a PRSU award generally must remain employed by the Company on a continuous basis through the end of the applicable three-year performance period in order to receive shares subject to that award. Expenses associated with these awards, net of estimated forfeitures, are recorded throughout the year depending on the number of shares expected to be earned based on progress toward the performance target. The cost of long-term performance-based awards is determined using the fair value of the Company's common stock on the grant date, reduced by the discounted present value of dividends expected to be declared before the awards vest. If the performance conditions are not achieved, no compensation cost is recognized and any previously recognized compensation is reversed.

A summary of long-term performance-based awards outstanding as of March 31, 2014, and activity during the three months then ended, is presented below:

	Shares (in thousands)	Weighted- Average Grant Date Fair Value Per Share	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2014	—	—		
Granted	47	\$57.76		
Vested	—	—		
Forfeited or expired	—	—		
Outstanding at March 31, 2014	47	\$57.76	2.75	\$ 3,072
Outstanding and expected to vest at March 31, 2014	40		2.75	\$ 2,629

Restricted Stock Units (RSUs)

The Company grants restricted stock units to employees under the 2007 Plan. RSUs granted to employees typically vest ratably over a four-year period, and are converted into shares of the Company's common stock upon vesting on a one-for-one basis subject to the employee's continued service with the Company over that period. The fair value of RSUs is determined using the fair value of the Company's common stock on the date of the grant, reduced by the discounted present value of dividends expected to be declared before the awards vest. Compensation expense is recognized on a straight-line basis over the requisite service period of each grant adjusted for estimated forfeitures. Each RSU award granted from the 2007 plan will reduce the number of shares available for issuance under the 2007 Plan by 2.0 shares.

A summary of RSUs outstanding as of March 31, 2014, and changes during the three months then ended, are as follows:

	Shares (in thousands)	Weighted- Average Grant Date Fair Value Per Share	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2014	714	\$38.97		
Granted	86	\$57.05		
Vested	(46)	\$35.93		
Forfeited or expired	(4)	\$39.47		
Outstanding at March 31, 2014	750	\$41.21	1.44	\$ 49,312
Outstanding and expected to vest at March 31, 2014	704		1.34	\$ 46,280

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The weighted-average grant-date fair value per share of RSUs awarded in the three months ended March 31, 2014 and 2013 was approximately \$57.05 and \$35.68, respectively. The grant-date fair value of RSUs vested in the three months ended March 31, 2014 and 2013, was approximately \$1.6 million and \$0.2 million, respectively.

4. FAIR VALUE MEASUREMENTS:

ASC 820-10, *Fair Value Measurements*, clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, ASC 820-10 establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows: (Level 1) observable inputs such as quoted prices for identical assets in active markets; (Level 2) inputs other than the quoted prices in active markets that are observable either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data, which requires the Company to develop its own assumptions. This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value.

The Company's cash and investment instruments are classified within Level 1 or Level 2 of the fair-value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. The type of instrument valued based on quoted market prices in active markets primarily includes money market securities. This type of instrument is generally classified within Level 1 of the fair-value hierarchy. The types of instruments valued based on other observable inputs (Level 2 of the fair-value hierarchy) include investment-grade corporate bonds and government, state, municipal and provincial obligations. Such types of investments are valued by using a multi-dimensional relational model, the inputs are primarily benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including market research publications. The Company principally holds securities until maturity; however, they may be sold under certain circumstances, including, but not limited to, the funding of acquisitions and other strategic investments. As a result the Company classified its investment portfolio as available-for-sale. The Company's investments classified as Level 1 and Level 2 are available-for-sale investments, and were recorded at fair market value.

The fair-value hierarchy of the Company's marketable securities at March 31, 2014, and December 31, 2013, was as follows (in thousands):

<u>Description</u>	Fair Value Measurement at March 31, 2014		
	March 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Commercial paper	\$ 3,723	\$ —	\$ 3,723
Money market funds	17,516	17,516	—
Corporate securities	133,684	—	133,684
Total	\$ 154,923	\$ 17,516	\$ 137,407

<u>Description</u>	Fair Value Measurement at December 31, 2013		
	December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Commercial paper	\$ 3,099	\$ —	\$ 3,099
Money market funds	17,492	17,492	—
Corporate securities	109,179	—	109,179
Total	\$ 129,770	\$ 17,492	\$ 112,278

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company did not transfer any investments between Level 1 and Level 2 of the fair-value hierarchy in the three months ended March 31, 2014, and the twelve months ended December 31, 2013.

5. INVENTORIES:

Inventories (which consist of costs associated with the purchases of wafers from domestic and offshore foundries and of packaged components from offshore assembly manufacturers, as well as internal labor and overhead associated with the testing of both wafers and packaged components) are stated at the lower of cost (first-in, first-out) or market. Provisions, when required, are made to reduce excess and obsolete inventories to their estimated net realizable values. Inventories consist of the following (in thousands):

	March 31, 2014	December 31, 2013
Raw materials	\$ 11,257	\$ 8,221
Work-in-process	12,207	13,216
Finished goods	24,470	20,798
Total	<u>\$ 47,934</u>	<u>\$ 42,235</u>

6. GOODWILL AND INTANGIBLE ASSETS:

There were no changes in the carrying amount of goodwill during the three months ended March 31, 2014.

Intangible assets consist primarily of developed technology, acquired licenses, customer relationships, trade name, in-process research and development and patent rights, and are reported net of accumulated amortization. The Company amortizes the cost of all intangible assets over the shorter of the estimated useful life or the term of the developed technology, acquired licenses, customer relationships, trade name and patent rights, which range from two to 12 years, with the exception of \$4.7 million of in-process research and development. In-process research and development is assessed for impairment until the development is completed and products are available for sale, at which time the Company will begin to amortize the in-process research and development. The Company does not expect the amortization of in-process research and development to begin in 2014. Amortization for acquired intangible assets was approximately \$1.9 million and \$1.8 million in the three months ended March 31, 2014 and 2013, respectively. The Company does not believe there is any significant residual value associated with the following intangible assets:

	March 31, 2014			December 31, 2013		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
	(in thousands)					
In-process research and development	\$ 4,690	\$ —	\$ 4,690	\$ 4,690	\$ —	\$ 4,690
Technology licenses	3,000	(2,400)	600	3,000	(2,325)	675
Patent rights	1,949	(1,949)	—	1,949	(1,949)	—
Developed technology	26,670	(5,893)	20,777	26,670	(5,247)	21,423
Customer relationships	17,610	(5,349)	12,261	17,610	(4,664)	12,946
Trade name	3,600	(3,450)	150	3,600	(3,000)	600
Total intangible assets	<u>\$ 57,519</u>	<u>\$ (19,041)</u>	<u>\$ 38,478</u>	<u>\$ 57,519</u>	<u>\$ (17,185)</u>	<u>\$ 40,334</u>

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The estimated future amortization expense related to intangible assets at March 31, 2014, is as follows:

<u>Fiscal Year</u>	<u>Estimated Amortization (in thousands)</u>
2014 (remaining 9 months)	\$ 4,216
2015	5,009
2016	4,394
2017	3,994
2018	3,746
Thereafter	12,429
Total (1)	\$ 33,788

- (1) The total above excludes \$4.7 million of in-process research and development that will be amortized upon completion of development over the estimated useful life of the technology.

7. SIGNIFICANT CUSTOMERS AND INTERNATIONAL SALES:

Segment Reporting

The Company is organized and operates as one reportable segment, the design, development, manufacture and marketing of integrated circuits and related components for use primarily in the high-voltage power-conversion market. The Company's chief operating decision maker, the Chief Executive Officer, reviews financial information presented on a consolidated basis for purposes of making operating decisions and assessing financial performance.

Customer Concentration

Ten customers accounted for approximately 59% and 58% of net revenues for the three months ended March 31, 2014 and 2013, respectively. A significant portion of these revenues are attributable to sales of the Company's products to distributors of electronic components. These distributors sell the Company's products to a broad, diverse range of end users, including OEMs and merchant power supply manufacturers.

Customers representing 10% or more of total net revenues are as follows:

<u>Customer</u>	<u>Three Months Ended</u>	
	<u>March 31,</u>	
	<u>2014</u>	<u>2013</u>
A	19%	19%
B	*	10%

* Total customer revenue was less than 10% of net revenues.

Customers A and B are distributors of the Company's products. No other customers accounted for 10% or more of the Company's net revenues in the periods mentioned.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash investments and trade receivables. The Company has cash investment policies that limit cash investments to low-risk investments. With respect to trade receivables, the Company performs ongoing evaluations of its customers' financial conditions and requires letters of credit whenever deemed necessary. Additionally, the Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends related to past write-offs and other relevant information. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

exposure related to its customers. As of March 31, 2014, and December 31, 2013, 67% and 71%, respectively, of accounts receivable were concentrated with the Company's top 10 customers.

The following customers represented 10% or more of accounts receivable:

<u>Customer</u>	<u>March 31, 2014</u>	<u>December 31, 2013</u>
Avnet	27%	21%
ATM Electronic Corporation	11%	17%

Customers A and B are distributors of the Company's products. No other customers accounted for 10% or more of the Company's accounts receivable in these periods.

International Sales

The Company markets its products globally through its sales personnel and a worldwide network of independent sales representatives and distributors. As a percentage of total net revenues, international sales, which consist of domestic and foreign sales to distributors and direct customers outside of the United States of America, comprise the following:

	<u>Three Months Ended March 31,</u>	
	<u>2014</u>	<u>2013</u>
Hong Kong/China	44%	44%
Taiwan	16%	15%
Korea	11%	13%
Western Europe (excluding Germany)	11%	12%
Japan	6%	5%
Singapore	2%	3%
Germany	2%	2%
Other	3%	1%
Total foreign revenue	95%	95%

The remainder of the Company's sales is to customers within the United States of America.

Product Sales

Net revenues consist primarily of sales of the Company's high-voltage integrated-circuit products, IGBT drivers and high-voltage silicon diodes. When evaluating the Company's net revenues, the Company categorizes its sales into the following four major end-market categories; communications, computer, consumer and industrial. The table below provides the percentage of net sales activity by end markets served on a comparative basis for the three months ended March 31, 2014 and 2013:

<u>End Market</u>	<u>Three Months Ended March 31,</u>	
	<u>2014</u>	<u>2013</u>
Communications	18%	22%
Computer	10%	10%
Consumer	37%	36%
Industrial	35%	32%

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. EARNINGS PER SHARE:

Basic earnings per share are calculated by dividing net income by the weighted-average shares of common stock outstanding during the period. Diluted earnings per share are calculated by dividing net income by the weighted-average shares of common stock and dilutive common equivalent shares outstanding during the period. Dilutive common equivalent shares included in this calculation consist of dilutive shares issuable upon the assumed exercise of outstanding common stock options, the assumed vesting of outstanding restricted stock units and both short- and long-term performance-based awards, and the assumed issuance of awards under the stock purchase plan, as computed using the treasury stock method.

A summary of the earnings per share calculation is as follows (in thousands, except per share amounts):

	Three Months Ended	
	March 31,	
	2014	2013
Basic earnings per share:		
Net income	\$ 12,363	\$ 10,903
Weighted-average common shares	30,239	28,754
Basic earnings per share	\$ 0.41	\$ 0.38
Diluted earnings per share (1):		
Net income	\$ 12,363	\$ 10,903
Weighted-average common shares	30,239	28,754
Effect of dilutive securities:		
Employee stock plans	928	1,029
Diluted weighted-average common shares	31,167	29,783
Diluted earnings per share	\$ 0.40	\$ 0.37

- (1) The Company includes the shares underlying performance-based awards in the calculation of diluted earnings per share if the performance conditions have been satisfied as of the end of the reporting period and excludes such shares when the necessary conditions have not been met. The Company has excluded the shares underlying the 2014 and 2013 awards in the 2014 and 2013 calculation, respectively, as those shares were not contingently issuable as of the end of the period.

In the three months ended March 31, 2014, all shares were included in the computation of diluted earnings per share as none were determined to be anti-dilutive, and in 2013, 281,973 shares were not included in the computation of diluted earnings per share for the period then ended because they were determined to be anti-dilutive.

9. PROVISION FOR INCOME TAXES:

The Company accounts for income taxes under the provisions of ASC 740. Under the provisions of ASC 740, deferred tax assets and liabilities are recognized based on the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, utilizing the tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities and projected future taxable income. In the event that the Company determines, based on available evidence and management judgment, that all or part of the net deferred tax assets will not be realized in the future, the Company would record a valuation allowance in the period the determination is made. In addition, the calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. Resolution of these uncertainties in a manner inconsistent with the Company's expectations could have a material impact on its results of operations and financial position.

POWER INTEGRATIONS, INC.**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As of March 31, 2014, the Company continues to maintain a valuation allowance on capital losses for federal purposes, and on its California deferred tax assets as the Company believes that it is not more likely than not that these deferred tax assets will be fully realized. The Company also maintains a valuation allowance with respect to certain of its deferred tax assets relating to tax credits in Canada.

Income tax expense includes a provision for (benefit from) federal, state and foreign taxes based on the annual estimated effective tax rate applicable to the Company and its subsidiaries, adjusted for certain discrete items which are fully recognized in the period they occur. The Company's effective tax rates for the three months ended March 31, 2014 and 2013, were 4.8% and (17.3)% , respectively. The difference between the expected statutory rate of 35% and the Company's effective tax rate for the three months ended March 31, 2014, was primarily due to the beneficial impact of the geographic distribution of the Company's world-wide earnings. The difference between the expected statutory rate of 35% and the Company's effective tax rate for the three months ended March 31, 2013, was primarily due to the beneficial impact of the geographic distribution of the Company's world-wide earnings and passage of the American Tax Relief Act of 2012 signed into law on January 2, 2013. The prior year impact of the 2012 Federal research and development tax credit benefit was recorded in the quarter ended March 31, 2013 due to the signing of the law in 2013. The Federal R&D tax credit has not been extended for 2014 as of the end of the first quarter, therefore no Federal R&D tax benefits have been recognized. If Congress extends the research tax credit there will be a favorable impact on the Company's 2014 effective income tax rate.

The royalty arrangement between the Company and its foreign subsidiary concluded on October 31, 2012, resulting in a substantially lower effective tax rate for the Company in future years. As a result of the royalty arrangement ending and to ensure an additional source of U.S. cash, the Company plans to repatriate a portion of its current year offshore earnings to the U.S. for domestic operations and accordingly has provided for estimated federal and state income taxes on such earnings. For earnings accumulated as of December 31, 2013 and for the remaining portion of the current year earnings, the Company continues to permanently reinvest such amounts in its foreign jurisdictions, except to the extent there is any previously taxed income which is expected to be repatriated. If circumstances change and it becomes apparent that some or all of those undistributed earnings of the Company's offshore subsidiary will be remitted in the foreseeable future but income taxes have not been recognized, the Company will accrue income taxes attributable to that remittance.

Determining the consolidated provision for (benefit from) income tax expense, income tax liabilities and deferred tax assets and liabilities involves judgment. The Company calculates and provides for income taxes in each of the tax jurisdictions in which it operates, which involves estimating current tax exposures as well as making judgments regarding the recoverability of deferred tax assets in each jurisdiction. The estimates used could differ from actual results, which may have a significant impact on operating results in future periods.

In July 2013, the FASB issued a new accounting standard that requires the presentation of certain unrecognized tax benefits as reductions to deferred tax assets rather than as liabilities in the Company's Condensed Consolidated Balance Sheets when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The Company adopted this new standard on a prospective basis in the first quarter of 2014. The impact of the adoption was a reduction to long-term deferred tax assets and non current income tax payable of approximately \$4.3 million .

10. INDEMNIFICATIONS:

The Company sells products to its distributors under contracts, collectively referred to as Distributor Sales Agreements (“DSA”). Each DSA contains the relevant terms of the contractual arrangement with the distributor, and generally includes certain provisions for indemnifying the distributor against losses, expenses, and liabilities from damages that may be awarded against the distributor in the event the Company's products are found to infringe upon a patent, copyright, trademark, or other proprietary right of a third party (“Customer Indemnification”). The DSA generally limits the scope of and remedies for the Customer Indemnification obligations in a variety of industry-standard respects, including, but not limited to, limitations based on time and geography, and a right to replace an infringing product. The Company also, from time to time, has granted a specific indemnification right to individual customers.

The Company believes its internal development processes and other policies and practices limit its exposure related to such indemnifications. In addition, the Company requires its employees to sign a proprietary information and inventions agreement, which assigns the rights to its employees' development work to the Company. To date, the Company has not had to

POWER INTEGRATIONS, INC.**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

reimburse any of its distributors or customers for any losses related to these indemnifications and no material claims were outstanding as of March 31, 2014. For several reasons, including the lack of prior indemnification claims and the lack of a monetary liability limit for certain infringement cases, the Company cannot determine the maximum amount of potential future payments, if any, related to such indemnifications.

11. COMMITMENTS:*Supplier Agreements*

Three of the Company's major suppliers have wafer supply agreements based in U.S. dollars; however, the agreements with two of these foundries, Seiko Epson Corporation, or Epson, and ROHM Lapis Semiconductor Co., Ltd., or Lapis, also allow for mutual sharing of the impact of the exchange rate fluctuation between Japanese yen and the U.S. dollar on future purchases. Each year, the Company's management and these two suppliers review and negotiate future pricing; the negotiated pricing is denominated in U.S. dollars but is subject to contractual exchange rate provisions. The fluctuation in the exchange rate is shared equally between the Company and each of these suppliers on future purchases.

12. LEGAL PROCEEDINGS AND CONTINGENCIES:

From time to time in the ordinary course of business, the Company becomes involved in lawsuits, or customers and distributors may make claims against the Company. In accordance with ASC 450-10, the Company makes a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

On October 20, 2004, the Company filed a complaint against Fairchild Semiconductor International, Inc. and Fairchild Semiconductor Corporation (referred to collectively as "Fairchild") in the United States District Court for the District of Delaware. In its complaint, the Company alleged that Fairchild has and is infringing four of Power Integrations' patents pertaining to PWM integrated circuit devices. Fairchild denied infringement and asked for a declaration from the court that it does not infringe any Power Integrations patent and that the patents are invalid. The Court issued a claim construction order on March 31, 2006 which was favorable to the Company. The Court set a first trial on the issues of infringement, willfulness and damages for October 2, 2006. At the close of the first trial, on October 10, 2006, the jury returned a verdict in favor of the Company finding all asserted claims of all four patents-in-suit to be willfully infringed by Fairchild and awarding \$34.0 million in damages. Fairchild raised defenses contending that the asserted patents are invalid or unenforceable, and the Court held a second trial on these issues beginning on September 17, 2007. On September 21, 2007, the jury returned a verdict in the Company's favor, affirming the validity of the asserted claims of all four patents-in-suit. Fairchild submitted further materials on the issue of enforceability along with various other post-trial motions, and the Company filed post-trial motions seeking a permanent injunction and increased damages and attorneys' fees, among other things. On September 24, 2008, the Court denied Fairchild's motion regarding enforceability and ruled that all four patents are enforceable. On December 12, 2008, the Court ruled on the remaining post-trial motions, including granting a permanent injunction, reducing the damages award to \$6.1 million, granting Fairchild a new trial on the issue of willful infringement in view of an intervening change in the law, and denying the Company's motion for increased damages and attorneys' fees with leave to renew the motion after the resolution of the issue of willful infringement. On December 22, 2008, at Fairchild's request, the Court temporarily stayed the permanent injunction for 90 days. On January 12, 2009, Fairchild filed a notice of appeal challenging the Court's refusal to enter a more permanent stay of the injunction, and Fairchild filed additional motions requesting that both the Federal Circuit and the District Court extend the stay of injunction. The District Court temporarily extended the stay pending the Federal Circuit ruling on Fairchild's pending motion, but the Federal Circuit dismissed Fairchild's appeal and denied its motion on May 5, 2009, and the District Court issued an order on May 13, 2009 confirming the reinstatement of the permanent injunction as originally entered in December 2008. On June 22, 2009, the Court held a brief bench re-trial on the issue of willful infringement. On July 22, 2010, the Court found that Fairchild willfully infringed all four of the asserted patents, and the Court also invited briefing on enhanced damages and attorneys' fees. Fairchild also filed a motion requesting that the Court amend its findings regarding willfulness. On January 18, 2011, the Court denied Fairchild's request to amend the findings regarding Fairchild's willful infringement and doubled the damages award against Fairchild but declined to award attorneys' fees. On February 3, 2011, the Court entered final judgment in favor of the Company for a total damages award of \$12.9 million. Fairchild filed a notice of appeal challenging the final judgment and a number of the underlying rulings, and the Company filed a cross-appeal seeking to increase the damages award. The appeal was argued on January 11, 2012, and the Federal Circuit issued a mixed ruling on March 26, 2013, affirming Fairchild's infringement of certain claims that support the basis for the permanent injunction while reversing, vacating, and remanding

POWER INTEGRATIONS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the findings with respect to other claims, including the Company's claim for damages. The Company filed a petition seeking Supreme Court review of the Federal Circuit's ruling on damages issues, and the Supreme Court called for a response from Fairchild but ultimately declined to review the case. On remand, the Company intends to pursue its claim for financial compensation based on Fairchild's infringement.

On May 9, 2005, the Company filed a Complaint with the U.S. International Trade Commission ("ITC") under section 337 of the Tariff Act of 1930, as amended, 19 U.S.C. section 1337 against System General ("SG"). The Company filed a supplement to the complaint on May 24, 2005. The Company alleged infringement of its patents pertaining to pulse width modulation ("PWM") integrated circuit devices produced by SG, which are used in power conversion applications such as power supplies for computer monitors. The Commission instituted an investigation on June 8, 2005 in response to the Company's complaint. SG filed a response to the ITC complaint asserting that the patents-in-suit were invalid and not infringed. The Company subsequently and voluntarily narrowed the number of patents and claims in suit, which proceeded to a hearing. The hearing on the investigation was held before the Administrative Law Judge ("ALJ") from January 18 to January 24, 2006. Post-hearing briefs were submitted and briefing concluded February 24, 2006. The ALJ's initial determination was issued on May 15, 2006. The ALJ found all remaining asserted claims valid and infringed, and recommended the exclusion of the infringing products as well as certain downstream products that contain the infringing products. After further briefing, on June 30, 2006, the Commission decided not to review the initial determination on liability, but did invite briefs on remedy, bonding and the public interest. On August 11, 2006 the Commission issued an order excluding from entry into the United States the infringing SG PWM chips, and any LCD computer monitors, AC printer adapters and sample/demonstration circuit boards containing an infringing SG chip. The U.S. Customs Service is authorized to enforce the exclusion order. On October 11, 2006, the presidential review period expired without any action from the President, and the ITC exclusion order is now in full effect. SG appealed the ITC decision, and on November 19, 2007, the Federal Circuit affirmed the ITC's findings in all respects. On October 27, 2008, SG filed a petition to modify the exclusion order in view of a recent Federal Circuit opinion in an unrelated case, and the Company responded to oppose any modification, but the Commission modified the exclusion order on February 27, 2009. Nevertheless, the exclusion order still prohibits SG and related entities from importing the infringing SG chips and any LCD computer monitors, AC printer adapters, and sample/demonstration circuit boards containing an infringing SG chip.

On May 23, 2008, the Company filed a complaint against Fairchild Semiconductor International, Inc., Fairchild Semiconductor Corporation, and Fairchild's wholly owned subsidiary System General Corporation in the United States District Court for the District of Delaware. In its complaint, the Company alleged that Fairchild has infringed and is infringing three patents pertaining to power supply controller integrated circuit devices. Fairchild answered the Company's complaint on November 7, 2008, denying infringement and asking for a declaration from the Court that it does not infringe any Power Integrations patent and that the patents are invalid and unenforceable. Fairchild's answer also included counterclaims accusing the Company of infringing three patents pertaining to primary side power conversion integrated circuit devices. Fairchild had earlier brought these same claims in a separate suit against the Company, also in Delaware, which Fairchild dismissed in favor of adding its claims to the Company's already pending suit against Fairchild. The Company has answered Fairchild's counterclaims, denying infringement and asking for a declaration from the Court that it does not infringe any Fairchild patent and that the Fairchild patents are invalid. Fairchild also filed a motion to stay the case, but the Court denied that motion on December 19, 2008. On March 5, 2009, Fairchild filed a motion for summary judgment to preclude any recovery for post-verdict sales of parts found to infringe in the parties' other ongoing litigation, described above, and the Company filed its opposition and a cross-motion to preclude Fairchild from re-litigating the issues of infringement and damages for those same products. On June 26, 2009, the Court held a hearing on the parties' motions, and on July 9, 2009 the Court issued an order denying the parties' motions but staying proceedings with respect to the products that were found to infringe and which are subject to the injunction in the other Delaware case between the parties pending the entry of final judgment in that case; those products are expected to be addressed in the context of the parties' remand proceedings following the appeal in their earlier litigation in Delaware, and the remainder of the case is proceeding. On December 18, 2009, the Court issued an order construing certain terms in the asserted claims of the Company's and Fairchild's patents in suit. Following the Court's ruling on claim construction, Fairchild withdrew its claim related to one of its patents and significantly reduced the number of claims asserted for the remaining two patents. The parties thereafter filed and argued a number of motions for summary judgment, and the Court denied the majority of the parties' motions but granted the Company's motion to preclude Fairchild from re-arguing validity positions that were rejected in the prior case between the parties. Because the assigned Judge retired at the end of July 2010, the case was re-assigned to a different Judge, and the Court vacated the trial schedule and had the parties provide their input on the appropriate course of action. The Court thereafter set a trial schedule

POWER INTEGRATIONS, INC.**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

with the jury trial on infringement and validity to begin in July 2011. On April 18, 2011, the Court rescheduled the trial to begin in January 2012, and on June 2, 2011, the Court moved the trial date to April 2012 to permit the parties to address another patent the Company accused Fairchild of infringing. Following a trial in April 2012, the jury returned a verdict finding that Fairchild infringes two of the Company's patents, that Fairchild has induced others to infringe the Company's patents, and also upheld the validity of the infringed patents. Of the two remaining counterclaim patents Fairchild asserted in the case, one was found not to be infringed, but the jury found the second patent to be infringed by a limited number of the Company's products, although the jury further found the Company did not induce infringement by any customers, including customers outside the United States. On March 29, 2013, the District Court denied most of the parties' post-trial motions on liability but granted the Company's motion for judgment as a matter of law finding that Fairchild infringed another of the Company's patents. On April 25, 2013, the Court denied both parties' motions regarding the unenforceability of each other's patents. The Company intends to challenge adverse findings on appeal; nevertheless, the Company estimates that even if the verdict on Fairchild's patent were ultimately upheld, the sales potentially impacted would amount to only about 0.3% of the Company's revenues. The Company has also requested an injunction preventing further infringement of its own patents by Fairchild, and Fairchild has requested an injunction as well; a hearing on the issue is scheduled for June of this year, with a ruling expected in the months to follow. The Company is also seeking financial damages, as well as enhanced damages for willful infringement, issues to be decided in separate proceedings at a later date.

On June 28, 2004, the Company filed a complaint for patent infringement in the U.S. District Court, Northern District of California, against SG Corporation, a Taiwanese company, and its U.S. subsidiary. The Company's complaint alleged that certain integrated circuits produced by SG infringed and continue to infringe certain of its patents. On June 10, 2005, in response to the initiation of the International Trade Commission (ITC) investigation discussed above, the District Court stayed all proceedings. Subsequent to the completion of the ITC proceedings, the District Court temporarily lifted the stay and scheduled a case management conference. On December 6, 2006, SG filed a notice of appeal of the ITC decision as discussed above. In response, and by agreement of the parties, the District Court vacated the scheduled case management conference and renewed the stay of proceedings pending the outcome of the Federal Circuit appeal of the ITC determination. On November 19, 2007, the Federal Circuit affirmed the ITC's findings in all respects, and SG did not file a petition for review. The parties subsequently filed a motion to dismiss the District Court case without prejudice. On November 4, 2009, the Company re-filed its complaint for patent infringement against SG and its parent corporations, Fairchild Semiconductor International, Inc. and Fairchild Semiconductor Corporation, to address their continued infringement of patents at issue in the original suit that recently emerged from SG requested reexamination proceedings before the U.S. Patent and Trademark Office (USPTO). The Company seeks, among other things, an order enjoining Fairchild and SG from infringing the Company's patents and an award of damages resulting from the alleged infringement. Fairchild has denied infringement and asked for a declaration from the Court that it does not infringe any Power Integrations patent, that the patents are invalid, and that one of the two of the Company's patents now at issue in the case is unenforceable. On May 5, 2010, Fairchild and SG filed an amended answer including counterclaims accusing the Company of infringing two patents, and since that time Fairchild has withdrawn its claim for infringement of one of the patents it originally asserted against the Company but added another patent to the case over the Company's objections; the Company contests these claims vigorously. Both parties filed summary judgment motions and challenges to each other's experts' testimony, and the Court granted the Company's motion for summary judgment of non-infringement with respect to one of Fairchild's two patents. Following a trial on the remaining claims in February 2014, the jury returned a verdict in the Company's favor, affirming the validity of the asserted claims of the Company's patents-in-suit, finding that Fairchild and SG willfully infringed the Company's asserted patents and induced infringement by others, and awarding \$105 million in damages. Although the jury awarded damages, at this stage of the proceedings the Company cannot state the amount, if any, it might ultimately recover from Fairchild, and no benefits have been recorded in the Company's condensed consolidated financial statements as a result of the damages verdict. The Jury also rejected Fairchild's remaining counterclaims for infringement against the Company. Fairchild has indicated that it intends to challenge these rulings and press its unenforceability claim with respect to one of the two patents it was found to infringe, while the Company intends to seek enhanced damages and injunctive relief; these issues are to be briefed in the coming months prior to a hearing scheduled for July 2014.

In February 2010, Fairchild and System General ("SG") filed suits for patent infringement against the Company, Power Integrations Netherlands B.V., and representative offices of Power Integrations Netherlands in Shanghai and Shenzhen with the Suzhou Intermediate Court in the People's Republic of China. The suits assert four Chinese patents and seek an injunction and damages of approximately \$19.0 million. Power Integrations Netherlands filed invalidation proceedings for all four asserted SG patents in the People's Republic of China Patent Reexamination Board (PRB) of the State Intellectual Property Office (SIPO), and all four challenges were accepted by the PRB, with hearings conducted in September 2010. In

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early January 2012, the Company received rulings from the PRB invalidating the majority of the claims Fairchild asserted in litigation, and the PRB determinations are currently on appeal. The Suzhou Court conducted evidentiary hearings in 2012 and issued rulings in late December 2012, finding that the Company did not infringe any of the asserted patents. Fairchild has filed appeals challenging the Suzhou Court's non-infringement rulings, but the Company continues to believe the Fairchild and SG claims are without merit and will continue to contest them vigorously.

On July 11, 2011, the Company filed a complaint in the U.S. District Court, District of Columbia, against David Kappos in his capacity as Director of the United States Patent and Trademark Office ("PTO") as part of the ongoing reexamination proceedings related to one of the patents asserted against Fairchild and SG in the Delaware litigation described above. The Company filed a motion for summary judgment on a preliminary jurisdictional issue, and the PTO filed a cross-motion to dismiss on this same issue; briefing on those motions was completed in October, 2011. On November 18, 2013, the Court granted the PTO's motion and transferred the case to the Federal Circuit, where additional briefing is expected to take place over the next few months.

On May 1, 2012, Fairchild Semiconductor Corporation and Fairchild's wholly-owned subsidiary, System General Corporation (referred to collectively as "Fairchild"), filed a complaint against the Company in the United States District Court for the District of Delaware. In its complaint, Fairchild alleges that the Company has infringed and is infringing four patents pertaining to power conversion integrated circuit devices. The Company has answered Fairchild's complaint, denying infringement and asking for a declaration from the Court that it does not infringe any Fairchild patent and that the Fairchild patents are invalid, and the Company has also asserted counterclaims against Fairchild for infringement of five of the Company's patents. Fairchild has withdrawn its claim for infringement of one of the patents it asserted against the Company after the Company's preliminary challenge; discovery is under way on the remaining patents, with an anticipated trial date in 2015.

On February 5, 2013, Trinity Capital Investment, LLC ("Trinity") filed suit against the Company in California Superior Court. The complaint alleged that SemiSouth Laboratories Inc. had entered into a lease agreement with Trinity, and that the Company guaranteed SemiSouth's obligations under the lease agreement. The complaint further alleged that SemiSouth defaulted on the lease agreement in October 2012, and therefore the Company owed Trinity \$2.4 million under the lease guaranty. On April 19, 2013, the Company answered the complaint, denying the allegations therein. On April 18, 2014, Trinity filed a request to dismiss the action without prejudice.

The Company is unable to predict the outcome of legal proceedings with certainty, and there can be no assurance that Power Integrations will prevail in the above-mentioned unsettled litigations. These litigations, whether or not determined in Power Integrations' favor or settled, will be costly and will divert the efforts and attention of the Company's management and technical personnel from normal business operations, potentially causing a material adverse effect on the business, financial condition and operating results. Currently, the Company is not able to estimate a loss or a range of loss for the ongoing litigation disclosed above, however adverse determinations in litigation could result in monetary losses, the loss of proprietary rights, subject the Company to significant liabilities, require Power Integrations to seek licenses from third parties or prevent the Company from licensing the technology, any of which could have a material adverse effect on the Company's business, financial condition and operating results.

Although the Company files U.S. federal, U.S. state, and foreign tax returns, its major tax jurisdiction is the U.S. In the quarter ended March 31, 2011, the IRS began an audit of fiscal years 2007 through 2009 which is currently in process. Audit outcomes and the timing of audit settlements are subject to significant uncertainty. It is reasonably possible that within the next 12 months the Company will resolve the matters presently under consideration for the 2007-2009 tax years with the IRS.

13. RECENT ACCOUNTING PRONOUNCEMENTS:

Recently Adopted Standard

In July 2013, the FASB issued a new accounting standard that requires the presentation of certain unrecognized tax benefits as reductions to deferred tax assets rather than as liabilities in the Company's Condensed Consolidated Balance Sheets when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The Company adopted this new standard on a prospective basis in the first quarter of 2014. The impact of the adoption was a reduction to long-term deferred tax assets and non current income tax payable of approximately \$4.3 million .

14. BANK LINE OF CREDIT:

On July 5, 2012, the Company entered into a Credit Agreement (the "Credit Agreement") with two banks. The Credit Agreement provides the Company with a \$100.0 million revolving line of credit to use for general corporate purposes with a \$20.0 million sublimit for the issuance of standby and trade letters of credit. The Credit Agreement was amended on April 1, 2014, to extend the Credit Agreement termination date from July 5, 2015 to April 1, 2017, with all other terms of the Credit Agreement remaining the same. The Company's ability to borrow under the revolving line of credit is conditioned upon the Company's compliance with specified covenants, including reporting and financial covenants, primarily a minimum cash

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requirement and a debt to earnings ratio, with which the Company is currently in compliance. All advances under the revolving line of credit will become due on April 1, 2017, or earlier in the event of a default. As of March 31, 2014, the Company had no amount outstanding under the credit agreement.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and the notes to those statements included elsewhere in this Quarterly Report on Form 10-Q, and with the consolidated financial statements and management's discussion and analysis of our financial condition and results of operations in our Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on February 13, 2014. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those contained in these forward-looking statements due to a number of factors, including those discussed in Part II, Item 1A-“Risk Factors” and elsewhere in this report. See also “Cautionary Note Regarding Forward-Looking Statements” at the beginning of this report.

Overview

We design, develop and market analog and mixed-signal integrated circuits (ICs) and other electronic components and circuitry used in high-voltage power conversion. Our products are used in power converters that convert electricity from a high-voltage source (typically 48 volts or higher) to the type of power required for a specified downstream use. In most cases, this conversion entails, among other functions, converting alternating current (AC) to direct current (DC) or vice versa, reducing or increasing the voltage, and regulating the output voltage and/or current according to the customer's specifications.

A large percentage of our products are ICs used in AC-DC power supplies, which convert the high-voltage AC from a wall outlet to the low-voltage DC required by most electronic devices. Power supplies incorporating our products are used with all manner of electronic products including mobile phones, computers, entertainment and networking equipment, appliances, electronic utility meters, industrial controls and LED lights.

Since our May 2012 acquisition of CT-Concept Technologie AG (Concept), we also offer IGBT drivers - circuit boards containing multiple ICs, electrical isolation components and other circuitry - used to operate arrays of high-voltage, high-power transistors known as IGBT modules. These driver/module combinations are used for power conversion in high-power applications (i.e., power levels ranging from tens of kilowatts up to one gigawatt) such as industrial motors, solar- and wind-power systems, electric vehicles and high-voltage DC transmission systems.

Our products bring a number of important benefits to the power-conversion market compared with less advanced alternatives, including reduced component count and design complexity, smaller size, higher reliability and reduced time-to-market. Our products also improve the energy efficiency of power converters, helping our customers meet the increasingly stringent efficiency standards that have been adopted around the world for many electronic products, and improving the efficacy of renewable-energy systems, electric vehicles and other high-power applications.

While the size of the power-supply market fluctuates with changes in macroeconomic conditions, the market has generally exhibited a modest growth rate over time as growth in the unit volumes of power supplies has largely been offset by reductions in the average selling price of components in this market. Therefore, the growth of our business depends primarily on our penetration of the power supply market, and our success in expanding the addressable market by introducing new products that address a wider range of applications. Our growth strategy includes the following elements:

- *Increase the penetration of our ICs in the “low-power” AC-DC power supply market.* The largest proportion of our revenues comes from power-supply applications requiring 50 watts of output or less. We continue to introduce more advanced products that make our IC-based solutions more attractive in this market. We have also increased the size of our sales and field-engineering staff considerably in recent years, and we continue to expand our offerings of technical documentation and design-support tools and services to help customers use our ICs. These tools and services include our PI Expert™ design software, which we offer free of charge, and our transformer-sample service.
- *Increase the penetration of our products in higher-power applications.* We believe we have developed and acquired technologies and products that enable us to bring the benefits of integration to applications requiring more than 50 watts of output. These include such applications as main power supplies for flat-panel TVs,

desktop PCs, game consoles and, by virtue of our acquisition of Concept, IGBT-driver applications such as industrial motors, renewable energy systems and electric vehicles.

- *Capitalize on the growing demand for more energy-efficient electronic products and lighting technologies, and for cleaner energy and transportation technologies.* We believe that energy-efficiency is becoming an increasingly important design criterion for power supplies due largely to the emergence of standards and specifications that encourage, and in some cases mandate, the design of more energy-efficient electronic products. Power supplies incorporating our ICs are generally able to comply with all known efficiency specifications currently in effect.

Additionally, technological advances combined with regulatory and legislative actions are resulting in the adoption of alternative lighting technologies such as light-emitting diodes, or LEDs. We believe this presents a significant opportunity for us because our ICs are used in power-supply, or driver circuitry for high-voltage LED lighting applications. Finally, the growing desire for less carbon-intensive sources of energy and modes of transportation represents an opportunity for us since our CONCEPT IGBT-driver products are used in renewable-energy systems as well as electric trains and automobiles.

Our quarterly operating results are difficult to predict and subject to significant fluctuations. We plan our production and inventory levels based on internal forecasts of projected customer demand, which are highly unpredictable and can fluctuate substantially. Customers typically may cancel or reschedule orders on short notice without significant penalty and, conversely, often place orders with very short lead times to delivery. Also, external factors such as global economic conditions and supply-chain dynamics can cause our operating results to be volatile. Furthermore, because our industry is intensely price-sensitive, our gross margin (gross profit divided by net revenues) is subject to change based on the relative pricing of solutions that compete with ours. Variations in product and customer mix can also cause our gross margin to fluctuate. Because we purchase a large percentage of our silicon wafers from foundries located in Japan, our gross margin is influenced by fluctuations in the exchange rate between the U.S. dollar and the Japanese yen. Changes in the prices of raw materials used in our products, such as copper and gold, can also affect our gross margin. Although our wafer-fabrication and assembly operations are outsourced, as are most of our test operations, a portion of our production costs are fixed in nature. As a result, our unit costs and gross profit margin are impacted by the volume of units we produce.

Recent Results

Our net revenues were \$83.1 million and \$77.0 million in the three months ended March 31, 2014 and 2013, respectively. We experienced year-over-year growth in revenues from three of our primary end-market categories (industrial, consumer and computer), driven by higher unit sales for a wide range of applications including industrial motor drives, renewable-energy systems, appliances, LED lighting and desktop computers. The increase was partially offset by lower sales into the communications end market due primarily to lower unit sales related to mobile-phone chargers. Our top ten customers, including distributors that resell to OEMs and merchant power supply manufacturers, accounted for 59% and 58% of our net revenues in the three months ended March 31, 2014 and 2013, respectively. Our top two customers, both distributors of our products, collectively accounted for approximately 28% and 29% of our net revenues in the three months ended March 31, 2014 and 2013, respectively. International sales accounted for 94% and 95% of our net revenues in the three months ended March 31, 2014 and 2013, respectively.

Our gross profit margin was 55% and 52% of net revenues in the three months ended March 31, 2014 and 2013, respectively. The increase in gross margin for the three months ended March 31, 2014, compared with the same period in the prior year was due to end-market mix, with a greater percentage of revenue coming from sales into higher-margin end markets, lower manufacturing costs stemming from a combination of internal cost-reduction initiatives, unit-cost benefits from higher production volumes, and the decline in the value of the Japanese yen versus the U.S. dollar, which decreased the cost of silicon wafers purchased from our Japanese wafer-fabrication foundries.

Total operating expenses in the three months ended March 31, 2014 and 2013, were \$33.2 million and \$30.8 million, respectively. Expenses were higher in 2014 due primarily to higher research and development expenses, including increased headcount as well as greater engineering-materials and equipment-depreciation expenses, all in support of our product-development efforts. Sales and marketing expenses also increased, due primarily to the expansion of our sales and application-support staffs, which resulted in higher salary and related expenses.

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates, including those listed below. We base our estimates on historical facts and various other assumptions that we believe to be reasonable at the time the estimates are made. Actual results could differ from those estimates.

Our critical accounting policies are as follows:

- revenue recognition;
- stock-based compensation;
- estimating write-downs for excess and obsolete inventory;
- income taxes
- business combinations, and
- goodwill and intangible assets.

Our critical accounting policies are important to the portrayal of our financial condition and results of operations, and require us to make judgments and estimates about matters that are inherently uncertain. A brief description of these critical accounting policies is set forth below. For more information regarding our accounting policies, see Note 2, *Summary of Significant Accounting Policies*, in our Notes to Condensed Consolidated Financial Statements.

Revenue recognition

Product revenues consist of sales to original equipment manufacturers, or OEMs, merchant power supply manufacturers and distributors. Approximately 75% of our net product sales were made to distributors in both the three months ended March 31, 2014, and the twelve months ended December 31, 2013. We apply the provisions of Accounting Standard Codification (“ASC”) 605-10 (“ASC 605-10”) and all related appropriate guidance. Revenue is recognized when all of the following criteria have been met: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred, (3) the price is fixed or determinable, and (4) collectability is reasonably assured. Customer purchase orders are generally used to determine the existence of an arrangement. Delivery is considered to have occurred when title and risk of loss have transferred to our customer. We evaluate whether the price is fixed or determinable based on the payment terms associated with the transaction and whether the sales price is subject to refund or adjustment. With respect to collectability, we perform credit checks for new customers and perform ongoing evaluations of our existing customers' financial condition and require letters of credit whenever deemed necessary.

Sales to international OEMs and merchant power supply manufacturers for shipments from our facility outside of the United States are pursuant to EX Works, or EXW, shipping terms, meaning that title to the product transfers to the customer upon shipment from our foreign warehouse. Sales to international OEM customers and merchant power supply manufacturers that are shipped from our facility in California are pursuant to Delivered at Frontier, or DAF, shipping terms. As such, title to the product passes to the customer when the shipment reaches the destination country and revenue is recognized upon the arrival of the product in that country. Shipments to OEMs and merchant power supply manufacturers in the Americas are pursuant to Free on Board, or FOB, point of origin shipping terms meaning that title is passed to the customer upon shipment. Revenue is recognized upon title transfer for sales to OEMs and merchant power supply manufacturers, assuming all other criteria for revenue recognition are met.

Sales to most distributors are made under terms allowing certain price adjustments and rights of return on our products held by the distributors. As a result of these rights, we defer the recognition of revenue and the costs of revenues derived from sales to distributors until our distributors report that they have sold our products to their customers. Our recognition of such distributor sell-through is based on point of sales reports received from the distributor, at which time the price is no longer subject to adjustment and is fixed, and the products are no longer subject to return to us except pursuant to warranty terms. The gross profit that is deferred upon shipment to the distributor is reflected as “deferred income on sales to distributors” in the accompanying consolidated balance sheets. The total deferred revenue as of March 31, 2014, and December 31, 2013, was approximately \$29.2 million and \$25.5 million, respectively. The total deferred cost as of March 31, 2014, and December 31, 2013, was approximately \$11.3 million and \$9.8 million, respectively.

Frequently, distributors need to sell at a price lower than the standard distribution price to win business. At the time the distributor invoices its customer or soon thereafter, the distributor submits a “ship and debit” price adjustment claim to us to adjust the distributor's cost from the standard price to the pre-approved lower price. After we verify that the claim was pre-approved, a credit memo is issued to the distributor for the ship and debit claim. We maintain a reserve for these unprocessed claims and for estimated future ship and debit price adjustments. The reserve appears as a reduction to accounts receivable in our accompanying consolidated balance sheets. To the extent future ship and debit claims significantly exceed amounts estimated, there could be a material impact on the deferred revenue and deferred margin ultimately recognized. To evaluate the adequacy of our reserves, we analyze historical ship and debit payments and levels of inventory in the distributor channels.

Sales to certain of our distributors are made under terms that do not include rights of return or price concessions after the product is shipped to the distributor. Accordingly, product revenue is recognized upon shipment and title transfer assuming all other revenue recognition criteria are met.

Stock-based compensation

We apply the provisions of ASC 718-10, *Share-Based Payment*. Under the provisions of ASC 718-10, we recognize the fair value of stock-based compensation in financial statements over the requisite service period of the individual grants, which generally equals a four-year vesting period. We use estimates of volatility, expected term, risk-free interest rate, dividend yield and forfeitures in determining the fair value of these awards and the amount of compensation cost to recognize. Changes in these estimates could result in changes to our compensation charges.

Estimating write-downs for excess and obsolete inventory

When evaluating the adequacy of our valuation adjustments for excess and obsolete inventory, we identify excess and obsolete products and also analyze historical usage, forecasted production based on demand forecasts, current economic trends and historical write-offs. This write-down is reflected as a reduction to inventory in the consolidated balance sheets and an increase in cost of revenues. If actual market conditions are less favorable than our assumptions, we may be required to take additional write-downs, which could adversely impact our cost of revenues and operating results.

Income taxes

Income tax expense is an estimate of current income taxes payable or refundable in the current fiscal year based on reported income before income taxes. Deferred income taxes reflect the effect of temporary differences and carry-forwards that are recognized for financial reporting and income tax purposes.

We account for income taxes under the provisions of ASC 740. Under the provisions of ASC 740, deferred tax assets and liabilities are recognized based on the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, utilizing the tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We recognize valuation allowances to reduce any deferred tax assets to the amount that we estimate will more likely than not be realized based on available evidence and management's judgment. We limit the deferred tax assets recognized related to some of our officers' compensation to amounts that we estimate will be deductible in future periods based upon Internal Revenue Code Section 162(m). In the event that we determine, based on available evidence and management judgment, that all or part of the net deferred tax assets will not be realized in the future,

we would record a valuation allowance in the period the determination is made. In addition, the calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. Resolution of these uncertainties in a manner inconsistent with our expectations could have a material impact on our results of operations and financial position.

As of March 31, 2014, we continue to maintain a valuation allowance on our California deferred tax assets as we believe that it is not more likely than not that the deferred tax assets will be fully realized. We also maintain a valuation allowance with respect to some of our deferred tax assets relating primarily to tax credits in Canada and Federal capital losses.

Although we file U.S. federal, U.S. state, and foreign tax returns, our major tax jurisdiction is the U.S. In the quarter ended March 31, 2011, the IRS began an audit of fiscal years 2007 through 2009, and the audit is currently in process. Audit outcomes and the timing of audit settlements are subject to significant uncertainty. It is reasonably possible that within the next 12 months we will resolve the matters presently under consideration for the 2007-2009 tax years with the IRS.

Business combinations

The purchase price of an acquisition is allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition. To the extent the purchase price exceeds the fair value of the net identifiable tangible and intangible assets acquired and liabilities assumed, such excess is allocated to goodwill. We determine the estimated fair values after review and consideration of relevant information, including discounted cash flows, quoted market prices and estimates made by management. We adjust the preliminary purchase price allocation, as necessary, during the measurement period of up to one year after the acquisition closing date as we obtain more information as to facts and circumstances existing at the acquisition date impacting asset valuations and liabilities assumed. Acquisition-related costs are recognized separately from the acquisition and are expensed as incurred.

Goodwill and intangible assets

In accordance with ASC 350-10, *Goodwill and Other Intangible Assets*, we evaluate goodwill for impairment on an annual basis, or as other indicators of impairment emerge. The provisions of ASC 350-10 require that we perform a two-step impairment test. In the first step, we compare the implied fair value of our single reporting unit to its carrying value, including goodwill. If the fair value of our reporting unit exceeds the carrying amount no impairment adjustment is required. If the carrying amount of our reporting unit exceeds the fair value, step two will be completed to measure the amount of goodwill impairment loss, if any exists. If the carrying value of our single reporting unit's goodwill exceeds its implied fair value, then we record an impairment loss equal to the difference, but not in excess of the carrying amount of the goodwill. Under the amendments of ASC 350-10, ASU No. 2011-08, *Testing Goodwill for Impairment*, beginning in 2012 we have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If we elect this option, and after assessing the totality of events or circumstances we determine it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. We have not elected this option to date. We evaluated goodwill for impairment in the fourth quarter 2013, and concluded that no impairment existed as of December 31, 2013. Additionally, no impairment indicators have been identified during the three months ended March 31, 2014.

ASC 350-10 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives, and reviewed for impairment in accordance with ASC 360-10, *Accounting for the Impairment or Disposal of Long-Lived Assets*. We review long-lived assets, such as acquired intangibles, in-process research and development and property and equipment, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We measure recoverability of assets to be held and used by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, we recognize an impairment charge by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Results of Operations

The following table sets forth certain operating data as a percentage of net revenues for the periods indicated.

	Three Months Ended March 31,	
	2014	2013
Net revenues	100.0%	100.0 %
Cost of revenues	44.7	48.3
Gross profit	55.3	51.7
Operating expenses:		
Research and development	16.2	15.9
Sales and marketing	14.6	14.0
General and administrative	9.2	10.0
Total operating expenses	40.0	39.9
Income from operations	15.3	11.8
Other income, net	0.3	0.3
Income before provision for (benefit from) income taxes	15.6	12.1
Provision for (benefit from) income taxes	0.8	(2.1)
Net income	14.8%	14.2 %

Comparison of the Three Months Ended March 31, 2014 and 2013

Net revenues. Net revenues consist of revenues from product sales, which are calculated net of returns and allowances. Net revenues for the three months ended March 31, 2014 and 2013, were \$83.1 million and \$77.0 million, respectively. We experienced year-over-year growth in revenues from three of our primary end-market categories (industrial, consumer and computer), driven by higher unit sales for a wide range of applications including industrial motor drives, renewable-energy systems, appliances, LED lighting and desktop computers. The increase was partially offset by lower sales into the communications end market due primarily to lower unit sales related to mobile-phone chargers.

Our net revenue mix by end market for the three months ended March 31, 2014, compared to the three months ended March 31, 2013, were as follows:

<u>End Market</u>	Three Months Ended March 31,	
	2014	2013
Communications	18%	22%
Computer	10%	10%
Consumer	37%	36%
Industrial	35%	32%

International sales, consisting of sales outside of the United States of America based on “ship to” customer locations, were \$79.1 million and \$73.0 million in the three months ended March 31, 2014 and 2013, respectively. Although power converters using our products are distributed to end markets worldwide, most are manufactured in Asia. As a result, sales to this region represented 79% of our net revenues for the three months ended March 31, 2014, and 80% for the three months ended March 31, 2013. We expect international sales, and sales to the Asia region in particular, to continue to account for a large portion of our net revenues in the future.

Sales to distributors accounted for 75% and 74% of net revenues in the three months ended March 31, 2014 and 2013, respectively, with direct sales to OEMs and power-supply manufacturers accounting for the remainder.

Two customers accounted for 10% or more of total revenues:

<u>Customer</u>	Three Months Ended March 31,	
	2014	2013
A	19%	19%
B	*	10%

* Total customer revenue was less than 10% of net revenues.

Customers A and B are distributors of our products. No other customers accounted for 10% or more of our net revenues in these periods.

Gross profit. Gross profit is net revenues less cost of revenues. Our cost of revenues consists primarily of costs associated with the purchase of wafers from our contracted foundries, the assembly, packaging and testing of our products by sub-contractors, product testing performed in our own facilities, amortization of acquired intangible assets, and overhead associated with the management of our supply chain. Gross margin is gross profit divided by net revenues. The table below compares gross profit and gross margin for the three months ended March 31, 2014 and 2013 (dollars in millions):

	Three Months Ended March 31,	
	2014	2013
Net revenues	\$ 83.1	\$ 77.0
Gross profit	\$ 46.0	\$ 39.9
Gross margin	55.3%	51.7%

The increase in gross margin for the three months ended March 31, 2014, compared with the same period in the prior year was due to end-market mix, with a greater percentage of revenue coming from sales into higher-margin end markets, lower manufacturing costs stemming from a combination of internal cost-reduction initiatives, unit-cost benefits from higher production volumes, and the decline in the value of the Japanese yen versus the U.S. dollar, which decreased the cost of silicon wafers purchased from our Japanese wafer-fabrication foundries.

Research and development expenses. Research and development, or R&D, expenses consist primarily of employee-related expenses including stock-based compensation and expensed material and facility costs associated with the development of new processes and new products. We also record R&D expenses for prototype wafers related to new products until such products are released to production. The table below compares R&D expenses for the three months ended March 31, 2014 and 2013 (dollars in millions):

	Three Months Ended March 31,	
	2014	2013
Net revenues	\$ 83.1	\$ 77.0
R&D expenses	\$ 13.5	\$ 12.3
R&D expenses as a % of net revenue	16.2%	15.9%

R&D expenses increased in the three months ended March 31, 2014, compared to the same period in 2013 reflecting increased payroll and related expenses (stemming from increased headcount) and greater expenses associated with engineering materials and equipment depreciation, all in support of product-development efforts to generate continued growth.

Sales and marketing expenses. Sales and marketing expenses consist primarily of employee-related expenses, including stock-based compensation, commissions to sales representatives, amortization of intangible assets and facilities expenses, including expenses associated with our regional sales and support offices. The table below compares sales and marketing expenses for the three months ended March 31, 2014 and 2013 (dollars in millions):

	Three Months Ended March 31,	
	2014	2013
Net revenues	\$ 83.1	\$ 77.0
Sales and marketing expenses	\$ 12.1	\$ 10.8
Sales and marketing expenses as a % of net revenue	14.6%	14.0%

Sales and marketing expenses increased in the three months ended March 31, 2014, compared to the same period in 2013 due primarily to increased salary and related expenses reflecting the expansion of our sales and application-support staffs, as well as increased commissions and bonus payments to our sales staff.

General and administrative expenses. General and administrative, or G&A, expenses consist primarily of employee-related expenses, including stock-based compensation expenses, for administration, finance, human resources and general management, as well as consulting, professional services, legal and audit expenses. The table below compares G&A expenses for the three months ended March 31, 2014 and 2013 (dollars in millions):

	Three Months Ended March 31,	
	2014	2013
Net revenues	\$ 83.1	\$ 77.0
G&A expenses	\$ 7.6	\$ 7.7
G&A expenses as a % of net revenue	9.2%	10.0%

G&A expenses decreased in the three months ended March 31, 2014, compared to the same period in 2013 due primarily to lower legal expenses related to our ongoing patent litigation (refer to Note 12, *Legal Proceedings and Contingencies*, in our Notes to Condensed Consolidated Financial Statements for details). This decrease was partially offset by increased payroll taxes associated with stock-option exercises and the vesting of stock grants.

Other income, net. Other income, net consists primarily of interest income earned on cash and cash equivalents, marketable securities and other investments, and foreign exchange gains or losses. The table below compares other income, net for the three months ended March 31, 2014 and 2013 (dollars in millions):

	Three Months Ended March 31,	
	2014	2013
Net revenues	\$ 83.1	\$ 77.0
Other income	\$ 0.3	\$ 0.2
Other income as a % of net revenue	0.3%	0.3%

Other income, net increased in the three months ended March 31, 2014, compared to the same period in 2013. The increase was due primarily to increased interest income as a result of higher cash and investment balances in 2014 compared to the first quarter of 2013.

Provision for (benefit from) income taxes. Provision for (benefit from) income taxes represents federal, state and foreign taxes. The table below compares income tax expenses (benefits) for the three months ended March 31, 2014 and 2013 (dollars in millions):

	Three Months Ended March 31,	
	2014	2013
Income before provision for (benefit from) income taxes	\$ 12,988	\$ 9.3
Provision for (benefit from) income taxes	\$ 0.6	\$ (1.6)
Effective tax rate	4.8%	(17.3)%

The difference between the expected statutory rate of 35% and our effective tax rate for the three months ended March 31, 2014, was primarily due to the beneficial impact of the geographic distribution of our world-wide earnings. The difference between the expected statutory rate of 35% and our effective tax rate for the three months ended March 31, 2013, was primarily due to the beneficial impact of the geographic distribution of our world-wide earnings, plus the effects of the American Tax Relief Act of 2012, which resulted in the 2012 federal research-and-development tax credit being recorded in the quarter ended March 31, 2013. The Federal R&D tax credit has not been extended for 2014 as of the end of the first quarter, therefore no Federal R&D tax benefits have been recognized. If Congress extends the research tax credit there will be a favorable impact on our 2014 effective income tax rate.

Liquidity and Capital Resources

As of March 31, 2014, we had \$217.6 million in cash, cash equivalents and short-term marketable securities, an increase of approximately \$15.5 million from \$202.1 million as of December 31, 2013. As of March 31, 2014, we had working capital, defined as current assets less current liabilities, of \$246.8 million, an increase of approximately \$19.8 million from \$227.0 million as of December 31, 2013.

On July 5, 2012, we entered into a credit agreement (the "Credit Agreement") with two banks. The Credit Agreement provides us with a \$100.0 million revolving line of credit to use for general corporate purposes with a \$20.0 million sub-limit for the issuance of standby and trade letters of credit. The Credit Agreement was amended on April 1, 2014, to extend the Credit Agreement termination date from July 5, 2015 to April 1, 2017, with all other terms of the Credit Agreement remaining the same. Our ability to borrow under the revolving line of credit is conditioned upon our compliance with specified covenants, primarily a minimum cash requirement and a debt-to-earnings ratio, with which we are currently in compliance. The Credit Agreement terminates on April 1, 2017; and all advances under the revolving line of credit will become due on such date, or earlier in the event of a default. As of March 31, 2014, we had no amounts outstanding under our agreement.

Operating activities generated cash of \$16.2 million in the three months ended March 31, 2014. Net income for this period was \$12.4 million; we also incurred non-cash depreciation, amortization and stock-based compensation expenses of \$4.0 million, \$1.9 million and \$3.9 million, respectively. Significant changes in assets and liabilities included: (1) a \$3.9 million decrease in deferred income taxes due primarily to the adoption of a new accounting standard, ASU 2013-11, (see Note 13, *Recent Accounting Pronouncements*, for details); and (2) a \$2.1 million increase in deferred income on sales to distributors, due to increased inventory levels at our distributors reflecting lower-than-expected sales in the first quarter. These sources of cash and non-cash items were partially offset by: (1) a \$5.7 million increase in inventory, reflecting both lower-than-expected sales in the first quarter as well as anticipated growth in future quarters; (2) a \$5.6 million decrease in taxes payable and accrued liabilities related primarily to the above-mentioned adoption of ASU 2013-11, and a decrease in employee-related liabilities; and (3) a \$4.0 million increase in accounts receivable due to the timing of cash receipts in March 2014 compared to December 2013.

Operating activities generated cash of \$21.6 million in the three months ended March 31, 2013. Net income for this period was \$10.9 million; we also incurred non-cash depreciation, amortization and stock-based compensation expenses of \$4.0 million, \$1.8 million and \$3.6 million, respectively. Additional sources of cash included: (1) a \$3.9 million decrease in prepaid expenses resulting primarily from a decrease in prepaid taxes related to a tax refund; (2) a \$2.8 million increase in accounts payable due to the timing of payments for inventory, partially offset by a payment to one of our foundries in the first quarter of 2013 of approximately \$1.0 million, for product development, which was accrued as of December 31, 2012; and (3) a \$2.9 million increase in deferred income on sales to distributors due to increased inventory levels at our distributors as of March 31, 2013, compared to December 31, 2012. These additional sources of cash and non-cash items were partially offset by: (1) a \$7.4 million increase in accounts receivable due to higher customer shipments in March 2013 versus December 2012; and (2) a \$3.2 million increase in deferred taxes due to the retroactive application of the American Tax Relief Act of 2012, which was signed into law on January 2, 2013, (refer to Note 9, *Provision for Income Taxes*, in our Notes to Condensed Consolidated Financial Statements, for details) and a net change in other deferred taxes.

Our investing activities in the three months ended March 31, 2014, resulted in a \$29.2 million net use of cash, consisting primarily of: \$4.5 million for purchases of property and equipment, primarily machinery and equipment for production and research and development; and \$24.8 million for the purchase of marketable securities. Our investing activities in the three months ended March 31, 2013, resulted in a \$21.9 million net use of cash, consisting of: \$4.0 million for purchases of property and equipment; and \$17.9 million, net, for purchases of marketable securities.

Our financing activities in the three months ended March 31, 2014, resulted in net cash proceeds of \$4.0 million. Financing activities consisted primarily of proceeds of \$7.0 million from the issuance of common stock, including the exercise of employee stock options and the issuance of shares through our employee stock purchase plan, partially offset by \$3.0 million for the payment of dividends to stockholders. Our financing activities in the three months ended March 31, 2013, resulted in net cash proceeds of \$6.4 million consisting primarily of proceeds of \$8.7 million from the issuance of common stock, including the exercise of employee stock options and the issuance of shares through our employee stock purchase plan, partially offset by \$2.3 million for the payment of dividends to stockholders.

In January 2013, our board of directors declared four quarterly cash dividends in the amount of \$0.08 per share to be paid to stockholders of record at the end of each quarter in 2013. The quarterly dividends, of approximately \$2.3 million each, were paid on March 29, 2013 and June 28, 2013, and approximately \$2.4 million was paid on each of September 30, 2013 and December 31, 2013.

In October 2013, our board of directors declared four quarterly cash dividends in the amount of \$0.10 per share to be paid to stockholders of record at the end of each quarter in 2014. In April 2014, our board of directors declared that the payouts for the third and fourth quarters of 2014 shall be increased to \$0.12 per share. The first quarterly dividend payout of approximately \$3.0 million occurred on March 31, 2014, the next payout of \$0.10 per share is scheduled to take place on June 30, 2014. The declaration of any future cash dividend is at the discretion of the board of directors and will depend on our financial condition, results of operations, capital requirements, business conditions and other factors, as well as a determination that cash dividends are in the best interests of our stockholders.

In October 2012, our board of directors authorized the use of \$50.0 million for the repurchase of our common stock, with repurchases to be executed according to pre-defined price/volume guidelines set by the board. As of March 31, 2014, we had \$29.5 million available for future stock repurchases. We did not purchase shares during the three months ended March 31, 2014, as the price of the Company's common stock remained above the maximum level set forth in the guidelines mentioned above. Authorization of future stock repurchase programs is at the discretion of the board of directors and will depend on our financial condition, results of operations, capital requirements, business conditions and other factors.

As of March 31, 2014, we had a contractual obligation related to income tax, which consisted primarily of unrecognized tax benefits of approximately \$12.8 million. A portion of the tax obligation was classified as long-term income taxes payable and a portion is recorded in deferred tax assets in our condensed consolidated balance sheet. The settlement period for our income tax liabilities cannot be determined; however, they are not expected to be due within the next year.

There were no other material changes, other than stated in the liquidity section above, outside of the ordinary course of business in our contractual commitments reported in our Annual Report on Form 10-K for the year ended December 31, 2013.

Our cash, cash equivalents and investment balances may change in future periods due to changes in our planned cash outlays, including changes in incremental costs such as direct and integration costs related to future acquisitions, and the results of our 2007 - 2009 IRS audit. We expect continued sales growth in our foreign business and plan to use the earnings generated by our foreign subsidiaries to continue to fund both the working capital and growth needs of our foreign entities, along with providing funding for any future foreign acquisitions. We do not provide for U.S. taxes on our undistributed earnings of foreign subsidiaries that we intend to invest indefinitely outside the U.S., unless such taxes are otherwise required under U.S. tax law. In 2013, we determined that a portion of our current year earnings of foreign subsidiaries may be remitted in the future to the U.S. for domestic cash flow purposes and, accordingly, provided for the related U.S. taxes in our consolidated financial statements. Currently the majority of our cash and marketable securities are held in the U.S. If we change our intent to invest our undistributed earnings outside the U.S. indefinitely or if a greater amount of undistributed earnings are needed for U.S. operations than previously anticipated and for which U.S. taxes have not been recorded, we would be required to accrue or pay U.S. taxes (subject to an adjustment for foreign tax credits, where applicable) and withholding taxes payable to various foreign countries on some or all of these undistributed earnings. As of December 31, 2013, we had undistributed earnings of foreign subsidiaries that are indefinitely invested outside of the U.S. of approximately \$105.0 million.

If our operating results deteriorate during the remainder of 2014, either as a result of a decrease in customer demand, or severe pricing pressures from our customers or our competitors, or for other reasons, our ability to generate positive cash flow from operations may be jeopardized. In that case, we may be forced to use our cash, cash equivalents and short-term investments, use our credit agreement or seek additional financing from third parties to fund our operations. We believe that

cash generated from operations, together with existing sources of liquidity, will satisfy our projected working capital and other cash requirements for at least the next 12 months.

Off-Balance Sheet Arrangements

As of March 31, 2014 , we did not have any off-balance sheet arrangements or relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which are typically established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Recent Accounting Pronouncements

In July 2013, the FASB issued a new accounting standard that requires the presentation of certain unrecognized tax benefits as reductions to deferred tax assets rather than as liabilities in our Condensed Consolidated Balance Sheets when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. We adopted this standard in the first quarter of 2014; the impact of the adoption was a reduction to long-term deferred tax assets and non current income tax payable of approximately \$4.3 million .

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has not been a material change in our exposure to foreign currency exchange and interest rate risks from that described in our 2013 Annual Report on Form 10-K.

Interest Rate Risk. Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. We consider cash invested in highly liquid financial instruments with a remaining maturity of three months or less at the date of purchase to be cash equivalents. Investments in highly liquid financial instruments with maturities greater than three months at the date of purchase are classified as short-term investments. We generally hold securities until maturity; however, they may be sold under certain circumstances, including, but not limited to, when necessary for the funding of acquisitions and other strategic investments, and therefore we classify our investment portfolio as available-for-sale. We invest in high-credit quality issuers and, by policy, limit the amount of credit exposure to any one issuer. As stated in our policy, we seek to ensure the safety and preservation of our invested principal funds by limiting default risk, market risk and reinvestment risk. We mitigate default risk by investing in safe and high-credit quality securities and by constantly positioning our portfolio to respond appropriately to a significant reduction in a credit rating of any investment issuer, guarantor or depository. Our portfolio includes only marketable securities with active secondary or resale markets to facilitate portfolio liquidity. At March 31, 2014, and December 31, 2013, we held primarily cash equivalents and short-term investments with fixed interest rates.

Our investment securities are subject to market interest rate risk and will vary in value as market interest rates fluctuate. We monitor our investments per our above-mentioned investment policy; therefore, if market interest rates were to increase or decrease by 10% from interest rates as of March 31, 2014, or December 31, 2013, the increase or decrease in the fair market value of our portfolio on these dates would not have been material. We monitor our investments for impairment on a periodic basis. Refer to Note 2, *Summary of Significant Accounting Policies*, for a tabular presentation of our available-for-sale investments and the expected maturity dates.

Foreign Currency Exchange Risk. As of March 31, 2014, our primary transactional currency was U.S. dollars; in addition, we hold cash in Swiss francs and Euro. We maintain cash denominated in Swiss francs and Euro to fund the operations of our Swiss subsidiary. Cash balances held in foreign countries are subject to local banking laws and may bear higher or lower risk than cash deposited in the United States. The foreign exchange rate fluctuation between the U.S. dollar versus the Swiss franc and Euro is recorded in other income in our condensed consolidated statements of income.

We have sales offices in various other foreign countries in which our expenses are denominated in the local currency, primary Asia and Western Europe. From time to time we may enter into foreign currency hedging contracts to hedge certain foreign currency transactions. As of March 31, 2014, and December 31, 2013, we did not have an open foreign currency hedge program utilizing foreign currency forward exchange contracts.

Two of our major suppliers, Seiko Epson Corporation, or Epson, and ROHM Lapis Semiconductor Co., Ltd., or Lapis, have wafer supply agreements based in U.S. dollars; however, our agreements with Epson and Lapis also allow for mutual sharing of the impact of the exchange rate fluctuation between Japanese yen and the U.S. dollar on future purchases. Each year, our management and these two suppliers review and negotiate future pricing; the negotiated pricing is denominated in U.S. dollars but is subject to contractual exchange rate provisions. The fluctuation in the exchange rate is shared equally between us and each of these suppliers on future purchases.

Nevertheless, as a result of our above-mentioned supplier agreements, our gross margin is influenced by fluctuations in the exchange rate between the U.S. dollar and the Japanese yen. All else being equal, a 10% change in the value of the U.S. dollar compared to the Japanese yen would result in a corresponding change in our gross margin of approximately 0.8% to 1.0%; this sensitivity may increase or decrease depending on the percentage of our wafer supply that we purchase from some of our Japanese suppliers and could subject our gross profit and operating results to the potential for material fluctuations.

ITEM 4. CONTROLS AND PROCEDURES

Limitation on Effectiveness of Controls

Any control system, no matter how well designed and operated, can provide only reasonable assurance as to the tested objectives. The design of any control system is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions,

regardless of how remote. The inherent limitations in any control system include the realities that judgments related to decision-making can be faulty, and that reduced effectiveness in controls can occur because of simple errors or mistakes. Due to the inherent limitations in a cost-effective control system, misstatements due to error may occur and may not be detected.

Evaluation of Disclosure Controls and Procedures

Management is required to evaluate our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”). Disclosure controls and procedures are controls and other procedures designed to provide reasonable assurance that information required to be disclosed in our reports filed under the Exchange Act, such as this Quarterly Report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include controls and procedures designed to provide reasonable assurance that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer as appropriate to allow timely decisions regarding required disclosure. Based on our management's evaluation (with the participation of our principal executive officer and principal financial officer), our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2014, which were identified in connection with management's evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information with respect to this item may be found in Note 12, *Legal Proceedings and Contingencies*, in our Notes to Condensed Consolidated Financial Statements included in Part I, Item 1, of this Quarterly Report on Form 10-Q, which information is incorporated herein by reference.

ITEM 1A. RISK FACTORS

In addition to the other information in this report, the following factors should be considered carefully in evaluating our business before purchasing shares of our stock. The risks facing our business have not changed substantively from those discussed in our Annual Report on Form 10-K for the year ended December 31, 2013.

Our quarterly operating results are volatile and difficult to predict. If we fail to meet the expectations of public market analysts or investors, the market price of our common stock may decrease significantly. Our net revenues and operating results have varied significantly in the past, are difficult to forecast, are subject to numerous factors both within and outside of our control, and may fluctuate significantly in the future. As a result, our quarterly operating results could fall below the expectations of public market analysts or investors. If that occurs, the price of our stock may decline.

Some of the factors that could affect our operating results include the following:

- the demand for our products declining in the major end markets we serve, which may occur due to competitive factors, supply-chain fluctuations or changes in macroeconomic conditions;
- our products are sold through distributors, which limits our direct interaction with our end customers, which reduces our ability to forecast sales and increases the complexity of our business;
- competitive pressures on selling prices;
- the inability to adequately protect or enforce our intellectual property rights;

- expenses we are required to incur (or choose to incur) in connection with our intellectual property litigations;
- reliance on international sales activities for a substantial portion of our net revenues;
- fluctuations in exchange rates, particularly the exchange rate between the U.S. dollar and the Japanese yen, the Euro and the Swiss franc;
- the volume and timing of delivery of orders placed by us with our wafer foundries and assembly subcontractors, and their ability to procure materials;
- our ability to develop and bring to market new products and technologies on a timely basis;
- earthquakes, terrorists acts or other disasters;
- continued impact of changes in securities laws and regulations, including potential risks resulting from our evaluation of internal controls under the Sarbanes-Oxley Act of 2002;
- the lengthy timing of our sales cycle;
- undetected defects and failures in meeting the exact specifications required by our products;
- the ability of our products to penetrate additional markets;
- the volume and timing of orders received from customers;
- an audit by the Internal Revenue Service, for fiscal years 2007 - 2009;
- our ability to attract and retain qualified personnel;
- risks associated with acquisitions and strategic investments;
- our ability to successfully integrate, or realize the expected benefits from, our acquisitions;
- changes in environmental laws and regulations, including with respect to energy consumption and climate change; and
- interruptions in our information technology systems.

If demand for our products declines in our major end markets, our net revenues will decrease. A limited number of applications of our products, such as cellphone chargers, LED lights, desktop PCs and home appliances make up a significant percentage of our net revenues. We expect that a significant level of our net revenues and operating results will continue to be dependent upon these applications in the near term. The demand for these products has been highly cyclical and has been impacted by economic downturns in the past. Any economic slowdown in the end markets that we serve could cause a slowdown in demand for our ICs. When our customers are not successful in maintaining high levels of demand for their products, their demand for our ICs decreases, which adversely affects our operating results. Any significant downturn in demand in these markets would cause our net revenues to decline and could cause the price of our stock to fall.

Our products are sold through distributors, which limits our direct interaction with our end customers, therefore reducing our ability to forecast sales and increasing the complexity of our business. Sales to distributors accounted for 75% of net revenues in the three months ended March 31, 2014, and in the twelve months ended December 31, 2013. Selling through distributors reduces our ability to forecast sales and increases the complexity of our business, requiring us to:

- manage a more complex supply chain;
- monitor the level of inventory of our products at each distributor and
- monitor the financial condition and credit-worthiness of our distributors, many of which are located outside of the United States and not publicly traded.

Since we have limited ability to forecast inventory levels at our end customers, it is possible that there may be significant build-up of inventories in the distributor channel, with the OEM or the OEM's contract manufacturer. Such a buildup could result in a slowdown in orders, requests for returns from customers, or requests to move out planned shipments. This could adversely impact our revenues and profits. Any failure to manage these complexities could disrupt or reduce sales of our products and unfavorably impact our financial results.

Intense competition in the high-voltage power supply industry may lead to a decrease in our average selling price and reduced sales volume of our products. The high-voltage power supply industry is intensely competitive and characterized by significant price sensitivity. Our products face competition from alternative technologies, such as linear transformers, discrete switcher power supplies, and other integrated and hybrid solutions. If the price of competing solutions decreases significantly, the cost effectiveness of our products will be adversely affected. If power requirements for applications in which our products are currently utilized go outside the cost-effective range of our products, some of these alternative technologies can be used more cost effectively. In addition, as our patents expire, our competitors could legally begin using the technology covered by the expired patents in their products, potentially increasing the performance of their products and/or decreasing the cost of their products, which may enable our competitors to compete more effectively. Our current patents may or may not inhibit our competitors from getting any benefit from an expired patent. Our U.S. patents have expiration dates ranging from 2014 to 2031. We cannot assure that our products will continue to compete favorably or that we will be successful in the face of increasing competition from new products and enhancements introduced by existing competitors or new companies entering this market. We believe our failure to compete successfully in the high-voltage power supply business, including our ability to introduce new products with higher average selling prices, would materially harm our operating results.

If we are unable to adequately protect or enforce our intellectual property rights, we could lose market share, incur costly litigation expenses, suffer incremental price erosion or lose valuable assets, any of which could harm our operations and negatively impact our profitability. Our success depends upon our ability to continue our technological innovation and protect our intellectual property, including patents, trade secrets, copyrights and know-how. We are currently engaged in litigation to enforce our intellectual property rights, and associated expenses have been, and are expected to remain, material and have adversely affected our operating results. We cannot assure that the steps we have taken to protect our intellectual property will be adequate to prevent misappropriation, or that others will not develop competitive technologies or products. From time to time, we have received, and we may receive in the future, communications alleging possible infringement of patents or other intellectual property rights of others. Costly litigation may be necessary to enforce our intellectual property rights or to defend us against claimed infringement. The failure to obtain necessary licenses and other rights, and/or litigation arising out of infringement claims could cause us to lose market share and harm our business.

As our patents expire, we will lose intellectual property protection previously afforded by those patents. Additionally, the laws of some foreign countries in which our technology is or may in the future be licensed may not protect our intellectual property rights to the same extent as the laws of the United States, thus limiting the protections applicable to our technology.

If we do not prevail in our litigation, we will have expended significant financial resources, potentially without any benefit, and may also suffer the loss of rights to use some technologies. We are currently involved in a number of patent litigation matters and the outcome of the litigation is uncertain. See Note 12, *Legal Proceedings and Contingencies*, in our Notes to Consolidated Financial Statements. For example, in one of our patent suits the infringing company has been found to infringe four of our patents. Despite the favorable court finding, the infringing party filed an appeal to the damages awarded. In another matter, we are being sued for patent infringement in China, even though we have received an initial judgment in our favor, this case is still under the appeals process, and in China the outcome of litigation can be more uncertain than in the United States. Should we ultimately be determined to be infringing another party's patents, or if an injunction is issued against us while litigation is pending on those claims, such result could have an adverse impact on our ability to sell products found to be infringing, either directly or indirectly. In the event of an adverse outcome, we may be required to pay substantial damages, stop our manufacture, use, sale, or importation of infringing products, or obtain licenses to the intellectual property we are found to have infringed. We have also incurred, and expect to continue to incur, significant legal costs in conducting these lawsuits, including the appeal of the case we won, and our involvement in this litigation and any future intellectual property litigation could adversely affect sales and divert the efforts and attention of our technical and management personnel, whether or not such litigation is resolved in our favor. Thus, even if we are successful in these lawsuits, the benefits of this success may fail to outweigh the significant legal costs we will have incurred.

Our international sales activities account for a substantial portion of our net revenues, which subjects us to substantial risks. Sales to customers outside of the United States of America account for, and have accounted for a large portion of our net revenues, including approximately 95% of our net revenues for the three months ended March 31, 2014, and for the year ended December 31, 2013. If our international sales declined and we were unable to increase domestic sales, our revenues would decline and our operating results would be harmed. International sales involve a number of risks to us, including:

- potential insolvency of international distributors and representatives;
- reduced protection for intellectual property rights in some countries;
- the impact of recessionary environments in economies outside the United States;
- tariffs and other trade barriers and restrictions;
- the burdens of complying with a variety of foreign and applicable U.S. Federal and state laws; and
- foreign-currency exchange risk.

Our failure to adequately address these risks could reduce our international sales and materially and adversely affect our operating results. Furthermore, because substantially all of our foreign sales are denominated in U.S. dollars, increases in the value of the dollar cause the price of our products in foreign markets to rise, making our products more expensive relative to competing products priced in local currencies.

Fluctuations in exchange rates, particularly the exchange rate between the U.S. dollar and the Japanese yen, Swiss franc and Euro, may impact our gross margin and net income. Our exchange rate risk related to the Japanese yen includes two of our major suppliers, Epson and Lapis, with which we have wafer supply agreements based in U.S. dollars; however, these agreements also allow for mutual sharing of the impact of the exchange rate fluctuation between Japanese yen and the U.S. dollar. Each year, our management and these suppliers review and negotiate pricing; the negotiated pricing is denominated in U.S. dollars but is subject to contractual exchange rate provisions. The fluctuation in the exchange rate is shared equally between Power Integrations and each of these suppliers. We completed the acquisition of Concept (located in Biel, Switzerland) in the second quarter of 2012. Included in the assets acquired was cash denominated in Swiss francs and euros, which will be used to fund the operations of our Swiss subsidiary. The functional currency of our Swiss subsidiary is the U.S. dollar; gains and losses arising from the re-measurement of non-functional currency balances are recorded in other income in our consolidated statements of income, and material unfavorable exchange-rate fluctuations with the Swiss franc could negatively impact our net income.

We depend on third-party suppliers to provide us with wafers for our products and if they fail to provide us sufficient quantities of wafers, our business may suffer. We have supply arrangements for the production of wafers with Lapis, Renesas, X-FAB and Epson. Our contracts with these suppliers expire in April 2018, December 2014, December 2020 and December 2020, respectively. Although some aspects of our relationships with Lapis, Renesas, X-FAB and Epson are contractual, many important aspects of these relationships depend on their continued cooperation. We cannot assure that we will continue to work successfully with Lapis, Renesas, X-FAB and Epson in the future, and that the wafer foundries' capacity will meet our needs. Additionally, one or more of these wafer foundries could seek an early termination of our wafer supply agreements. Any serious disruption in the supply of wafers from Lapis, Renesas, X-FAB or Epson could harm our business. We estimate that it would take 12 to 24 months from the time we identified an alternate manufacturing source to produce wafers with acceptable manufacturing yields in sufficient quantities to meet our needs.

Although we provide our foundries with rolling forecasts of our production requirements, their ability to provide wafers to us is ultimately limited by the available capacity of the wafer foundry. Any reduction in wafer foundry capacity available to us could require us to pay amounts in excess of contracted or anticipated amounts for wafer deliveries or require us to make other concessions to meet our customers' requirements, or may limit our ability to meet demand for our products. Further, to the extent demand for our products exceeds wafer foundry capacity, this could inhibit us from expanding our business and harm relationships with our customers. Any of these concessions or limitations could harm our business.

If our third-party suppliers and independent subcontractors do not produce our wafers and assemble our finished products at acceptable yields, our net revenues may decline. We depend on independent foundries to produce wafers, and independent subcontractors to assemble and test finished products, at acceptable yields and to deliver them to us in a timely manner. The failure of the foundries to supply us wafers at acceptable yields could prevent us from selling our products to our customers and would likely cause a decline in our net revenues and gross margin. In addition, our IC assembly process requires our manufacturers to use a high-voltage molding compound that has been available from only a few suppliers. These compounds and their specified processing conditions require a more exacting level of process control than normally required for standard IC packages. Unavailability of assembly materials or problems with the assembly process can materially and adversely affect yields, timely delivery and cost to manufacture. We may not be able to maintain acceptable yields in the future.

In addition, if prices for commodities used in our products increase significantly, raw material costs would increase for our suppliers which could result in an increase in the prices our suppliers charge us. To the extent we are not able to pass these costs on to our customers; this would have an adverse effect on our gross margins.

If our efforts to enhance existing products and introduce new products are not successful, we may not be able to generate demand for our products . Our success depends in significant part upon our ability to develop new ICs for high-voltage power conversion for existing and new markets, to introduce these products in a timely manner and to have these products selected for design into products of leading manufacturers. New product introduction schedules are subject to the risks and uncertainties that typically accompany development and delivery of complex technologies to the market place, including product development delays and defects. If we fail to develop and sell new products in a timely manner then our net revenues could decline.

In addition, we cannot be sure that we will be able to adjust to changing market demands as quickly and cost-effectively as necessary to compete successfully. Furthermore, we cannot assure that we will be able to introduce new products in a timely and cost-effective manner or in sufficient quantities to meet customer demand or that these products will achieve market acceptance. Our failure, or our customers' failure, to develop and introduce new products successfully and in a timely manner would harm our business. In addition, customers may defer or return orders for existing products in response to the introduction of new products. When a potential liability exists we will maintain reserves for customer returns, however we cannot assure that these reserves will be adequate.

In the event of an earthquake, terrorist act or other disaster, our operations may be interrupted and our business would be harmed. Our principal executive offices and operating facilities are situated near San Francisco, California, and most of our major suppliers, which are wafer foundries and assembly houses, are located in areas that have been subject to severe earthquakes, such as Japan. Many of our suppliers are also susceptible to other disasters such as tropical storms, typhoons or tsunamis. In the event of a disaster, such as the earthquake and tsunami in Japan, we or one or more of our major suppliers may be temporarily unable to continue operations and may suffer significant property damage. Any interruption in our ability or that of our major suppliers to continue operations could delay the development and shipment of our products and have a substantial negative impact on our financial results.

Securities laws and regulations, including potential risk resulting from our evaluation of internal controls under the Sarbanes-Oxley Act of 2002, will continue to impact our results . Complying with the requirements of the Sarbanes-Oxley Act of 2002 and NASDAQ's conditions for continued listing have imposed significant legal and financial compliance costs, and are expected to continue to impose significant costs and management burden on us. These rules and regulations also may make it more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These rules and regulations could also make it more difficult for us to attract and retain qualified executive officers and members of our board of directors, particularly qualified members to serve on our audit committee. Further, the rules and regulations under the Dodd-Frank Wall Street Reform and Consumer Protection Act, which became effective in 2011, may impose significant costs and management burden on us.

Additionally, because these laws, regulations and standards promulgated by the Sarbanes-Oxley Act and the Dodd-Frank Act are expected to be subject to varying interpretations, their application in practice may evolve over time as new guidance becomes available. This evolution may result in continuing uncertainty regarding compliance matters and additional costs necessitated by ongoing revisions to our disclosure and governance practices.

Because the sales cycle for our products can be lengthy, we may incur substantial expenses before we generate significant revenues, if any. Our products are generally incorporated into a customer's products at the design stage. However,

customer decisions to use our products, commonly referred to as design wins, can often require us to expend significant research and development and sales and marketing resources without any assurance of success. These significant research and development and sales and marketing resources often precede volume sales, if any, by a year or more. The value of any design win will largely depend upon the commercial success of the customer's product. We cannot assure that we will continue to achieve design wins or that any design win will result in future revenues. If a customer decides at the design stage not to incorporate our products into its product, we may not have another opportunity for a design win with respect to that product for many months or years.

Our products must meet exacting specifications, and undetected defects and failures may occur which may cause customers to return or stop buying our products. Our customers generally establish demanding specifications for quality, performance and reliability, and our products must meet these specifications. ICs as complex as those we sell often encounter development delays and may contain undetected defects or failures when first introduced or after commencement of commercial shipments. We have from time to time in the past experienced product quality, performance or reliability problems. If defects and failures occur in our products, we could experience lost revenue, increased costs, including warranty expense and costs associated with customer support and customer expenses, delays in or cancellations or rescheduling of orders or shipments and product returns or discounts, any of which would harm our operating results.

If our products do not penetrate additional markets, our business will not grow as we expect. We believe that our future success depends in part upon our ability to penetrate additional markets for our products. We cannot assure that we will be able to overcome the marketing or technological challenges necessary to penetrate additional markets. To the extent that a competitor penetrates additional markets before we do, or takes market share from us in our existing markets, our net revenues and financial condition could be materially adversely affected.

We do not have long-term contracts with any of our customers and if they fail to place, or if they cancel or reschedule orders for our products, our operating results and our business may suffer. Our business is characterized by short-term customer orders and shipment schedules, and the ordering patterns of some of our large customers have been unpredictable in the past and will likely remain unpredictable in the future. Not only does the volume of units ordered by particular customers vary substantially from period to period, but also purchase orders received from particular customers often vary substantially from early oral estimates provided by those customers for planning purposes. In addition, customer orders can be canceled or rescheduled without significant penalty to the customer. In the past, we have experienced customer cancellations of substantial orders for reasons beyond our control, and significant cancellations could occur again at any time. Also, a relatively small number of distributors, OEMs and merchant power supply manufacturers account for a significant portion of our revenues. Specifically, our top ten customers, including distributors, accounted for 59% of our net revenues in the three months ended March 31, 2014, and in the year ended December 31, 2013. However, a significant portion of these revenues are attributable to sales of our products through distributors of electronic components. These distributors sell our products to a broad, diverse range of end users, including OEMs and merchant power supply manufacturers, which mitigates the risk of customer concentration to a large degree.

Audits of our tax returns and potential future changes in tax laws may increase the amount of taxes we are required to pay. The IRS is auditing our tax returns for fiscal years 2007 through 2009. If the IRS challenges any of the tax positions we have taken and we are not successful in defending our positions, we may be obligated to pay additional taxes, as well as penalties and interest, and may also have a higher effective income tax rate in the future. Our operations are subject to income and transaction taxes in the United States and in multiple foreign jurisdictions and to review or audit by the IRS and state, local and foreign tax authorities. In addition, the United States, countries in Asia and other countries where we do business have been considering changes in relevant tax, accounting and other laws, regulations and interpretations, including changes to tax laws applicable to multinational companies. These potential changes could adversely affect our effective tax rates or result in other costs to us.

We must attract and retain qualified personnel to be successful and competition for qualified personnel is intense in our market. Our success depends to a significant extent upon the continued service of our executive officers and other key management and technical personnel, and on our ability to continue to attract, retain and motivate qualified personnel, such as experienced analog design engineers and systems applications engineers. The competition for these employees is intense, particularly in Silicon Valley. The loss of the services of one or more of our engineers, executive officers or other key personnel could harm our business. In addition, if one or more of these individuals leaves our employ, and we are unable to quickly and efficiently replace those individuals with qualified personnel who can smoothly transition into their new roles, our business

may suffer. We do not have long-term employment contracts with, and we do not have in place key person life insurance policies on, any of our employees.

We are exposed to risks associated with acquisitions and strategic investments . We have made, and in the future intend to make, acquisitions of, and investments in, companies, technologies or products in existing, related or new markets such as Concept. Acquisitions involve numerous risks, including but not limited to:

- inability to realize anticipated benefits, which may occur due to any of the reasons described below, or for other unanticipated reasons;
- the risk of litigation or disputes with customers, suppliers, partners or stockholders of an acquisition target arising from a proposed or completed transaction;
- impairment of acquired intangible assets and goodwill as a result of changing business conditions, technological advancements or worse-than-expected performance, which would adversely affect our financial results; and
- unknown, underestimated and/or undisclosed commitments, liabilities or issues not discovered in our due diligence of such transactions.

We also in the future may have strategic relationships with other companies, which may decline in value and/or not meet desired objectives. The success of these strategic relationships depends on various factors over which we may have limited or no control and requires ongoing and effective cooperation with strategic partners. Moreover, these relationships are often illiquid, such that it may be difficult or impossible for us to monetize such relationships.

Our inability to successfully integrate, or realize the expected benefits from, our acquisitions could adversely affect our results. We have made, and in the future intend to make, acquisitions of other businesses, such as Concept, and with these acquisitions there is a risk that integration difficulties may cause us not to realize expected benefits. The success of the acquisitions could depend, in part, on our ability to realize the anticipated benefits and cost savings (if any) from combining the businesses of the acquired companies and our business, which may take longer to realize than expected.

Changes in environmental laws and regulations may increase our costs related to obsolete products in our existing inventory . Changing environmental regulations and the timetable to implement them continue to impact our customers' demand for our products. As a result there could be an increase in our inventory obsolescence costs for products manufactured prior to our customers' adoption of new regulations. Currently we have limited visibility into our customers' strategies to implement these changing environmental regulations into their business. The inability to accurately determine our customers' strategies could increase our inventory costs related to obsolescence.

Interruptions in our information technology systems could adversely affect our business. We rely on the efficient and uninterrupted operation of complex information technology systems and networks to operate our business. Any significant system or network disruption, including but not limited to new system implementations, computer viruses, security breaches, or energy blackouts could have a material adverse impact on our operations, sales and operating results. We have implemented measures to manage our risks related to such disruptions, but such disruptions could still occur and negatively impact our operations and financial results. In addition, we may incur additional costs to remedy any damages caused by these disruptions or security breaches.

Uncertainties arising out of economic consequences of current and potential military actions or terrorist activities and associated political instability could adversely affect our business. Like other U.S. companies, our business and operating results are subject to uncertainties arising out of economic consequences of current and potential military actions or terrorist activities and associated political instability, and the impact of heightened security concerns on domestic and international travel and commerce. These uncertainties could also lead to delays or cancellations of customer orders, a general decrease in corporate spending or our inability to effectively market and sell our products. Any of these results could substantially harm our business and results of operations, causing a decrease in our revenues.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In October 2012, our board of directors authorized the use of \$50.0 million for the repurchase of our common stock. Repurchases are executed according to pre-defined price/volume guidelines set by the board of directors. In the first quarter of 2014, we did not purchase any common stock under the program due to the then current stock price levels, which exceeded the pre-defined price guidelines mentioned above. As of March 31, 2014, we had \$29.5 million available for future stock repurchases. Authorization of future stock repurchase programs is at the discretion of the board of directors and will depend on our financial condition, results of operations, capital requirements, business conditions as well as other factors.

ITEM 5. OTHER INFORMATION

Executive Officer Benefit Agreements

In May 2014, Power Integrations entered into Amended and Restated Executive Officer Benefits Agreements with its executive officers and chief executive officer, Balu Balakrishnan. The Executive Officer Benefit Agreements provide for benefits to Power Integrations' executive officers under substantially the same conditions as described in Power Integrations annual proxy statement as filed with the SEC on March 28, 2014. The Executive Officer Benefit Agreements were revised and amended to provide for the additional benefits as described below. These additional benefits include:

- Upon a change of control, 100% of Mr. Balakrishnan's then-unvested shares subject to options, restricted stock units, the maximum number of performance stock units and the maximum number of long term performance stock units (referred to as "PRSUs") will vest in full prior to the consummation of the change of control.
- For each executive officer, the maximum number of any then-unvested shares subject to performance stock units and PRSUs will vest in full upon the consummation of the change of control.
- Mr. Balakrishnan is entitled to severance benefits in the event that he is terminated without cause or he resigns for good reason within 18 months after a change of control, including if Mr. Balakrishnan serves in any capacity other than CEO of any acquiring entity. These severance benefits include a payment equal to the sum of two years of his highest annual salary (earned within three years of the date of his termination) plus 200% of the maximum cash value of Mr. Balakrishnan's annual performance bonus for the year in which such termination occurs, plus the maximum cash value of Mr. Balakrishnan's current annual performance bonus prorated through the date of termination based on the number of days completed in the applicable performance period prior to termination. In addition, acceleration of 100% of all his then-outstanding stock options, restricted stock units and PRSUs and continued medical and dental coverage under the Power Integrations' health plans for twenty-four months at Power Integrations' expense.
- The Executive Officer Benefit Agreements were further amended to provide that in the event of an executive officer's termination without cause or resignation for good reason, or of any retirement, death or disability of an executive officer, in addition to the benefits described in Power Integrations annual proxy statement as filed with the SEC on March 28, 2014, the prorated portion of any outstanding PRSUs based on the number of days served by the officer in the applicable performance period shall vest as determined by the Power Integrations' Board or Compensation Committee on the date of determination of any applicable performance criteria, provided, however, that in the event of any change of control after the executive officer's termination of employment the prorated portion of the maximum number of shares subject to any outstanding PRSUs will vest in full.

This description of the amendments to the Power Integrations' Executive Officer Benefit Agreements is qualified in its entirety by the forms of Executive Officer Benefit Agreements filed as exhibits to this Form 10-Q.

Chief Executive Officer Compensation

On January 29, 2014, the Power Integrations' Compensation Committee approved the 2014 compensation for Mr. Balakrishnan as reported in the Form 8-K as filed with the SEC on January 31, 2014. On May 1, 2014, in connection with the Company's annual focal review process, the Power Integrations' Compensation Committee approved the following increases to Mr. Balakrishnan's compensation:

- An increase to Mr. Balakrishnan's annual base salary to \$520,000;

- Issuance of an additional 1,700 target performance stock units subject to the same terms as the Company's 2014 Performance Based Incentive Plan;
- Issuance of an additional 13,900 restricted stock units granted under the Company's 2007 Equity Incentive Plan; and
- Issuance of an additional 4,600 target PRSUs subject to the same terms as the Company's 2014 Long Term Performance Based Incentive Plan.

ITEM 6. EXHIBITS

See the Exhibit Index immediately following the signature page to this Quarterly Report on Form 10-Q, which is incorporated by reference here.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

POWER INTEGRATIONS, INC.

Dated: May 2, 2014

By: /s/ S ANDEEP N AYYAR

Sandeep Nayar
Chief Financial Officer (Duly Authorized Officer,
Principal Financial Officer and Chief Accounting
Officer)

INDEX TO EXHIBITS

<u>EXHIBIT NUMBER</u>	<u>DESCRIPTION</u>
3.1	Restated Certificate of Incorporation. (Filed with the SEC as Exhibit 3.1 to our Annual Report on Form 10-K filed on February 29, 2012, SEC File No. 000-23441.)
3.2	Amended and Restated Bylaws. (Filed with the SEC as Exhibit 3.1 to our Current Report on Form 8-K filed on April 26, 2013, SEC File No. 000-23441.)
4.1	Reference is made to Exhibits 3.1 to 3.2.
10.1	Second Amendment to Credit Agreement, dated April 1, 2014, by and between Power Integrations, Inc., Union Bank N.A. and Wells Fargo Bank, National Association.
10.2	Amendment Number One to Wafer Supply Agreement, effective as of January 1, 2014, between Power Integrations International, Ltd., and X-FAB Semiconductor Foundries AG.*
10.3	Amended and Restated Chief Executive Officer Benefits Agreement, dated as of May 1, 2014, between Power Integrations, Inc. and Balu Balakrishnan.
10.4	Amended and Restated Executive Officer Benefits Agreement, dated as of May 1, 2014, between Power Integrations, Inc. and John Tomlin.
10.5	Amended and Restated Executive Officer Benefits Agreement, dated as of May 1, 2014, between Power Integrations, Inc. and Cliff Walker.
10.6	Amended and Restated Executive Officer Benefits Agreement, dated as of May 1, 2014, between Power Integrations, Inc. and Doug Bailey.
10.7	Amended and Restated Executive Officer Benefits Agreement, dated as of May 1, 2014, between Power Integrations, Inc. and Ben Sutherland.
10.8	Amended and Restated Executive Officer Benefits Agreement, dated as of May 1, 2014, between Power Integrations, Inc. and Sandeep Nayyar.
10.9	Amended and Restated Executive Officer Benefits Agreement, dated as of May 1, 2014, between Power Integrations, Inc. and Wolfgang Ademmer.
10.10	Amended and Restated Executive Officer Benefits Agreement, dated as of May 1, 2014, between Power Integrations, Inc. and Mike Matthews.
10.11	Amended and Restated Executive Officer Benefits Agreement, dated as of May 1, 2014, between Power Integrations, Inc. and Radu Barsan.
10.12	Compensation of Named Executive Officers (Described in Item 5.02 of our Current Report on Form 8-K filed on January 31, 2014, SEC File No. 000-23441.)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

All references in the table above to previously filed documents or descriptions are incorporating those documents and descriptions by reference thereto.

- * Portions of this exhibit have been omitted pursuant to a request for confidential treatment, which portions were omitted and filed separately with the Securities and Exchange Commission.

- ** The certifications attached as Exhibits 32.1 and 32.2 accompanying this Form 10-Q, are not deemed filed with the SEC, and are not to be incorporated by reference into any filing of Power Integrations, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Form 10-Q, irrespective of any general incorporation language contained in such filing.

**Second Amendment to
Credit Agreement**

This Second Amendment to Credit Agreement (this “*Amendment*”) is entered into as of April 1, 2014, among Power Integrations, Inc., a Delaware corporation (“*Borrower*”), Union Bank, N.A. (“*Union Bank* ”), Wells Fargo Bank, National Association (“*Wells Fargo* ”) and Wells Fargo Bank, National Association, as administrative agent (“*Agent*”).

Recitals

Whereas Borrower, Union Bank, Wells Fargo and Agent are party to that certain Credit Agreement, dated as of July 5, 2012 (as amended prior to the date hereof, the “*Existing Credit Agreement* ” and, as further amended from time to time, the “*Credit Agreement* ”);

Whereas the parties hereto have agreed to certain changes in the terms and conditions set forth in the Existing Credit Agreement and have agreed to amend the Existing Credit Agreement to reflect such changes;

Now, therefore, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree that the Existing Credit Agreement shall be amended as follows; *provided* that nothing contained herein shall terminate any security interests, guaranties, subordinations or other documents in favor of Agent, all of which shall remain in full force and effect unless expressly amended hereby:

Section 1. *Definitions* . Each capitalized term used but not otherwise defined herein has the meaning assigned to it in the Existing Credit Agreement.

Section 2. *Amendment to Credit Agreement* . Upon the effectiveness of this Amendment in accordance with Section 3 hereof, the Existing Credit Agreement is hereby amended as follows:

(a) Section 1.1(a) of the Existing Credit Agreement is hereby amended by deleting the date “July 5, 2015” and by substituting for said date “April 1, 2017.”

Section 3. *Conditions Precedent* . This Amendment, including, without limitation the amendments to the Existing Credit Agreement contained herein, shall become effective as of the date first set forth above (the “*Effective Date* ”) upon satisfaction of all of the conditions set forth in this Section 3 to the satisfaction of Bank:

(a) Agent shall have received each of the following, duly executed and delivered by each of the applicable parties thereto:

(i) this Amendment;

(ii) the First Modification to Line of Credit Note (regarding the Line of Credit Note issued by Borrower for the benefit of Union Bank);

(iii) the First Modification to Line of Credit Note (regarding the Line of Credit Note issued by Borrower for the benefit of Wells Fargo);

(iv) such other documents as Agent may require under any other Section of this Amendment;
and

(b) No Default or Event of Default, shall have occurred and be continuing.

(c) Borrower shall have paid all fees and expenses owing to Agent, Wells Fargo or Union Bank under the Existing Credit Agreement as of the Effective Date, including, without limitation, all fees owing under Section 1.5 of the Existing Credit Agreement and reasonable attorneys' fees expended or incurred by Agent, Wells Fargo or Union Bank in connection with the negotiation and execution of this Amendment.

Section 4. *Interpretation* . Except as expressly amended pursuant hereto, the Existing Credit Agreement and each of the other Loan Documents shall remain unchanged and in full force and effect and are hereby ratified and confirmed in all respects. This Amendment and the Existing Credit Agreement shall be read together, as one document. The Recitals hereto, including the terms defined therein, are incorporated herein by this reference and acknowledged by Borrower to be true, correct and complete.

Section 5. *Representations, Warranties and Covenants* . Borrower hereby remakes all representations and warranties contained in the Existing Credit Agreement and reaffirms all covenants set forth in the Credit Agreement as of the date of this Amendment. Borrower further certifies that as of the date of this Amendment there exists no Default or Event of Default.

Section 6. *Further Assurances* . Borrower will make, execute, endorse, acknowledge, and deliver any agreements, documents, or instruments, and take any and all other actions, as may from time to time be reasonably requested by Agent to effect, confirm, or further assure or protect and preserve the interests, rights, and remedies of Agent and Lenders under the Credit Agreement and the other Loan Documents.

Section 7. *Counterparts* . This Amendment may be executed in any number of identical counterparts, any set of which signed by all the parties hereto shall be deemed to constitute a complete, executed original for all purposes. Delivery of an executed counterpart of a signature page of this Amendment by telefacsimile transmission shall be as effective as delivery of a manually executed counterpart hereof.

Section 8. *Governing Law* . This Amendment shall be governed by and construed in accordance with the internal laws of the State of California.

In witness whereof, the parties hereto have caused this Amendment to be executed as of the date first written above.

BORROWER:

POWER INTEGRATIONS, INC.

By: /s/ Balu Balakrishnan
Name: Balu Balakrishnan,
Title: CEO

AGENT:

WELLS FARGO BANK,
NATIONAL ASSOCIATION

By: /s/ Stephen Cordani
Name: Stephen Cordani,
Title: LTM / SVP

LENDERS:

WELLS FARGO BANK,
NATIONAL ASSOCIATION

By: /s/ Stephen Cordani
Name: Stephen Cordani,
Title: LTM / SVP

UNION BANK, N.A.

By: /s/ Michael J. McCutchin
Name: Michael J. McCutchin,
Title: Vice President

LETTER OF CREDIT ISSUER:

WELLS FARGO BANK,
NATIONAL ASSOCIATION

By: /s/ Stephen Cordani
Name: Stephen Cordani,
Title: LTM / SVP

FIRST MODIFICATION TO LINE OF CREDIT NOTE

This FIRST modification to LINE OF CREDIT NOTE (this “*Modification*”) is entered into as of April 1, 2014, by and between POWER INTEGRATIONS, INC., a Delaware corporation (“*Borrower*”), and Wells Fargo Bank, National Association (“*Wells Fargo*”).

RECITALS

WHEREAS, Borrower is currently indebted to Wells Fargo pursuant to the terms and conditions of (i) that certain Credit Agreement, dated as of July 5, 2012 (as amended, restated, modified and/or otherwise supplemented from time to time, the “*Credit Agreement*”), by and among Borrower, Union Bank, N.A., Wells Fargo, each other financial institution listed on Schedule 1 thereto (collectively, including Wells Fargo in its capacity as a lender thereunder, “*Lenders*”), and Wells Fargo, as administrative agent for the Lenders (in such capacity, “*Agent*”), and (ii) that certain Line of Credit Note in the original principal amount of Sixty-Five Million Dollars (\$65,000,00.00), executed by Borrower and payable to the order of Wells Fargo, as Lender, dated as of July 5, 2012 (as amended, restated, modified and/or otherwise supplemented from time to time, the “*Note*”).

WHEREAS, Borrower and Wells Fargo, as Lender, have agreed to certain changes in the terms and conditions set forth in the Note, and have agreed to modify the Note to reflect said changes.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree that the Note shall be modified as follows:

1. The maturity date of the Note is hereby modified to be April 1, 2017.

2. Except as expressly set forth herein, all terms and conditions of the Note remain in full force and effect, without waiver or modification. All terms defined in the Note or the Credit Agreement shall have the same meaning when used in this Modification. This Modification and the Note shall be read together, as one document.

3. Borrower certifies that as of the date of this Modification, and after giving effect to this Modification, there exists no Event of Default under the Note or the Credit Agreement, nor any condition, act or event which with the giving of notice or the passage of time or both would constitute any such Event of Default.

IN WITNESS WHEREOF, the parties hereto have caused this Modification to be executed as of the day and year first written above.

POWER INTEGRATIONS, INC.

WELLS FARGO BANK
NATIONAL ASSOCIATION

By: /s/ Balu Balakrishnan
Name: Balu Balakrishnan,
Title: CEO

By: /s/ Stephen Cordani
Name: Stephen Cordani,
Title: LTM / SVP

FIRST MODIFICATION TO LINE OF CREDIT NOTE

This FIRST modification to LINE OF CREDIT NOTE (this “*Modification*”) is entered into as of April 1, 2014, by and between POWER INTEGRATIONS, INC., a Delaware corporation (“*Borrower*”), and UNION BANK, N.A. (“*Union*”).

RECITALS

WHEREAS, Borrower is currently indebted to Union pursuant to the terms and conditions of (i) that certain Credit Agreement, dated as of July 5, 2012 (as amended, restated, modified and/or otherwise supplemented from time to time, the “*Credit Agreement*”), by and among Borrower, Union, Wells Fargo Bank, National Association (“*Wells Fargo*”), each other financial institution listed on Schedule 1 thereto (collectively, including Union and Wells Fargo in their respective capacities as a lender thereunder, “*Lenders*”), and Wells Fargo, as administrative agent for the Lenders (in such capacity, “*Agent*”), and (ii) that certain Line of Credit Note in the original principal amount of Thirty-Five Million Dollars (\$35,000,00.00), executed by Borrower and payable to the order of Union, as Lender, dated as of July 5, 2012 (as amended, restated, modified and/or otherwise supplemented from time to time, the “*Note*”).

WHEREAS, Borrower and Union, as Lender, have agreed to certain changes in the terms and conditions set forth in the Note, and have agreed to modify the Note to reflect said changes.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree that the Note shall be modified as follows:

1. The maturity date of the Note is hereby modified to be April 1, 2017.

2. Except as expressly set forth herein, all terms and conditions of the Note remain in full force and effect, without waiver or modification. All terms defined in the Note or the Credit Agreement shall have the same meaning when used in this Modification. This Modification and the Note shall be read together, as one document.

3. Borrower certifies that as of the date of this Modification, and after giving effect to this Modification, there exists no Event of Default under the Note or the Credit Agreement, nor any condition, act or event which with the giving of notice or the passage of time or both would constitute any such Event of Default.

IN WITNESS WHEREOF, the parties hereto have caused this Modification to be executed as of the day and year first written above.

POWER INTEGRATIONS, INC.

UNION BANK, N.A.

By: /s/ Balu Balakrishnan
 Name: Balu Balakrishnan,
 Title: CEO

By: /s/ Michael J. McCutchin
 Name: Michael J. McCutchin,
 Title: Vice President

**AMENDMENT NUMBER ONE
TO
WAFER SUPPLY AGREEMENT**

This Amendment Number One to Wafer Supply Agreement (the “Amendment”), effective as of January 1, 2014 (the “Amendment Effective Date”), amends the Wafer Supply Agreement effective October 1, 2010 (the “Agreement”) by and between:

- (1) Power Integrations International, Ltd., a Cayman Islands corporation having its principal place of business at 4th Floor, Century Yard, Cricket Square, Elgin Avenue, P.O. Box 32322, Grand Cayman KY1-1209 (“POWER INTEGRATIONS”); and
- (2) X-FAB Semiconductor Foundries AG having its principal place of business at Haarbergstrasse 67, 99097 Erfurt, Germany (“COMPANY” or “SUPPLIER”).

RECITALS

WHEREAS , pursuant to the terms of the Agreement, Power Integrations grants to SUPPLIER licenses of certain of Power Integrations’ intellectual property for the sole purpose of Power Integrations acquiring from SUPPLIER the fabrication and supply of wafers of certain power IC products; and

WHEREAS , Power Integrations and COMPANY desire to amend certain terms of the Agreement; and

WHEREAS , in accordance with Section 18.10 of the Agreement, the Agreement may be amended only by an instrument in writing duly executed by an authorized representative of COMPANY and POWER INTEGRATIONS.

NOW, THEREFORE , in consideration of the mutual promises contained herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereby amend the Agreement as follows:

AGREEMENT

1. Unless otherwise provided herein, all capitalized terms as used in this Amendment shall have the same meanings as defined in the Agreement.

2. A new Section 10.4 and Section 10.5 are added to the Agreement as follows:

10.4 Subject to X-FAB [*] receipt of the prior written approval of PI for the specific SG Equipment to be purchased and final pricing, PI will pay X-FAB [*] the SG Equipment Cost on or before a date mutually agreed upon by the parties. X-FAB [*] will pay PI back for the SG Equipment Cost in the form of [*] discounts per [*] after the [*] until X-FAB [*] delivers and PI accepts [*] WAFERS (the [*]) (i.e., [*] = the SG Equipment Cost). The parties estimate the SG Equipment Cost will be roughly [*]. The [*] means [*].

10.5 If this Agreement is terminated in accordance with Article 13 (“Term and Termination”) before X-FAB [*] delivers and PI accepts the [*], X-FAB [*] shall, at X-FAB [*] election, either immediately:

(1) pay PI the following amount: (a) The difference of (i) the [*] minus (ii) the number of [*] WAFERS accepted by PI under this Agreement after the [*], times (b) [*]. For example, but without limitation, if PI has accepted [*] WAFERS between the [*] and the termination date, then X-FAB [*] shall pay PI [*]; or

(2) transfer all right title and interest in the SG Equipment to PI and deliver the SG Equipment to a location specified by PI.

If this Agreement expires before X-FAB [*] delivers and PI accepts the [*], X-FAB [*] will have no obligation to pay PI any funds under this Section 10.5, provided the quantity of [*] WAFERS delivered by X-FAB [*] was not materially adversely affected by X-FAB [*] quality, production, or delivery problems.

3. Section 13.1 of the Agreement is deleted in its entirety and replaced with the following:

13.1. This Agreement shall continue in full force and effect from the Effective Date until [*], unless earlier terminated as provided herein (“Term”).

4. Section 18.16 of the Agreement is deleted in its entirety and replaced with the following:

18.16. X-FAB [*] - [*] Wafers. X-FAB [*] shall use its best efforts to qualify PI’s process and supply [*] inch [*] and [*] WAFERS from X-FAB [*] facility as soon as practicable after the Effective Date. PI will pay X-FAB [*] a fee of [*] for X-FAB [*] research and development efforts to transfer and qualify [*] and [*] WAFERS processes at X-FAB [*]. Provided X-FAB [*] continues to use its best efforts to transfer and qualify such processes, PI will make such payment in accordance with the following schedule at the beginning of each year: [*].

5. The following new Article 19 is added to the Agreement:

Article 19. (SG Manufacturing Equipment)

19.1 X-FAB [*] will purchase and install at its own cost as soon as mutually agreed in [*] a [*] Tool, a [*] Measurement System, and an [*]. X-FAB [*] will also purchase and subject to the prior written approval of PI: (1) the following manufacturing equipment, which is, (a) a [*] Tool specific to the [*], (b) a [*] Tool, (c) Specialized Test Equipment, (d) a [*] Tool, (e) a [*] Tool, and (f) a [*] Tool ((a) through (f) collectively the “SG Equipment”); (2) installation of the SG Equipment; and (3) fitting for the SG Equipment. X-FAB [*] will be responsible for [*]. Subject to PI’s prior written approval of the specific SG Equipment manufacturers, model numbers, and purchase price (the “SG Equipment Cost”) and Sections 10.4 and 10.5, PI will reimburse X-FAB [*] for the SG Equipment Cost.

19.2 X-FAB [*] will [*] the SG Equipment and, except as set forth above, will be responsible for full installation, connection to existing equipment, testing and qualification of the SG Equipment at X-FAB [*] facility. Qualification will be in accordance with a qualification plan

mutually agreed upon in writing between X-FAB [*] and PI. Qualification shall not be complete until the date PI reasonably agrees in writing that the foregoing qualification plan has been met.

- 19.3 X-FAB [*] shall keep the SG Equipment in operating condition and available for VOLUME PRODUCTION during the Term of this Agreement. X-FAB [*] shall be responsible for the maintenance and operation of the SG Equipment as long as wafers are produced for PI at X-FAB [*] facility. X-FAB [*] will pay for all repairs of the SG Equipment. Any repairs should be completed in reasonable time provided, however, that if a repair cannot be completed within ten (10) calendar days from discovery of the need for such repair, then X-FAB [*] shall give immediate written notice to PI describing (1) the problem preventing repair in such ten (10) day period, and (2) a firm schedule for completing the repair.
- 19.4 X-FAB [*] shall not modify the SG Equipment without the prior written approval of PI. For modifications initiated by X-FAB [*], X-FAB [*] will pay for any modifications of the SG Equipment. PI shall determine whether the approved modification requires re-qualification of the SG Equipment. X-FAB [*] agrees to re-qualify the SG Equipment if so determined in accordance with a mutually agreed-to, written qualification plan. Such re-qualification will be at X-FAB [*] expense. For SG Equipment modifications requested by PI, PI will pay for the cost of the modifications and re-qualification.
- 19.5 Without PI's prior written consent, X-FAB [*] shall not (a) move or relocate the SG Equipment, (b) lend or transfer it to any third party, or (c) encumber the SG Equipment with any lien or other security interest, except for the terms and conditions of any grant by the U.S. government.
- 19.6 The SG Equipment will be used for manufacturing WAFERS for PI, and for PI research and development activities. The SG Equipment will not be used for the benefit of competitors of PI. X-FAB [*] will obtain prior written consent of PI for the use of the [*] Tool for non-competitive third parties and such consent will not be unreasonably withheld. Subject to the foregoing and Section 19.10, the operation of the [*] Tool for any other use, including the use of the [*] Tool for [*], is permitted as long as delivery and FOUNDRY CAPACITY commitments by X-FAB [*] to PI are met.
- 19.7 X-FAB [*] will maintain, at its sole cost and expense, the same types and amounts of insurance for the SG Equipment as X-FAB [*] maintains for its other similar equipment at X-FAB [*] facility. A Certificate of Insurance indicating such coverage shall be delivered to PI upon request. The Certificate shall indicate that the policy will not be changed or terminated without at least thirty (30) days' prior notice to PI, shall name PI as an additional named insured and shall also indicate that the insurer has waived its subrogation rights against PI.
- 19.8 X-FAB [*] hereby grants a security interest in the SG Equipment furnished hereunder and the proceeds therefrom, to secure full re-payment of the SG Equipment Cost to PI in accordance with this Agreement. X-FAB [*] agrees to execute any financing statements or other documents PI requests to protect its security interest.
- 19.9 The requirements of Sections 19.2 - 19.8 will expire upon [*] the date that [*] and [*] the [*] or upon the date that [*] the [*] set forth in Section 10.5.

19.10 Prior to [*], X-FAB [*] shall not [*] or [*] from X-FAB [*] facility to any third party for [*] of the same active material system as the [*] for so long as X-FAB [*] is required under this Agreement to (a) [*] of PI's [*] or (b) [*]. Subject to 19.6, X-FAB [*] will promptly [*] of the [*] of [*] prior to [*] for such [*] from X-FAB [*] facility. X-FAB [*] may submit requests to PI from time to time for exceptions to the foregoing restriction and PI may grant or deny such requests in its sole and absolute discretion. Prior to [*], PI will not [*] a [*] with a [*] to [*] of the same active material system as the [*], provided X-FAB [*] at all times during such period satisfies [*], qualifies and supplies [*] in the timeline mutually agreed upon by the Parties, and satisfies the [*] for [*].

6. Exhibit B of the Agreement is hereby amended to include the additional language set forth in Exhibit B-1 attached hereto.

7. Notwithstanding anything to the contrary in the WSA, the parties acknowledge and agree that with respect to all PI INTELLECTUAL PROPERTY related to PI's [*], the scope of the license rights granted to SUPPLIER in Section 4 of the WSA are granted solely to X-FAB [*], and not to [*].

8. Effective as of the Amendment Effective Date, all references in the Agreement to the "Agreement" or "this Agreement" shall mean the Agreement as amended by this Amendment. Except as expressly amended herein, the terms of the Agreement continue unchanged and shall remain in full force and effect. This Amendment may be executed in one or more counterparts, each of which shall be considered an original, but all of which counterparts together shall constitute one and the same instrument.

IN WITNESS WHEREOF , the parties have caused this Amendment to be executed by their duly authorized representatives, effective as of the Amendment Effective Date.

X-FAB Semiconductor Foundries AG

Power Integrations International, Ltd.

By: /s/ Lloyd Whetzel

By: /s/ John L. Tomlin

Name: Lloyd Whetzel

Name: John L. Tomlin

Title: CEO, X-FAB [*]

Title: President

Date: 2/19/2014

Date: 2/19/2014

[*] = Certain confidential information contained in this document, marked by brackets, has been omitted and filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

Exhibit B-1

PRICES for X-FAB [*] [*] WAFERS

[*] WAFERS

Wafer Price through [*]

[*]/wafer

Pricing for [*] and forward will be negotiated annually with a mutual understanding that both parties will collaborate to [*]. Both parties understand that [*] and that X-FAB [*] and PI will work together to [*].

[*] WAFER

[*] WAFER pricing will be [*] upon completion of the qualification of the technology.

**POWER INTEGRATIONS, INC.
AMENDED AND RESTATED CHIEF EXECUTIVE OFFICER BENEFITS
AGREEMENT**

This Amended and Restated Chief Executive Officer Benefits Agreement (the “*Agreement*”) is made and entered into as of May 1, 2014 (the “*Effective Date*”), by and between **Power Integrations, Inc.**, a Delaware corporation, (the “*Company*”) and Balu Balakrishnan (“*Executive*”).

Recitals

A. Executive is an executive officer of the Company and possesses valuable knowledge of the Company, its business and operations, and the markets in which the Company competes.

B. The Company draws upon the knowledge, experience and advice of Executive in order to manage its business for the benefit of the Company’s stockholders.

C. The Board of Directors desires to supplement Executive’s employment arrangements so as to provide additional compensation and benefits to the Executive to encourage Executive to continue to devote his attention and dedication to the Company and to create additional incentives to continue his employment with the Company.

D. The Company and Executive previously entered into an Amended and Restated Executive Officer Benefits Agreement by and between the Company and Executive, dated June 3, 2013 (the “*Prior Agreement*”).

E. The Company and Executive have agreed to amend and restate the Prior Agreement in its entirety as set forth herein.

Agreement

Therefore, in consideration of the mutual agreements, covenants and considerations contained herein, the undersigned hereby agree and acknowledge as follows:

1. The Prior Agreement is hereby amended and restated in its entirety and the parties hereby agree to the terms hereof, including the terms set forth on Exhibit A hereto.

2. For the purposes of this Agreement the “*Option Effective Date*” shall mean the Effective Date unless this Agreement is an amendment to an earlier agreement in which case the “*Option Effective Date*” shall mean April 26, 2002.

3. This Agreement may only be modified or amended by a supplemental written agreement signed by Executive and the Company.

* * * * *

In Witness Whereof, the undersigned have executed this **Amended and Restated Chief Executive Officer Benefits Agreement**, intending to be legally bound as of the Effective Date.

COMPANY:

Power Integrations, Inc.

By: /s/ Sandeep Nayyar

Name: Sandeep Nayyar

Title: Chief Financial Officer

EXECUTIVE:

/s/ Balu Balakrishnan

Balu Balakrishnan

Address for Notice: Executive's home address as reflected in the records of the Company

EXHIBIT A

TERMS OF AMENDED AND RESTATED CHIEF EXECUTIVE OFFICER BENEFITS AGREEMENT

1. Position and Duties. Executive shall continue to be an at-will employee of the Company employed in his/her current position at his/her then current salary rate. Executive shall also be entitled to continue to participate in and to receive benefits on the same basis as other executive or senior staff members under any of the Company's employee benefit plans as in effect from time to time. In addition, Executive shall be entitled to the benefits afforded to other employees similarly situated under the Company's employment policies. Executive agrees to devote the business time, energy and skill necessary to execute his/her duties at the Company. These duties shall include, but not be limited to, any duties consistent with his/her position which may be assigned to Executive from time to time.

2. Acceleration of Vesting of Stock Awards Upon a Change of Control . In the event of a Change of Control, and provided that Executive's employment with the Company has not terminated prior to such date, Executive shall be entitled to the following benefits:

(a) All Retention Stock Awards granted by the Company to the Executive prior to the Change of Control shall have their vesting accelerated such that 100% of the then unvested shares subject to each Retention Stock Award will be deemed vested and exercisable or issuable as of the consummation of the Change of Control. The shares vesting pursuant to this Section 2(a) will be exercisable, issued or converted and paid in accordance with Sections 2(c) and 20(a).

(b) All Performance Stock Awards granted by the Company to the Executive prior to the Change of Control shall have their vesting accelerated immediately prior to consummation of such Change of Control so that 100% of the then unvested shares will be deemed vested at the applicable maximum achievable Performance Level . The shares vesting pursuant to this Section 2(b) will be exercisable, issued or converted and paid in accordance with Sections 2(c) and 20(a).

(c) In the event of a Change of Control, the Company undertakes to facilitate Executive's receipt of any of the benefits set forth in this Agreement by providing written notice to Executive, at least ten (10) days in advance of the closing of such transaction, which (i) indicates the anticipated timing and material economic terms of the anticipated transaction and (ii) references the Executive's rights under this Agreement. The Company shall also provide appropriate Stock Award exercise forms and instructions to assist Executive in exercising his or her rights to acquire securities of the Company on or prior to the consummation of the Change of Control. Executive is strongly encouraged to consult with his or her tax and financial advisor prior to electing to exercise any option pursuant to this Agreement.

3. Termination Upon Change of Control .

(a) **Severance Benefits .** In the event of the Executive's Termination Upon Change of Control, Executive shall be entitled to the following separation benefits:

(i) **Salary and Accrued Benefits .** All salary and accrued but unused vacation earned through the date of Executive's termination.

(ii) **Annual Performance Bonus.** Payment of a Prorated Portion of the cash value of Executive's Annual Performance Bonus measured as of the date of termination for the year in which such termination occurs.

(iii) **Expenses .** Within fourteen (14) days of submission of proper expense reports by the Executive, reimbursement by the Company for all expenses reasonably and necessarily incurred by the Executive in connection with the business of the Company prior to his termination of employment.

(iv) **Severance Payment .**

(1) Payment of an amount equal to two (2) years of Executive's Highest Annual Salary from the Company and 200% of the cash value of Executive's Annual Performance Bonus measured as of the date of termination at the applicable maximum achievable Performance Level as in effect as of the date of such termination to be paid in a lump sum on the sixtieth (60th) day following such termination as provided in Section 14.

(v) **Stock Awards.**

(1) The ability to exercise any and all outstanding vested options granted after the Option Effective Date (and any vested options granted prior to the Option Effective Date but only to the extent that such extension of exercisability would not require the Company to incur a compensation expense for financial statement purposes) for twelve (12) months from the date of termination of employment.

(2) The vesting of all Stock Awards (to the extent such Stock Award does not also constitute a portion of Executive's Annual Performance Bonus) granted by the Company to the Executive and outstanding immediately prior to such Termination Upon Change of Control shall have their vesting accelerated, such that 100% of the then unvested shares subject to such Stock Award will be deemed vested and exercisable as of the date of termination of employment. Any shares vesting pursuant to this Section 3(a)(v)(2) subject to a Performance Stock Award shall vest at the applicable maximum achievable Performance Level. The shares vesting pursuant to this Section 3(a)(v)(2) will be issued in accordance with Section 20(a).

(b) **Benefits Continuation .**

(i) In the event of Executive's Termination Upon Change of Control, Executive shall be entitled to elect continued medical and dental insurance coverage in accordance with the applicable provisions of the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, ("COBRA") and the Company shall pay such COBRA premiums for twenty-four (24) months from the date of termination of employment. Notwithstanding the above, in the event Executive becomes eligible to be covered under another employer's group health plan (other than a plan which imposes a preexisting condition exclusion unless the preexisting condition exclusion does not apply) during the period provided for herein, the Company shall cease payment of the COBRA premiums; and

(ii) Executive shall receive the benefits, if any, under the Company's 401(k) Plan and other Company benefit plans to which he may be entitled pursuant to the terms of such plans.

4. Termination of Employment .

(a) **Severance Benefits .** In the event of the Executive's Termination of Employment, Executive shall be entitled to all separation benefits provided in Section 3(a)(i) (" **Salary and Accrued Benefits** "), Section 3(a)(ii) (" **Annual Performance Bonus** ") and 3(a)(iii) (" **Expenses** ") above. In addition, Executive shall be entitled to twelve (12) months of Executive's Highest Annual Salary and 100% of the cash value of Executive's Annual Performance Bonus at the applicable maximum achievable Performance Level as in effect as of the date of such termination, all less applicable withholding, paid in a lump sum within sixty (60) days of such termination as provided in Section 14.

(b) **Performance Stock Awards .**

(i) A Prorated Portion of all shares subject to Performance Stock Awards granted to the Executive by the Company and outstanding prior to such Termination of Employment with a performance period greater than one (1) year and granted other than in connection with Executive's Annual Performance Bonus shall vest at such Performance Level as determined by the Board of Directors or Compensation Committee on the date of such determination.

(ii) Immediately prior to the consummation of any Change of Control to occur after Executive's Termination of Employment, a Prorated Portion of Executive's outstanding Performance Stock Awards with a performance period greater than one (1) year and granted other than in connection with Executive's Annual Performance Bonus will be deemed vested at the applicable maximum achievable Performance Level. The shares vesting pursuant to this Section 4(b)(ii) will be exercisable, issued or converted and paid in accordance with Sections 2(c) and 20(a).

(c) **Acceleration of Vesting of Stock Awards.** All Retention Stock Awards granted by the Company to the Executive prior to the termination shall have their vesting accelerated such that 50% of the then unvested shares will be deemed vested and exercisable or issuable immediately prior to Executive's termination. The shares vesting pursuant to this Section 4(c) will be exercisable, issued or converted and paid in accordance with Sections 2(c) and 20(a). Except as otherwise provided in the applicable award agreement, the portion of any unvested Retention Stock Award that does not vest based on this Section 4(c) will be forfeited by Executive and will be of no further force or effect.

(d) **Benefits Continuation .**

(i) In the event of Executive's Termination of Employment, Executive shall be entitled to elect continued medical and dental insurance coverage in accordance with the applicable provisions of COBRA and the Company shall pay such COBRA premiums for twelve (12) months from the date of Termination of Employment. Notwithstanding the above, in the event Executive becomes eligible to be covered under another employer's group health plan (other than a plan which imposes a preexisting condition exclusion unless the preexisting condition exclusion does not apply) during the period provided for herein, the Company shall cease payment of the COBRA premiums; and

(ii) Executive shall receive the benefits, if any, under the Company's 401(k) Plan and other Company benefit plans to which he may be entitled pursuant to the terms of such plans.

5. Retirement Benefits .

(a) In order to be eligible for the Retirement Benefits described in Section 5(b) below, the Executive must meet both of the following criteria:

(i) At the time of Executive's termination of employment with the Company (other than in circumstances in which such termination (i) constitutes a termination with Cause or (ii) does not qualify as a Separation from Service), the Executive has (1) achieved the age of 50 and served the Company for at least 15 years; or (2) achieved the age of 55 and served the Company for at least 10 years; provided, however, if such termination of employment also constitutes a Termination of Employment or a Termination Upon Change of Control, Executive must elect within thirty (30) days of such termination to receive either the benefits provided in Section 3 or Section 4, as applicable, or the benefits provided in this Section 5; and

(ii) At any time during which the Executive is receiving Retirement Benefits, the Executive shall not (1) be employed or on contract full time by a third party (excluding a non-profit organization described in Section 501(c)(3) of the Code) or (2) engage in Competition. If the Executive engages in either (1) or (2), then all Retirement Benefits shall terminate immediately and permanently.

(b) If both conditions in Sections 5(a)(i) and 5(a)(ii) above are satisfied, the Executive shall be entitled, subject to Section 14, to receive the following "**Retirement Benefits** :"

(i) **Option Exercisability.** The ability to exercise any and all options granted after the Option Effective Date (and any options granted prior to the Option Effective Date but only to the extent that such extension of exercisability would not require the Company to incur a compensation expense for financial statement purposes) to the extent such options are vested as of the date of termination of employment for the earlier of: (i) the term of the option, or (ii) the termination of the option in connection with any Change of Control;

(ii) **Performance Stock Awards.** The benefits provided under Section 4(b) ("**Performance Stock Awards** "); and

(iii) **Medical and Dental Coverage .** The Company shall pay the Executive's medical and dental premiums until the Executive achieves the age of Medicare eligibility, and additionally, if the Executive's medical and dental coverage on the date of termination included the Executive's dependents, the premiums of such dependents until the Executive achieves the age of Medicare eligibility as follows:

(A) **COBRA Continuation Coverage .** Upon the termination of Executive's active employment with the Company, Executive shall be entitled to elect continued medical and dental insurance coverage in accordance with the applicable provisions of COBRA and the Company shall pay such COBRA premiums.

(B) **Coverage After COBRA & Prior to Medicare Eligibility .** In the event the Executive is not eligible for Medicare coverage at the end of his maximum applicable COBRA coverage period, then, the Executive shall identify and locate either or both an individual conversion policy through the insurer providing insurance coverage in connection with the Company sponsored medical and dental plans available to active employees (the "**Conversion Policy** "), and/or a supplemental individual policy or an individual policy on the open market (the "**Individual Policy** ") to be effective upon the termination of his COBRA continuation coverage so that, when the coverages for Executive provided by the Conversion Policy and/or the Individual Policy are combined, such coverages provide substantially similar medical and dental benefits in the aggregate as those provided under the medical and dental plans sponsored by the Company at such time, or at any time after the termination of Executive's employment, for active employees (the "**Comparable Coverage** "). The Company shall be responsible for the payment of any Conversion Policy premiums and/or Individual Policy premiums for the Comparable Coverage which payment shall not exceed the cost of premiums for medical and dental coverage for then active employees. If Executive is at such time

eligible to participate under the Company Plans, Executive will be entitled to so participate.

(C) Coverage After COBRA & Upon Medicare Eligibility . In the event the Executive is eligible for Medicare coverage at the end of his maximum applicable COBRA coverage period, the Executive may identify and locate a Medicare supplemental policy, which may include, to the extent permitted, the medical and dental plans sponsored by the Company at such time for active employees (the “Company Plans”), that, when combined with the coverage provided by Medicare, provides Comparable Coverage. If Executive is at such time eligible to participate under the Company Plans, Executive will be entitled to so participate; provided that Executive shall be solely responsible for the payment of any Medicare premiums and/or Medical supplemental policy premiums for the Comparable Coverage (including, if applicable, any premiums under the Company Plans).

(D) Taxes, Coverage . The Executive shall be responsible for any taxes that may be attributable to or result from the payments made by the Company in accordance with this Section 5(b)(iii) or receipt of medical and dental benefits attributable to or result from such payments. Notwithstanding Section 5(b)(iii)(A) or (B), in the event Executive becomes eligible to be covered under another employer’s group health plan (other than a plan which imposes a preexisting condition exclusion to the extent permissible by law, unless the preexisting condition exclusion does not apply) during the period provided for herein, the Company shall cease payment of any premiums. The Company will use commercially reasonable efforts to provide that Executive will continue to be eligible for coverage as provided under this Section 5(b)(iii) under the Company Plans, unless the Board of Directors or Compensation Committee determines that such coverage would create an undue burden on the Company.

6. Termination of Employment due to Death or Permanent Disability .

(a) In the event of (i) the Executive’s death during his employment with the Company and the Executive having satisfied the criteria provided at Section 5(a)(i) as of or prior to the date of his death or (ii) the Executive’s death during the period while Executive was receiving Retirement Benefits as a result of compliance with the criteria provided at Section 5(a)(i) and 5(a)(ii), (1) the Executive’s legal representative or any person empowered to act on his behalf under his will or under the then applicable laws of descent and distribution shall be entitled to the benefits pursuant to Section 5(b)(i) (“**Option Exercisability**”) and Section 5(b)(ii) (“**Performance Stock Awards**”) and (2) the Executive’s dependents, to the extent applicable, shall be entitled to the benefits pursuant to Section 5(b)(iii)(A)-(D) (“**Medical and Dental Coverage**”) for that period of time until the Executive would have achieved the age of Medicare eligibility if the Executive had lived.

(b) In the event of the Executive’s Permanent Disability during his employment with the Company and the Executive having satisfied the criteria provided at Section 5(a)(i), the Executive, and to the extent applicable, his dependents, shall be entitled to the benefits provided in Section 5(b)(i) (“**Option Exercisability**”), Section 5(b)(ii) (“**Performance Stock Awards**”) and 5(b)(iii)(A)-(D) (“**Medical and Dental Coverage**”).

7. Payment of Taxes . All payments made to Executive under this Agreement shall be subject to all applicable federal and state income, employment and payroll taxes, including all withholding taxes.

8. Parachute Payment . Executive is strongly encouraged to review the following provision and consult with his or her tax and financial advisor concerning the application of any personal tax consequences related to any payments provided for under this Agreement and the following provision. In the event that any of the payments and benefits provided for in this Agreement or otherwise payable to the Executive (a “**280G Payment**”) would (i) constitute a “parachute payment” within the meaning of Section 280G of the Code, and (ii) but for this sentence, be subject to the excise tax imposed by Section 4999 of the Code (the “**Excise Tax**”), then any such 280G Payment pursuant to this Agreement (a “**Payment**”) shall be equal to the Reduced Amount. The “**Reduced Amount**” shall be either (i) the largest portion of the Payment that would result in no portion of the Payment (after reduction) being subject to the Excise Tax or (ii) the largest portion, up to and including the total, of the Payment, whichever amount (i.e., the amount determined by clause (i) or by clause (ii)), after taking into account all applicable federal, state and local employment taxes, income taxes, and the Excise Tax (all computed at the highest applicable marginal rate), results in the receipt by Executive, on an after-tax basis, of the greater economic benefit notwithstanding that all or some portion of the Payment may be subject to the Excise Tax. If a reduction in a Payment is required pursuant to the preceding sentence and the Reduced Amount is determined pursuant to clause (x) of the preceding sentence, the reduction shall occur in the manner (the “**Reduction Method**”) that results in the greatest economic benefit for Executive. If more than one method of reduction will result in the same economic benefit, the items so reduced will be reduced pro rata (the “**Pro Rata Reduction Method**”). Notwithstanding the foregoing, if the Reduction Method or the Pro Rata Reduction Method would result in any portion of the Payment being subject to taxes pursuant to Section 409A that would not otherwise be subject to taxes pursuant to Section 409A, then the Reduction Method and/or the Pro Rata Reduction Method, as the case may be, shall be modified so as to avoid the imposition of taxes pursuant to Section 409A as follows: (A) as a first priority, the modification shall preserve to the greatest extent possible, the greatest

economic benefit for Executive as determined on an after-tax basis; (B) as a second priority, Payments that are contingent on future events (e.g., being terminated without cause), shall be reduced (or eliminated) before Payments that are not contingent on future events; and (C) as a third priority, Payments that are “deferred compensation” within the meaning of Section 409A shall be reduced (or eliminated) before Payments that are not deferred compensation within the meaning of Section 409A. Unless the Company and the Executive otherwise agree in writing, any determination required under this Section 8 shall be made in writing by independent public accountants appointed by the Company and reasonably acceptable to the Executive (the “**Accountants**”), whose determination shall be conclusive and binding upon the Executive and the Company for all purposes. The Company shall bear all costs the Accountants may reasonably incur in connection with such determination, and the Company and the Executive shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section 8.

9. Exclusive Remedy . The payments and benefits provided for in Section 3, Section 4, Section 5 or Section 15 shall constitute the Executive’s sole and exclusive remedy for any alleged injury or other damages arising out of the cessation of the employment relationship between the Executive and the Company. The parties hereto agree that irreparable damage would occur if any of the provisions of this Agreement were not performed in accordance with these specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to enforce specifically the terms and provisions hereof, this being in addition to any other remedy to which they are entitled at law or in equity.

10. Proprietary and Confidential Information . The Executive agrees to continue to abide by the terms and conditions of any Company’s confidentiality and/or proprietary rights agreement between the Executive and the Company.

11. Arbitration . Any claim, dispute or controversy arising out of this Agreement, the interpretation, validity or enforceability of this Agreement or the alleged breach thereof shall be submitted by the parties to binding arbitration by the American Arbitration Association in San Jose, California or elsewhere by mutual agreement. The selection of the arbitrator and the arbitration procedure shall be governed by the Commercial Arbitration Rules of the American Arbitration Association. All costs and expenses of arbitration or litigation, including but not limited to reasonable attorneys fees and other costs reasonably incurred by the Executive, shall be paid by the Company. Judgment may be entered on the award of the arbitration in any court having jurisdiction.

12. Interpretation . Executive and the Company agree that this Agreement shall be interpreted in accordance with and governed by the laws of the State of California, without regard to such state’s conflict of laws rules.

13. Conflict in Benefits . This Agreement shall supersede all prior arrangements, whether written or oral, and understandings regarding the subject matter of this Agreement. To the extent Executive is entitled to severance or other benefits upon termination of employment under this Agreement and any other agreement, including any change in control agreement entered into by the Company and the Executive, entered into prior to the Effective Date, the benefits payable under this Agreement shall supersede and replace any other such agreement. However, this Agreement is not intended to and shall not affect, limit or terminate (i) any plans, programs, or arrangements of the Company that are regularly made available to a significant number of employees of the Company, (ii) the Company’s equity incentive plans, (iii) any agreement or arrangement with the Executive that has been reduced to writing and which does not relate to the subject matter hereof, or (iv) any agreements or arrangements hereafter entered into by the parties in writing, except as otherwise expressly provided herein.

14. Release of Claims . Executive shall receive the severance benefits or the Retirement Benefits pursuant to this Agreement only if Executive executes and returns to the Company, within the applicable time period set forth therein but in no event more than sixty (60) days following the date of Executive’s Separation from Service, a release of claims (the “**Release of Claims**”) in favor of the Company in a form reasonably satisfactory to the Company, and permits such Release of Claims to become effective in accordance with its terms on or prior to such sixtieth day (the “**Release Agreement Deadline**”). If the Release of Claims does not become effective by the Release Agreement Deadline, the Executive will forfeit any right to severance benefits or Retirement Benefits pursuant to this Agreement. Regardless of whether the Release of Claims becomes effective prior to the Release Agreement Deadline, any severance benefits or Retirement Benefits payable prior to the Release Agreement Deadline shall be paid on the Release Agreement Deadline, with the remainder of the payments to be made as originally scheduled. Except to the minimum extent that payments must be delayed pursuant to Section 20(c) because Executive is a “specified employee” or until the effectiveness (or deemed effectiveness) of the Release of Claims, all amounts will be paid as soon as practicable in accordance with the Company’s normal payroll practices following Executive’s Separation from Service. Notwithstanding the foregoing, the Release of Claims shall not be construed to waive any right to indemnification or contribution otherwise available to Executive under law or rules of corporate governance with respect to claims by third parties for actions or omissions in Executive’s role as an officer of the Company.

15. Successors and Assigns .

(a) Successors of the Company . The Company will require any successor or assign (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, expressly, absolutely and unconditionally to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession or assignment had taken place. Failure of the Company to obtain such agreement prior to the effectiveness of any such succession transaction shall be a breach of this Agreement and shall entitle the Executive to terminate his or her employment with the Company within three (3) months thereafter and to receive the benefits provided under Section 3 of this Agreement in the event of a Termination Upon Change of Control; provided, however, that (i) such termination of employment must be a Separation from Service and (ii) the Executive must deliver a Release of Claims as provided in Section 14. As used in this Agreement, "Company" shall mean the Company as defined above and any successor or assign to its business and/or assets as aforesaid which executes and delivers the agreement provided for in this Section 15 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

(b) Heirs of Executive . This Agreement shall inure to the benefit of and be enforceable by the Executive's personal and legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

16. Notices . For purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, as follows:

if to the Company:

Power Integrations, Inc.
5245 Hellyer Avenue
San Jose, California 95138
Attn: Chief Executive Officer or Chief Financial Officer

and if to the Executive, at the address specified in this Agreement. Notice may also be given at such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

17. No Representations . Executive acknowledges that he/she is not relying and has not relied on any promise, representation or statement made by or on behalf of the Company which is not set forth in this Agreement.

18. Validity . If any one or more of the provisions (or any part thereof) of this Agreement shall be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions (or any part thereof) shall not in any way be affected or impaired thereby.

19. Consultation with Legal and Financial Advisors . Executive acknowledges that his Agreement confers significant legal rights, and may also involve the waiver of rights under other agreements; that the Company has encouraged Executive to consult with Executive's personal legal and financial advisers; and that Executive has had adequate time to consult with Executive's advisers before signing this Agreement.

20. Application of Section 409A and Other Limitations. Executive is strongly encouraged to review the following provisions and consult with his or her tax and financial advisor concerning the application of any personal tax consequences related to any payments provided for under this Agreement and the following provisions.

(a) If any Stock Award (other than stock options) vesting pursuant to Section 2(a), Section 2(b), Section 3(a)(v)(2), Section 4(b)(ii) or Section 4(c):

(i) does not constitute "deferred compensation" within the meaning of Section 409A, the shares vesting pursuant to such events will be issued (1) in respect of Section 2(a), Section 2(b) and Section 4(b)(ii) immediately prior to the consummation of the Change of Control, and (2) in respect of Section 3(a)(v)(2) or Section 4(c) on the sixtieth (60th) day following the Termination Upon Change of Control or Termination of Employment, as applicable, as further provided in Section 14 hereof.

(ii) does constitute "deferred compensation" within the meaning of Section 409A, the shares vesting pursuant to such events will be issued (1) in respect of Section 2(a), Section 2(b) and Section 4(b)(ii) immediately prior to the Change of Control, provided such payment can be made without adverse personal tax consequences to the Executive, or else the shares vesting pursuant to Section 2(a), Section 2(b) and Section 4(b)(ii) will be converted into the same consideration

received by the holders of the Company's common stock pursuant to the Change of Control, and such consideration will be issued in accordance with the delivery schedule for such Stock Award in effect immediately prior to the Change of Control and (2) in respect of Section 3(a)(v)(2) or Section 4(c) will be issued in accordance with the delivery schedule for such Stock Award in effect immediately prior to the Termination Upon Change of Control or Termination of Employment, as applicable.

(b) Extension of Stock Option Exercise Period. Notwithstanding anything to the contrary in this Agreement, in the event any extended exercise period provided for in this Agreement shall result in a portion of a stock option becoming subject to the provisions of Section 409A, the extended exercise period of such portion of such stock option shall be automatically shortened by the minimum extent necessary to prevent such portion of such option from becoming subject to Section 409A. In no event will any provisions in this Agreement providing for an extended exercise period result in the extension of the exercise period of any stock option beyond the maximum permitted term of such stock option as provided under the applicable equity incentive plan and stock option award agreement in effect for such stock option, assuming for the purposes of this Section 20(b) no termination of Executive's employment with the Company.

(c) Other Benefits. Notwithstanding anything to the contrary herein, the following provisions apply to the extent any benefits ("**Benefits**") provided herein other than those described in Section 20(b) are subject to Section 409A: (A) The Benefits are intended to qualify for an exemption from application of Section 409A or comply with the requirements of Section 409A to the extent necessary to avoid adverse personal tax consequences under Section 409A, and any ambiguities herein shall be interpreted accordingly. (B) Benefits contingent on a termination of employment shall not commence until Executive has a Separation from Service. (C) Each installment of a Benefit is a separate "payment" for purposes of Treas. Reg. Section 1.409A-2(b)(2)(i). (D) Each Benefit is intended to satisfy the exemptions from application of Section 409A provided under Treasury Regulations Sections 1.409A-1(b)(4), 1.409A-1(b)(5) and 1.409A-1(b)(9) to the maximum extent available. However, if such exemptions are not available and Executive is, upon Executive's Separation from Service, a "specified employee" for the purposes of Section 409A, then, solely to the extent necessary to avoid adverse personal tax consequences under Section 409A, the timing of the Benefit payments otherwise payable prior to such date shall be delayed until the earlier of (x) six (6) months and one day after Executive's Separation from Service, or (y) Executive's death, and any payments otherwise scheduled to be made after such date shall be paid as originally scheduled. (E) To the extent that any reimbursements payable to Executive pursuant to Section 3(a)(iii) are subject to the provisions of Section 409A, the following provisions will apply in addition to the provisions of any applicable expense reimbursement policy: (a) to be eligible to obtain reimbursement for such expenses Executive must submit expense reports within 45 days after the expense is incurred, (b) any such reimbursements will be paid no later than the earlier of (x) thirty (30) days after the date Executive submits receipts for the expenses or (y) December 31 of the year following the year in which the expense was incurred, (c) the amount of expenses reimbursed in one year will not affect the amount eligible for reimbursement in any subsequent year, and (d) the right to reimbursement under this Agreement will not be subject to liquidation or exchange for another benefit.

(d) Payment of Health Care Benefits. Notwithstanding anything to the contrary set forth herein, if the Company determines, in its sole discretion, that it cannot provide the COBRA premium, Conversion Policy premium, Individual Policy premium, or other medical and dental coverage premiums (together the "**Health Care Benefits**") contemplated under this Agreement without potentially incurring financial costs or penalties under applicable law (including, without limitation, Section 2716 of the Public Health Service Act), the Company shall in lieu thereof pay Executive a taxable cash amount, which payment shall be made regardless of whether Executive or Executive's eligible family members elect health care continuation coverage (the "**Health Care Benefit Payment**"). Subject to any further delay in payment required by Section 14 of this Agreement, the Health Care Benefit Payment shall be paid in monthly installments on the same schedule that such amounts would otherwise have been paid to the insurer. The Health Care Benefit Payment shall be equal to (a) the amount that the Company would have otherwise paid to provide the Health Care Benefits for the duration of the applicable severance period (which amount shall be calculated based on the premium for the first month of coverage), plus (b) an additional amount such that after payment of all taxes, Executive retains an amount equal to the Company's aggregate cost of otherwise providing the Health Care Benefits. For purposes of calculating the "additional amount" in clause (b) of the preceding sentence, Executive shall be deemed to have: paid federal income taxes at the highest marginal rate of federal income and employment taxation for the calendar year in which the Health Care Benefit Payment is to be made, and paid applicable state and local income taxes at the highest rate of taxation for the calendar year in which the Health Care Benefit Payment is to be made, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes.

21. Definitions . As used in this Agreement, unless the context requires a different meaning, the following terms shall have the meanings set forth herein:

(a) "2007 Equity Incentive Plan" means that certain 2007 Equity Incentive Plan, as amended, as originally adopted by the Board of Directors on September 10, 2007, and any successor plan thereto.

(b) “ **Annual Performance Bonus** ” means the Executive’s current annual performance incentive bonus at the applicable maximum achievable Performance Level, whether consisting of cash or Stock Awards, as determined by the Board of Directors or Compensation Committee on an annual basis.

(c) “ **Cause** ” means:

(i) A material act of theft, dishonesty, fraud, intentional falsification of any employment or Company records or the commission of any criminal act which impairs Executive’s ability to perform his/her duties under this Agreement;

(ii) A material improper disclosure of the Company’s confidential, business or proprietary information by Executive;

(iii) Any action by Executive intentionally causing or expected to cause material harm to the reputation and standing of the Company, or gross negligence or willful misconduct in the performance of Executive’s assigned duties (but not mere unsatisfactory performance); or

(iv) The Executive’s conviction (including any plea of guilty or nolo contendere) for a felony causing material harm to the reputation and standing of the Company, as determined by the Company in good faith.

(d) “ **Change of Control** ” means:

(i) Any “ **person** ” (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), other than a trustee or other fiduciary holding securities of the Company under an employee benefit plan of the Company becomes the “beneficial owner” (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of (A) the outstanding shares of common stock of the Company or (B) the combined voting power of the Company’s then-outstanding securities;

(ii) The Company is party to a merger or consolidation which results in the holders of voting securities of the Company outstanding immediately prior thereto failing to continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 50% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation;

(iii) There occurs a change in the Board of Directors of the Company within a two-year period, as a result of which fewer than a majority of the Directors are Incumbent Directors. For purposes of this Agreement, an “Incumbent Director” is any director who is either:

(A) A director of the Company as of January 1, 2013; or

(B) A director who is elected or nominated for election to the Board of Directors of the Company with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but shall not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Company).

(iv) The sale or disposition of 50% or more of the Company’s assets (or consummation of any transaction having similar effect); or

(v) The dissolution or liquidation of the Company.

(e) “ **Code** ” means the Internal Revenue Code of 1986, as amended.

(f) “ **Company** ” shall mean Power Integrations, Inc., and following a Change of Control, any successor or assign to its business and/or assets that agrees or otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

(g) “ **Competition** ” shall mean rendering services for any organization or engaging in any business directly competitive with the Company or materially contrary or harmful to the interests of the Company, including, but not limited to (i) accepting employment with, or serving as a consultant, advisor or in any other capacity to, the division or other portion of the business of any employer which competes directly with the Company; (ii) materially acting against the interest of the Company

or (iii) personally recruiting, directly or indirectly, any person who is then an employee of the Company.

(h) “ **Good Reason** ” means the occurrence of any of the following conditions, without Executive’s written consent, which condition(s) remain(s) in effect 20 days after written notice to the Board of Directors from Executive of such condition(s), if such notice is given within one year of the occurrence of such condition(s):

(i) A material decrease or planned decrease in Executive’s annual salary, the cash value of Executive’s Annual Performance Bonus or employee benefits following a Change of Control;

(ii) A demotion, a material reduction in Executive’s position, responsibilities or duties or a material, adverse change in Executive’s substantive functional responsibilities or duties. For the avoidance of doubt, in the event of a Change of Control, Executive will be deemed demoted and his position, responsibilities or duties materially reduced or his substantive functional responsibilities or duties materially adversely changed if Executive is employed in any position other than Chief Executive Officer of the acquirer.

(iii) The relocation of Executive’s work place for the Company to a location more than fifty (50) miles from the current location of Executive’s work place or a material adverse change in the working conditions or established working hours which persist for a period of six continuous months; or

(iv) Any material breach of this Agreement by the Company.

(i) “ **Highest Annual Salary** ” means Executive’s highest annual salary in any of the three years preceding the applicable date of determination, provided, however, that if the Executive’s then effective annual salary would be Executive’s highest annual salary upon completion of the current year of service, then Highest Annual Salary shall mean Executive’s then effective annual salary.

(j) “ **Performance Level** ” means the pay out amounts (whether in cash or Stock Awards) based upon the satisfaction of one or more performance criteria as determined by the Board of Directors or Compensation Committee.

(k) “ **Performance Stock Award** ” means any Stock Award subject to vesting upon the achievement of any Performance Level regardless of the length of any performance period.

(l) “ **Permanent Disability** ” means that:

(i) The Executive has been incapacitated by bodily injury or disease so as to be prevented thereby from engaging in the performance of the Executive’s duties;

(ii) Such total incapacity shall have continued for a period of six consecutive months;

(iii) Such incapacity will, in the opinion of a qualified physician, be permanent and continuous during the remainder of the Executive’s life; and

(iv) Such incapacity results in Executive’s Separation from Service.

(m) “ **Prorated Portion** ” means a fraction the numerator of which is the number of days in an applicable performance period prior to such Executive’s termination of employment and the denominator of which is the total number of days in an applicable performance period.

(n) “ **Release of Claims** ” means the release of claims required by Section 14 of this Agreement.

(o) “ **Retention Stock Award** ” means any Stock Award subject to vesting upon the completion of time-based vesting criteria.

(p) “ **Section 409A** ” means Section 409A of the Code and the regulations and other guidance thereunder and any state law of similar effect.

(q) “ **Separation from Service** ” means a “separation from service” for the purposes of Section 409A with respect to the Company.

(r) “ *Stock Award* ” shall have the same meaning given to it in the 2007 Equity Incentive Plan, as may be amended from time to time.

(s) “ *Termination of Employment* ” means Executive’s Separation from Service that results from:

- (i) Any termination of employment of the Executive by the Company without Cause; or
- (ii) Any resignation by the Executive for Good Reason.

“Termination of Employment” shall not include any termination of the employment of the Executive (a) by the Company for Cause; (b) as a result of Permanent Disability of the Executive; (c) as a result of the death of the Executive; (d) as a result of the voluntary termination of employment by the Executive for reasons other than Good Reason; or (e) a Termination Upon Change of Control.

(t) “ *Termination Upon Change of Control* ” means Executive’s Separation from Service that results from:

- (i) Any termination of the employment of the Executive by the Company without Cause on or within eighteen (18) months after the occurrence of a Change of Control; o r
- (ii) Any resignation by the Executive for Good Reason within eighteen (18) months after the occurrence of a Change of Control.

“Termination Upon Change of Control” shall not include any termination of the employment of the Executive (a) by the Company for Cause; (b) as a result of the Permanent Disability of the Executive; (c) as a result of the death of the Executive; or (d) as a result of the voluntary termination of employment by the Executive for reasons other than Good Reason.

* * * * *

POWER INTEGRATIONS, INC.
AMENDED AND RESTATED EXECUTIVE OFFICER BENEFITS AGREEMENT

This Amended and Restated Executive Officer Benefits Agreement (the “*Agreement*”) is made and entered into as of May 1, 2014 (the “*Effective Date*”), by and between **Power Integrations, Inc.**, a Delaware corporation, (the “*Company*”) and John Tomlin (“*Executive*”).

Recitals

A. Executive is an Executive Officer of the Company and possesses valuable knowledge of the Company, its business and operations, and the markets in which the Company competes.

B. The Company draws upon the knowledge, experience and advice of Executive in order to manage its business for the benefit of the Company’s stockholders.

C. The Board of Directors desires to supplement Executive’s employment arrangements so as to provide additional compensation and benefits to the Executive to encourage Executive to continue to devote his attention and dedication to the Company and to create additional incentives to continue his employment with the Company.

D. The Company and Executive previously entered into an Amended and Restated Executive Officer Benefits Agreement by and between the Company and Executive, dated May 30, 2013 (the “*Prior Agreement*”).

E. The Company and Executive have agreed to amend and restate the Prior Agreement in its entirety as set forth herein.

Agreement

Therefore, in consideration of the mutual agreements, covenants and considerations contained herein, the undersigned hereby agree and acknowledge as follows:

1. The Prior Agreement is hereby amended and restated in its entirety and the parties hereby agree to the terms hereof, including the terms set forth on Exhibit A hereto. Pursuant to Sections 21(k) or 21(s) of Exhibit A hereto, Executive shall first be eligible for the benefits under this Agreement upon the completion of one year of continuous service as an Executive Officer of the Company, unless the Board of Directors or Compensation Committee determines otherwise.

2. For the purposes of this Agreement the “*Option Effective Date*” shall mean the Effective Date unless this Agreement is an amendment to an earlier agreement in which case the “*Option Effective Date*” shall mean April 26, 2002.

3. This Agreement may only be modified or amended by a supplemental written agreement signed by Executive and the Company.

* * * * *

In Witness Whereof, the undersigned have executed this **Amended and Restated Executive Officer Benefits Agreement**, intending to be legally bound as of the Effective Date.

COMPANY:

Power Integrations, Inc.

By: /s/ Balu Balakrishnan

Name: Balu Balakrishnan

Title: President and CEO

EXECUTIVE:

/s/ John Tomlin

John Tomlin

Address for Notice: Executive's home address as reflected in the records of the Company

EXHIBIT A

TERMS OF AMENDED AND RESTATED EXECUTIVE OFFICER BENEFITS AGREEMENT

1. Position and Duties. Executive shall continue to be an at-will employee of the Company employed in his/her current position at his/her then current salary rate. Executive shall also be entitled to continue to participate in and to receive benefits on the same basis as other executive or senior staff members under any of the Company's employee benefit plans as in effect from time to time. In addition, Executive shall be entitled to the benefits afforded to other employees similarly situated under the Company's employment policies. Executive agrees to devote the business time, energy and skill necessary to execute his/her duties at the Company. These duties shall include, but not be limited to, any duties consistent with his/her position which may be assigned to Executive from time to time.

2. Acceleration of Vesting of Stock Awards Upon a Change of Control . In the event of a Change of Control, and provided that Executive's employment with the Company has not terminated prior to such date, Executive shall be entitled to the following benefits:

(a) All Retention Stock Awards granted by the Company to the Executive prior to the Change of Control shall have their vesting accelerated such that 25% of the then unvested shares subject to each Retention Stock Award will be deemed vested and exercisable or issuable as of the consummation of the Change of Control. Notwithstanding the foregoing, if the Change of Control does not require the assumption or substitution by the acquiring entity (or parent thereof) of all of the Company's obligations of the then outstanding Retention Stock Awards, then (i) if Executive is a New Executive, 50% of the then unvested shares subject to each Retention Stock Awards will be accelerated and deemed vested and exercisable prior to the consummation of the Change of Control; or (ii) if Executive is a Senior Executive, 100% of the then unvested shares subject to any Retention Stock Awards will be accelerated and deemed vested and exercisable prior to the consummation of the Change of Control. The shares vesting pursuant to this Section 2(a) will be exercisable, issued or converted and paid in accordance with Sections 2(c) and 20(a). Except as otherwise provided in the applicable award agreement, the portion of any unvested Retention Stock Award that is not assumed (or an appropriate substitution provided) and that does not vest based on this Section 2(a) will be forfeited by Executive and will be of no further force or effect.

(b) All Performance Stock Awards granted by the Company to the Executive prior to the Change of Control shall have their vesting accelerated immediately prior to consummation of such Change of Control so that 100% of the then unvested shares will be deemed vested at the applicable maximum achievable Performance Level . The shares vesting pursuant to this Section 2(b) will be exercisable, issued or converted and paid in accordance with Sections 2(c) and 20(a).

(c) In the event of a Change of Control, the Company undertakes to facilitate Executive's receipt of any of the benefits set forth in this Agreement by providing written notice to Executive, at least ten (10) days in advance of the closing of such transaction, which (i) indicates the anticipated timing and material economic terms of the anticipated transaction and (ii) references the Executive's rights under this Agreement. The Company shall also provide appropriate Stock Award exercise forms and instructions to assist Executive in exercising his or her rights to acquire securities of the Company on or prior to the consummation of the Change of Control. Executive is strongly encouraged to consult with his or her tax and financial advisor prior to electing to exercise any option pursuant to this Agreement.

3. Termination Upon Change of Control .

(a) **Severance Benefits .** In the event of the Executive's Termination Upon Change of Control, Executive shall be entitled to the following separation benefits:

(i) **Salary and Accrued Benefits .** All salary and accrued but unused vacation earned through the date of Executive's termination.

(ii) **Annual Performance Bonus.** Payment of a Prorated Portion of the cash value of Executive's Annual Performance Bonus measured as of the date of termination for the year in which such termination occurs.

(iii) **Expenses .** Within fourteen (14) days of submission of proper expense reports by the Executive, reimbursement by the Company for all expenses reasonably and necessarily incurred by the Executive in connection with the business of the Company prior to his termination of employment.

(iv) Severance Payment .

(1) if Executive is a New Executive, payment of an amount equal to six (6) months of Executive's Highest Annual Salary from the Company and 50% of the cash value of Executive's Annual Performance Bonus measured as of the date of termination at the applicable maximum achievable Performance Level as in effect as of the date of such termination to be paid in a lump sum on the sixtieth (60th) day following such termination as provided in Section 14; or

(2) if Executive is a Senior Executive, payment of an amount equal to (a) six (6) months of Executive's Highest Annual Salary from the Company and 50% of the cash value of Executive's Annual Performance Bonus measured as of the date of termination at the applicable maximum achievable Performance Level as in effect as of the date of such termination to be paid in a lump sum on the sixtieth (60th) day following such termination as provided in Section 14 and (b) up to an additional six (6) months of Executive's Highest Annual Salary and 50% of such Annual Performance Bonus measured as of the date of termination at the applicable maximum achievable Performance Level, less applicable withholding, shall be paid beginning six months after termination, subject to Section 14, in ratable monthly installments for six months or until Executive secures new employment, whichever occurs earlier.

(v) Stock Awards.

(1) The ability to exercise any and all outstanding vested options granted after the Option Effective Date (and any vested options granted prior to the Option Effective Date but only to the extent that such extension of exercisability would not require the Company to incur a compensation expense for financial statement purposes) for twelve (12) months from the date of termination of employment.

(2) The vesting of all Stock Awards (to the extent such Stock Award does not also constitute a portion of Executive's Annual Performance Bonus) granted by the Company to the Executive and outstanding immediately prior to such Termination Upon Change of Control shall have their vesting accelerated, such that (i) if Executive is a New Executive, 50% of the then unvested shares subject to such Stock Award will be deemed vested and exercisable as of the date of termination of employment; or (ii) if Executive is a Senior Executive, 100% of the then unvested shares subject to such Stock Award will be deemed vested and exercisable as of the date of termination of employment. Any shares vesting pursuant to this Section 3(a)(v)(2) subject to a Performance Stock Award shall vest at the applicable maximum achievable Performance Level. The shares vesting pursuant to this Section 3(a)(v)(2) will be issued in accordance with Section 20(a). Except as otherwise provided in the applicable Stock Award agreement, the portion of any unvested Stock Award that does not vest based on this Section 3(a)(v)(2) will be forfeited by Executive and will be of no further force or effect.

(b) Benefits Continuation .

(i) In the event of Executive's Termination Upon Change of Control, Executive shall be entitled to elect continued medical and dental insurance coverage in accordance with the applicable provisions of the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, ("COBRA") and the Company shall pay such COBRA premiums for (i) six (6) months from the date of termination of employment, if Executive is a New Executive; or (ii) twelve (12) months from the date of termination of employment, if Executive is a Senior Executive. Notwithstanding the above, in the event Executive becomes eligible to be covered under another employer's group health plan (other than a plan which imposes a preexisting condition exclusion unless the preexisting condition exclusion does not apply) during the period provided for herein, the Company shall cease payment of the COBRA premiums; and

(ii) Executive shall receive the benefits, if any, under the Company's 401(k) Plan and other Company benefit plans to which he may be entitled pursuant to the terms of such plans.

4. Termination of Employment .

(a) **Severance Benefits .** In the event of the Executive's Termination of Employment, Executive shall be entitled to all separation benefits provided in Section 3(a)(i) (" **Salary and Accrued Benefits** "), Section 3(a)(ii) (" **Annual Performance Bonus** ") and 3(a)(iii) (" **Expenses** ") above. In addition, Executive shall be entitled to six (6) months of Executive's Highest Annual Salary and 50% of the cash value of Executive's Annual Performance Bonus at the applicable maximum achievable Performance Level as in effect as of the date of such termination, all less applicable withholding, paid in a lump sum within sixty (60) days of such termination as provided in Section 14.

(b) Performance Stock Awards .

(i) A Prorated Portion of all shares subject to Performance Stock Awards granted to the Executive by the Company and outstanding prior to such Termination of Employment with a performance period greater than one (1) year and granted other than in connection with Executive's Annual Performance Bonus shall vest at such Performance Level as determined by the Board of Directors or Compensation Committee on the date of such determination.

(ii) Immediately prior to the consummation of any Change of Control to occur after Executive's Termination of Employment, a Prorated Portion of Executive's outstanding Performance Stock Awards with a performance period greater than one (1) year and granted other than in connection with Executive's Annual Performance Bonus will be deemed vested at the applicable maximum achievable Performance Level. The shares vesting pursuant to this Section 4(b)(ii) will be exercisable, issued or converted and paid in accordance with Sections 2(c) and 20(a).

(c) **Benefits Continuation .**

(i) In the event of Executive's Termination of Employment, Executive shall be entitled to elect continued medical and dental insurance coverage in accordance with the applicable provisions of COBRA and the Company shall pay such COBRA premiums for six (6) months from the date of Termination of Employment. Notwithstanding the above, in the event Executive becomes eligible to be covered under another employer's group health plan (other than a plan which imposes a preexisting condition exclusion unless the preexisting condition exclusion does not apply) during the period provided for herein, the Company shall cease payment of the COBRA premiums; and

(ii) Executive shall receive the benefits, if any, under the Company's 401(k) Plan and other Company benefit plans to which he may be entitled pursuant to the terms of such plans.

5. Retirement Benefits .

(a) In order to be eligible for the Retirement Benefits described in Section 5(b) below, the Executive must meet both of the following criteria:

(i) At the time of Executive's termination of employment with the Company (other than in circumstances in which such termination (i) constitutes a termination with Cause or (ii) does not qualify as a Separation from Service), the Executive has (1) achieved the age of 50 and served the Company for at least 15 years; or (2) achieved the age of 55 and served the Company for at least 10 years; provided, however, if such termination of employment also constitutes a Termination of Employment or a Termination Upon Change of Control, Executive must elect within thirty (30) days of such termination to receive either the benefits provided in Section 3 or Section 4, as applicable, or the benefits provided in this Section 5; and

(ii) At any time during which the Executive is receiving Retirement Benefits, the Executive shall not (1) be employed or on contract full time by a third party (excluding a non-profit organization described in Section 501(c)(3) of the Code) or (2) engage in Competition. If the Executive engages in either (1) or (2), then all Retirement Benefits shall terminate immediately and permanently.

(b) If both conditions in Sections 5(a)(i) and 5(a)(ii) above are satisfied, the Executive shall be entitled, subject to Section 14, to receive the following "**Retirement Benefits** :"

(i) **Option Exercisability.** The ability to exercise any and all options granted after the Option Effective Date (and any options granted prior to the Option Effective Date but only to the extent that such extension of exercisability would not require the Company to incur a compensation expense for financial statement purposes) to the extent such options are vested as of the date of termination of employment for the earlier of: (i) the term of the option, (ii) the termination of the option in connection with any Change of Control, or (iii) five years;

(ii) **Performance Stock Awards.** The benefits provided under Section 4(b) ("**Performance Stock Awards** "); and

(iii) **Medical and Dental Coverage .** The Company shall pay the Executive's medical and dental premiums until the Executive achieves the age of Medicare eligibility, and additionally, if the Executive's medical and dental coverage on the date of termination included the Executive's dependents, the premiums of such dependents until the Executive achieves the age of Medicare eligibility as follows:

(A) **COBRA Continuation Coverage .** Upon the termination of Executive's active employment with the Company, Executive shall be entitled to elect continued medical and dental insurance coverage in accordance

with the applicable provisions of COBRA and the Company shall pay such COBRA premiums.

(B) Coverage After COBRA & Prior to Medicare Eligibility . In the event the Executive is not eligible for Medicare coverage at the end of his maximum applicable COBRA coverage period, then, the Executive shall identify and locate either or both an individual conversion policy through the insurer providing insurance coverage in connection with the Company sponsored medical and dental plans available to active employees (the “**Conversion Policy**”), and/or a supplemental individual policy or an individual policy on the open market (the “**Individual Policy**”) to be effective upon the termination of his COBRA continuation coverage so that, when the coverages for Executive provided by the Conversion Policy and/or the Individual Policy are combined, such coverages provide substantially similar medical and dental benefits in the aggregate as those provided under the medical and dental plans sponsored by the Company at such time, or at any time after the termination of Executive’s employment, for active employees (the “**Comparable Coverage**”). The Company shall be responsible for the payment of any Conversion Policy premiums and/or Individual Policy premiums for the Comparable Coverage which payment shall not exceed the cost of premiums for medical and dental coverage for then active employees. If Executive is at such time eligible to participate under the Company Plans, Executive will be entitled to so participate.

(C) Coverage After COBRA & Upon Medicare Eligibility . In the event the Executive is eligible for Medicare coverage at the end of his maximum applicable COBRA coverage period, the Executive may identify and locate a Medicare supplemental policy, which may include, to the extent permitted, the medical and dental plans sponsored by the Company at such time for active employees (the “Company Plans”), that, when combined with the coverage provided by Medicare, provides Comparable Coverage. If Executive is at such time eligible to participate under the Company Plans, Executive will be entitled to so participate; provided that Executive shall be solely responsible for the payment of any Medicare premiums and/or Medical supplemental policy premiums for the Comparable Coverage (including, if applicable, any premiums under the Company Plans).

(D) Taxes, Coverage . The Executive shall be responsible for any taxes that may be attributable to or result from the payments made by the Company in accordance with this Section 5(b)(iii) or receipt of medical and dental benefits attributable to or result from such payments. Notwithstanding Section 5(b)(iii)(A) or (B), in the event Executive becomes eligible to be covered under another employer’s group health plan (other than a plan which imposes a preexisting condition exclusion to the extent permissible by law, unless the preexisting condition exclusion does not apply) during the period provided for herein, the Company shall cease payment of any premiums. The Company will use commercially reasonable efforts to provide that Executive will continue to be eligible for coverage as provided under this Section 5(b)(iii) under the Company Plans, unless the Board of Directors or Compensation Committee determines that such coverage would create an undue burden on the Company.

6. Termination of Employment due to Death or Permanent Disability .

(a) In the event of (i) the Executive’s death during his employment with the Company and the Executive having satisfied the criteria provided at Section 5(a)(i) as of or prior to the date of his death or (ii) the Executive’s death during the period while Executive was receiving Retirement Benefits as a result of compliance with the criteria provided at Section 5(a)(i) and 5(a)(ii), (1) the Executive’s legal representative or any person empowered to act on his behalf under his will or under the then applicable laws of descent and distribution shall be entitled to the benefits pursuant to Section 5(b)(i) (“**Option Exercisability**”) and Section 5(b)(ii) (“**Performance Stock Awards**”) and (2) the Executive’s dependents, to the extent applicable, shall be entitled to the benefits pursuant to Section 5(b)(iii)(A)-(D) (“**Medical and Dental Coverage**”) for that period of time until the Executive would have achieved the age of Medicare eligibility if the Executive had lived.

(b) In the event of the Executive’s Permanent Disability during his employment with the Company and the Executive having satisfied the criteria provided at Section 5(a)(i), the Executive, and to the extent applicable, his dependents, shall be entitled to the benefits provided in Section 5(b)(i) (“**Option Exercisability**”), Section 5(b)(ii) (“**Performance Stock Awards**”) and 5(b)(iii)(A)-(D) (“**Medical and Dental Coverage**”).

7. Payment of Taxes . All payments made to Executive under this Agreement shall be subject to all applicable federal and state income, employment and payroll taxes, including all withholding taxes.

8. Parachute Payment . Executive is strongly encouraged to review the following provision and consult with his or her tax and financial advisor concerning the application of any personal tax consequences related to any payments provided for under this Agreement and the following provision. In the event that any of the payments and benefits provided for in this Agreement or otherwise payable to the Executive (a “**280G Payment**”) would (i) constitute a “parachute payment” within the meaning of Section 280G of the Code, and (ii) but for this sentence, be subject to the excise tax imposed by Section 4999 of the Code (the “**Excise Tax**”), then any such 280G Payment pursuant to this Agreement (a “**Payment**”) shall be equal to the Reduced Amount. The “**Reduced Amount**” shall be either (i) the largest portion of the Payment that would result in no portion of the

Payment (after reduction) being subject to the Excise Tax or (ii) the largest portion, up to and including the total, of the Payment, whichever amount (i.e., the amount determined by clause (i) or by clause (ii)), after taking into account all applicable federal, state and local employment taxes, income taxes, and the Excise Tax (all computed at the highest applicable marginal rate), results in the receipt by Executive, on an after-tax basis, of the greater economic benefit notwithstanding that all or some portion of the Payment may be subject to the Excise Tax. If a reduction in a Payment is required pursuant to the preceding sentence and the Reduced Amount is determined pursuant to clause (x) of the preceding sentence, the reduction shall occur in the manner (the “**Reduction Method**”) that results in the greatest economic benefit for Executive. If more than one method of reduction will result in the same economic benefit, the items so reduced will be reduced pro rata (the “**Pro Rata Reduction Method**”). Notwithstanding the foregoing, if the Reduction Method or the Pro Rata Reduction Method would result in any portion of the Payment being subject to taxes pursuant to Section 409A that would not otherwise be subject to taxes pursuant to Section 409A, then the Reduction Method and/or the Pro Rata Reduction Method, as the case may be, shall be modified so as to avoid the imposition of taxes pursuant to Section 409A as follows: (A) as a first priority, the modification shall preserve to the greatest extent possible, the greatest economic benefit for Executive as determined on an after-tax basis; (B) as a second priority, Payments that are contingent on future events (e.g., being terminated without cause), shall be reduced (or eliminated) before Payments that are not contingent on future events; and (C) as a third priority, Payments that are “deferred compensation” within the meaning of Section 409A shall be reduced (or eliminated) before Payments that are not deferred compensation within the meaning of Section 409A. Unless the Company and the Executive otherwise agree in writing, any determination required under this Section 8 shall be made in writing by independent public accountants appointed by the Company and reasonably acceptable to the Executive (the “**Accountants**”), whose determination shall be conclusive and binding upon the Executive and the Company for all purposes. The Company shall bear all costs the Accountants may reasonably incur in connection with such determination, and the Company and the Executive shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section 8.

9. Exclusive Remedy . The payments and benefits provided for in Section 3, Section 4, Section 5 or Section 15 shall constitute the Executive’s sole and exclusive remedy for any alleged injury or other damages arising out of the cessation of the employment relationship between the Executive and the Company. The parties hereto agree that irreparable damage would occur if any of the provisions of this Agreement were not performed in accordance with these specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to enforce specifically the terms and provisions hereof, this being in addition to any other remedy to which they are entitled at law or in equity.

10. Proprietary and Confidential Information . The Executive agrees to continue to abide by the terms and conditions of any Company’s confidentiality and/or proprietary rights agreement between the Executive and the Company.

11. Arbitration . Any claim, dispute or controversy arising out of this Agreement, the interpretation, validity or enforceability of this Agreement or the alleged breach thereof shall be submitted by the parties to binding arbitration by the American Arbitration Association in San Jose, California or elsewhere by mutual agreement. The selection of the arbitrator and the arbitration procedure shall be governed by the Commercial Arbitration Rules of the American Arbitration Association. All costs and expenses of arbitration or litigation, including but not limited to reasonable attorneys fees and other costs reasonably incurred by the Executive, shall be paid by the Company. Judgment may be entered on the award of the arbitration in any court having jurisdiction.

12. Interpretation . Executive and the Company agree that this Agreement shall be interpreted in accordance with and governed by the laws of the State of California, without regard to such state’s conflict of laws rules.

13. Conflict in Benefits . This Agreement shall supersede all prior arrangements, whether written or oral, and understandings regarding the subject matter of this Agreement. To the extent Executive is entitled to severance or other benefits upon termination of employment under this Agreement and any other agreement, including any change in control agreement entered into by the Company and the Executive, entered into prior to the Effective Date, the benefits payable under this Agreement shall supersede and replace any other such agreement. However, this Agreement is not intended to and shall not affect, limit or terminate (i) any plans, programs, or arrangements of the Company that are regularly made available to a significant number of employees of the Company, (ii) the Company’s equity incentive plans, (iii) any agreement or arrangement with the Executive that has been reduced to writing and which does not relate to the subject matter hereof, or (iv) any agreements or arrangements hereafter entered into by the parties in writing, except as otherwise expressly provided herein.

14. Release of Claims . Executive shall receive the severance benefits or the Retirement Benefits pursuant to this Agreement only if Executive executes and returns to the Company, within the applicable time period set forth therein but in no event more than sixty (60) days following the date of Executive’s Separation from Service, a release of claims (the “**Release of Claims**”) in favor of the Company in a form reasonably satisfactory to the Company, and permits such Release of Claims to become effective in accordance with its terms on or prior to such sixtieth day (the “**Release Agreement Deadline**”). If the Release of Claims

does not become effective by the Release Agreement Deadline, the Executive will forfeit any right to severance benefits or Retirement Benefits pursuant to this Agreement. Regardless of whether the Release of Claims becomes effective prior to the Release Agreement Deadline, any severance benefits or Retirement Benefits payable prior to the Release Agreement Deadline shall be paid on the Release Agreement Deadline, with the remainder of the payments to be made as originally scheduled. Except to the minimum extent that payments must be delayed pursuant to Section 20(c) because Executive is a "specified employee" or until the effectiveness (or deemed effectiveness) of the Release of Claims, all amounts will be paid as soon as practicable in accordance with the Company's normal payroll practices following Executive's Separation from Service. Notwithstanding the foregoing, the Release of Claims shall not be construed to waive any right to indemnification or contribution otherwise available to Executive under law or rules of corporate governance with respect to claims by third parties for actions or omissions in Executive's role as an officer of the Company.

15. Successors and Assigns .

(a) Successors of the Company . The Company will require any successor or assign (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, expressly, absolutely and unconditionally to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession or assignment had taken place. Failure of the Company to obtain such agreement prior to the effectiveness of any such succession transaction shall be a breach of this Agreement and shall entitle the Executive to terminate his or her employment with the Company within three (3) months thereafter and to receive the benefits provided under Section 3 of this Agreement in the event of a Termination Upon Change of Control; provided, however, that (i) such termination of employment must be a Separation from Service and (ii) the Executive must deliver a Release of Claims as provided in Section 14. As used in this Agreement, "Company" shall mean the Company as defined above and any successor or assign to its business and/or assets as aforesaid which executes and delivers the agreement provided for in this Section 15 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

(b) Heirs of Executive . This Agreement shall inure to the benefit of and be enforceable by the Executive's personal and legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

16. Notices . For purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, as follows:

if to the Company:

Power Integrations, Inc.
5245 Hellyer Avenue
San Jose, California 95138
Attn: Chief Executive Officer or Chief Financial Officer

and if to the Executive, at the address specified in this Agreement. Notice may also be given at such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

17. No Representations . Executive acknowledges that he/she is not relying and has not relied on any promise, representation or statement made by or on behalf of the Company which is not set forth in this Agreement.

18. Validity . If any one or more of the provisions (or any part thereof) of this Agreement shall be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions (or any part thereof) shall not in any way be affected or impaired thereby.

19. Consultation with Legal and Financial Advisors . Executive acknowledges that his Agreement confers significant legal rights, and may also involve the waiver of rights under other agreements; that the Company has encouraged Executive to consult with Executive's personal legal and financial advisers; and that Executive has had adequate time to consult with Executive's advisers before signing this Agreement.

20. Application of Section 409A and Other Limitations. Executive is strongly encouraged to review the following provisions and consult with his or her tax and financial advisor concerning the application of any personal tax consequences related to any payments provided for under this Agreement and the following provisions.

(a) If any Stock Award (other than stock options) vesting pursuant to Section 2(a), Section 2(b), Section

3(a)(v)(2) or Section 4(b)(ii):

(i) does not constitute “deferred compensation” within the meaning of Section 409A, the shares vesting pursuant to such events will be issued (1) in respect of Section 2(a), Section 2(b) and Section 4(b)(ii) immediately prior to the consummation of the Change of Control, and (2) in respect of Section 3(a)(v)(2) on the sixtieth (60th) day following the Termination Upon Change of Control as further provided in Section 14 hereof.

(ii) does constitute “deferred compensation” within the meaning of Section 409A, the shares vesting pursuant to such events will be issued (1) in respect of Section 2(a), Section 2(b) and Section 4(b)(ii) immediately prior to the Change of Control, provided such payment can be made without adverse personal tax consequences to the Executive, or else the shares vesting pursuant to Section 2(a), Section 2(b) and Section 4(b)(ii) will be converted into the same consideration received by the holders of the Company’s common stock pursuant to the Change of Control, and such consideration will be issued in accordance with the delivery schedule for such Stock Award in effect immediately prior to the Change of Control and (2) in respect of Section 3(a)(v)(2) will be issued in accordance with the delivery schedule for such Stock Award in effect immediately prior to the Termination Upon Change of Control.

(b) Extension of Stock Option Exercise Period. Notwithstanding anything to the contrary in this Agreement, in the event any extended exercise period provided for in this Agreement shall result in a portion of a stock option becoming subject to the provisions of Section 409A, the extended exercise period of such portion of such stock option shall be automatically shortened by the minimum extent necessary to prevent such portion of such option from becoming subject to Section 409A. In no event will any provisions in this Agreement providing for an extended exercise period result in the extension of the exercise period of any stock option beyond the maximum permitted term of such stock option as provided under the applicable equity incentive plan and stock option award agreement in effect for such stock option, assuming for the purposes of this Section 20(b) no termination of Executive’s employment with the Company.

(c) Other Benefits. Notwithstanding anything to the contrary herein, the following provisions apply to the extent any benefits (“*Benefits*”) provided herein other than those described in Section 20(b) are subject to Section 409A: (A) The Benefits are intended to qualify for an exemption from application of Section 409A or comply with the requirements of Section 409A to the extent necessary to avoid adverse personal tax consequences under Section 409A, and any ambiguities herein shall be interpreted accordingly. (B) Benefits contingent on a termination of employment shall not commence until Executive has a Separation from Service. (C) Each installment of a Benefit is a separate “payment” for purposes of Treas. Reg. Section 1.409A-2(b)(2)(i). (D) Each Benefit is intended to satisfy the exemptions from application of Section 409A provided under Treasury Regulations Sections 1.409A-1(b)(4), 1.409A-1(b)(5) and 1.409A-1(b)(9) to the maximum extent available. However, if such exemptions are not available and Executive is, upon Executive’s Separation from Service, a “specified employee” for the purposes of Section 409A, then, solely to the extent necessary to avoid adverse personal tax consequences under Section 409A, the timing of the Benefit payments otherwise payable prior to such date shall be delayed until the earlier of (x) six (6) months and one day after Executive’s Separation from Service, or (y) Executive’s death, and any payments otherwise scheduled to be made after such date shall be paid as originally scheduled. (E) To the extent that any reimbursements payable to Executive pursuant to Section 3(a)(iii) are subject to the provisions of Section 409A, the following provisions will apply in addition to the provisions of any applicable expense reimbursement policy: (a) to be eligible to obtain reimbursement for such expenses Executive must submit expense reports within 45 days after the expense is incurred, (b) any such reimbursements will be paid no later than the earlier of (x) thirty (30) days after the date Executive submits receipts for the expenses or (y) December 31 of the year following the year in which the expense was incurred, (c) the amount of expenses reimbursed in one year will not affect the amount eligible for reimbursement in any subsequent year, and (d) the right to reimbursement under this Agreement will not be subject to liquidation or exchange for another benefit.

(d) Payment of Health Care Benefits. Notwithstanding anything to the contrary set forth herein, if the Company determines, in its sole discretion, that it cannot provide the COBRA premium, Conversion Policy premium, Individual Policy premium, or other medical and dental coverage premiums (together the “*Health Care Benefits*”) contemplated under this Agreement without potentially incurring financial costs or penalties under applicable law (including, without limitation, Section 2716 of the Public Health Service Act), the Company shall in lieu thereof pay Executive a taxable cash amount, which payment shall be made regardless of whether Executive or Executive’s eligible family members elect health care continuation coverage (the “*Health Care Benefit Payment*”). Subject to any further delay in payment required by Section 14 of this Agreement, the Health Care Benefit Payment shall be paid in monthly installments on the same schedule that such amounts would otherwise have been paid to the insurer. The Health Care Benefit Payment shall be equal to (a) the amount that the Company would have otherwise paid to provide the Health Care Benefits for the duration of the applicable severance period (which amount shall be calculated based on the premium for the first month of coverage), plus (b) an additional amount such that after payment of all taxes, Executive retains an amount equal to the Company’s aggregate cost of otherwise providing the Health Care Benefits. For purposes of calculating the “additional amount” in clause (b) of the preceding sentence, Executive shall be deemed to have: paid federal income

taxes at the highest marginal rate of federal income and employment taxation for the calendar year in which the Health Care Benefit Payment is to be made, and paid applicable state and local income taxes at the highest rate of taxation for the calendar year in which the Health Care Benefit Payment is to be made, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes.

21. Definitions . As used in this Agreement, unless the context requires a different meaning, the following terms shall have the meanings set forth herein:

(a) “**2007 Equity Incentive Plan**” means that certain 2007 Equity Incentive Plan, as amended, as originally adopted by the Board of Directors on September 10, 2007, and any successor plan thereto.

(b) “**Annual Performance Bonus**” means the Executive’s current annual performance incentive bonus at the applicable maximum achievable Performance Level, whether consisting of cash or Stock Awards, as determined by the Board of Directors or Compensation Committee on an annual basis.

(c) “**Cause**” means:

(i) A material act of theft, dishonesty, fraud, intentional falsification of any employment or Company records or the commission of any criminal act which impairs Executive’s ability to perform his/her duties under this Agreement;

(ii) A material improper disclosure of the Company’s confidential, business or proprietary information by Executive;

(iii) Any action by Executive intentionally causing or expected to cause material harm to the reputation and standing of the Company, or gross negligence or willful misconduct in the performance of Executive’s assigned duties (but not mere unsatisfactory performance); or

(iv) The Executive’s conviction (including any plea of guilty or nolo contendere) for a felony causing material harm to the reputation and standing of the Company, as determined by the Company in good faith.

(d) “**Change of Control**” means:

(i) Any “**person**” (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), other than a trustee or other fiduciary holding securities of the Company under an employee benefit plan of the Company becomes the “beneficial owner” (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of (A) the outstanding shares of common stock of the Company or (B) the combined voting power of the Company’s then-outstanding securities;

(ii) The Company is party to a merger or consolidation which results in the holders of voting securities of the Company outstanding immediately prior thereto failing to continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 50% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation;

(iii) There occurs a change in the Board of Directors of the Company within a two-year period, as a result of which fewer than a majority of the Directors are Incumbent Directors. For purposes of this Agreement, an “Incumbent Director” is any director who is either:

(A) A director of the Company as of January 1, 2013; or

(B) A director who is elected or nominated for election to the Board of Directors of the Company with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but shall not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Company).

(iv) The sale or disposition of 50% or more of the Company’s assets (or consummation of any transaction having similar effect); or

(v) The dissolution or liquidation of the Company.

(e) “ **Code** ” means the Internal Revenue Code of 1986, as amended.

(f) “ **Company** ” shall mean Power Integrations, Inc., and following a Change of Control, any successor or assign to its business and/or assets that agrees or otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

(g) “ **Competition** ” shall mean rendering services for any organization or engaging in any business directly competitive with the Company or materially contrary or harmful to the interests of the Company, including, but not limited to (i) accepting employment with, or serving as a consultant, advisor or in any other capacity to, the division or other portion of the business of any employer which competes directly with the Company; (ii) materially acting against the interest of the Company or (iii) personally recruiting, directly or indirectly, any person who is then an employee of the Company.

(h) “ **Executive Officer** ” means any employee of the Company designated an executive officer by the Board of Directors or Compensation Committee.

(i) “ **Good Reason** ” means the occurrence of any of the following conditions, without Executive’s written consent, which condition(s) remain(s) in effect 20 days after written notice to the Board of Directors from Executive of such condition(s), if such notice is given within one year of the occurrence of such condition(s):

(i) A material decrease or planned decrease in Executive’s annual salary, the cash value of Executive’s Annual Performance Bonus or employee benefits following a Change of Control;

(ii) A demotion, a material reduction in Executive’s position, responsibilities or duties or a material, adverse change in Executive’s substantive functional responsibilities or duties, provided, however, that in the event of a Change of Control, Executive will be deemed demoted and his position, responsibilities or duties materially reduced or his substantive functional responsibilities or duties materially adversely changed if Executive is not responsible for at least substantially the same function that Executive had in the Company prior to the Change of Control.

(iii) The relocation of Executive’s work place for the Company to a location more than fifty (50) miles from the current location of Executive’s work place or a material adverse change in the working conditions or established working hours which persist for a period of six continuous months; or

(iv) Any material breach of this Agreement by the Company.

(j) “ **Highest Annual Salary** ” means Executive’s highest annual salary in any of the three years preceding the applicable date of determination, provided, however, that if the Executive’s then effective annual salary would be Executive’s highest annual salary upon completion of the current year of service, then Highest Annual Salary shall mean Executive’s then effective annual salary.

(k) “ **New Executive** ” means an Executive who has served as an executive of the Company for fewer than five years. Executive’s service to the Company as an executive will be deemed to begin upon the date of commencement of employment as an Executive Officer or upon the date of promotion to an Executive Officer position. A New Executive will be first eligible for the benefits under this Agreement upon the completion of one year of continuous service as an Executive Officer of the Company, unless the Board of Directors or Compensation Committee determines otherwise.

(l) “ **Performance Level** ” means the pay out amounts (whether in cash or Stock Awards) based upon the satisfaction of one or more performance criteria as determined by the Board of Directors or Compensation Committee.

(m) “ **Performance Stock Award** ” means any Stock Award subject to vesting upon the achievement of any Performance Level regardless of the length of any performance period.

(n) “ **Permanent Disability** ” means that:

(i) The Executive has been incapacitated by bodily injury or disease so as to be prevented thereby from engaging in the performance of the Executive’s duties;

(ii) Such total incapacity shall have continued for a period of six consecutive months;

(iii) Such incapacity will, in the opinion of a qualified physician, be permanent and continuous

during the remainder of the Executive's life; and

(iv) Such incapacity results in Executive's Separation from Service.

(o) "**Prorated Portion**" means a fraction the numerator of which is the number of days in an applicable performance period prior to such Executive's termination of employment and the denominator of which is the total number of days in an applicable performance period.

(p) "**Release of Claims**" means the release of claims required by Section 14 of this Agreement.

(q) "**Retention Stock Award**" means any Stock Award subject to vesting upon the completion of time-based vesting criteria.

(r) "**Section 409A**" means Section 409A of the Code and the regulations and other guidance thereunder and any state law of similar effect.

(s) "**Senior Executive**" means an Executive who has served continuously as an executive of the Company for at least five years. Executive's service to the Company as an executive will be deemed to begin upon the date of commencement of employment as an Executive Officer or upon the date of promotion to an Executive Officer position, unless the Board of Directors or Compensation Committee determines otherwise.

(t) "**Separation from Service**" means a "separation from service" for the purposes of Section 409A with respect to the Company.

(u) "**Stock Award**" shall have the same meaning given to it in the 2007 Equity Incentive Plan, as may be amended from time to time.

(v) "**Termination of Employment**" means Executive's Separation from Service that results from:

(i) Any termination of employment of the Executive by the Company without Cause; or

(ii) Any resignation by the Executive for Good Reason.

"Termination of Employment" shall not include any termination of the employment of the Executive (a) by the Company for Cause; (b) as a result of Permanent Disability of the Executive; (c) as a result of the death of the Executive; (d) as a result of the voluntary termination of employment by the Executive for reasons other than Good Reason; or (e) a Termination Upon Change of Control.

(w) "**Termination Upon Change of Control**" means Executive's Separation from Service that results from:

(i) Any termination of the employment of the Executive by the Company without Cause on or within eighteen (18) months after (i) the occurrence of a Change of Control; or (ii) the date that the person serving as of the Effective Date as Chief Executive Officer of the Company ceases to serve in such office; or

(ii) Any resignation by the Executive for Good Reason within eighteen (18) months after (i) the occurrence of a Change of Control or (ii) the date that the person serving as of the Effective Date as Chief Executive Officer of the Company ceases to serve in such office.

"Termination Upon Change of Control" shall not include any termination of the employment of the Executive (a) by the Company for Cause; (b) as a result of the Permanent Disability of the Executive; (c) as a result of the death of the Executive; or (d) as a result of the voluntary termination of employment by the Executive for reasons other than Good Reason.

* * * * *

**POWER INTEGRATIONS, INC.
AMENDED AND RESTATED EXECUTIVE OFFICER BENEFITS AGREEMENT**

This Amended and Restated Executive Officer Benefits Agreement (the “*Agreement*”) is made and entered into as of May 1, 2014 (the “*Effective Date*”), by and between **Power Integrations, Inc.**, a Delaware corporation, (the “*Company*”) and Clifford J. Walker (“*Executive*”).

Recitals

A. Executive is an Executive Officer of the Company and possesses valuable knowledge of the Company, its business and operations, and the markets in which the Company competes.

B. The Company draws upon the knowledge, experience and advice of Executive in order to manage its business for the benefit of the Company’s stockholders.

C. The Board of Directors desires to supplement Executive’s employment arrangements so as to provide additional compensation and benefits to the Executive to encourage Executive to continue to devote his attention and dedication to the Company and to create additional incentives to continue his employment with the Company.

D. The Company and Executive previously entered into an Amended and Restated Executive Officer Benefits Agreement by and between the Company and Executive, dated May 6, 2013 (the “*Prior Agreement*”).

E. The Company and Executive have agreed to amend and restate the Prior Agreement in its entirety as set forth herein.

Agreement

Therefore, in consideration of the mutual agreements, covenants and considerations contained herein, the undersigned hereby agree and acknowledge as follows:

1. The Prior Agreement is hereby amended and restated in its entirety and the parties hereby agree to the terms hereof, including the terms set forth on Exhibit A hereto. Pursuant to Sections 21(k) or 21(s) of Exhibit A hereto, Executive shall first be eligible for the benefits under this Agreement upon the completion of one year of continuous service as an Executive Officer of the Company, unless the Board of Directors or Compensation Committee determines otherwise.

2. For the purposes of this Agreement the “*Option Effective Date*” shall mean the Effective Date unless this Agreement is an amendment to an earlier agreement in which case the “*Option Effective Date*” shall mean April 26, 2002.

3. This Agreement may only be modified or amended by a supplemental written agreement signed by Executive and the Company.

* * * * *

In Witness Whereof, the undersigned have executed this **Amended and Restated Executive Officer Benefits Agreement**, intending to be legally bound as of the Effective Date.

COMPANY:

Power Integrations, Inc.

By: /s/ Balu Balakrishnan

Name: Balu Balakrishnan

Title: President and CEO

EXECUTIVE:

/s/ Clifford J. Walker

Clifford J. Walker

Address for Notice: Executive's home address
as reflected in the records of the Company

EXHIBIT A

TERMS OF AMENDED AND RESTATED EXECUTIVE OFFICER BENEFITS AGREEMENT

1. Position and Duties. Executive shall continue to be an at-will employee of the Company employed in his/her current position at his/her then current salary rate. Executive shall also be entitled to continue to participate in and to receive benefits on the same basis as other executive or senior staff members under any of the Company's employee benefit plans as in effect from time to time. In addition, Executive shall be entitled to the benefits afforded to other employees similarly situated under the Company's employment policies. Executive agrees to devote the business time, energy and skill necessary to execute his/her duties at the Company. These duties shall include, but not be limited to, any duties consistent with his/her position which may be assigned to Executive from time to time.

2. Acceleration of Vesting of Stock Awards Upon a Change of Control . In the event of a Change of Control, and provided that Executive's employment with the Company has not terminated prior to such date, Executive shall be entitled to the following benefits:

(a) All Retention Stock Awards granted by the Company to the Executive prior to the Change of Control shall have their vesting accelerated such that 25% of the then unvested shares subject to each Retention Stock Award will be deemed vested and exercisable or issuable as of the consummation of the Change of Control. Notwithstanding the foregoing, if the Change of Control does not require the assumption or substitution by the acquiring entity (or parent thereof) of all of the Company's obligations of the then outstanding Retention Stock Awards, then (i) if Executive is a New Executive, 50% of the then unvested shares subject to each Retention Stock Awards will be accelerated and deemed vested and exercisable prior to the consummation of the Change of Control; or (ii) if Executive is a Senior Executive, 100% of the then unvested shares subject to any Retention Stock Awards will be accelerated and deemed vested and exercisable prior to the consummation of the Change of Control. The shares vesting pursuant to this Section 2(a) will be exercisable, issued or converted and paid in accordance with Sections 2(c) and 20(a). Except as otherwise provided in the applicable award agreement, the portion of any unvested Retention Stock Award that is not assumed (or an appropriate substitution provided) and that does not vest based on this Section 2(a) will be forfeited by Executive and will be of no further force or effect.

(b) All Performance Stock Awards granted by the Company to the Executive prior to the Change of Control shall have their vesting accelerated immediately prior to consummation of such Change of Control so that 100% of the then unvested shares will be deemed vested at the applicable maximum achievable Performance Level . The shares vesting pursuant to this Section 2(b) will be exercisable, issued or converted and paid in accordance with Sections 2(c) and 20(a).

(c) In the event of a Change of Control, the Company undertakes to facilitate Executive's receipt of any of the benefits set forth in this Agreement by providing written notice to Executive, at least ten (10) days in advance of the closing of such transaction, which (i) indicates the anticipated timing and material economic terms of the anticipated transaction and (ii) references the Executive's rights under this Agreement. The Company shall also provide appropriate Stock Award exercise forms and instructions to assist Executive in exercising his or her rights to acquire securities of the Company on or prior to the consummation of the Change of Control. Executive is strongly encouraged to consult with his or her tax and financial advisor prior to electing to exercise any option pursuant to this Agreement.

3. Termination Upon Change of Control .

(a) **Severance Benefits .** In the event of the Executive's Termination Upon Change of Control, Executive shall be entitled to the following separation benefits:

(i) **Salary and Accrued Benefits .** All salary and accrued but unused vacation earned through the date of Executive's termination.

(ii) **Annual Performance Bonus.** Payment of a Prorated Portion of the cash value of Executive's Annual Performance Bonus measured as of the date of termination for the year in which such termination occurs.

(iii) **Expenses .** Within fourteen (14) days of submission of proper expense reports by the Executive, reimbursement by the Company for all expenses reasonably and necessarily incurred by the Executive in connection with the business of the Company prior to his termination of employment.

(iv) Severance Payment .

(1) if Executive is a New Executive, payment of an amount equal to six (6) months of Executive's Highest Annual Salary from the Company and 50% of the cash value of Executive's Annual Performance Bonus measured as of the date of termination at the applicable maximum achievable Performance Level as in effect as of the date of such termination to be paid in a lump sum on the sixtieth (60th) day following such termination as provided in Section 14; or

(2) if Executive is a Senior Executive, payment of an amount equal to (a) six (6) months of Executive's Highest Annual Salary from the Company and 50% of the cash value of Executive's Annual Performance Bonus measured as of the date of termination at the applicable maximum achievable Performance Level as in effect as of the date of such termination to be paid in a lump sum on the sixtieth (60th) day following such termination as provided in Section 14 and (b) up to an additional six (6) months of Executive's Highest Annual Salary and 50% of such Annual Performance Bonus measured as of the date of termination at the applicable maximum achievable Performance Level, less applicable withholding, shall be paid beginning six months after termination, subject to Section 14, in ratable monthly installments for six months or until Executive secures new employment, whichever occurs earlier.

(v) Stock Awards.

(1) The ability to exercise any and all outstanding vested options granted after the Option Effective Date (and any vested options granted prior to the Option Effective Date but only to the extent that such extension of exercisability would not require the Company to incur a compensation expense for financial statement purposes) for twelve (12) months from the date of termination of employment.

(2) The vesting of all Stock Awards (to the extent such Stock Award does not also constitute a portion of Executive's Annual Performance Bonus) granted by the Company to the Executive and outstanding immediately prior to such Termination Upon Change of Control shall have their vesting accelerated, such that (i) if Executive is a New Executive, 50% of the then unvested shares subject to such Stock Award will be deemed vested and exercisable as of the date of termination of employment; or (ii) if Executive is a Senior Executive, 100% of the then unvested shares subject to such Stock Award will be deemed vested and exercisable as of the date of termination of employment. Any shares vesting pursuant to this Section 3(a)(v)(2) subject to a Performance Stock Award shall vest at the applicable maximum achievable Performance Level. The shares vesting pursuant to this Section 3(a)(v)(2) will be issued in accordance with Section 20(a). Except as otherwise provided in the applicable Stock Award agreement, the portion of any unvested Stock Award that does not vest based on this Section 3(a)(v)(2) will be forfeited by Executive and will be of no further force or effect.

(b) Benefits Continuation .

(i) In the event of Executive's Termination Upon Change of Control, Executive shall be entitled to elect continued medical and dental insurance coverage in accordance with the applicable provisions of the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, ("COBRA") and the Company shall pay such COBRA premiums for (i) six (6) months from the date of termination of employment, if Executive is a New Executive; or (ii) twelve (12) months from the date of termination of employment, if Executive is a Senior Executive. Notwithstanding the above, in the event Executive becomes eligible to be covered under another employer's group health plan (other than a plan which imposes a preexisting condition exclusion unless the preexisting condition exclusion does not apply) during the period provided for herein, the Company shall cease payment of the COBRA premiums; and

(ii) Executive shall receive the benefits, if any, under the Company's 401(k) Plan and other Company benefit plans to which he may be entitled pursuant to the terms of such plans.

4. Termination of Employment .

(a) **Severance Benefits .** In the event of the Executive's Termination of Employment, Executive shall be entitled to all separation benefits provided in Section 3(a)(i) (" **Salary and Accrued Benefits** "), Section 3(a)(ii) (" **Annual Performance Bonus** ") and 3(a)(iii) (" **Expenses** ") above. In addition, Executive shall be entitled to six (6) months of Executive's Highest Annual Salary and 50% of the cash value of Executive's Annual Performance Bonus at the applicable maximum achievable Performance Level as in effect as of the date of such termination, all less applicable withholding, paid in a lump sum within sixty (60) days of such termination as provided in Section 14.

(b) Performance Stock Awards .

(i) A Prorated Portion of all shares subject to Performance Stock Awards granted to the Executive by the Company and outstanding prior to such Termination of Employment with a performance period greater than one (1) year and granted other than in connection with Executive's Annual Performance Bonus shall vest at such Performance Level as determined by the Board of Directors or Compensation Committee on the date of such determination.

(ii) Immediately prior to the consummation of any Change of Control to occur after Executive's Termination of Employment, a Prorated Portion of Executive's outstanding Performance Stock Awards with a performance period greater than one (1) year and granted other than in connection with Executive's Annual Performance Bonus will be deemed vested at the applicable maximum achievable Performance Level. The shares vesting pursuant to this Section 4(b)(ii) will be exercisable, issued or converted and paid in accordance with Sections 2(c) and 20(a).

(c) Benefits Continuation .

(i) In the event of Executive's Termination of Employment, Executive shall be entitled to elect continued medical and dental insurance coverage in accordance with the applicable provisions of COBRA and the Company shall pay such COBRA premiums for six (6) months from the date of Termination of Employment. Notwithstanding the above, in the event Executive becomes eligible to be covered under another employer's group health plan (other than a plan which imposes a preexisting condition exclusion unless the preexisting condition exclusion does not apply) during the period provided for herein, the Company shall cease payment of the COBRA premiums; and

(ii) Executive shall receive the benefits, if any, under the Company's 401(k) Plan and other Company benefit plans to which he may be entitled pursuant to the terms of such plans.

5. Retirement Benefits .

(a) In order to be eligible for the Retirement Benefits described in Section 5(b) below, the Executive must meet both of the following criteria:

(i) At the time of Executive's termination of employment with the Company (other than in circumstances in which such termination (i) constitutes a termination with Cause or (ii) does not qualify as a Separation from Service), the Executive has (1) achieved the age of 50 and served the Company for at least 15 years; or (2) achieved the age of 55 and served the Company for at least 10 years; provided, however, if such termination of employment also constitutes a Termination of Employment or a Termination Upon Change of Control, Executive must elect within thirty (30) days of such termination to receive either the benefits provided in Section 3 or Section 4, as applicable, or the benefits provided in this Section 5; and

(ii) At any time during which the Executive is receiving Retirement Benefits, the Executive shall not (1) be employed or on contract full time by a third party (excluding a non-profit organization described in Section 501(c)(3) of the Code) or (2) engage in Competition. If the Executive engages in either (1) or (2), then all Retirement Benefits shall terminate immediately and permanently.

(b) If both conditions in Sections 5(a)(i) and 5(a)(ii) above are satisfied, the Executive shall be entitled, subject to Section 14, to receive the following "**Retirement Benefits** :"

(i) **Option Exercisability.** The ability to exercise any and all options granted after the Option Effective Date (and any options granted prior to the Option Effective Date but only to the extent that such extension of exercisability would not require the Company to incur a compensation expense for financial statement purposes) to the extent such options are vested as of the date of termination of employment for the earlier of: (i) the term of the option, (ii) the termination of the option in connection with any Change of Control, or (iii) five years;

(ii) **Performance Stock Awards.** The benefits provided under Section 4(b) ("**Performance Stock Awards** "); and

(iii) **Medical and Dental Coverage .** The Company shall pay the Executive's medical and dental premiums until the Executive achieves the age of Medicare eligibility, and additionally, if the Executive's medical and dental coverage on the date of termination included the Executive's dependents, the premiums of such dependents until the Executive achieves the age of Medicare eligibility as follows:

(A) **COBRA Continuation Coverage .** Upon the termination of Executive's active employment with the Company, Executive shall be entitled to elect continued medical and dental insurance coverage in accordance

with the applicable provisions of COBRA and the Company shall pay such COBRA premiums.

(B) Coverage After COBRA & Prior to Medicare Eligibility . In the event the Executive is not eligible for Medicare coverage at the end of his maximum applicable COBRA coverage period, then, the Executive shall identify and locate either or both an individual conversion policy through the insurer providing insurance coverage in connection with the Company sponsored medical and dental plans available to active employees (the “**Conversion Policy**”), and/or a supplemental individual policy or an individual policy on the open market (the “**Individual Policy**”) to be effective upon the termination of his COBRA continuation coverage so that, when the coverages for Executive provided by the Conversion Policy and/or the Individual Policy are combined, such coverages provide substantially similar medical and dental benefits in the aggregate as those provided under the medical and dental plans sponsored by the Company at such time, or at any time after the termination of Executive’s employment, for active employees (the “**Comparable Coverage**”). The Company shall be responsible for the payment of any Conversion Policy premiums and/or Individual Policy premiums for the Comparable Coverage which payment shall not exceed the cost of premiums for medical and dental coverage for then active employees. If Executive is at such time eligible to participate under the Company Plans, Executive will be entitled to so participate.

(C) Coverage After COBRA & Upon Medicare Eligibility . In the event the Executive is eligible for Medicare coverage at the end of his maximum applicable COBRA coverage period, the Executive may identify and locate a Medicare supplemental policy, which may include, to the extent permitted, the medical and dental plans sponsored by the Company at such time for active employees (the “Company Plans”), that, when combined with the coverage provided by Medicare, provides Comparable Coverage. If Executive is at such time eligible to participate under the Company Plans, Executive will be entitled to so participate; provided that Executive shall be solely responsible for the payment of any Medicare premiums and/or Medical supplemental policy premiums for the Comparable Coverage (including, if applicable, any premiums under the Company Plans).

(D) Taxes, Coverage . The Executive shall be responsible for any taxes that may be attributable to or result from the payments made by the Company in accordance with this Section 5(b)(iii) or receipt of medical and dental benefits attributable to or result from such payments. Notwithstanding Section 5(b)(iii)(A) or (B), in the event Executive becomes eligible to be covered under another employer’s group health plan (other than a plan which imposes a preexisting condition exclusion to the extent permissible by law, unless the preexisting condition exclusion does not apply) during the period provided for herein, the Company shall cease payment of any premiums. The Company will use commercially reasonable efforts to provide that Executive will continue to be eligible for coverage as provided under this Section 5(b)(iii) under the Company Plans, unless the Board of Directors or Compensation Committee determines that such coverage would create an undue burden on the Company.

6. Termination of Employment due to Death or Permanent Disability .

(a) In the event of (i) the Executive’s death during his employment with the Company and the Executive having satisfied the criteria provided at Section 5(a)(i) as of or prior to the date of his death or (ii) the Executive’s death during the period while Executive was receiving Retirement Benefits as a result of compliance with the criteria provided at Section 5(a)(i) and 5(a)(ii), (1) the Executive’s legal representative or any person empowered to act on his behalf under his will or under the then applicable laws of descent and distribution shall be entitled to the benefits pursuant to Section 5(b)(i) (“**Option Exercisability**”) and Section 5(b)(ii) (“**Performance Stock Awards**”) and (2) the Executive’s dependents, to the extent applicable, shall be entitled to the benefits pursuant to Section 5(b)(iii)(A)-(D) (“**Medical and Dental Coverage**”) for that period of time until the Executive would have achieved the age of Medicare eligibility if the Executive had lived.

(b) In the event of the Executive’s Permanent Disability during his employment with the Company and the Executive having satisfied the criteria provided at Section 5(a)(i), the Executive, and to the extent applicable, his dependents, shall be entitled to the benefits provided in Section 5(b)(i) (“**Option Exercisability**”), Section 5(b)(ii) (“**Performance Stock Awards**”) and 5(b)(iii)(A)-(D) (“**Medical and Dental Coverage**”).

7. Payment of Taxes . All payments made to Executive under this Agreement shall be subject to all applicable federal and state income, employment and payroll taxes, including all withholding taxes.

8. Parachute Payment . Executive is strongly encouraged to review the following provision and consult with his or her tax and financial advisor concerning the application of any personal tax consequences related to any payments provided for under this Agreement and the following provision. In the event that any of the payments and benefits provided for in this Agreement or otherwise payable to the Executive (a “**280G Payment**”) would (i) constitute a “parachute payment” within the meaning of Section 280G of the Code, and (ii) but for this sentence, be subject to the excise tax imposed by Section 4999 of the Code (the “**Excise Tax**”), then any such 280G Payment pursuant to this Agreement (a “**Payment**”) shall be equal to the Reduced Amount. The “**Reduced Amount**” shall be either (i) the largest portion of the Payment that would result in no portion of the

Payment (after reduction) being subject to the Excise Tax or (ii) the largest portion, up to and including the total, of the Payment, whichever amount (i.e., the amount determined by clause (i) or by clause (ii)), after taking into account all applicable federal, state and local employment taxes, income taxes, and the Excise Tax (all computed at the highest applicable marginal rate), results in the receipt by Executive, on an after-tax basis, of the greater economic benefit notwithstanding that all or some portion of the Payment may be subject to the Excise Tax. If a reduction in a Payment is required pursuant to the preceding sentence and the Reduced Amount is determined pursuant to clause (x) of the preceding sentence, the reduction shall occur in the manner (the “**Reduction Method**”) that results in the greatest economic benefit for Executive. If more than one method of reduction will result in the same economic benefit, the items so reduced will be reduced pro rata (the “**Pro Rata Reduction Method**”). Notwithstanding the foregoing, if the Reduction Method or the Pro Rata Reduction Method would result in any portion of the Payment being subject to taxes pursuant to Section 409A that would not otherwise be subject to taxes pursuant to Section 409A, then the Reduction Method and/or the Pro Rata Reduction Method, as the case may be, shall be modified so as to avoid the imposition of taxes pursuant to Section 409A as follows: (A) as a first priority, the modification shall preserve to the greatest extent possible, the greatest economic benefit for Executive as determined on an after-tax basis; (B) as a second priority, Payments that are contingent on future events (e.g., being terminated without cause), shall be reduced (or eliminated) before Payments that are not contingent on future events; and (C) as a third priority, Payments that are “deferred compensation” within the meaning of Section 409A shall be reduced (or eliminated) before Payments that are not deferred compensation within the meaning of Section 409A. Unless the Company and the Executive otherwise agree in writing, any determination required under this Section 8 shall be made in writing by independent public accountants appointed by the Company and reasonably acceptable to the Executive (the “**Accountants**”), whose determination shall be conclusive and binding upon the Executive and the Company for all purposes. The Company shall bear all costs the Accountants may reasonably incur in connection with such determination, and the Company and the Executive shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section 8.

9. Exclusive Remedy . The payments and benefits provided for in Section 3, Section 4, Section 5 or Section 15 shall constitute the Executive’s sole and exclusive remedy for any alleged injury or other damages arising out of the cessation of the employment relationship between the Executive and the Company. The parties hereto agree that irreparable damage would occur if any of the provisions of this Agreement were not performed in accordance with these specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to enforce specifically the terms and provisions hereof, this being in addition to any other remedy to which they are entitled at law or in equity.

10. Proprietary and Confidential Information . The Executive agrees to continue to abide by the terms and conditions of any Company’s confidentiality and/or proprietary rights agreement between the Executive and the Company.

11. Arbitration . Any claim, dispute or controversy arising out of this Agreement, the interpretation, validity or enforceability of this Agreement or the alleged breach thereof shall be submitted by the parties to binding arbitration by the American Arbitration Association in San Jose, California or elsewhere by mutual agreement. The selection of the arbitrator and the arbitration procedure shall be governed by the Commercial Arbitration Rules of the American Arbitration Association. All costs and expenses of arbitration or litigation, including but not limited to reasonable attorneys fees and other costs reasonably incurred by the Executive, shall be paid by the Company. Judgment may be entered on the award of the arbitration in any court having jurisdiction.

12. Interpretation . Executive and the Company agree that this Agreement shall be interpreted in accordance with and governed by the laws of the State of California, without regard to such state’s conflict of laws rules.

13. Conflict in Benefits . This Agreement shall supersede all prior arrangements, whether written or oral, and understandings regarding the subject matter of this Agreement. To the extent Executive is entitled to severance or other benefits upon termination of employment under this Agreement and any other agreement, including any change in control agreement entered into by the Company and the Executive, entered into prior to the Effective Date, the benefits payable under this Agreement shall supersede and replace any other such agreement. However, this Agreement is not intended to and shall not affect, limit or terminate (i) any plans, programs, or arrangements of the Company that are regularly made available to a significant number of employees of the Company, (ii) the Company’s equity incentive plans, (iii) any agreement or arrangement with the Executive that has been reduced to writing and which does not relate to the subject matter hereof, or (iv) any agreements or arrangements hereafter entered into by the parties in writing, except as otherwise expressly provided herein.

14. Release of Claims . Executive shall receive the severance benefits or the Retirement Benefits pursuant to this Agreement only if Executive executes and returns to the Company, within the applicable time period set forth therein but in no event more than sixty (60) days following the date of Executive’s Separation from Service, a release of claims (the “**Release of Claims**”) in favor of the Company in a form reasonably satisfactory to the Company, and permits such Release of Claims to become effective in accordance with its terms on or prior to such sixtieth day (the “**Release Agreement Deadline**”). If the Release of Claims

does not become effective by the Release Agreement Deadline, the Executive will forfeit any right to severance benefits or Retirement Benefits pursuant to this Agreement. Regardless of whether the Release of Claims becomes effective prior to the Release Agreement Deadline, any severance benefits or Retirement Benefits payable prior to the Release Agreement Deadline shall be paid on the Release Agreement Deadline, with the remainder of the payments to be made as originally scheduled. Except to the minimum extent that payments must be delayed pursuant to Section 20(c) because Executive is a "specified employee" or until the effectiveness (or deemed effectiveness) of the Release of Claims, all amounts will be paid as soon as practicable in accordance with the Company's normal payroll practices following Executive's Separation from Service. Notwithstanding the foregoing, the Release of Claims shall not be construed to waive any right to indemnification or contribution otherwise available to Executive under law or rules of corporate governance with respect to claims by third parties for actions or omissions in Executive's role as an officer of the Company.

15. Successors and Assigns .

(a) Successors of the Company . The Company will require any successor or assign (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, expressly, absolutely and unconditionally to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession or assignment had taken place. Failure of the Company to obtain such agreement prior to the effectiveness of any such succession transaction shall be a breach of this Agreement and shall entitle the Executive to terminate his or her employment with the Company within three (3) months thereafter and to receive the benefits provided under Section 3 of this Agreement in the event of a Termination Upon Change of Control; provided, however, that (i) such termination of employment must be a Separation from Service and (ii) the Executive must deliver a Release of Claims as provided in Section 14. As used in this Agreement, "Company" shall mean the Company as defined above and any successor or assign to its business and/or assets as aforesaid which executes and delivers the agreement provided for in this Section 15 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

(b) Heirs of Executive . This Agreement shall inure to the benefit of and be enforceable by the Executive's personal and legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

16. Notices . For purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, as follows:

if to the Company:

Power Integrations, Inc.
5245 Hellyer Avenue
San Jose, California 95138
Attn: Chief Executive Officer or Chief Financial Officer

and if to the Executive, at the address specified in this Agreement. Notice may also be given at such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

17. No Representations . Executive acknowledges that he/she is not relying and has not relied on any promise, representation or statement made by or on behalf of the Company which is not set forth in this Agreement.

18. Validity . If any one or more of the provisions (or any part thereof) of this Agreement shall be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions (or any part thereof) shall not in any way be affected or impaired thereby.

19. Consultation with Legal and Financial Advisors . Executive acknowledges that his Agreement confers significant legal rights, and may also involve the waiver of rights under other agreements; that the Company has encouraged Executive to consult with Executive's personal legal and financial advisers; and that Executive has had adequate time to consult with Executive's advisers before signing this Agreement.

20. Application of Section 409A and Other Limitations. Executive is strongly encouraged to review the following provisions and consult with his or her tax and financial advisor concerning the application of any personal tax consequences related to any payments provided for under this Agreement and the following provisions.

(a) If any Stock Award (other than stock options) vesting pursuant to Section 2(a), Section 2(b), Section

3(a)(v)(2) or Section 4(b)(ii):

(i) does not constitute “deferred compensation” within the meaning of Section 409A, the shares vesting pursuant to such events will be issued (1) in respect of Section 2(a), Section 2(b) and Section 4(b)(ii) immediately prior to the consummation of the Change of Control, and (2) in respect of Section 3(a)(v)(2) on the sixtieth (60th) day following the Termination Upon Change of Control as further provided in Section 14 hereof.

(ii) does constitute “deferred compensation” within the meaning of Section 409A, the shares vesting pursuant to such events will be issued (1) in respect of Section 2(a), Section 2(b) and Section 4(b)(ii) immediately prior to the Change of Control, provided such payment can be made without adverse personal tax consequences to the Executive, or else the shares vesting pursuant to Section 2(a), Section 2(b) and Section 4(b)(ii) will be converted into the same consideration received by the holders of the Company’s common stock pursuant to the Change of Control, and such consideration will be issued in accordance with the delivery schedule for such Stock Award in effect immediately prior to the Change of Control and (2) in respect of Section 3(a)(v)(2) will be issued in accordance with the delivery schedule for such Stock Award in effect immediately prior to the Termination Upon Change of Control.

(b) Extension of Stock Option Exercise Period. Notwithstanding anything to the contrary in this Agreement, in the event any extended exercise period provided for in this Agreement shall result in a portion of a stock option becoming subject to the provisions of Section 409A, the extended exercise period of such portion of such stock option shall be automatically shortened by the minimum extent necessary to prevent such portion of such option from becoming subject to Section 409A. In no event will any provisions in this Agreement providing for an extended exercise period result in the extension of the exercise period of any stock option beyond the maximum permitted term of such stock option as provided under the applicable equity incentive plan and stock option award agreement in effect for such stock option, assuming for the purposes of this Section 20(b) no termination of Executive’s employment with the Company.

(c) Other Benefits. Notwithstanding anything to the contrary herein, the following provisions apply to the extent any benefits (“*Benefits*”) provided herein other than those described in Section 20(b) are subject to Section 409A: (A) The Benefits are intended to qualify for an exemption from application of Section 409A or comply with the requirements of Section 409A to the extent necessary to avoid adverse personal tax consequences under Section 409A, and any ambiguities herein shall be interpreted accordingly. (B) Benefits contingent on a termination of employment shall not commence until Executive has a Separation from Service. (C) Each installment of a Benefit is a separate “payment” for purposes of Treas. Reg. Section 1.409A-2(b)(2)(i). (D) Each Benefit is intended to satisfy the exemptions from application of Section 409A provided under Treasury Regulations Sections 1.409A-1(b)(4), 1.409A-1(b)(5) and 1.409A-1(b)(9) to the maximum extent available. However, if such exemptions are not available and Executive is, upon Executive’s Separation from Service, a “specified employee” for the purposes of Section 409A, then, solely to the extent necessary to avoid adverse personal tax consequences under Section 409A, the timing of the Benefit payments otherwise payable prior to such date shall be delayed until the earlier of (x) six (6) months and one day after Executive’s Separation from Service, or (y) Executive’s death, and any payments otherwise scheduled to be made after such date shall be paid as originally scheduled. (E) To the extent that any reimbursements payable to Executive pursuant to Section 3(a)(iii) are subject to the provisions of Section 409A, the following provisions will apply in addition to the provisions of any applicable expense reimbursement policy: (a) to be eligible to obtain reimbursement for such expenses Executive must submit expense reports within 45 days after the expense is incurred, (b) any such reimbursements will be paid no later than the earlier of (x) thirty (30) days after the date Executive submits receipts for the expenses or (y) December 31 of the year following the year in which the expense was incurred, (c) the amount of expenses reimbursed in one year will not affect the amount eligible for reimbursement in any subsequent year, and (d) the right to reimbursement under this Agreement will not be subject to liquidation or exchange for another benefit.

(d) Payment of Health Care Benefits. Notwithstanding anything to the contrary set forth herein, if the Company determines, in its sole discretion, that it cannot provide the COBRA premium, Conversion Policy premium, Individual Policy premium, or other medical and dental coverage premiums (together the “*Health Care Benefits*”) contemplated under this Agreement without potentially incurring financial costs or penalties under applicable law (including, without limitation, Section 2716 of the Public Health Service Act), the Company shall in lieu thereof pay Executive a taxable cash amount, which payment shall be made regardless of whether Executive or Executive’s eligible family members elect health care continuation coverage (the “*Health Care Benefit Payment*”). Subject to any further delay in payment required by Section 14 of this Agreement, the Health Care Benefit Payment shall be paid in monthly installments on the same schedule that such amounts would otherwise have been paid to the insurer. The Health Care Benefit Payment shall be equal to (a) the amount that the Company would have otherwise paid to provide the Health Care Benefits for the duration of the applicable severance period (which amount shall be calculated based on the premium for the first month of coverage), plus (b) an additional amount such that after payment of all taxes, Executive retains an amount equal to the Company’s aggregate cost of otherwise providing the Health Care Benefits. For purposes of calculating the “additional amount” in clause (b) of the preceding sentence, Executive shall be deemed to have: paid federal income

taxes at the highest marginal rate of federal income and employment taxation for the calendar year in which the Health Care Benefit Payment is to be made, and paid applicable state and local income taxes at the highest rate of taxation for the calendar year in which the Health Care Benefit Payment is to be made, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes.

21. Definitions . As used in this Agreement, unless the context requires a different meaning, the following terms shall have the meanings set forth herein:

(a) “**2007 Equity Incentive Plan**” means that certain 2007 Equity Incentive Plan, as amended, as originally adopted by the Board of Directors on September 10, 2007, and any successor plan thereto.

(b) “**Annual Performance Bonus**” means the Executive’s current annual performance incentive bonus at the applicable maximum achievable Performance Level, whether consisting of cash or Stock Awards, as determined by the Board of Directors or Compensation Committee on an annual basis.

(c) “**Cause**” means:

(i) A material act of theft, dishonesty, fraud, intentional falsification of any employment or Company records or the commission of any criminal act which impairs Executive’s ability to perform his/her duties under this Agreement;

(ii) A material improper disclosure of the Company’s confidential, business or proprietary information by Executive;

(iii) Any action by Executive intentionally causing or expected to cause material harm to the reputation and standing of the Company, or gross negligence or willful misconduct in the performance of Executive’s assigned duties (but not mere unsatisfactory performance); or

(iv) The Executive’s conviction (including any plea of guilty or nolo contendere) for a felony causing material harm to the reputation and standing of the Company, as determined by the Company in good faith.

(d) “**Change of Control**” means:

(i) Any “**person**” (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), other than a trustee or other fiduciary holding securities of the Company under an employee benefit plan of the Company becomes the “beneficial owner” (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of (A) the outstanding shares of common stock of the Company or (B) the combined voting power of the Company’s then-outstanding securities;

(ii) The Company is party to a merger or consolidation which results in the holders of voting securities of the Company outstanding immediately prior thereto failing to continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 50% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation;

(iii) There occurs a change in the Board of Directors of the Company within a two-year period, as a result of which fewer than a majority of the Directors are Incumbent Directors. For purposes of this Agreement, an “Incumbent Director” is any director who is either:

(A) A director of the Company as of January 1, 2013; or

(B) A director who is elected or nominated for election to the Board of Directors of the Company with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but shall not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Company).

(iv) The sale or disposition of 50% or more of the Company’s assets (or consummation of any transaction having similar effect); or

(v) The dissolution or liquidation of the Company.

(e) “ **Code** ” means the Internal Revenue Code of 1986, as amended.

(f) “ **Company** ” shall mean Power Integrations, Inc., and following a Change of Control, any successor or assign to its business and/or assets that agrees or otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

(g) “ **Competition** ” shall mean rendering services for any organization or engaging in any business directly competitive with the Company or materially contrary or harmful to the interests of the Company, including, but not limited to (i) accepting employment with, or serving as a consultant, advisor or in any other capacity to, the division or other portion of the business of any employer which competes directly with the Company; (ii) materially acting against the interest of the Company or (iii) personally recruiting, directly or indirectly, any person who is then an employee of the Company.

(h) “ **Executive Officer** ” means any employee of the Company designated an executive officer by the Board of Directors or Compensation Committee.

(i) “ **Good Reason** ” means the occurrence of any of the following conditions, without Executive’s written consent, which condition(s) remain(s) in effect 20 days after written notice to the Board of Directors from Executive of such condition(s), if such notice is given within one year of the occurrence of such condition(s):

(i) A material decrease or planned decrease in Executive’s annual salary, the cash value of Executive’s Annual Performance Bonus or employee benefits following a Change of Control;

(ii) A demotion, a material reduction in Executive’s position, responsibilities or duties or a material, adverse change in Executive’s substantive functional responsibilities or duties, provided, however, that in the event of a Change of Control, Executive will be deemed demoted and his position, responsibilities or duties materially reduced or his substantive functional responsibilities or duties materially adversely changed if Executive is not responsible for at least substantially the same function that Executive had in the Company prior to the Change of Control.

(iii) The relocation of Executive’s work place for the Company to a location more than fifty (50) miles from the current location of Executive’s work place or a material adverse change in the working conditions or established working hours which persist for a period of six continuous months; or

(iv) Any material breach of this Agreement by the Company.

(j) “ **Highest Annual Salary** ” means Executive’s highest annual salary in any of the three years preceding the applicable date of determination, provided, however, that if the Executive’s then effective annual salary would be Executive’s highest annual salary upon completion of the current year of service, then Highest Annual Salary shall mean Executive’s then effective annual salary.

(k) “ **New Executive** ” means an Executive who has served as an executive of the Company for fewer than five years. Executive’s service to the Company as an executive will be deemed to begin upon the date of commencement of employment as an Executive Officer or upon the date of promotion to an Executive Officer position. A New Executive will be first eligible for the benefits under this Agreement upon the completion of one year of continuous service as an Executive Officer of the Company, unless the Board of Directors or Compensation Committee determines otherwise.

(l) “ **Performance Level** ” means the pay out amounts (whether in cash or Stock Awards) based upon the satisfaction of one or more performance criteria as determined by the Board of Directors or Compensation Committee.

(m) “ **Performance Stock Award** ” means any Stock Award subject to vesting upon the achievement of any Performance Level regardless of the length of any performance period.

(n) “ **Permanent Disability** ” means that:

(i) The Executive has been incapacitated by bodily injury or disease so as to be prevented thereby from engaging in the performance of the Executive’s duties;

(ii) Such total incapacity shall have continued for a period of six consecutive months;

(iii) Such incapacity will, in the opinion of a qualified physician, be permanent and continuous during the remainder of the Executive's life; and

(iv) Such incapacity results in Executive's Separation from Service.

(o) "**Prorated Portion**" means a fraction the numerator of which is the number of days in an applicable performance period prior to such Executive's termination of employment and the denominator of which is the total number of days in an applicable performance period.

(p) "**Release of Claims**" means the release of claims required by Section 14 of this Agreement.

(q) "**Retention Stock Award**" means any Stock Award subject to vesting upon the completion of time-based vesting criteria.

(r) "**Section 409A**" means Section 409A of the Code and the regulations and other guidance thereunder and any state law of similar effect.

(s) "**Senior Executive**" means an Executive who has served continuously as an executive of the Company for at least five years. Executive's service to the Company as an executive will be deemed to begin upon the date of commencement of employment as an Executive Officer or upon the date of promotion to an Executive Officer position, unless the Board of Directors or Compensation Committee determines otherwise.

(t) "**Separation from Service**" means a "separation from service" for the purposes of Section 409A with respect to the Company.

(u) "**Stock Award**" shall have the same meaning given to it in the 2007 Equity Incentive Plan, as may be amended from time to time.

(v) "**Termination of Employment**" means Executive's Separation from Service that results from:

(i) Any termination of employment of the Executive by the Company without Cause; or

(ii) Any resignation by the Executive for Good Reason.

"Termination of Employment" shall not include any termination of the employment of the Executive (a) by the Company for Cause; (b) as a result of Permanent Disability of the Executive; (c) as a result of the death of the Executive; (d) as a result of the voluntary termination of employment by the Executive for reasons other than Good Reason; or (e) a Termination Upon Change of Control.

(w) "**Termination Upon Change of Control**" means Executive's Separation from Service that results from:

(i) Any termination of the employment of the Executive by the Company without Cause on or within eighteen (18) months after (i) the occurrence of a Change of Control; or (ii) the date that the person serving as of the Effective Date as Chief Executive Officer of the Company ceases to serve in such office; or

(ii) Any resignation by the Executive for Good Reason within eighteen (18) months after (i) the occurrence of a Change of Control or (ii) the date that the person serving as of the Effective Date as Chief Executive Officer of the Company ceases to serve in such office.

"Termination Upon Change of Control" shall not include any termination of the employment of the Executive (a) by the Company for Cause; (b) as a result of the Permanent Disability of the Executive; (c) as a result of the death of the Executive; or (d) as a result of the voluntary termination of employment by the Executive for reasons other than Good Reason.

* * * * *

POWER INTEGRATIONS, INC.
AMENDED AND RESTATED EXECUTIVE OFFICER BENEFITS AGREEMENT

This Amended and Restated Executive Officer Benefits Agreement (the “*Agreement*”) is made and entered into as of May 1, 2014 (the “*Effective Date*”), by and between **Power Integrations, Inc.**, a Delaware corporation, (the “*Company*”) and Doug Bailey (“*Executive*”).

Recitals

A. Executive is an Executive Officer of the Company and possesses valuable knowledge of the Company, its business and operations, and the markets in which the Company competes.

B. The Company draws upon the knowledge, experience and advice of Executive in order to manage its business for the benefit of the Company’s stockholders.

C. The Board of Directors desires to supplement Executive’s employment arrangements so as to provide additional compensation and benefits to the Executive to encourage Executive to continue to devote his attention and dedication to the Company and to create additional incentives to continue his employment with the Company.

D. The Company and Executive previously entered into an Amended and Restated Executive Officer Benefits Agreement by and between the Company and Executive, dated May 8, 2013 (the “*Prior Agreement*”).

E. The Company and Executive have agreed to amend and restate the Prior Agreement in its entirety as set forth herein.

Agreement

Therefore, in consideration of the mutual agreements, covenants and considerations contained herein, the undersigned hereby agree and acknowledge as follows:

1. The Prior Agreement is hereby amended and restated in its entirety and the parties hereby agree to the terms hereof, including the terms set forth on Exhibit A hereto. Pursuant to Sections 21(k) or 21(s) of Exhibit A hereto, Executive shall first be eligible for the benefits under this Agreement upon the completion of one year of continuous service as an Executive Officer of the Company, unless the Board of Directors or Compensation Committee determines otherwise.

2. For the purposes of this Agreement the “*Option Effective Date*” shall mean the Effective Date unless this Agreement is an amendment to an earlier agreement in which case the “*Option Effective Date*” shall mean August 8, 2007.

3. This Agreement may only be modified or amended by a supplemental written agreement signed by Executive and the Company.

* * * * *

In Witness Whereof, the undersigned have executed this **Amended and Restated Executive Officer Benefits Agreement**, intending to be legally bound as of the Effective Date.

COMPANY:

Power Integrations, Inc.

By: /s/ Balu Balakrishnan

Name: Balu Balakrishnan

Title: President and CEO

EXECUTIVE:

/s/ Doug Bailey

Doug Bailey

Address for Notice: Executive's home address
as reflected in the records of the Company

EXHIBIT A

TERMS OF AMENDED AND RESTATED EXECUTIVE OFFICER BENEFITS AGREEMENT

1. Position and Duties. Executive shall continue to be an at-will employee of the Company employed in his/her current position at his/her then current salary rate. Executive shall also be entitled to continue to participate in and to receive benefits on the same basis as other executive or senior staff members under any of the Company's employee benefit plans as in effect from time to time. In addition, Executive shall be entitled to the benefits afforded to other employees similarly situated under the Company's employment policies. Executive agrees to devote the business time, energy and skill necessary to execute his/her duties at the Company. These duties shall include, but not be limited to, any duties consistent with his/her position which may be assigned to Executive from time to time.

2. Acceleration of Vesting of Stock Awards Upon a Change of Control . In the event of a Change of Control, and provided that Executive's employment with the Company has not terminated prior to such date, Executive shall be entitled to the following benefits:

(a) All Retention Stock Awards granted by the Company to the Executive prior to the Change of Control shall have their vesting accelerated such that 25% of the then unvested shares subject to each Retention Stock Award will be deemed vested and exercisable or issuable as of the consummation of the Change of Control. Notwithstanding the foregoing, if the Change of Control does not require the assumption or substitution by the acquiring entity (or parent thereof) of all of the Company's obligations of the then outstanding Retention Stock Awards, then (i) if Executive is a New Executive, 50% of the then unvested shares subject to each Retention Stock Awards will be accelerated and deemed vested and exercisable prior to the consummation of the Change of Control; or (ii) if Executive is a Senior Executive, 100% of the then unvested shares subject to any Retention Stock Awards will be accelerated and deemed vested and exercisable prior to the consummation of the Change of Control. The shares vesting pursuant to this Section 2(a) will be exercisable, issued or converted and paid in accordance with Sections 2(c) and 20(a). Except as otherwise provided in the applicable award agreement, the portion of any unvested Retention Stock Award that is not assumed (or an appropriate substitution provided) and that does not vest based on this Section 2(a) will be forfeited by Executive and will be of no further force or effect.

(b) All Performance Stock Awards granted by the Company to the Executive prior to the Change of Control shall have their vesting accelerated immediately prior to consummation of such Change of Control so that 100% of the then unvested shares will be deemed vested at the applicable maximum achievable Performance Level . The shares vesting pursuant to this Section 2(b) will be exercisable, issued or converted and paid in accordance with Sections 2(c) and 20(a).

(c) In the event of a Change of Control, the Company undertakes to facilitate Executive's receipt of any of the benefits set forth in this Agreement by providing written notice to Executive, at least ten (10) days in advance of the closing of such transaction, which (i) indicates the anticipated timing and material economic terms of the anticipated transaction and (ii) references the Executive's rights under this Agreement. The Company shall also provide appropriate Stock Award exercise forms and instructions to assist Executive in exercising his or her rights to acquire securities of the Company on or prior to the consummation of the Change of Control. Executive is strongly encouraged to consult with his or her tax and financial advisor prior to electing to exercise any option pursuant to this Agreement.

3. Termination Upon Change of Control .

(a) **Severance Benefits .** In the event of the Executive's Termination Upon Change of Control, Executive shall be entitled to the following separation benefits:

(i) **Salary and Accrued Benefits .** All salary and accrued but unused vacation earned through the date of Executive's termination.

(ii) **Annual Performance Bonus.** Payment of a Prorated Portion of the cash value of Executive's Annual Performance Bonus measured as of the date of termination for the year in which such termination occurs.

(iii) **Expenses .** Within fourteen (14) days of submission of proper expense reports by the Executive, reimbursement by the Company for all expenses reasonably and necessarily incurred by the Executive in connection with the business of the Company prior to his termination of employment.

(iv) Severance Payment .

(1) if Executive is a New Executive, payment of an amount equal to six (6) months of Executive's Highest Annual Salary from the Company and 50% of the cash value of Executive's Annual Performance Bonus measured as of the date of termination at the applicable maximum achievable Performance Level as in effect as of the date of such termination to be paid in a lump sum on the sixtieth (60th) day following such termination as provided in Section 14; or

(2) if Executive is a Senior Executive, payment of an amount equal to (a) six (6) months of Executive's Highest Annual Salary from the Company and 50% of the cash value of Executive's Annual Performance Bonus measured as of the date of termination at the applicable maximum achievable Performance Level as in effect as of the date of such termination to be paid in a lump sum on the sixtieth (60th) day following such termination as provided in Section 14 and (b) up to an additional six (6) months of Executive's Highest Annual Salary and 50% of such Annual Performance Bonus measured as of the date of termination at the applicable maximum achievable Performance Level, less applicable withholding, shall be paid beginning six months after termination, subject to Section 14, in ratable monthly installments for six months or until Executive secures new employment, whichever occurs earlier.

(v) Stock Awards.

(1) The ability to exercise any and all outstanding vested options granted after the Option Effective Date (and any vested options granted prior to the Option Effective Date but only to the extent that such extension of exercisability would not require the Company to incur a compensation expense for financial statement purposes) for twelve (12) months from the date of termination of employment.

(2) The vesting of all Stock Awards (to the extent such Stock Award does not also constitute a portion of Executive's Annual Performance Bonus) granted by the Company to the Executive and outstanding immediately prior to such Termination Upon Change of Control shall have their vesting accelerated, such that (i) if Executive is a New Executive, 50% of the then unvested shares subject to such Stock Award will be deemed vested and exercisable as of the date of termination of employment; or (ii) if Executive is a Senior Executive, 100% of the then unvested shares subject to such Stock Award will be deemed vested and exercisable as of the date of termination of employment. Any shares vesting pursuant to this Section 3(a)(v)(2) subject to a Performance Stock Award shall vest at the applicable maximum achievable Performance Level. The shares vesting pursuant to this Section 3(a)(v)(2) will be issued in accordance with Section 20(a). Except as otherwise provided in the applicable Stock Award agreement, the portion of any unvested Stock Award that does not vest based on this Section 3(a)(v)(2) will be forfeited by Executive and will be of no further force or effect.

(b) Benefits Continuation .

(i) In the event of Executive's Termination Upon Change of Control, Executive shall be entitled to elect continued medical and dental insurance coverage in accordance with the applicable provisions of the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, ("COBRA") and the Company shall pay such COBRA premiums for (i) six (6) months from the date of termination of employment, if Executive is a New Executive; or (ii) twelve (12) months from the date of termination of employment, if Executive is a Senior Executive. Notwithstanding the above, in the event Executive becomes eligible to be covered under another employer's group health plan (other than a plan which imposes a preexisting condition exclusion unless the preexisting condition exclusion does not apply) during the period provided for herein, the Company shall cease payment of the COBRA premiums; and

(ii) Executive shall receive the benefits, if any, under the Company's 401(k) Plan and other Company benefit plans to which he may be entitled pursuant to the terms of such plans.

4. Termination of Employment .

(a) **Severance Benefits .** In the event of the Executive's Termination of Employment, Executive shall be entitled to all separation benefits provided in Section 3(a)(i) (" **Salary and Accrued Benefits** "), Section 3(a)(ii) (" **Annual Performance Bonus** ") and 3(a)(iii) (" **Expenses** ") above. In addition, Executive shall be entitled to six (6) months of Executive's Highest Annual Salary and 50% of the cash value of Executive's Annual Performance Bonus at the applicable maximum achievable Performance Level as in effect as of the date of such termination, all less applicable withholding, paid in a lump sum within sixty (60) days of such termination as provided in Section 14.

(b) Performance Stock Awards .

(i) A Prorated Portion of all shares subject to Performance Stock Awards granted to the Executive by the Company and outstanding prior to such Termination of Employment with a performance period greater than one (1) year and granted other than in connection with Executive's Annual Performance Bonus shall vest at such Performance Level as determined by the Board of Directors or Compensation Committee on the date of such determination.

(ii) Immediately prior to the consummation of any Change of Control to occur after Executive's Termination of Employment, a Prorated Portion of Executive's outstanding Performance Stock Awards with a performance period greater than one (1) year and granted other than in connection with Executive's Annual Performance Bonus will be deemed vested at the applicable maximum achievable Performance Level. The shares vesting pursuant to this Section 4(b)(ii) will be exercisable, issued or converted and paid in accordance with Sections 2(c) and 20(a).

(c) Benefits Continuation .

(i) In the event of Executive's Termination of Employment, Executive shall be entitled to elect continued medical and dental insurance coverage in accordance with the applicable provisions of COBRA and the Company shall pay such COBRA premiums for six (6) months from the date of Termination of Employment. Notwithstanding the above, in the event Executive becomes eligible to be covered under another employer's group health plan (other than a plan which imposes a preexisting condition exclusion unless the preexisting condition exclusion does not apply) during the period provided for herein, the Company shall cease payment of the COBRA premiums; and

(ii) Executive shall receive the benefits, if any, under the Company's 401(k) Plan and other Company benefit plans to which he may be entitled pursuant to the terms of such plans.

5. Retirement Benefits .

(a) In order to be eligible for the Retirement Benefits described in Section 5(b) below, the Executive must meet both of the following criteria:

(i) At the time of Executive's termination of employment with the Company (other than in circumstances in which such termination (i) constitutes a termination with Cause or (ii) does not qualify as a Separation from Service), the Executive has (1) achieved the age of 50 and served the Company for at least 15 years; or (2) achieved the age of 55 and served the Company for at least 10 years; provided, however, if such termination of employment also constitutes a Termination of Employment or a Termination Upon Change of Control, Executive must elect within thirty (30) days of such termination to receive either the benefits provided in Section 3 or Section 4, as applicable, or the benefits provided in this Section 5; and

(ii) At any time during which the Executive is receiving Retirement Benefits, the Executive shall not (1) be employed or on contract full time by a third party (excluding a non-profit organization described in Section 501(c)(3) of the Code) or (2) engage in Competition. If the Executive engages in either (1) or (2), then all Retirement Benefits shall terminate immediately and permanently.

(b) If both conditions in Sections 5(a)(i) and 5(a)(ii) above are satisfied, the Executive shall be entitled, subject to Section 14, to receive the following "**Retirement Benefits** :"

(i) **Option Exercisability.** The ability to exercise any and all options granted after the Option Effective Date (and any options granted prior to the Option Effective Date but only to the extent that such extension of exercisability would not require the Company to incur a compensation expense for financial statement purposes) to the extent such options are vested as of the date of termination of employment for the earlier of: (i) the term of the option, (ii) the termination of the option in connection with any Change of Control, or (iii) five years;

(ii) **Performance Stock Awards.** The benefits provided under Section 4(b) ("**Performance Stock Awards** "); and

(iii) **Medical and Dental Coverage .** The Company shall pay the Executive's medical and dental premiums until the Executive achieves the age of Medicare eligibility, and additionally, if the Executive's medical and dental coverage on the date of termination included the Executive's dependents, the premiums of such dependents until the Executive achieves the age of Medicare eligibility as follows:

(A) **COBRA Continuation Coverage .** Upon the termination of Executive's active employment with the Company, Executive shall be entitled to elect continued medical and dental insurance coverage in accordance

with the applicable provisions of COBRA and the Company shall pay such COBRA premiums.

(B) Coverage After COBRA & Prior to Medicare Eligibility . In the event the Executive is not eligible for Medicare coverage at the end of his maximum applicable COBRA coverage period, then, the Executive shall identify and locate either or both an individual conversion policy through the insurer providing insurance coverage in connection with the Company sponsored medical and dental plans available to active employees (the “ **Conversion Policy** ”), and/or a supplemental individual policy or an individual policy on the open market (the “ **Individual Policy** ”) to be effective upon the termination of his COBRA continuation coverage so that, when the coverages for Executive provided by the Conversion Policy and/or the Individual Policy are combined, such coverages provide substantially similar medical and dental benefits in the aggregate as those provided under the medical and dental plans sponsored by the Company at such time, or at any time after the termination of Executive’s employment, for active employees (the “ **Comparable Coverage** ”). The Company shall be responsible for the payment of any Conversion Policy premiums and/or Individual Policy premiums for the Comparable Coverage which payment shall not exceed the cost of premiums for medical and dental coverage for then active employees. If Executive is at such time eligible to participate under the Company Plans, Executive will be entitled to so participate.

(C) Coverage After COBRA & Upon Medicare Eligibility . In the event the Executive is eligible for Medicare coverage at the end of his maximum applicable COBRA coverage period, the Executive may identify and locate a Medicare supplemental policy, which may include, to the extent permitted, the medical and dental plans sponsored by the Company at such time for active employees (the “Company Plans”), that, when combined with the coverage provided by Medicare, provides Comparable Coverage. If Executive is at such time eligible to participate under the Company Plans, Executive will be entitled to so participate; provided that Executive shall be solely responsible for the payment of any Medicare premiums and/or Medical supplemental policy premiums for the Comparable Coverage (including, if applicable, any premiums under the Company Plans).

(D) Taxes, Coverage . The Executive shall be responsible for any taxes that may be attributable to or result from the payments made by the Company in accordance with this Section 5(b)(iii) or receipt of medical and dental benefits attributable to or result from such payments. Notwithstanding Section 5(b)(iii)(A) or (B), in the event Executive becomes eligible to be covered under another employer’s group health plan (other than a plan which imposes a preexisting condition exclusion to the extent permissible by law, unless the preexisting condition exclusion does not apply) during the period provided for herein, the Company shall cease payment of any premiums. The Company will use commercially reasonable efforts to provide that Executive will continue to be eligible for coverage as provided under this Section 5(b)(iii) under the Company Plans, unless the Board of Directors or Compensation Committee determines that such coverage would create an undue burden on the Company.

6. Termination of Employment due to Death or Permanent Disability .

(a) In the event of (i) the Executive’s death during his employment with the Company and the Executive having satisfied the criteria provided at Section 5(a)(i) as of or prior to the date of his death or (ii) the Executive’s death during the period while Executive was receiving Retirement Benefits as a result of compliance with the criteria provided at Section 5(a)(i) and 5(a)(ii), (1) the Executive’s legal representative or any person empowered to act on his behalf under his will or under the then applicable laws of descent and distribution shall be entitled to the benefits pursuant to Section 5(b)(i) (“ **Option Exercisability** ”) and Section 5(b)(ii) (“ **Performance Stock Awards** ”) and (2) the Executive’s dependents, to the extent applicable, shall be entitled to the benefits pursuant to Section 5(b)(iii)(A)-(D) (“ **Medical and Dental Coverage** ”) for that period of time until the Executive would have achieved the age of Medicare eligibility if the Executive had lived.

(b) In the event of the Executive’s Permanent Disability during his employment with the Company and the Executive having satisfied the criteria provided at Section 5(a)(i), the Executive, and to the extent applicable, his dependents, shall be entitled to the benefits provided in Section 5(b)(i) (“ **Option Exercisability** ”), Section 5(b)(ii) (“ **Performance Stock Awards** ”) and 5(b)(iii)(A)-(D) (“ **Medical and Dental Coverage** ”).

7. Payment of Taxes . All payments made to Executive under this Agreement shall be subject to all applicable federal and state income, employment and payroll taxes, including all withholding taxes.

8. Parachute Payment . Executive is strongly encouraged to review the following provision and consult with his or her tax and financial advisor concerning the application of any personal tax consequences related to any payments provided for under this Agreement and the following provision. In the event that any of the payments and benefits provided for in this Agreement or otherwise payable to the Executive (a “ **280G Payment** ”) would (i) constitute a “parachute payment” within the meaning of Section 280G of the Code, and (ii) but for this sentence, be subject to the excise tax imposed by Section 4999 of the Code (the “ **Excise Tax** ”), then any such 280G Payment pursuant to this Agreement (a “ **Payment** ”) shall be equal to the Reduced Amount. The “ **Reduced Amount** ” shall be either (i) the largest portion of the Payment that would result in no portion of the

Payment (after reduction) being subject to the Excise Tax or (ii) the largest portion, up to and including the total, of the Payment, whichever amount (i.e., the amount determined by clause (i) or by clause (ii)), after taking into account all applicable federal, state and local employment taxes, income taxes, and the Excise Tax (all computed at the highest applicable marginal rate), results in the receipt by Executive, on an after-tax basis, of the greater economic benefit notwithstanding that all or some portion of the Payment may be subject to the Excise Tax. If a reduction in a Payment is required pursuant to the preceding sentence and the Reduced Amount is determined pursuant to clause (x) of the preceding sentence, the reduction shall occur in the manner (the “**Reduction Method**”) that results in the greatest economic benefit for Executive. If more than one method of reduction will result in the same economic benefit, the items so reduced will be reduced pro rata (the “**Pro Rata Reduction Method**”). Notwithstanding the foregoing, if the Reduction Method or the Pro Rata Reduction Method would result in any portion of the Payment being subject to taxes pursuant to Section 409A that would not otherwise be subject to taxes pursuant to Section 409A, then the Reduction Method and/or the Pro Rata Reduction Method, as the case may be, shall be modified so as to avoid the imposition of taxes pursuant to Section 409A as follows: (A) as a first priority, the modification shall preserve to the greatest extent possible, the greatest economic benefit for Executive as determined on an after-tax basis; (B) as a second priority, Payments that are contingent on future events (e.g., being terminated without cause), shall be reduced (or eliminated) before Payments that are not contingent on future events; and (C) as a third priority, Payments that are “deferred compensation” within the meaning of Section 409A shall be reduced (or eliminated) before Payments that are not deferred compensation within the meaning of Section 409A. Unless the Company and the Executive otherwise agree in writing, any determination required under this Section 8 shall be made in writing by independent public accountants appointed by the Company and reasonably acceptable to the Executive (the “**Accountants**”), whose determination shall be conclusive and binding upon the Executive and the Company for all purposes. The Company shall bear all costs the Accountants may reasonably incur in connection with such determination, and the Company and the Executive shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section 8.

9. Exclusive Remedy . The payments and benefits provided for in Section 3, Section 4, Section 5 or Section 15 shall constitute the Executive’s sole and exclusive remedy for any alleged injury or other damages arising out of the cessation of the employment relationship between the Executive and the Company. The parties hereto agree that irreparable damage would occur if any of the provisions of this Agreement were not performed in accordance with these specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to enforce specifically the terms and provisions hereof, this being in addition to any other remedy to which they are entitled at law or in equity.

10. Proprietary and Confidential Information . The Executive agrees to continue to abide by the terms and conditions of any Company’s confidentiality and/or proprietary rights agreement between the Executive and the Company.

11. Arbitration . Any claim, dispute or controversy arising out of this Agreement, the interpretation, validity or enforceability of this Agreement or the alleged breach thereof shall be submitted by the parties to binding arbitration by the American Arbitration Association in San Jose, California or elsewhere by mutual agreement. The selection of the arbitrator and the arbitration procedure shall be governed by the Commercial Arbitration Rules of the American Arbitration Association. All costs and expenses of arbitration or litigation, including but not limited to reasonable attorneys fees and other costs reasonably incurred by the Executive, shall be paid by the Company. Judgment may be entered on the award of the arbitration in any court having jurisdiction.

12. Interpretation . Executive and the Company agree that this Agreement shall be interpreted in accordance with and governed by the laws of the State of California, without regard to such state’s conflict of laws rules.

13. Conflict in Benefits . This Agreement shall supersede all prior arrangements, whether written or oral, and understandings regarding the subject matter of this Agreement. To the extent Executive is entitled to severance or other benefits upon termination of employment under this Agreement and any other agreement, including any change in control agreement entered into by the Company and the Executive, entered into prior to the Effective Date, the benefits payable under this Agreement shall supersede and replace any other such agreement. However, this Agreement is not intended to and shall not affect, limit or terminate (i) any plans, programs, or arrangements of the Company that are regularly made available to a significant number of employees of the Company, (ii) the Company’s equity incentive plans, (iii) any agreement or arrangement with the Executive that has been reduced to writing and which does not relate to the subject matter hereof, or (iv) any agreements or arrangements hereafter entered into by the parties in writing, except as otherwise expressly provided herein.

14. Release of Claims . Executive shall receive the severance benefits or the Retirement Benefits pursuant to this Agreement only if Executive executes and returns to the Company, within the applicable time period set forth therein but in no event more than sixty (60) days following the date of Executive’s Separation from Service, a release of claims (the “**Release of Claims**”) in favor of the Company in a form reasonably satisfactory to the Company, and permits such Release of Claims to become effective in accordance with its terms on or prior to such sixtieth day (the “**Release Agreement Deadline**”). If the Release of Claims

does not become effective by the Release Agreement Deadline, the Executive will forfeit any right to severance benefits or Retirement Benefits pursuant to this Agreement. Regardless of whether the Release of Claims becomes effective prior to the Release Agreement Deadline, any severance benefits or Retirement Benefits payable prior to the Release Agreement Deadline shall be paid on the Release Agreement Deadline, with the remainder of the payments to be made as originally scheduled. Except to the minimum extent that payments must be delayed pursuant to Section 20(c) because Executive is a "specified employee" or until the effectiveness (or deemed effectiveness) of the Release of Claims, all amounts will be paid as soon as practicable in accordance with the Company's normal payroll practices following Executive's Separation from Service. Notwithstanding the foregoing, the Release of Claims shall not be construed to waive any right to indemnification or contribution otherwise available to Executive under law or rules of corporate governance with respect to claims by third parties for actions or omissions in Executive's role as an officer of the Company.

15. Successors and Assigns .

(a) **Successors of the Company .** The Company will require any successor or assign (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, expressly, absolutely and unconditionally to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession or assignment had taken place. Failure of the Company to obtain such agreement prior to the effectiveness of any such succession transaction shall be a breach of this Agreement and shall entitle the Executive to terminate his or her employment with the Company within three (3) months thereafter and to receive the benefits provided under Section 3 of this Agreement in the event of a Termination Upon Change of Control; provided, however, that (i) such termination of employment must be a Separation from Service and (ii) the Executive must deliver a Release of Claims as provided in Section 14. As used in this Agreement, "Company" shall mean the Company as defined above and any successor or assign to its business and/or assets as aforesaid which executes and delivers the agreement provided for in this Section 15 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

(b) **Heirs of Executive .** This Agreement shall inure to the benefit of and be enforceable by the Executive's personal and legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

16. Notices . For purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, as follows:

if to the Company:

Power Integrations, Inc.
5245 Hellyer Avenue
San Jose, California 95138
Attn: Chief Executive Officer or Chief Financial Officer

and if to the Executive, at the address specified in this Agreement. Notice may also be given at such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

17. No Representations . Executive acknowledges that he/she is not relying and has not relied on any promise, representation or statement made by or on behalf of the Company which is not set forth in this Agreement.

18. Validity . If any one or more of the provisions (or any part thereof) of this Agreement shall be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions (or any part thereof) shall not in any way be affected or impaired thereby.

19. Consultation with Legal and Financial Advisors . Executive acknowledges that his Agreement confers significant legal rights, and may also involve the waiver of rights under other agreements; that the Company has encouraged Executive to consult with Executive's personal legal and financial advisers; and that Executive has had adequate time to consult with Executive's advisers before signing this Agreement.

20. Application of Section 409A and Other Limitations. Executive is strongly encouraged to review the following provisions and consult with his or her tax and financial advisor concerning the application of any personal tax consequences related to any payments provided for under this Agreement and the following provisions.

(a) If any Stock Award (other than stock options) vesting pursuant to Section 2(a), Section 2(b), Section

3(a)(v)(2) or Section 4(b)(ii):

(i) does not constitute “deferred compensation” within the meaning of Section 409A, the shares vesting pursuant to such events will be issued (1) in respect of Section 2(a), Section 2(b) and Section 4(b)(ii) immediately prior to the consummation of the Change of Control, and (2) in respect of Section 3(a)(v)(2) on the sixtieth (60th) day following the Termination Upon Change of Control as further provided in Section 14 hereof.

(ii) does constitute “deferred compensation” within the meaning of Section 409A, the shares vesting pursuant to such events will be issued (1) in respect of Section 2(a), Section 2(b) and Section 4(b)(ii) immediately prior to the Change of Control, provided such payment can be made without adverse personal tax consequences to the Executive, or else the shares vesting pursuant to Section 2(a), Section 2(b) and Section 4(b)(ii) will be converted into the same consideration received by the holders of the Company’s common stock pursuant to the Change of Control, and such consideration will be issued in accordance with the delivery schedule for such Stock Award in effect immediately prior to the Change of Control and (2) in respect of Section 3(a)(v)(2) will be issued in accordance with the delivery schedule for such Stock Award in effect immediately prior to the Termination Upon Change of Control.

(b) Extension of Stock Option Exercise Period. Notwithstanding anything to the contrary in this Agreement, in the event any extended exercise period provided for in this Agreement shall result in a portion of a stock option becoming subject to the provisions of Section 409A, the extended exercise period of such portion of such stock option shall be automatically shortened by the minimum extent necessary to prevent such portion of such option from becoming subject to Section 409A. In no event will any provisions in this Agreement providing for an extended exercise period result in the extension of the exercise period of any stock option beyond the maximum permitted term of such stock option as provided under the applicable equity incentive plan and stock option award agreement in effect for such stock option, assuming for the purposes of this Section 20(b) no termination of Executive’s employment with the Company.

(c) Other Benefits. Notwithstanding anything to the contrary herein, the following provisions apply to the extent any benefits (“*Benefits*”) provided herein other than those described in Section 20(b) are subject to Section 409A: (A) The Benefits are intended to qualify for an exemption from application of Section 409A or comply with the requirements of Section 409A to the extent necessary to avoid adverse personal tax consequences under Section 409A, and any ambiguities herein shall be interpreted accordingly. (B) Benefits contingent on a termination of employment shall not commence until Executive has a Separation from Service. (C) Each installment of a Benefit is a separate “payment” for purposes of Treas. Reg. Section 1.409A-2(b)(2)(i). (D) Each Benefit is intended to satisfy the exemptions from application of Section 409A provided under Treasury Regulations Sections 1.409A-1(b)(4), 1.409A-1(b)(5) and 1.409A-1(b)(9) to the maximum extent available. However, if such exemptions are not available and Executive is, upon Executive’s Separation from Service, a “specified employee” for the purposes of Section 409A, then, solely to the extent necessary to avoid adverse personal tax consequences under Section 409A, the timing of the Benefit payments otherwise payable prior to such date shall be delayed until the earlier of (x) six (6) months and one day after Executive’s Separation from Service, or (y) Executive’s death, and any payments otherwise scheduled to be made after such date shall be paid as originally scheduled. (E) To the extent that any reimbursements payable to Executive pursuant to Section 3(a)(iii) are subject to the provisions of Section 409A, the following provisions will apply in addition to the provisions of any applicable expense reimbursement policy: (a) to be eligible to obtain reimbursement for such expenses Executive must submit expense reports within 45 days after the expense is incurred, (b) any such reimbursements will be paid no later than the earlier of (x) thirty (30) days after the date Executive submits receipts for the expenses or (y) December 31 of the year following the year in which the expense was incurred, (c) the amount of expenses reimbursed in one year will not affect the amount eligible for reimbursement in any subsequent year, and (d) the right to reimbursement under this Agreement will not be subject to liquidation or exchange for another benefit.

(d) Payment of Health Care Benefits. Notwithstanding anything to the contrary set forth herein, if the Company determines, in its sole discretion, that it cannot provide the COBRA premium, Conversion Policy premium, Individual Policy premium, or other medical and dental coverage premiums (together the “*Health Care Benefits*”) contemplated under this Agreement without potentially incurring financial costs or penalties under applicable law (including, without limitation, Section 2716 of the Public Health Service Act), the Company shall in lieu thereof pay Executive a taxable cash amount, which payment shall be made regardless of whether Executive or Executive’s eligible family members elect health care continuation coverage (the “*Health Care Benefit Payment*”). Subject to any further delay in payment required by Section 14 of this Agreement, the Health Care Benefit Payment shall be paid in monthly installments on the same schedule that such amounts would otherwise have been paid to the insurer. The Health Care Benefit Payment shall be equal to (a) the amount that the Company would have otherwise paid to provide the Health Care Benefits for the duration of the applicable severance period (which amount shall be calculated based on the premium for the first month of coverage), plus (b) an additional amount such that after payment of all taxes, Executive retains an amount equal to the Company’s aggregate cost of otherwise providing the Health Care Benefits. For purposes of calculating the “additional amount” in clause (b) of the preceding sentence, Executive shall be deemed to have: paid federal income

taxes at the highest marginal rate of federal income and employment taxation for the calendar year in which the Health Care Benefit Payment is to be made, and paid applicable state and local income taxes at the highest rate of taxation for the calendar year in which the Health Care Benefit Payment is to be made, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes.

21. Definitions . As used in this Agreement, unless the context requires a different meaning, the following terms shall have the meanings set forth herein:

(a) “**2007 Equity Incentive Plan**” means that certain 2007 Equity Incentive Plan, as amended, as originally adopted by the Board of Directors on September 10, 2007, and any successor plan thereto.

(b) “**Annual Performance Bonus**” means the Executive’s current annual performance incentive bonus at the applicable maximum achievable Performance Level, whether consisting of cash or Stock Awards, as determined by the Board of Directors or Compensation Committee on an annual basis.

(c) “**Cause**” means:

(i) A material act of theft, dishonesty, fraud, intentional falsification of any employment or Company records or the commission of any criminal act which impairs Executive’s ability to perform his/her duties under this Agreement;

(ii) A material improper disclosure of the Company’s confidential, business or proprietary information by Executive;

(iii) Any action by Executive intentionally causing or expected to cause material harm to the reputation and standing of the Company, or gross negligence or willful misconduct in the performance of Executive’s assigned duties (but not mere unsatisfactory performance); or

(iv) The Executive’s conviction (including any plea of guilty or nolo contendere) for a felony causing material harm to the reputation and standing of the Company, as determined by the Company in good faith.

(d) “**Change of Control**” means:

(i) Any “**person**” (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), other than a trustee or other fiduciary holding securities of the Company under an employee benefit plan of the Company becomes the “beneficial owner” (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of (A) the outstanding shares of common stock of the Company or (B) the combined voting power of the Company’s then-outstanding securities;

(ii) The Company is party to a merger or consolidation which results in the holders of voting securities of the Company outstanding immediately prior thereto failing to continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 50% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation;

(iii) There occurs a change in the Board of Directors of the Company within a two-year period, as a result of which fewer than a majority of the Directors are Incumbent Directors. For purposes of this Agreement, an “Incumbent Director” is any director who is either:

(A) A director of the Company as of January 1, 2013; or

(B) A director who is elected or nominated for election to the Board of Directors of the Company with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but shall not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Company).

(iv) The sale or disposition of 50% or more of the Company’s assets (or consummation of any transaction having similar effect); or

(v) The dissolution or liquidation of the Company.

(e) “ **Code** ” means the Internal Revenue Code of 1986, as amended.

(f) “ **Company** ” shall mean Power Integrations, Inc., and following a Change of Control, any successor or assign to its business and/or assets that agrees or otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

(g) “ **Competition** ” shall mean rendering services for any organization or engaging in any business directly competitive with the Company or materially contrary or harmful to the interests of the Company, including, but not limited to (i) accepting employment with, or serving as a consultant, advisor or in any other capacity to, the division or other portion of the business of any employer which competes directly with the Company; (ii) materially acting against the interest of the Company or (iii) personally recruiting, directly or indirectly, any person who is then an employee of the Company.

(h) “ **Executive Officer** ” means any employee of the Company designated an executive officer by the Board of Directors or Compensation Committee.

(i) “ **Good Reason** ” means the occurrence of any of the following conditions, without Executive’s written consent, which condition(s) remain(s) in effect 20 days after written notice to the Board of Directors from Executive of such condition(s), if such notice is given within one year of the occurrence of such condition(s):

(i) A material decrease or planned decrease in Executive’s annual salary, the cash value of Executive’s Annual Performance Bonus or employee benefits following a Change of Control;

(ii) A demotion, a material reduction in Executive’s position, responsibilities or duties or a material, adverse change in Executive’s substantive functional responsibilities or duties, provided, however, that in the event of a Change of Control, Executive will be deemed demoted and his position, responsibilities or duties materially reduced or his substantive functional responsibilities or duties materially adversely changed if Executive is not responsible for at least substantially the same function that Executive had in the Company prior to the Change of Control.

(iii) The relocation of Executive’s work place for the Company to a location more than fifty (50) miles from the current location of Executive’s work place or a material adverse change in the working conditions or established working hours which persist for a period of six continuous months; or

(iv) Any material breach of this Agreement by the Company.

(j) “ **Highest Annual Salary** ” means Executive’s highest annual salary in any of the three years preceding the applicable date of determination, provided, however, that if the Executive’s then effective annual salary would be Executive’s highest annual salary upon completion of the current year of service, then Highest Annual Salary shall mean Executive’s then effective annual salary.

(k) “ **New Executive** ” means an Executive who has served as an executive of the Company for fewer than five years. Executive’s service to the Company as an executive will be deemed to begin upon the date of commencement of employment as an Executive Officer or upon the date of promotion to an Executive Officer position. A New Executive will be first eligible for the benefits under this Agreement upon the completion of one year of continuous service as an Executive Officer of the Company, unless the Board of Directors or Compensation Committee determines otherwise.

(l) “ **Performance Level** ” means the pay out amounts (whether in cash or Stock Awards) based upon the satisfaction of one or more performance criteria as determined by the Board of Directors or Compensation Committee.

(m) “ **Performance Stock Award** ” means any Stock Award subject to vesting upon the achievement of any Performance Level regardless of the length of any performance period.

(n) “ **Permanent Disability** ” means that:

(i) The Executive has been incapacitated by bodily injury or disease so as to be prevented thereby from engaging in the performance of the Executive’s duties;

(ii) Such total incapacity shall have continued for a period of six consecutive months;

(iii) Such incapacity will, in the opinion of a qualified physician, be permanent and continuous during the remainder of the Executive's life; and

(iv) Such incapacity results in Executive's Separation from Service.

(o) "**Prorated Portion**" means a fraction the numerator of which is the number of days in an applicable performance period prior to such Executive's termination of employment and the denominator of which is the total number of days in an applicable performance period.

(p) "**Release of Claims**" means the release of claims required by Section 14 of this Agreement.

(q) "**Retention Stock Award**" means any Stock Award subject to vesting upon the completion of time-based vesting criteria.

(r) "**Section 409A**" means Section 409A of the Code and the regulations and other guidance thereunder and any state law of similar effect.

(s) "**Senior Executive**" means an Executive who has served continuously as an executive of the Company for at least five years. Executive's service to the Company as an executive will be deemed to begin upon the date of commencement of employment as an Executive Officer or upon the date of promotion to an Executive Officer position, unless the Board of Directors or Compensation Committee determines otherwise.

(t) "**Separation from Service**" means a "separation from service" for the purposes of Section 409A with respect to the Company.

(u) "**Stock Award**" shall have the same meaning given to it in the 2007 Equity Incentive Plan, as may be amended from time to time.

(v) "**Termination of Employment**" means Executive's Separation from Service that results from:

(i) Any termination of employment of the Executive by the Company without Cause; or

(ii) Any resignation by the Executive for Good Reason.

"Termination of Employment" shall not include any termination of the employment of the Executive (a) by the Company for Cause; (b) as a result of Permanent Disability of the Executive; (c) as a result of the death of the Executive; (d) as a result of the voluntary termination of employment by the Executive for reasons other than Good Reason; or (e) a Termination Upon Change of Control.

(w) "**Termination Upon Change of Control**" means Executive's Separation from Service that results from:

(i) Any termination of the employment of the Executive by the Company without Cause on or within eighteen (18) months after (i) the occurrence of a Change of Control; or (ii) the date that the person serving as of the Effective Date as Chief Executive Officer of the Company ceases to serve in such office; or

(ii) Any resignation by the Executive for Good Reason within eighteen (18) months after (i) the occurrence of a Change of Control or (ii) the date that the person serving as of the Effective Date as Chief Executive Officer of the Company ceases to serve in such office.

"Termination Upon Change of Control" shall not include any termination of the employment of the Executive (a) by the Company for Cause; (b) as a result of the Permanent Disability of the Executive; (c) as a result of the death of the Executive; or (d) as a result of the voluntary termination of employment by the Executive for reasons other than Good Reason.

* * * * *

POWER INTEGRATIONS, INC.
AMENDED AND RESTATED EXECUTIVE OFFICER BENEFITS AGREEMENT

This Amended and Restated Executive Officer Benefits Agreement (the “*Agreement*”) is made and entered into as of May 1, 2014 (the “*Effective Date*”), by and between **Power Integrations, Inc.**, a Delaware corporation, (the “*Company*”) and Ben Sutherland (“*Executive*”).

Recitals

- A. Executive is an Executive Officer of the Company and possesses valuable knowledge of the Company, its business and operations, and the markets in which the Company competes.
- B. The Company draws upon the knowledge, experience and advice of Executive in order to manage its business for the benefit of the Company’s stockholders.
- C. The Board of Directors desires to supplement Executive’s employment arrangements so as to provide additional compensation and benefits to the Executive to encourage Executive to continue to devote his attention and dedication to the Company and to create additional incentives to continue his employment with the Company.
- D. The Company and Executive previously entered into an Executive Officer Benefits Agreement by and between the Company and Executive, dated April 18, 2013 (the “*Prior Agreement*”).
- E. The Company and Executive have agreed to amend and restate the Prior Agreement in its entirety as set forth herein.

Agreement

Therefore, in consideration of the mutual agreements, covenants and considerations contained herein, the undersigned hereby agree and acknowledge as follows:

1. The Prior Agreement is hereby amended and restated in its entirety and the parties hereby agree to the terms hereof, including the terms set forth on Exhibit A hereto. As provided pursuant to Section 21(s) of Exhibit A hereto, the Board of Directors of the Company has determined Executive shall be eligible for the benefits provided to a Senior Executive under this Agreement immediately as of the Effective Date.
2. For the purposes of this Agreement the “*Option Effective Date*” shall mean the Effective Date unless this Agreement is an amendment to an earlier agreement in which case the “*Option Effective Date*” shall mean April 18, 2013.
3. This Agreement may only be modified or amended by a supplemental written agreement signed by Executive and the Company.

* * * * *

In Witness Whereof, the undersigned have executed this **Amended and Restated Executive Officer Benefits Agreement**, intending to be legally bound as of the Effective Date.

COMPANY:

Power Integrations, Inc.

By: /s/ Balu Balakrishnan

Name: Balu Balakrishnan

Title: President and CEO

EXECUTIVE:

/s/ Ben Sutherland

Ben Sutherland

Address for Notice: Executive's home address
as reflected in the records of the Company

EXHIBIT A

TERMS OF AMENDED AND RESTATED EXECUTIVE OFFICER BENEFITS AGREEMENT

1. Position and Duties. Executive shall continue to be an at-will employee of the Company employed in his/her current position at his/her then current salary rate. Executive shall also be entitled to continue to participate in and to receive benefits on the same basis as other executive or senior staff members under any of the Company's employee benefit plans as in effect from time to time. In addition, Executive shall be entitled to the benefits afforded to other employees similarly situated under the Company's employment policies. Executive agrees to devote the business time, energy and skill necessary to execute his/her duties at the Company. These duties shall include, but not be limited to, any duties consistent with his/her position which may be assigned to Executive from time to time.

2. Acceleration of Vesting of Stock Awards Upon a Change of Control . In the event of a Change of Control, and provided that Executive's employment with the Company has not terminated prior to such date, Executive shall be entitled to the following benefits:

(a) All Retention Stock Awards granted by the Company to the Executive prior to the Change of Control shall have their vesting accelerated such that 25% of the then unvested shares subject to each Retention Stock Award will be deemed vested and exercisable or issuable as of the consummation of the Change of Control. Notwithstanding the foregoing, if the Change of Control does not require the assumption or substitution by the acquiring entity (or parent thereof) of all of the Company's obligations of the then outstanding Retention Stock Awards, then (i) if Executive is a New Executive, 50% of the then unvested shares subject to each Retention Stock Awards will be accelerated and deemed vested and exercisable prior to the consummation of the Change of Control; or (ii) if Executive is a Senior Executive, 100% of the then unvested shares subject to any Retention Stock Awards will be accelerated and deemed vested and exercisable prior to the consummation of the Change of Control. The shares vesting pursuant to this Section 2(a) will be exercisable, issued or converted and paid in accordance with Sections 2(c) and 20(a). Except as otherwise provided in the applicable award agreement, the portion of any unvested Retention Stock Award that is not assumed (or an appropriate substitution provided) and that does not vest based on this Section 2(a) will be forfeited by Executive and will be of no further force or effect.

(b) All Performance Stock Awards granted by the Company to the Executive prior to the Change of Control shall have their vesting accelerated immediately prior to consummation of such Change of Control so that 100% of the then unvested shares will be deemed vested at the applicable maximum achievable Performance Level . The shares vesting pursuant to this Section 2(b) will be exercisable, issued or converted and paid in accordance with Sections 2(c) and 20(a).

(c) In the event of a Change of Control, the Company undertakes to facilitate Executive's receipt of any of the benefits set forth in this Agreement by providing written notice to Executive, at least ten (10) days in advance of the closing of such transaction, which (i) indicates the anticipated timing and material economic terms of the anticipated transaction and (ii) references the Executive's rights under this Agreement. The Company shall also provide appropriate Stock Award exercise forms and instructions to assist Executive in exercising his or her rights to acquire securities of the Company on or prior to the consummation of the Change of Control. Executive is strongly encouraged to consult with his or her tax and financial advisor prior to electing to exercise any option pursuant to this Agreement.

3. Termination Upon Change of Control .

(a) **Severance Benefits .** In the event of the Executive's Termination Upon Change of Control, Executive shall be entitled to the following separation benefits:

(i) **Salary and Accrued Benefits .** All salary and accrued but unused vacation earned through the date of Executive's termination.

(ii) **Annual Performance Bonus.** Payment of a Prorated Portion of the cash value of Executive's Annual Performance Bonus measured as of the date of termination for the year in which such termination occurs.

(iii) **Expenses .** Within fourteen (14) days of submission of proper expense reports by the Executive, reimbursement by the Company for all expenses reasonably and necessarily incurred by the Executive in connection with the business of the Company prior to his termination of employment.

(iv) Severance Payment .

(1) if Executive is a New Executive, payment of an amount equal to six (6) months of Executive's Highest Annual Salary from the Company and 50% of the cash value of Executive's Annual Performance Bonus measured as of the date of termination at the applicable maximum achievable Performance Level as in effect as of the date of such termination to be paid in a lump sum on the sixtieth (60th) day following such termination as provided in Section 14; or

(2) if Executive is a Senior Executive, payment of an amount equal to (a) six (6) months of Executive's Highest Annual Salary from the Company and 50% of the cash value of Executive's Annual Performance Bonus measured as of the date of termination at the applicable maximum achievable Performance Level as in effect as of the date of such termination to be paid in a lump sum on the sixtieth (60th) day following such termination as provided in Section 14 and (b) up to an additional six (6) months of Executive's Highest Annual Salary and 50% of such Annual Performance Bonus measured as of the date of termination at the applicable maximum achievable Performance Level, less applicable withholding, shall be paid beginning six months after termination, subject to Section 14, in ratable monthly installments for six months or until Executive secures new employment, whichever occurs earlier.

(v) Stock Awards.

(1) The ability to exercise any and all outstanding vested options granted after the Option Effective Date (and any vested options granted prior to the Option Effective Date but only to the extent that such extension of exercisability would not require the Company to incur a compensation expense for financial statement purposes) for twelve (12) months from the date of termination of employment.

(2) The vesting of all Stock Awards (to the extent such Stock Award does not also constitute a portion of Executive's Annual Performance Bonus) granted by the Company to the Executive and outstanding immediately prior to such Termination Upon Change of Control shall have their vesting accelerated, such that (i) if Executive is a New Executive, 50% of the then unvested shares subject to such Stock Award will be deemed vested and exercisable as of the date of termination of employment; or (ii) if Executive is a Senior Executive, 100% of the then unvested shares subject to such Stock Award will be deemed vested and exercisable as of the date of termination of employment. Any shares vesting pursuant to this Section 3(a)(v)(2) subject to a Performance Stock Award shall vest at the applicable maximum achievable Performance Level. The shares vesting pursuant to this Section 3(a)(v)(2) will be issued in accordance with Section 20(a). Except as otherwise provided in the applicable Stock Award agreement, the portion of any unvested Stock Award that does not vest based on this Section 3 (a)(v)(2) will be forfeited by Executive and will be of no further force or effect.

(b) Benefits Continuation .

(i) In the event of Executive's Termination Upon Change of Control, Executive shall be entitled to elect continued medical and dental insurance coverage in accordance with the applicable provisions of the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, ("COBRA") and the Company shall pay such COBRA premiums for (i) six (6) months from the date of termination of employment, if Executive is a New Executive; or (ii) twelve (12) months from the date of termination of employment, if Executive is a Senior Executive. Notwithstanding the above, in the event Executive becomes eligible to be covered under another employer's group health plan (other than a plan which imposes a preexisting condition exclusion unless the preexisting condition exclusion does not apply) during the period provided for herein, the Company shall cease payment of the COBRA premiums; and

(ii) Executive shall receive the benefits, if any, under the Company's 401(k) Plan and other Company benefit plans to which he may be entitled pursuant to the terms of such plans.

4. Termination of Employment .

(a) **Severance Benefits .** In the event of the Executive's Termination of Employment, Executive shall be entitled to all separation benefits provided in Section 3(a)(i) (" **Salary and Accrued Benefits** "), Section 3(a)(ii) (" **Annual Performance Bonus** ") and 3(a)(iii) (" **Expenses** ") above. In addition, Executive shall be entitled to six (6) months of Executive's Highest Annual Salary and 50% of the cash value of Executive's Annual Performance Bonus at the applicable maximum achievable Performance Level as in effect as of the date of such termination, all less applicable withholding, paid in a lump sum within sixty (60) days of such termination as provided in Section 14.

(b) Performance Stock Awards .

(i) A Prorated Portion of all shares subject to Performance Stock Awards granted to the Executive by the Company and outstanding prior to such Termination of Employment with a performance period greater than one (1) year and granted other than in connection with Executive's Annual Performance Bonus shall vest at such Performance Level as determined by the Board of Directors or Compensation Committee on the date of such determination.

(ii) Immediately prior to the consummation of any Change of Control to occur after Executive's Termination of Employment, a Prorated Portion of Executive's outstanding Performance Stock Awards with a performance period greater than one (1) year and granted other than in connection with Executive's Annual Performance Bonus will be deemed vested at the applicable maximum achievable Performance Level. The shares vesting pursuant to this Section 4(b)(ii) will be exercisable, issued or converted and paid in accordance with Sections 2(c) and 20(a).

(c) Benefits Continuation .

(i) In the event of Executive's Termination of Employment, Executive shall be entitled to elect continued medical and dental insurance coverage in accordance with the applicable provisions of COBRA and the Company shall pay such COBRA premiums for six (6) months from the date of Termination of Employment. Notwithstanding the above, in the event Executive becomes eligible to be covered under another employer's group health plan (other than a plan which imposes a preexisting condition exclusion unless the preexisting condition exclusion does not apply) during the period provided for herein, the Company shall cease payment of the COBRA premiums; and

(ii) Executive shall receive the benefits, if any, under the Company's 401(k) Plan and other Company benefit plans to which he may be entitled pursuant to the terms of such plans.

5. Retirement Benefits .

(a) In order to be eligible for the Retirement Benefits described in Section 5(b) below, the Executive must meet both of the following criteria:

(i) At the time of Executive's termination of employment with the Company (other than in circumstances in which such termination (i) constitutes a termination with Cause or (ii) does not qualify as a Separation from Service), the Executive has (1) achieved the age of 50 and served the Company for at least 15 years; or (2) achieved the age of 55 and served the Company for at least 10 years; provided, however, if such termination of employment also constitutes a Termination of Employment or a Termination Upon Change of Control, Executive must elect within thirty (30) days of such termination to receive either the benefits provided in Section 3 or Section 4, as applicable, or the benefits provided in this Section 5; and

(ii) At any time during which the Executive is receiving Retirement Benefits, the Executive shall not (1) be employed or on contract full time by a third party (excluding a non-profit organization described in Section 501(c)(3) of the Code) or (2) engage in Competition. If the Executive engages in either (1) or (2), then all Retirement Benefits shall terminate immediately and permanently.

(b) If both conditions in Sections 5(a)(i) and 5(a)(ii) above are satisfied, the Executive shall be entitled, subject to Section 14, to receive the following "**Retirement Benefits** :"

(i) **Option Exercisability.** The ability to exercise any and all options granted after the Option Effective Date (and any options granted prior to the Option Effective Date but only to the extent that such extension of exercisability would not require the Company to incur a compensation expense for financial statement purposes) to the extent such options are vested as of the date of termination of employment for the earlier of: (i) the term of the option, (ii) the termination of the option in connection with any Change of Control, or (iii) five years;

(ii) **Performance Stock Awards.** The benefits provided under Section 4(b) ("**Performance Stock Awards** "); and

(iii) **Medical and Dental Coverage .** The Company shall pay the Executive's medical and dental premiums until the Executive achieves the age of Medicare eligibility, and additionally, if the Executive's medical and dental coverage on the date of termination included the Executive's dependents, the premiums of such dependents until the Executive achieves the age of Medicare eligibility as follows:

(A) COBRA Continuation Coverage . Upon the termination of Executive's active

employment with the Company, Executive shall be entitled to elect continued medical and dental insurance coverage in accordance with the applicable provisions of COBRA and the Company shall pay such COBRA premiums.

(B) Coverage After COBRA & Prior to Medicare Eligibility . In the event the Executive is not eligible for Medicare coverage at the end of his maximum applicable COBRA coverage period, then, the Executive shall identify and locate either or both an individual conversion policy through the insurer providing insurance coverage in connection with the Company sponsored medical and dental plans available to active employees (the “**Conversion Policy**”), and/or a supplemental individual policy or an individual policy on the open market (the “**Individual Policy**”) to be effective upon the termination of his COBRA continuation coverage so that, when the coverages for Executive provided by the Conversion Policy and/or the Individual Policy are combined, such coverages provide substantially similar medical and dental benefits in the aggregate as those provided under the medical and dental plans sponsored by the Company at such time, or at any time after the termination of Executive’s employment, for active employees (the “**Comparable Coverage**”). The Company shall be responsible for the payment of any Conversion Policy premiums and/or Individual Policy premiums for the Comparable Coverage which payment shall not exceed the cost of premiums for medical and dental coverage for then active employees. If Executive is at such time eligible to participate under the Company Plans, Executive will be entitled to so participate.

(C) Coverage After COBRA & Upon Medicare Eligibility . In the event the Executive is eligible for Medicare coverage at the end of his maximum applicable COBRA coverage period, the Executive may identify and locate a Medicare supplemental policy, which may include, to the extent permitted, the medical and dental plans sponsored by the Company at such time for active employees (the “Company Plans”), that, when combined with the coverage provided by Medicare, provides Comparable Coverage. If Executive is at such time eligible to participate under the Company Plans, Executive will be entitled to so participate; provided that Executive shall be solely responsible for the payment of any Medicare premiums and/or Medical supplemental policy premiums for the Comparable Coverage (including, if applicable, any premiums under the Company Plans).

(D) Taxes, Coverage . The Executive shall be responsible for any taxes that may be attributable to or result from the payments made by the Company in accordance with this Section 5(b)(iii) or receipt of medical and dental benefits attributable to or result from such payments. Notwithstanding Section 5(b)(iii)(A) or (B), in the event Executive becomes eligible to be covered under another employer’s group health plan (other than a plan which imposes a preexisting condition exclusion to the extent permissible by law, unless the preexisting condition exclusion does not apply) during the period provided for herein, the Company shall cease payment of any premiums. The Company will use commercially reasonable efforts to provide that Executive will continue to be eligible for coverage as provided under this Section 5(b)(iii) under the Company Plans, unless the Board of Directors or Compensation Committee determines that such coverage would create an undue burden on the Company.

6. Termination of Employment due to Death or Permanent Disability .

(a) In the event of (i) the Executive’s death during his employment with the Company and the Executive having satisfied the criteria provided at Section 5(a)(i) as of or prior to the date of his death or (ii) the Executive’s death during the period while Executive was receiving Retirement Benefits as a result of compliance with the criteria provided at Section 5(a)(i) and 5(a)(ii), (1) the Executive’s legal representative or any person empowered to act on his behalf under his will or under the then applicable laws of descent and distribution shall be entitled to the benefits pursuant to Section 5(b)(i) (“**Option Exercisability**”) and Section 5(b)(ii) (“**Performance Stock Awards**”) and (2) the Executive’s dependents, to the extent applicable, shall be entitled to the benefits pursuant to Section 5(b)(iii)(A)-(D) (“**Medical and Dental Coverage**”) for that period of time until the Executive would have achieved the age of Medicare eligibility if the Executive had lived.

(b) In the event of the Executive’s Permanent Disability during his employment with the Company and the Executive having satisfied the criteria provided at Section 5(a)(i), the Executive, and to the extent applicable, his dependents, shall be entitled to the benefits provided in Section 5(b)(i) (“**Option Exercisability**”), Section 5(b)(ii) (“**Performance Stock Awards**”) and 5(b)(iii)(A)-(D) (“**Medical and Dental Coverage**”).

7. Payment of Taxes . All payments made to Executive under this Agreement shall be subject to all applicable federal and state income, employment and payroll taxes, including all withholding taxes.

8. Parachute Payment . Executive is strongly encouraged to review the following provision and consult with his or her tax and financial advisor concerning the application of any personal tax consequences related to any payments provided for under this Agreement and the following provision. In the event that any of the payments and benefits provided for in this Agreement or otherwise payable to the Executive (a “**280G Payment**”) would (i) constitute a “parachute payment” within the meaning of Section 280G of the Code, and (ii) but for this sentence, be subject to the excise tax imposed by Section 4999 of the Code (the “**Excise Tax**”), then any such 280G Payment pursuant to this Agreement (a “**Payment**”) shall be equal to the Reduced

Amount. The “ **Reduced Amount** ” shall be either (i) the largest portion of the Payment that would result in no portion of the Payment (after reduction) being subject to the Excise Tax or (ii) the largest portion, up to and including the total, of the Payment, whichever amount (i.e., the amount determined by clause (i) or by clause (ii)), after taking into account all applicable federal, state and local employment taxes, income taxes, and the Excise Tax (all computed at the highest applicable marginal rate), results in the receipt by Executive, on an after-tax basis, of the greater economic benefit notwithstanding that all or some portion of the Payment may be subject to the Excise Tax. If a reduction in a Payment is required pursuant to the preceding sentence and the Reduced Amount is determined pursuant to clause (x) of the preceding sentence, the reduction shall occur in the manner (the “ **Reduction Method** ”) that results in the greatest economic benefit for Executive. If more than one method of reduction will result in the same economic benefit, the items so reduced will be reduced pro rata (the “ **Pro Rata Reduction Method** ”). Notwithstanding the foregoing, if the Reduction Method or the Pro Rata Reduction Method would result in any portion of the Payment being subject to taxes pursuant to Section 409A that would not otherwise be subject to taxes pursuant to Section 409A, then the Reduction Method and/or the Pro Rata Reduction Method, as the case may be, shall be modified so as to avoid the imposition of taxes pursuant to Section 409A as follows: (A) as a first priority, the modification shall preserve to the greatest extent possible, the greatest economic benefit for Executive as determined on an after-tax basis; (B) as a second priority, Payments that are contingent on future events (e.g., being terminated without cause), shall be reduced (or eliminated) before Payments that are not contingent on future events; and (C) as a third priority, Payments that are “deferred compensation” within the meaning of Section 409A shall be reduced (or eliminated) before Payments that are not deferred compensation within the meaning of Section 409A. Unless the Company and the Executive otherwise agree in writing, any determination required under this Section 8 shall be made in writing by independent public accountants appointed by the Company and reasonably acceptable to the Executive (the “ **Accountants** ”), whose determination shall be conclusive and binding upon the Executive and the Company for all purposes. The Company shall bear all costs the Accountants may reasonably incur in connection with such determination, and the Company and the Executive shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section 8.

9. Exclusive Remedy . The payments and benefits provided for in Section 3, Section 4, Section 5 or Section 15 shall constitute the Executive’s sole and exclusive remedy for any alleged injury or other damages arising out of the cessation of the employment relationship between the Executive and the Company. The parties hereto agree that irreparable damage would occur if any of the provisions of this Agreement were not performed in accordance with these specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to enforce specifically the terms and provisions hereof, this being in addition to any other remedy to which they are entitled at law or in equity.

10. Proprietary and Confidential Information . The Executive agrees to continue to abide by the terms and conditions of any Company’s confidentiality and/or proprietary rights agreement between the Executive and the Company.

11. Arbitration . Any claim, dispute or controversy arising out of this Agreement, the interpretation, validity or enforceability of this Agreement or the alleged breach thereof shall be submitted by the parties to binding arbitration by the American Arbitration Association in San Jose, California or elsewhere by mutual agreement. The selection of the arbitrator and the arbitration procedure shall be governed by the Commercial Arbitration Rules of the American Arbitration Association. All costs and expenses of arbitration or litigation, including but not limited to reasonable attorneys fees and other costs reasonably incurred by the Executive, shall be paid by the Company. Judgment may be entered on the award of the arbitration in any court having jurisdiction.

12. Interpretation . Executive and the Company agree that this Agreement shall be interpreted in accordance with and governed by the laws of the State of California, without regard to such state’s conflict of laws rules.

13. Conflict in Benefits . This Agreement shall supersede all prior arrangements, whether written or oral, and understandings regarding the subject matter of this Agreement. To the extent Executive is entitled to severance or other benefits upon termination of employment under this Agreement and any other agreement, including any change in control agreement entered into by the Company and the Executive, entered into prior to the Effective Date, the benefits payable under this Agreement shall supersede and replace any other such agreement. However, this Agreement is not intended to and shall not affect, limit or terminate (i) any plans, programs, or arrangements of the Company that are regularly made available to a significant number of employees of the Company, (ii) the Company’s equity incentive plans, (iii) any agreement or arrangement with the Executive that has been reduced to writing and which does not relate to the subject matter hereof, or (iv) any agreements or arrangements hereafter entered into by the parties in writing, except as otherwise expressly provided herein.

14. Release of Claims . Executive shall receive the severance benefits or the Retirement Benefits pursuant to this Agreement only if Executive executes and returns to the Company, within the applicable time period set forth therein but in no event more than sixty (60) days following the date of Executive’s Separation from Service, a release of claims (the “ **Release of Claims** ”) in favor of the Company in a form reasonably satisfactory to the Company, and permits such Release of Claims to become

effective in accordance with its terms on or prior to such sixtieth day (the “**Release Agreement Deadline**”). If the Release of Claims does not become effective by the Release Agreement Deadline, the Executive will forfeit any right to severance benefits or Retirement Benefits pursuant to this Agreement. Regardless of whether the Release of Claims becomes effective prior to the Release Agreement Deadline, any severance benefits or Retirement Benefits payable prior to the Release Agreement Deadline shall be paid on the Release Agreement Deadline, with the remainder of the payments to be made as originally scheduled. Except to the minimum extent that payments must be delayed pursuant to Section 20(c) because Executive is a “specified employee” or until the effectiveness (or deemed effectiveness) of the Release of Claims, all amounts will be paid as soon as practicable in accordance with the Company’s normal payroll practices following Executive’s Separation from Service. Notwithstanding the foregoing, the Release of Claims shall not be construed to waive any right to indemnification or contribution otherwise available to Executive under law or rules of corporate governance with respect to claims by third parties for actions or omissions in Executive’s role as an officer of the Company.

15. Successors and Assigns .

(a) Successors of the Company . The Company will require any successor or assign (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, expressly, absolutely and unconditionally to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession or assignment had taken place. Failure of the Company to obtain such agreement prior to the effectiveness of any such succession transaction shall be a breach of this Agreement and shall entitle the Executive to terminate his or her employment with the Company within three (3) months thereafter and to receive the benefits provided under Section 3 of this Agreement in the event of a Termination Upon Change of Control; provided, however, that (i) such termination of employment must be a Separation from Service and (ii) the Executive must deliver a Release of Claims as provided in Section 14. As used in this Agreement, “Company” shall mean the Company as defined above and any successor or assign to its business and/or assets as aforesaid which executes and delivers the agreement provided for in this Section 15 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

(b) Heirs of Executive . This Agreement shall inure to the benefit of and be enforceable by the Executive’s personal and legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

16. Notices . For purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, as follows:

if to the Company:

Power Integrations, Inc.
5245 Hellyer Avenue
San Jose, California 95138
Attn: Chief Executive Officer or Chief Financial Officer

and if to the Executive, at the address specified in this Agreement. Notice may also be given at such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

17. No Representations . Executive acknowledges that he/she is not relying and has not relied on any promise, representation or statement made by or on behalf of the Company which is not set forth in this Agreement.

18. Validity . If any one or more of the provisions (or any part thereof) of this Agreement shall be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions (or any part thereof) shall not in any way be affected or impaired thereby.

19. Consultation with Legal and Financial Advisors . Executive acknowledges that his Agreement confers significant legal rights, and may also involve the waiver of rights under other agreements; that the Company has encouraged Executive to consult with Executive’s personal legal and financial advisers; and that Executive has had adequate time to consult with Executive’s advisers before signing this Agreement.

20. Application of Section 409A and Other Limitations. Executive is strongly encouraged to review the following provisions and consult with his or her tax and financial advisor concerning the application of any personal tax consequences related to any payments provided for under this Agreement and the following provisions.

(a) If any Stock Award (other than stock options) vesting pursuant to Section 2(a), Section 2(b), Section 3(a)(v)(2) or Section 4(b)(ii):

(i) does not constitute “deferred compensation” within the meaning of Section 409A, the shares vesting pursuant to such events will be issued (1) in respect of Section 2(a), Section 2(b) and Section 4(b)(ii) immediately prior to the consummation of the Change of Control, and (2) in respect of Section 3(a)(v)(2) on the sixtieth (60th) day following the Termination Upon Change of Control as further provided in Section 14 hereof.

(ii) does constitute “deferred compensation” within the meaning of Section 409A, the shares vesting pursuant to such events will be issued (1) in respect of Section 2(a), Section 2(b) and Section 4(b)(ii) immediately prior to the Change of Control, provided such payment can be made without adverse personal tax consequences to the Executive, or else the shares vesting pursuant to Section 2(a), Section 2(b) and Section 4(b)(ii) will be converted into the same consideration received by the holders of the Company’s common stock pursuant to the Change of Control, and such consideration will be issued in accordance with the delivery schedule for such Stock Award in effect immediately prior to the Change of Control and (2) in respect of Section 3(a)(v)(2) will be issued in accordance with the delivery schedule for such Stock Award in effect immediately prior to the Termination Upon Change of Control.

(b) **Extension of Stock Option Exercise Period.** Notwithstanding anything to the contrary in this Agreement, in the event any extended exercise period provided for in this Agreement shall result in a portion of a stock option becoming subject to the provisions of Section 409A, the extended exercise period of such portion of such stock option shall be automatically shortened by the minimum extent necessary to prevent such portion of such option from becoming subject to Section 409A. In no event will any provisions in this Agreement providing for an extended exercise period result in the extension of the exercise period of any stock option beyond the maximum permitted term of such stock option as provided under the applicable equity incentive plan and stock option award agreement in effect for such stock option, assuming for the purposes of this Section 20(b) no termination of Executive’s employment with the Company.

(c) **Other Benefits.** Notwithstanding anything to the contrary herein, the following provisions apply to the extent any benefits (“*Benefits*”) provided herein other than those described in Section 20(b) are subject to Section 409A: (A) The Benefits are intended to qualify for an exemption from application of Section 409A or comply with the requirements of Section 409A to the extent necessary to avoid adverse personal tax consequences under Section 409A, and any ambiguities herein shall be interpreted accordingly. (B) Benefits contingent on a termination of employment shall not commence until Executive has a Separation from Service. (C) Each installment of a Benefit is a separate “payment” for purposes of Treas. Reg. Section 1.409A-2(b)(2)(i). (D) Each Benefit is intended to satisfy the exemptions from application of Section 409A provided under Treasury Regulations Sections 1.409A-1(b)(4), 1.409A-1(b)(5) and 1.409A-1(b)(9) to the maximum extent available. However, if such exemptions are not available and Executive is, upon Executive’s Separation from Service, a “specified employee” for the purposes of Section 409A, then, solely to the extent necessary to avoid adverse personal tax consequences under Section 409A, the timing of the Benefit payments otherwise payable prior to such date shall be delayed until the earlier of (x) six (6) months and one day after Executive’s Separation from Service, or (y) Executive’s death, and any payments otherwise scheduled to be made after such date shall be paid as originally scheduled. (E) To the extent that any reimbursements payable to Executive pursuant to Section 3(a)(iii) are subject to the provisions of Section 409A, the following provisions will apply in addition to the provisions of any applicable expense reimbursement policy: (a) to be eligible to obtain reimbursement for such expenses Executive must submit expense reports within 45 days after the expense is incurred, (b) any such reimbursements will be paid no later than the earlier of (x) thirty (30) days after the date Executive submits receipts for the expenses or (y) December 31 of the year following the year in which the expense was incurred, (c) the amount of expenses reimbursed in one year will not affect the amount eligible for reimbursement in any subsequent year, and (d) the right to reimbursement under this Agreement will not be subject to liquidation or exchange for another benefit.

(d) **Payment of Health Care Benefits.** Notwithstanding anything to the contrary set forth herein, if the Company determines, in its sole discretion, that it cannot provide the COBRA premium, Conversion Policy premium, Individual Policy premium, or other medical and dental coverage premiums (together the “*Health Care Benefits*”) contemplated under this Agreement without potentially incurring financial costs or penalties under applicable law (including, without limitation, Section 2716 of the Public Health Service Act), the Company shall in lieu thereof pay Executive a taxable cash amount, which payment shall be made regardless of whether Executive or Executive’s eligible family members elect health care continuation coverage (the “*Health Care Benefit Payment*”). Subject to any further delay in payment required by Section 14 of this Agreement, the Health Care Benefit Payment shall be paid in monthly installments on the same schedule that such amounts would otherwise have been paid to the insurer. The Health Care Benefit Payment shall be equal to (a) the amount that the Company would have otherwise paid to provide the Health Care Benefits for the duration of the applicable severance period (which amount shall be calculated based on the premium for the first month of coverage), plus (b) an additional amount such that after payment of all taxes, Executive retains an amount equal to the Company’s aggregate cost of otherwise providing the Health Care Benefits. For purposes of

calculating the “additional amount” in clause (b) of the preceding sentence, Executive shall be deemed to have: paid federal income taxes at the highest marginal rate of federal income and employment taxation for the calendar year in which the Health Care Benefit Payment is to be made, and paid applicable state and local income taxes at the highest rate of taxation for the calendar year in which the Health Care Benefit Payment is to be made, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes.

21. Definitions . As used in this Agreement, unless the context requires a different meaning, the following terms shall have the meanings set forth herein:

(a) “**2007 Equity Incentive Plan**” means that certain 2007 Equity Incentive Plan, as amended, as originally adopted by the Board of Directors on September 10, 2007, and any successor plan thereto.

(b) “**Annual Performance Bonus**” means the Executive’s current annual performance incentive bonus at the applicable maximum achievable Performance Level, whether consisting of cash or Stock Awards, as determined by the Board of Directors or Compensation Committee on an annual basis.

(c) “**Cause**” means:

(i) A material act of theft, dishonesty, fraud, intentional falsification of any employment or Company records or the commission of any criminal act which impairs Executive’s ability to perform his/her duties under this Agreement;

(ii) A material improper disclosure of the Company’s confidential, business or proprietary information by Executive;

(iii) Any action by Executive intentionally causing or expected to cause material harm to the reputation and standing of the Company, or gross negligence or willful misconduct in the performance of Executive’s assigned duties (but not mere unsatisfactory performance); or

(iv) The Executive’s conviction (including any plea of guilty or nolo contendere) for a felony causing material harm to the reputation and standing of the Company, as determined by the Company in good faith.

(d) “**Change of Control**” means:

(i) Any “**person**” (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), other than a trustee or other fiduciary holding securities of the Company under an employee benefit plan of the Company becomes the “beneficial owner” (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of (A) the outstanding shares of common stock of the Company or (B) the combined voting power of the Company’s then-outstanding securities;

(ii) The Company is party to a merger or consolidation which results in the holders of voting securities of the Company outstanding immediately prior thereto failing to continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 50% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation;

(iii) There occurs a change in the Board of Directors of the Company within a two-year period, as a result of which fewer than a majority of the Directors are Incumbent Directors. For purposes of this Agreement, an “Incumbent Director” is any director who is either:

(A) A director of the Company as of January 1, 2013; or

(B) A director who is elected or nominated for election to the Board of Directors of the Company with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but shall not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Company).

(iv) The sale or disposition of 50% or more of the Company’s assets (or consummation of any transaction having similar effect); or

(v) The dissolution or liquidation of the Company.

(e) “ *Code* ” means the Internal Revenue Code of 1986, as amended.

(f) “ *Company* ” shall mean Power Integrations, Inc., and following a Change of Control, any successor or assign to its business and/or assets that agrees or otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

(g) “ *Competition* ” shall mean rendering services for any organization or engaging in any business directly competitive with the Company or materially contrary or harmful to the interests of the Company, including, but not limited to (i) accepting employment with, or serving as a consultant, advisor or in any other capacity to, the division or other portion of the business of any employer which competes directly with the Company; (ii) materially acting against the interest of the Company or (iii) personally recruiting, directly or indirectly, any person who is then an employee of the Company.

(h) “ *Executive Officer* ” means any employee of the Company designated an executive officer by the Board of Directors or Compensation Committee.

(i) “ *Good Reason* ” means the occurrence of any of the following conditions, without Executive’s written consent, which condition(s) remain(s) in effect 20 days after written notice to the Board of Directors from Executive of such condition(s), if such notice is given within one year of the occurrence of such condition(s):

(i) A material decrease or planned decrease in Executive’s annual salary, the cash value of Executive’s Annual Performance Bonus or employee benefits following a Change of Control;

(ii) A demotion, a material reduction in Executive’s position, responsibilities or duties or a material, adverse change in Executive’s substantive functional responsibilities or duties, provided, however, that in the event of a Change of Control, Executive will be deemed demoted and his position, responsibilities or duties materially reduced or his substantive functional responsibilities or duties materially adversely changed if Executive is not responsible for at least substantially the same function that Executive had in the Company prior to the Change of Control.

(iii) The relocation of Executive’s work place for the Company to a location more than fifty (50) miles from the current location of Executive’s work place or a material adverse change in the working conditions or established working hours which persist for a period of six continuous months; or

(iv) Any material breach of this Agreement by the Company.

(j) “ *Highest Annual Salary* ” means Executive’s highest annual salary in any of the three years preceding the applicable date of determination, provided, however, that if the Executive’s then effective annual salary would be Executive’s highest annual salary upon completion of the current year of service, then Highest Annual Salary shall mean Executive’s then effective annual salary.

(k) “ *New Executive* ” means an Executive who has served as an executive of the Company for fewer than five years. Executive’s service to the Company as an executive will be deemed to begin upon the date of commencement of employment as an Executive Officer or upon the date of promotion to an Executive Officer position. A New Executive will be first eligible for the benefits under this Agreement upon the completion of one year of continuous service as an Executive Officer of the Company, unless the Board of Directors or Compensation Committee determines otherwise.

(l) “ *Performance Level* ” means the pay out amounts (whether in cash or Stock Awards) based upon the satisfaction of one or more performance criteria as determined by the Board of Directors or Compensation Committee.

(m) “ *Performance Stock Award* ” means any Stock Award subject to vesting upon the achievement of any Performance Level regardless of the length of any performance period.

(n) “ *Permanent Disability* ” means that:

(i) The Executive has been incapacitated by bodily injury or disease so as to be prevented thereby from engaging in the performance of the Executive’s duties;

(ii) Such total incapacity shall have continued for a period of six consecutive months;

(iii) Such incapacity will, in the opinion of a qualified physician, be permanent and continuous during the remainder of the Executive's life; and

(iv) Such incapacity results in Executive's Separation from Service.

(o) "**Prorated Portion**" means a fraction the numerator of which is the number of days in an applicable performance period prior to such Executive's termination of employment and the denominator of which is the total number of days in an applicable performance period.

(p) "**Release of Claims**" means the release of claims required by Section 14 of this Agreement.

(q) "**Retention Stock Award**" means any Stock Award subject to vesting upon the completion of time-based vesting criteria.

(r) "**Section 409A**" means Section 409A of the Code and the regulations and other guidance thereunder and any state law of similar effect.

(s) "**Senior Executive**" means an Executive who has served continuously as an executive of the Company for at least five years. Executive's service to the Company as an executive will be deemed to begin upon the date of commencement of employment as an Executive Officer or upon the date of promotion to an Executive Officer position, unless the Board of Directors or Compensation Committee determines otherwise.

(t) "**Separation from Service**" means a "separation from service" for the purposes of Section 409A with respect to the Company.

(u) "**Stock Award**" shall have the same meaning given to it in the 2007 Equity Incentive Plan, as may be amended from time to time.

(v) "**Termination of Employment**" means Executive's Separation from Service that results from:

(i) Any termination of employment of the Executive by the Company without Cause; or

(ii) Any resignation by the Executive for Good Reason.

"Termination of Employment" shall not include any termination of the employment of the Executive (a) by the Company for Cause; (b) as a result of Permanent Disability of the Executive; (c) as a result of the death of the Executive; (d) as a result of the voluntary termination of employment by the Executive for reasons other than Good Reason; or (e) a Termination Upon Change of Control.

(w) "**Termination Upon Change of Control**" means Executive's Separation from Service that results from:

(i) Any termination of the employment of the Executive by the Company without Cause on or within eighteen (18) months after (i) the occurrence of a Change of Control; or (ii) the date that the person serving as of the Effective Date as Chief Executive Officer of the Company ceases to serve in such office; or

(ii) Any resignation by the Executive for Good Reason within eighteen (18) months after (i) the occurrence of a Change of Control or (ii) the date that the person serving as of the Effective Date as Chief Executive Officer of the Company ceases to serve in such office.

"Termination Upon Change of Control" shall not include any termination of the employment of the Executive (a) by the Company for Cause; (b) as a result of the Permanent Disability of the Executive; (c) as a result of the death of the Executive; or (d) as a result of the voluntary termination of employment by the Executive for reasons other than Good Reason.

* * * * *

POWER INTEGRATIONS, INC.
AMENDED AND RESTATED EXECUTIVE OFFICER BENEFITS AGREEMENT

This Amended and Restated Executive Officer Benefits Agreement (the “*Agreement*”) is made and entered into as of May 1, 2014 (the “*Effective Date*”), by and between **Power Integrations, Inc.**, a Delaware corporation, (the “*Company*”) and Sandeep Nayyar (“*Executive*”).

Recitals

A. Executive is an Executive Officer of the Company and possesses valuable knowledge of the Company, its business and operations, and the markets in which the Company competes.

B. The Company draws upon the knowledge, experience and advice of Executive in order to manage its business for the benefit of the Company’s stockholders.

C. The Board of Directors desires to supplement Executive’s employment arrangements so as to provide additional compensation and benefits to the Executive to encourage Executive to continue to devote his attention and dedication to the Company and to create additional incentives to continue his employment with the Company.

D. The Company and Executive previously entered into an Amended and Restated Executive Officer Benefits Agreement by and between the Company and Executive, dated May 13, 2013 (the “*Prior Agreement*”).

E. The Company and Executive have agreed to amend and restate the Prior Agreement in its entirety as set forth herein.

Agreement

Therefore, in consideration of the mutual agreements, covenants and considerations contained herein, the undersigned hereby agree and acknowledge as follows:

1. The Prior Agreement is hereby amended and restated in its entirety and the parties hereby agree to the terms hereof, including the terms set forth on Exhibit A hereto. As provided pursuant to Section 21(s) of Exhibit A hereto, the Board of Directors of the Company has determined Executive shall be eligible for the benefits provided to a Senior Executive under this Agreement immediately as of the Effective Date.

2. For the purposes of this Agreement the “*Option Effective Date*” shall mean the Effective Date unless this Agreement is an amendment to an earlier agreement in which case the “*Option Effective Date*” shall mean July 22, 2010.

3. This Agreement may only be modified or amended by a supplemental written agreement signed by Executive and the Company.

* * * * *

In Witness Whereof, the undersigned have executed this **Amended and Restated Executive Officer Benefits Agreement**, intending to be legally bound as of the Effective Date.

COMPANY:

Power Integrations, Inc.

By: /s/ Balu Balakrishnan

Name: Balu Balakrishnan

Title: President and CEO

EXECUTIVE:

/s/ Sandeep Nayyar

Sandeep Nayyar

Address for Notice: Executive's home address
as reflected in the records of the Company

EXHIBIT A

TERMS OF AMENDED AND RESTATED EXECUTIVE OFFICER BENEFITS AGREEMENT

1. Position and Duties. Executive shall continue to be an at-will employee of the Company employed in his/her current position at his/her then current salary rate. Executive shall also be entitled to continue to participate in and to receive benefits on the same basis as other executive or senior staff members under any of the Company's employee benefit plans as in effect from time to time. In addition, Executive shall be entitled to the benefits afforded to other employees similarly situated under the Company's employment policies. Executive agrees to devote the business time, energy and skill necessary to execute his/her duties at the Company. These duties shall include, but not be limited to, any duties consistent with his/her position which may be assigned to Executive from time to time.

2. Acceleration of Vesting of Stock Awards Upon a Change of Control . In the event of a Change of Control, and provided that Executive's employment with the Company has not terminated prior to such date, Executive shall be entitled to the following benefits:

(a) All Retention Stock Awards granted by the Company to the Executive prior to the Change of Control shall have their vesting accelerated such that 25% of the then unvested shares subject to each Retention Stock Award will be deemed vested and exercisable or issuable as of the consummation of the Change of Control. Notwithstanding the foregoing, if the Change of Control does not require the assumption or substitution by the acquiring entity (or parent thereof) of all of the Company's obligations of the then outstanding Retention Stock Awards, then (i) if Executive is a New Executive, 50% of the then unvested shares subject to each Retention Stock Awards will be accelerated and deemed vested and exercisable prior to the consummation of the Change of Control; or (ii) if Executive is a Senior Executive, 100% of the then unvested shares subject to any Retention Stock Awards will be accelerated and deemed vested and exercisable prior to the consummation of the Change of Control. The shares vesting pursuant to this Section 2(a) will be exercisable, issued or converted and paid in accordance with Sections 2(c) and 20(a). Except as otherwise provided in the applicable award agreement, the portion of any unvested Retention Stock Award that is not assumed (or an appropriate substitution provided) and that does not vest based on this Section 2(a) will be forfeited by Executive and will be of no further force or effect.

(b) All Performance Stock Awards granted by the Company to the Executive prior to the Change of Control shall have their vesting accelerated immediately prior to consummation of such Change of Control so that 100% of the then unvested shares will be deemed vested at the applicable maximum achievable Performance Level . The shares vesting pursuant to this Section 2(b) will be exercisable, issued or converted and paid in accordance with Sections 2(c) and 20(a).

(c) In the event of a Change of Control, the Company undertakes to facilitate Executive's receipt of any of the benefits set forth in this Agreement by providing written notice to Executive, at least ten (10) days in advance of the closing of such transaction, which (i) indicates the anticipated timing and material economic terms of the anticipated transaction and (ii) references the Executive's rights under this Agreement. The Company shall also provide appropriate Stock Award exercise forms and instructions to assist Executive in exercising his or her rights to acquire securities of the Company on or prior to the consummation of the Change of Control. Executive is strongly encouraged to consult with his or her tax and financial advisor prior to electing to exercise any option pursuant to this Agreement.

3. Termination Upon Change of Control .

(a) **Severance Benefits .** In the event of the Executive's Termination Upon Change of Control, Executive shall be entitled to the following separation benefits:

(i) **Salary and Accrued Benefits .** All salary and accrued but unused vacation earned through the date of Executive's termination.

(ii) **Annual Performance Bonus.** Payment of a Prorated Portion of the cash value of Executive's Annual Performance Bonus measured as of the date of termination for the year in which such termination occurs.

(iii) **Expenses .** Within fourteen (14) days of submission of proper expense reports by the Executive, reimbursement by the Company for all expenses reasonably and necessarily incurred by the Executive in connection with the business of the Company prior to his termination of employment.

(iv) Severance Payment .

(1) if Executive is a New Executive, payment of an amount equal to six (6) months of Executive's Highest Annual Salary from the Company and 50% of the cash value of Executive's Annual Performance Bonus measured as of the date of termination at the applicable maximum achievable Performance Level as in effect as of the date of such termination to be paid in a lump sum on the sixtieth (60th) day following such termination as provided in Section 14; or

(2) if Executive is a Senior Executive, payment of an amount equal to (a) six (6) months of Executive's Highest Annual Salary from the Company and 50% of the cash value of Executive's Annual Performance Bonus measured as of the date of termination at the applicable maximum achievable Performance Level as in effect as of the date of such termination to be paid in a lump sum on the sixtieth (60th) day following such termination as provided in Section 14 and (b) up to an additional six (6) months of Executive's Highest Annual Salary and 50% of such Annual Performance Bonus measured as of the date of termination at the applicable maximum achievable Performance Level, less applicable withholding, shall be paid beginning six months after termination, subject to Section 14, in ratable monthly installments for six months or until Executive secures new employment, whichever occurs earlier.

(v) Stock Awards.

(1) The ability to exercise any and all outstanding vested options granted after the Option Effective Date (and any vested options granted prior to the Option Effective Date but only to the extent that such extension of exercisability would not require the Company to incur a compensation expense for financial statement purposes) for twelve (12) months from the date of termination of employment.

(2) The vesting of all Stock Awards (to the extent such Stock Award does not also constitute a portion of Executive's Annual Performance Bonus) granted by the Company to the Executive and outstanding immediately prior to such Termination Upon Change of Control shall have their vesting accelerated, such that (i) if Executive is a New Executive, 50% of the then unvested shares subject to such Stock Award will be deemed vested and exercisable as of the date of termination of employment; or (ii) if Executive is a Senior Executive, 100% of the then unvested shares subject to such Stock Award will be deemed vested and exercisable as of the date of termination of employment. Any shares vesting pursuant to this Section 3(a)(v)(2) subject to a Performance Stock Award shall vest at the applicable maximum achievable Performance Level. The shares vesting pursuant to this Section 3(a)(v)(2) will be issued in accordance with Section 20(a). Except as otherwise provided in the applicable Stock Award agreement, the portion of any unvested Stock Award that does not vest based on this Section 3 (a)(v)(2) will be forfeited by Executive and will be of no further force or effect.

(b) Benefits Continuation .

(i) In the event of Executive's Termination Upon Change of Control, Executive shall be entitled to elect continued medical and dental insurance coverage in accordance with the applicable provisions of the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, ("COBRA") and the Company shall pay such COBRA premiums for (i) six (6) months from the date of termination of employment, if Executive is a New Executive; or (ii) twelve (12) months from the date of termination of employment, if Executive is a Senior Executive. Notwithstanding the above, in the event Executive becomes eligible to be covered under another employer's group health plan (other than a plan which imposes a preexisting condition exclusion unless the preexisting condition exclusion does not apply) during the period provided for herein, the Company shall cease payment of the COBRA premiums; and

(ii) Executive shall receive the benefits, if any, under the Company's 401(k) Plan and other Company benefit plans to which he may be entitled pursuant to the terms of such plans.

4. Termination of Employment .

(a) **Severance Benefits .** In the event of the Executive's Termination of Employment, Executive shall be entitled to all separation benefits provided in Section 3(a)(i) (" **Salary and Accrued Benefits** "), Section 3(a)(ii) (" **Annual Performance Bonus** ") and 3(a)(iii) (" **Expenses** ") above. In addition, Executive shall be entitled to six (6) months of Executive's Highest Annual Salary and 50% of the cash value of Executive's Annual Performance Bonus at the applicable maximum achievable Performance Level as in effect as of the date of such termination, all less applicable withholding, paid in a lump sum within sixty (60) days of such termination as provided in Section 14.

(b) Performance Stock Awards .

(i) A Prorated Portion of all shares subject to Performance Stock Awards granted to the Executive by the Company and outstanding prior to such Termination of Employment with a performance period greater than one (1) year and granted other than in connection with Executive's Annual Performance Bonus shall vest at such Performance Level as determined by the Board of Directors or Compensation Committee on the date of such determination.

(ii) Immediately prior to the consummation of any Change of Control to occur after Executive's Termination of Employment, a Prorated Portion of Executive's outstanding Performance Stock Awards with a performance period greater than one (1) year and granted other than in connection with Executive's Annual Performance Bonus will be deemed vested at the applicable maximum achievable Performance Level. The shares vesting pursuant to this Section 4(b)(ii) will be exercisable, issued or converted and paid in accordance with Sections 2(c) and 20(a).

(c) Benefits Continuation .

(i) In the event of Executive's Termination of Employment, Executive shall be entitled to elect continued medical and dental insurance coverage in accordance with the applicable provisions of COBRA and the Company shall pay such COBRA premiums for six (6) months from the date of Termination of Employment. Notwithstanding the above, in the event Executive becomes eligible to be covered under another employer's group health plan (other than a plan which imposes a preexisting condition exclusion unless the preexisting condition exclusion does not apply) during the period provided for herein, the Company shall cease payment of the COBRA premiums; and

(ii) Executive shall receive the benefits, if any, under the Company's 401(k) Plan and other Company benefit plans to which he may be entitled pursuant to the terms of such plans.

5. Retirement Benefits .

(a) In order to be eligible for the Retirement Benefits described in Section 5(b) below, the Executive must meet both of the following criteria:

(i) At the time of Executive's termination of employment with the Company (other than in circumstances in which such termination (i) constitutes a termination with Cause or (ii) does not qualify as a Separation from Service), the Executive has (1) achieved the age of 50 and served the Company for at least 15 years; or (2) achieved the age of 55 and served the Company for at least 10 years; provided, however, if such termination of employment also constitutes a Termination of Employment or a Termination Upon Change of Control, Executive must elect within thirty (30) days of such termination to receive either the benefits provided in Section 3 or Section 4, as applicable, or the benefits provided in this Section 5; and

(ii) At any time during which the Executive is receiving Retirement Benefits, the Executive shall not (1) be employed or on contract full time by a third party (excluding a non-profit organization described in Section 501(c)(3) of the Code) or (2) engage in Competition. If the Executive engages in either (1) or (2), then all Retirement Benefits shall terminate immediately and permanently.

(b) If both conditions in Sections 5(a)(i) and 5(a)(ii) above are satisfied, the Executive shall be entitled, subject to Section 14, to receive the following "**Retirement Benefits** :"

(i) **Option Exercisability.** The ability to exercise any and all options granted after the Option Effective Date (and any options granted prior to the Option Effective Date but only to the extent that such extension of exercisability would not require the Company to incur a compensation expense for financial statement purposes) to the extent such options are vested as of the date of termination of employment for the earlier of: (i) the term of the option, (ii) the termination of the option in connection with any Change of Control, or (iii) five years;

(ii) **Performance Stock Awards.** The benefits provided under Section 4(b) ("**Performance Stock Awards** "); and

(iii) **Medical and Dental Coverage .** The Company shall pay the Executive's medical and dental premiums until the Executive achieves the age of Medicare eligibility, and additionally, if the Executive's medical and dental coverage on the date of termination included the Executive's dependents, the premiums of such dependents until the Executive achieves the age of Medicare eligibility as follows:

(A) COBRA Continuation Coverage . Upon the termination of Executive's active

employment with the Company, Executive shall be entitled to elect continued medical and dental insurance coverage in accordance with the applicable provisions of COBRA and the Company shall pay such COBRA premiums.

(B) Coverage After COBRA & Prior to Medicare Eligibility . In the event the Executive is not eligible for Medicare coverage at the end of his maximum applicable COBRA coverage period, then, the Executive shall identify and locate either or both an individual conversion policy through the insurer providing insurance coverage in connection with the Company sponsored medical and dental plans available to active employees (the “**Conversion Policy**”), and/or a supplemental individual policy or an individual policy on the open market (the “**Individual Policy**”) to be effective upon the termination of his COBRA continuation coverage so that, when the coverages for Executive provided by the Conversion Policy and/or the Individual Policy are combined, such coverages provide substantially similar medical and dental benefits in the aggregate as those provided under the medical and dental plans sponsored by the Company at such time, or at any time after the termination of Executive’s employment, for active employees (the “**Comparable Coverage**”). The Company shall be responsible for the payment of any Conversion Policy premiums and/or Individual Policy premiums for the Comparable Coverage which payment shall not exceed the cost of premiums for medical and dental coverage for then active employees. If Executive is at such time eligible to participate under the Company Plans, Executive will be entitled to so participate.

(C) Coverage After COBRA & Upon Medicare Eligibility . In the event the Executive is eligible for Medicare coverage at the end of his maximum applicable COBRA coverage period, the Executive may identify and locate a Medicare supplemental policy, which may include, to the extent permitted, the medical and dental plans sponsored by the Company at such time for active employees (the “Company Plans”), that, when combined with the coverage provided by Medicare, provides Comparable Coverage. If Executive is at such time eligible to participate under the Company Plans, Executive will be entitled to so participate; provided that Executive shall be solely responsible for the payment of any Medicare premiums and/or Medical supplemental policy premiums for the Comparable Coverage (including, if applicable, any premiums under the Company Plans).

(D) Taxes, Coverage . The Executive shall be responsible for any taxes that may be attributable to or result from the payments made by the Company in accordance with this Section 5(b)(iii) or receipt of medical and dental benefits attributable to or result from such payments. Notwithstanding Section 5(b)(iii)(A) or (B), in the event Executive becomes eligible to be covered under another employer’s group health plan (other than a plan which imposes a preexisting condition exclusion to the extent permissible by law, unless the preexisting condition exclusion does not apply) during the period provided for herein, the Company shall cease payment of any premiums. The Company will use commercially reasonable efforts to provide that Executive will continue to be eligible for coverage as provided under this Section 5(b)(iii) under the Company Plans, unless the Board of Directors or Compensation Committee determines that such coverage would create an undue burden on the Company.

6. Termination of Employment due to Death or Permanent Disability .

(a) In the event of (i) the Executive’s death during his employment with the Company and the Executive having satisfied the criteria provided at Section 5(a)(i) as of or prior to the date of his death or (ii) the Executive’s death during the period while Executive was receiving Retirement Benefits as a result of compliance with the criteria provided at Section 5(a)(i) and 5(a)(ii), (1) the Executive’s legal representative or any person empowered to act on his behalf under his will or under the then applicable laws of descent and distribution shall be entitled to the benefits pursuant to Section 5(b)(i) (“**Option Exercisability**”) and Section 5(b)(ii) (“**Performance Stock Awards**”) and (2) the Executive’s dependents, to the extent applicable, shall be entitled to the benefits pursuant to Section 5(b)(iii)(A)-(D) (“**Medical and Dental Coverage**”) for that period of time until the Executive would have achieved the age of Medicare eligibility if the Executive had lived.

(b) In the event of the Executive’s Permanent Disability during his employment with the Company and the Executive having satisfied the criteria provided at Section 5(a)(i), the Executive, and to the extent applicable, his dependents, shall be entitled to the benefits provided in Section 5(b)(i) (“**Option Exercisability**”), Section 5(b)(ii) (“**Performance Stock Awards**”) and 5(b)(iii)(A)-(D) (“**Medical and Dental Coverage**”).

7. Payment of Taxes . All payments made to Executive under this Agreement shall be subject to all applicable federal and state income, employment and payroll taxes, including all withholding taxes.

8. Parachute Payment . Executive is strongly encouraged to review the following provision and consult with his or her tax and financial advisor concerning the application of any personal tax consequences related to any payments provided for under this Agreement and the following provision. In the event that any of the payments and benefits provided for in this Agreement or otherwise payable to the Executive (a “**280G Payment**”) would (i) constitute a “parachute payment” within the meaning of Section 280G of the Code, and (ii) but for this sentence, be subject to the excise tax imposed by Section 4999 of the Code (the “**Excise Tax**”), then any such 280G Payment pursuant to this Agreement (a “**Payment**”) shall be equal to the Reduced

Amount. The “ **Reduced Amount** ” shall be either (i) the largest portion of the Payment that would result in no portion of the Payment (after reduction) being subject to the Excise Tax or (ii) the largest portion, up to and including the total, of the Payment, whichever amount (i.e., the amount determined by clause (i) or by clause (ii)), after taking into account all applicable federal, state and local employment taxes, income taxes, and the Excise Tax (all computed at the highest applicable marginal rate), results in the receipt by Executive, on an after-tax basis, of the greater economic benefit notwithstanding that all or some portion of the Payment may be subject to the Excise Tax. If a reduction in a Payment is required pursuant to the preceding sentence and the Reduced Amount is determined pursuant to clause (x) of the preceding sentence, the reduction shall occur in the manner (the “ **Reduction Method** ”) that results in the greatest economic benefit for Executive. If more than one method of reduction will result in the same economic benefit, the items so reduced will be reduced pro rata (the “ **Pro Rata Reduction Method** ”). Notwithstanding the foregoing, if the Reduction Method or the Pro Rata Reduction Method would result in any portion of the Payment being subject to taxes pursuant to Section 409A that would not otherwise be subject to taxes pursuant to Section 409A, then the Reduction Method and/or the Pro Rata Reduction Method, as the case may be, shall be modified so as to avoid the imposition of taxes pursuant to Section 409A as follows: (A) as a first priority, the modification shall preserve to the greatest extent possible, the greatest economic benefit for Executive as determined on an after-tax basis; (B) as a second priority, Payments that are contingent on future events (e.g., being terminated without cause), shall be reduced (or eliminated) before Payments that are not contingent on future events; and (C) as a third priority, Payments that are “deferred compensation” within the meaning of Section 409A shall be reduced (or eliminated) before Payments that are not deferred compensation within the meaning of Section 409A. Unless the Company and the Executive otherwise agree in writing, any determination required under this Section 8 shall be made in writing by independent public accountants appointed by the Company and reasonably acceptable to the Executive (the “ **Accountants** ”), whose determination shall be conclusive and binding upon the Executive and the Company for all purposes. The Company shall bear all costs the Accountants may reasonably incur in connection with such determination, and the Company and the Executive shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section 8.

9. Exclusive Remedy . The payments and benefits provided for in Section 3, Section 4, Section 5 or Section 15 shall constitute the Executive’s sole and exclusive remedy for any alleged injury or other damages arising out of the cessation of the employment relationship between the Executive and the Company. The parties hereto agree that irreparable damage would occur if any of the provisions of this Agreement were not performed in accordance with these specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to enforce specifically the terms and provisions hereof, this being in addition to any other remedy to which they are entitled at law or in equity.

10. Proprietary and Confidential Information . The Executive agrees to continue to abide by the terms and conditions of any Company’s confidentiality and/or proprietary rights agreement between the Executive and the Company.

11. Arbitration . Any claim, dispute or controversy arising out of this Agreement, the interpretation, validity or enforceability of this Agreement or the alleged breach thereof shall be submitted by the parties to binding arbitration by the American Arbitration Association in San Jose, California or elsewhere by mutual agreement. The selection of the arbitrator and the arbitration procedure shall be governed by the Commercial Arbitration Rules of the American Arbitration Association. All costs and expenses of arbitration or litigation, including but not limited to reasonable attorneys fees and other costs reasonably incurred by the Executive, shall be paid by the Company. Judgment may be entered on the award of the arbitration in any court having jurisdiction.

12. Interpretation . Executive and the Company agree that this Agreement shall be interpreted in accordance with and governed by the laws of the State of California, without regard to such state’s conflict of laws rules.

13. Conflict in Benefits . This Agreement shall supersede all prior arrangements, whether written or oral, and understandings regarding the subject matter of this Agreement. To the extent Executive is entitled to severance or other benefits upon termination of employment under this Agreement and any other agreement, including any change in control agreement entered into by the Company and the Executive, entered into prior to the Effective Date, the benefits payable under this Agreement shall supersede and replace any other such agreement. However, this Agreement is not intended to and shall not affect, limit or terminate (i) any plans, programs, or arrangements of the Company that are regularly made available to a significant number of employees of the Company, (ii) the Company’s equity incentive plans, (iii) any agreement or arrangement with the Executive that has been reduced to writing and which does not relate to the subject matter hereof, or (iv) any agreements or arrangements hereafter entered into by the parties in writing, except as otherwise expressly provided herein.

14. Release of Claims . Executive shall receive the severance benefits or the Retirement Benefits pursuant to this Agreement only if Executive executes and returns to the Company, within the applicable time period set forth therein but in no event more than sixty (60) days following the date of Executive’s Separation from Service, a release of claims (the “ **Release of Claims** ”) in favor of the Company in a form reasonably satisfactory to the Company, and permits such Release of Claims to become

effective in accordance with its terms on or prior to such sixtieth day (the “**Release Agreement Deadline**”). If the Release of Claims does not become effective by the Release Agreement Deadline, the Executive will forfeit any right to severance benefits or Retirement Benefits pursuant to this Agreement. Regardless of whether the Release of Claims becomes effective prior to the Release Agreement Deadline, any severance benefits or Retirement Benefits payable prior to the Release Agreement Deadline shall be paid on the Release Agreement Deadline, with the remainder of the payments to be made as originally scheduled. Except to the minimum extent that payments must be delayed pursuant to Section 20(c) because Executive is a “specified employee” or until the effectiveness (or deemed effectiveness) of the Release of Claims, all amounts will be paid as soon as practicable in accordance with the Company’s normal payroll practices following Executive’s Separation from Service. Notwithstanding the foregoing, the Release of Claims shall not be construed to waive any right to indemnification or contribution otherwise available to Executive under law or rules of corporate governance with respect to claims by third parties for actions or omissions in Executive’s role as an officer of the Company.

15. Successors and Assigns .

(a) Successors of the Company . The Company will require any successor or assign (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, expressly, absolutely and unconditionally to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession or assignment had taken place. Failure of the Company to obtain such agreement prior to the effectiveness of any such succession transaction shall be a breach of this Agreement and shall entitle the Executive to terminate his or her employment with the Company within three (3) months thereafter and to receive the benefits provided under Section 3 of this Agreement in the event of a Termination Upon Change of Control; provided, however, that (i) such termination of employment must be a Separation from Service and (ii) the Executive must deliver a Release of Claims as provided in Section 14. As used in this Agreement, “Company” shall mean the Company as defined above and any successor or assign to its business and/or assets as aforesaid which executes and delivers the agreement provided for in this Section 15 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

(b) Heirs of Executive . This Agreement shall inure to the benefit of and be enforceable by the Executive’s personal and legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

16. Notices . For purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, as follows:

if to the Company:

Power Integrations, Inc.
5245 Hellyer Avenue
San Jose, California 95138
Attn: Chief Executive Officer or Chief Financial Officer

and if to the Executive, at the address specified in this Agreement. Notice may also be given at such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

17. No Representations . Executive acknowledges that he/she is not relying and has not relied on any promise, representation or statement made by or on behalf of the Company which is not set forth in this Agreement.

18. Validity . If any one or more of the provisions (or any part thereof) of this Agreement shall be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions (or any part thereof) shall not in any way be affected or impaired thereby.

19. Consultation with Legal and Financial Advisors . Executive acknowledges that his Agreement confers significant legal rights, and may also involve the waiver of rights under other agreements; that the Company has encouraged Executive to consult with Executive’s personal legal and financial advisers; and that Executive has had adequate time to consult with Executive’s advisers before signing this Agreement.

20. Application of Section 409A and Other Limitations. Executive is strongly encouraged to review the following provisions and consult with his or her tax and financial advisor concerning the application of any personal tax consequences related to any payments provided for under this Agreement and the following provisions.

(a) If any Stock Award (other than stock options) vesting pursuant to Section 2(a), Section 2(b), Section 3(a)(v)(2) or Section 4(b)(ii):

(i) does not constitute “deferred compensation” within the meaning of Section 409A, the shares vesting pursuant to such events will be issued (1) in respect of Section 2(a), Section 2(b) and Section 4(b)(ii) immediately prior to the consummation of the Change of Control, and (2) in respect of Section 3(a)(v)(2) on the sixtieth (60th) day following the Termination Upon Change of Control as further provided in Section 14 hereof.

(ii) does constitute “deferred compensation” within the meaning of Section 409A, the shares vesting pursuant to such events will be issued (1) in respect of Section 2(a), Section 2(b) and Section 4(b)(ii) immediately prior to the Change of Control, provided such payment can be made without adverse personal tax consequences to the Executive, or else the shares vesting pursuant to Section 2(a), Section 2(b) and Section 4(b)(ii) will be converted into the same consideration received by the holders of the Company’s common stock pursuant to the Change of Control, and such consideration will be issued in accordance with the delivery schedule for such Stock Award in effect immediately prior to the Change of Control and (2) in respect of Section 3(a)(v)(2) will be issued in accordance with the delivery schedule for such Stock Award in effect immediately prior to the Termination Upon Change of Control.

(b) **Extension of Stock Option Exercise Period.** Notwithstanding anything to the contrary in this Agreement, in the event any extended exercise period provided for in this Agreement shall result in a portion of a stock option becoming subject to the provisions of Section 409A, the extended exercise period of such portion of such stock option shall be automatically shortened by the minimum extent necessary to prevent such portion of such option from becoming subject to Section 409A. In no event will any provisions in this Agreement providing for an extended exercise period result in the extension of the exercise period of any stock option beyond the maximum permitted term of such stock option as provided under the applicable equity incentive plan and stock option award agreement in effect for such stock option, assuming for the purposes of this Section 20(b) no termination of Executive’s employment with the Company.

(c) **Other Benefits.** Notwithstanding anything to the contrary herein, the following provisions apply to the extent any benefits (“*Benefits*”) provided herein other than those described in Section 20(b) are subject to Section 409A: (A) The Benefits are intended to qualify for an exemption from application of Section 409A or comply with the requirements of Section 409A to the extent necessary to avoid adverse personal tax consequences under Section 409A, and any ambiguities herein shall be interpreted accordingly. (B) Benefits contingent on a termination of employment shall not commence until Executive has a Separation from Service. (C) Each installment of a Benefit is a separate “payment” for purposes of Treas. Reg. Section 1.409A-2(b)(2)(i). (D) Each Benefit is intended to satisfy the exemptions from application of Section 409A provided under Treasury Regulations Sections 1.409A-1(b)(4), 1.409A-1(b)(5) and 1.409A-1(b)(9) to the maximum extent available. However, if such exemptions are not available and Executive is, upon Executive’s Separation from Service, a “specified employee” for the purposes of Section 409A, then, solely to the extent necessary to avoid adverse personal tax consequences under Section 409A, the timing of the Benefit payments otherwise payable prior to such date shall be delayed until the earlier of (x) six (6) months and one day after Executive’s Separation from Service, or (y) Executive’s death, and any payments otherwise scheduled to be made after such date shall be paid as originally scheduled. (E) To the extent that any reimbursements payable to Executive pursuant to Section 3(a)(iii) are subject to the provisions of Section 409A, the following provisions will apply in addition to the provisions of any applicable expense reimbursement policy: (a) to be eligible to obtain reimbursement for such expenses Executive must submit expense reports within 45 days after the expense is incurred, (b) any such reimbursements will be paid no later than the earlier of (x) thirty (30) days after the date Executive submits receipts for the expenses or (y) December 31 of the year following the year in which the expense was incurred, (c) the amount of expenses reimbursed in one year will not affect the amount eligible for reimbursement in any subsequent year, and (d) the right to reimbursement under this Agreement will not be subject to liquidation or exchange for another benefit.

(d) **Payment of Health Care Benefits.** Notwithstanding anything to the contrary set forth herein, if the Company determines, in its sole discretion, that it cannot provide the COBRA premium, Conversion Policy premium, Individual Policy premium, or other medical and dental coverage premiums (together the “*Health Care Benefits*”) contemplated under this Agreement without potentially incurring financial costs or penalties under applicable law (including, without limitation, Section 2716 of the Public Health Service Act), the Company shall in lieu thereof pay Executive a taxable cash amount, which payment shall be made regardless of whether Executive or Executive’s eligible family members elect health care continuation coverage (the “*Health Care Benefit Payment*”). Subject to any further delay in payment required by Section 14 of this Agreement, the Health Care Benefit Payment shall be paid in monthly installments on the same schedule that such amounts would otherwise have been paid to the insurer. The Health Care Benefit Payment shall be equal to (a) the amount that the Company would have otherwise paid to provide the Health Care Benefits for the duration of the applicable severance period (which amount shall be calculated based on the premium for the first month of coverage), plus (b) an additional amount such that after payment of all taxes, Executive retains an amount equal to the Company’s aggregate cost of otherwise providing the Health Care Benefits. For purposes of

calculating the “additional amount” in clause (b) of the preceding sentence, Executive shall be deemed to have: paid federal income taxes at the highest marginal rate of federal income and employment taxation for the calendar year in which the Health Care Benefit Payment is to be made, and paid applicable state and local income taxes at the highest rate of taxation for the calendar year in which the Health Care Benefit Payment is to be made, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes.

21. Definitions . As used in this Agreement, unless the context requires a different meaning, the following terms shall have the meanings set forth herein:

(a) “**2007 Equity Incentive Plan**” means that certain 2007 Equity Incentive Plan, as amended, as originally adopted by the Board of Directors on September 10, 2007, and any successor plan thereto.

(b) “**Annual Performance Bonus**” means the Executive’s current annual performance incentive bonus at the applicable maximum achievable Performance Level, whether consisting of cash or Stock Awards, as determined by the Board of Directors or Compensation Committee on an annual basis.

(c) “**Cause**” means:

(i) A material act of theft, dishonesty, fraud, intentional falsification of any employment or Company records or the commission of any criminal act which impairs Executive’s ability to perform his/her duties under this Agreement;

(ii) A material improper disclosure of the Company’s confidential, business or proprietary information by Executive;

(iii) Any action by Executive intentionally causing or expected to cause material harm to the reputation and standing of the Company, or gross negligence or willful misconduct in the performance of Executive’s assigned duties (but not mere unsatisfactory performance); or

(iv) The Executive’s conviction (including any plea of guilty or nolo contendere) for a felony causing material harm to the reputation and standing of the Company, as determined by the Company in good faith.

(d) “**Change of Control**” means:

(i) Any “**person**” (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), other than a trustee or other fiduciary holding securities of the Company under an employee benefit plan of the Company becomes the “beneficial owner” (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of (A) the outstanding shares of common stock of the Company or (B) the combined voting power of the Company’s then-outstanding securities;

(ii) The Company is party to a merger or consolidation which results in the holders of voting securities of the Company outstanding immediately prior thereto failing to continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 50% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation;

(iii) There occurs a change in the Board of Directors of the Company within a two-year period, as a result of which fewer than a majority of the Directors are Incumbent Directors. For purposes of this Agreement, an “Incumbent Director” is any director who is either:

(A) A director of the Company as of January 1, 2013; or

(B) A director who is elected or nominated for election to the Board of Directors of the Company with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but shall not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Company).

(iv) The sale or disposition of 50% or more of the Company’s assets (or consummation of any transaction having similar effect); or

(v) The dissolution or liquidation of the Company.

(e) “ *Code* ” means the Internal Revenue Code of 1986, as amended.

(f) “ *Company* ” shall mean Power Integrations, Inc., and following a Change of Control, any successor or assign to its business and/or assets that agrees or otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

(g) “ *Competition* ” shall mean rendering services for any organization or engaging in any business directly competitive with the Company or materially contrary or harmful to the interests of the Company, including, but not limited to (i) accepting employment with, or serving as a consultant, advisor or in any other capacity to, the division or other portion of the business of any employer which competes directly with the Company; (ii) materially acting against the interest of the Company or (iii) personally recruiting, directly or indirectly, any person who is then an employee of the Company.

(h) “ *Executive Officer* ” means any employee of the Company designated an executive officer by the Board of Directors or Compensation Committee.

(i) “ *Good Reason* ” means the occurrence of any of the following conditions, without Executive’s written consent, which condition(s) remain(s) in effect 20 days after written notice to the Board of Directors from Executive of such condition(s), if such notice is given within one year of the occurrence of such condition(s):

(i) A material decrease or planned decrease in Executive’s annual salary, the cash value of Executive’s Annual Performance Bonus or employee benefits following a Change of Control;

(ii) A demotion, a material reduction in Executive’s position, responsibilities or duties or a material, adverse change in Executive’s substantive functional responsibilities or duties, provided, however, that in the event of a Change of Control, Executive will be deemed demoted and his position, responsibilities or duties materially reduced or his substantive functional responsibilities or duties materially adversely changed if Executive is not responsible for at least substantially the same function that Executive had in the Company prior to the Change of Control.

(iii) The relocation of Executive’s work place for the Company to a location more than fifty (50) miles from the current location of Executive’s work place or a material adverse change in the working conditions or established working hours which persist for a period of six continuous months; or

(iv) Any material breach of this Agreement by the Company.

(j) “ *Highest Annual Salary* ” means Executive’s highest annual salary in any of the three years preceding the applicable date of determination, provided, however, that if the Executive’s then effective annual salary would be Executive’s highest annual salary upon completion of the current year of service, then Highest Annual Salary shall mean Executive’s then effective annual salary.

(k) “ *New Executive* ” means an Executive who has served as an executive of the Company for fewer than five years. Executive’s service to the Company as an executive will be deemed to begin upon the date of commencement of employment as an Executive Officer or upon the date of promotion to an Executive Officer position. A New Executive will be first eligible for the benefits under this Agreement upon the completion of one year of continuous service as an Executive Officer of the Company, unless the Board of Directors or Compensation Committee determines otherwise.

(l) “ *Performance Level* ” means the pay out amounts (whether in cash or Stock Awards) based upon the satisfaction of one or more performance criteria as determined by the Board of Directors or Compensation Committee.

(m) “ *Performance Stock Award* ” means any Stock Award subject to vesting upon the achievement of any Performance Level regardless of the length of any performance period.

(n) “ *Permanent Disability* ” means that:

(i) The Executive has been incapacitated by bodily injury or disease so as to be prevented thereby from engaging in the performance of the Executive’s duties;

(ii) Such total incapacity shall have continued for a period of six consecutive months;

(iii) Such incapacity will, in the opinion of a qualified physician, be permanent and continuous during the remainder of the Executive's life; and

(iv) Such incapacity results in Executive's Separation from Service.

(o) "**Prorated Portion**" means a fraction the numerator of which is the number of days in an applicable performance period prior to such Executive's termination of employment and the denominator of which is the total number of days in an applicable performance period.

(p) "**Release of Claims**" means the release of claims required by Section 14 of this Agreement.

(q) "**Retention Stock Award**" means any Stock Award subject to vesting upon the completion of time-based vesting criteria.

(r) "**Section 409A**" means Section 409A of the Code and the regulations and other guidance thereunder and any state law of similar effect.

(s) "**Senior Executive**" means an Executive who has served continuously as an executive of the Company for at least five years. Executive's service to the Company as an executive will be deemed to begin upon the date of commencement of employment as an Executive Officer or upon the date of promotion to an Executive Officer position, unless the Board of Directors or Compensation Committee determines otherwise.

(t) "**Separation from Service**" means a "separation from service" for the purposes of Section 409A with respect to the Company.

(u) "**Stock Award**" shall have the same meaning given to it in the 2007 Equity Incentive Plan, as may be amended from time to time.

(v) "**Termination of Employment**" means Executive's Separation from Service that results from:

(i) Any termination of employment of the Executive by the Company without Cause; or

(ii) Any resignation by the Executive for Good Reason.

"Termination of Employment" shall not include any termination of the employment of the Executive (a) by the Company for Cause; (b) as a result of Permanent Disability of the Executive; (c) as a result of the death of the Executive; (d) as a result of the voluntary termination of employment by the Executive for reasons other than Good Reason; or (e) a Termination Upon Change of Control.

(w) "**Termination Upon Change of Control**" means Executive's Separation from Service that results from:

(i) Any termination of the employment of the Executive by the Company without Cause on or within eighteen (18) months after (i) the occurrence of a Change of Control; or (ii) the date that the person serving as of the Effective Date as Chief Executive Officer of the Company ceases to serve in such office; or

(ii) Any resignation by the Executive for Good Reason within eighteen (18) months after (i) the occurrence of a Change of Control or (ii) the date that the person serving as of the Effective Date as Chief Executive Officer of the Company ceases to serve in such office.

"Termination Upon Change of Control" shall not include any termination of the employment of the Executive (a) by the Company for Cause; (b) as a result of the Permanent Disability of the Executive; (c) as a result of the death of the Executive; or (d) as a result of the voluntary termination of employment by the Executive for reasons other than Good Reason.

* * * * *

POWER INTEGRATIONS, INC.
AMENDED AND RESTATED EXECUTIVE OFFICER BENEFITS AGREEMENT

This Amended and Restated Executive Officer Benefits Agreement (the “*Agreement*”) is made and entered into as of May 1, 2014 (the “*Effective Date*”), by and between **Power Integrations, Inc.**, a Delaware corporation, (the “*Company*”) and Wolfgang Ademmer (“*Executive*”).

Recitals

A. Executive is an Executive Officer of the Company and possesses valuable knowledge of the Company, its business and operations, and the markets in which the Company competes.

B. The Company draws upon the knowledge, experience and advice of Executive in order to manage its business for the benefit of the Company’s stockholders.

C. The Board of Directors desires to supplement Executive’s employment arrangements so as to provide additional compensation and benefits to the Executive to encourage Executive to continue to devote his attention and dedication to the Company and to create additional incentives to continue his employment with the Company.

D. The Company and Executive previously entered into an Executive Officer Benefits Agreement by and between the Company and Executive, dated November 4, 2013 (the “*Prior Agreement*”).

E. The Company and Executive have agreed to amend and restate the Prior Agreement in its entirety as set forth herein.

Agreement

Therefore, in consideration of the mutual agreements, covenants and considerations contained herein, the undersigned hereby agree and acknowledge as follows:

1. The Prior Agreement is hereby amended and restated in its entirety and the parties hereby agree to the terms hereof, including the terms set forth on Exhibit A hereto. The Board of Directors has previously determined Executive was eligible to receive the benefits hereunder upon the Effective Date of the Prior Agreement as permitted in Section 21(k).

2. For the purposes of this Agreement the “*Option Effective Date*” shall mean the Effective Date unless this Agreement is an amendment to an earlier agreement in which case the “*Option Effective Date*” shall mean November 4, 2013.

3. This Agreement may only be modified or amended by a supplemental written agreement signed by Executive and the Company.

* * * * *

In Witness Whereof, the undersigned have executed this **Amended and Restated Executive Officer Benefits Agreement**, intending to be legally bound as of the Effective Date.

COMPANY:

Power Integrations, Inc.

By: /s/ Balu Balakrishnan

Name: Balu Balakrishnan

Title: President and CEO

EXECUTIVE:

/s/ Wolfgang Ademmer

Wolfgang Ademmer

Address for Notice: Executive's home address
as reflected in the records of the Company

EXHIBIT A

TERMS OF AMENDED AND RESTATED EXECUTIVE OFFICER BENEFITS AGREEMENT

1. Position and Duties. Executive shall continue to be an at-will employee of the Company employed in his/her current position at his/her then current salary rate. Executive shall also be entitled to continue to participate in and to receive benefits on the same basis as other executive or senior staff members under any of the Company's employee benefit plans as in effect from time to time. In addition, Executive shall be entitled to the benefits afforded to other employees similarly situated under the Company's employment policies. Executive agrees to devote the business time, energy and skill necessary to execute his/her duties at the Company. These duties shall include, but not be limited to, any duties consistent with his/her position which may be assigned to Executive from time to time.

2. Acceleration of Vesting of Stock Awards Upon a Change of Control . In the event of a Change of Control, and provided that Executive's employment with the Company has not terminated prior to such date, Executive shall be entitled to the following benefits:

(a) All Retention Stock Awards granted by the Company to the Executive prior to the Change of Control shall have their vesting accelerated such that 25% of the then unvested shares subject to each Retention Stock Award will be deemed vested and exercisable or issuable as of the consummation of the Change of Control. Notwithstanding the foregoing, if the Change of Control does not require the assumption or substitution by the acquiring entity (or parent thereof) of all of the Company's obligations of the then outstanding Retention Stock Awards, then (i) if Executive is a New Executive, 50% of the then unvested shares subject to each Retention Stock Awards will be accelerated and deemed vested and exercisable prior to the consummation of the Change of Control; or (ii) if Executive is a Senior Executive, 100% of the then unvested shares subject to any Retention Stock Awards will be accelerated and deemed vested and exercisable prior to the consummation of the Change of Control. The shares vesting pursuant to this Section 2(a) will be exercisable, issued or converted and paid in accordance with Sections 2(c) and 20(a). Except as otherwise provided in the applicable award agreement, the portion of any unvested Retention Stock Award that is not assumed (or an appropriate substitution provided) and that does not vest based on this Section 2(a) will be forfeited by Executive and will be of no further force or effect.

(b) All Performance Stock Awards granted by the Company to the Executive prior to the Change of Control shall have their vesting accelerated immediately prior to consummation of such Change of Control so that 100% of the then unvested shares will be deemed vested at the applicable maximum achievable Performance Level . The shares vesting pursuant to this Section 2(b) will be exercisable, issued or converted and paid in accordance with Sections 2(c) and 20(a).

(c) In the event of a Change of Control, the Company undertakes to facilitate Executive's receipt of any of the benefits set forth in this Agreement by providing written notice to Executive, at least ten (10) days in advance of the closing of such transaction, which (i) indicates the anticipated timing and material economic terms of the anticipated transaction and (ii) references the Executive's rights under this Agreement. The Company shall also provide appropriate Stock Award exercise forms and instructions to assist Executive in exercising his or her rights to acquire securities of the Company on or prior to the consummation of the Change of Control. Executive is strongly encouraged to consult with his or her tax and financial advisor prior to electing to exercise any option pursuant to this Agreement.

3. Termination Upon Change of Control .

(a) **Severance Benefits .** In the event of the Executive's Termination Upon Change of Control, Executive shall be entitled to the following separation benefits:

(i) **Salary and Accrued Benefits .** All salary and accrued but unused vacation earned through the date of Executive's termination.

(ii) **Annual Performance Bonus.** Payment of a Prorated Portion of the cash value of Executive's Annual Performance Bonus measured as of the date of termination for the year in which such termination occurs.

(iii) **Expenses .** Within fourteen (14) days of submission of proper expense reports by the Executive, reimbursement by the Company for all expenses reasonably and necessarily incurred by the Executive in connection with the business of the Company prior to his termination of employment.

(iv) Severance Payment .

(1) if Executive is a New Executive, payment of an amount equal to six (6) months of Executive's Highest Annual Salary from the Company and 50% of the cash value of Executive's Annual Performance Bonus measured as of the date of termination at the applicable maximum achievable Performance Level as in effect as of the date of such termination to be paid in a lump sum on the sixtieth (60th) day following such termination as provided in Section 14; or

(2) if Executive is a Senior Executive, payment of an amount equal to (a) six (6) months of Executive's Highest Annual Salary from the Company and 50% of the cash value of Executive's Annual Performance Bonus measured as of the date of termination at the applicable maximum achievable Performance Level as in effect as of the date of such termination to be paid in a lump sum on the sixtieth (60th) day following such termination as provided in Section 14 and (b) up to an additional six (6) months of Executive's Highest Annual Salary and 50% of such Annual Performance Bonus measured as of the date of termination at the applicable maximum achievable Performance Level, less applicable withholding, shall be paid beginning six months after termination, subject to Section 14, in ratable monthly installments for six months or until Executive secures new employment, whichever occurs earlier.

(v) Stock Awards.

(1) The ability to exercise any and all outstanding vested options granted after the Option Effective Date (and any vested options granted prior to the Option Effective Date but only to the extent that such extension of exercisability would not require the Company to incur a compensation expense for financial statement purposes) for twelve (12) months from the date of termination of employment.

(2) The vesting of all Stock Awards (to the extent such Stock Award does not also constitute a portion of Executive's Annual Performance Bonus) granted by the Company to the Executive and outstanding immediately prior to such Termination Upon Change of Control shall have their vesting accelerated, such that (i) if Executive is a New Executive, 50% of the then unvested shares subject to such Stock Award will be deemed vested and exercisable as of the date of termination of employment; or (ii) if Executive is a Senior Executive, 100% of the then unvested shares subject to such Stock Award will be deemed vested and exercisable as of the date of termination of employment. Any shares vesting pursuant to this Section 3(a)(v)(2) subject to a Performance Stock Award shall vest at the applicable maximum achievable Performance Level. The shares vesting pursuant to this Section 3(a)(v)(2) will be issued in accordance with Section 20(a). Except as otherwise provided in the applicable Stock Award agreement, the portion of any unvested Stock Award that does not vest based on this Section 3(a)(v)(2) will be forfeited by Executive and will be of no further force or effect.

(b) [Reserved]

4. Termination of Employment .

(a) **Severance Benefits .** In the event of the Executive's Termination of Employment, Executive shall be entitled to all separation benefits provided in Section 3(a)(i) (" **Salary and Accrued Benefits** "), Section 3(a)(ii) (" **Annual Performance Bonus** ") and 3(a)(iii) (" **Expenses** ") above. In addition, Executive shall be entitled to six (6) months of Executive's Highest Annual Salary and 50% of the cash value of Executive's Annual Performance Bonus at the applicable maximum achievable Performance Level as in effect as of the date of such termination, all less applicable withholding, paid in a lump sum within sixty (60) days of such termination as provided in Section 14.

(b) Performance Stock Awards .

(i) A Prorated Portion of all shares subject to Performance Stock Awards granted to the Executive by the Company and outstanding prior to such Termination of Employment with a performance period greater than one (1) year and granted other than in connection with Executive's Annual Performance Bonus shall vest at such Performance Level as determined by the Board of Directors or Compensation Committee on the date of such determination.

(ii) Immediately prior to the consummation of any Change of Control to occur after Executive's Termination of Employment, a Prorated Portion of Executive's outstanding Performance Stock Awards with a performance period greater than one (1) year and granted other than in connection with Executive's Annual Performance Bonus will be deemed vested at the applicable maximum achievable Performance Level. The shares vesting pursuant to this Section 4(b)(ii) will be exercisable, issued or converted and paid in accordance with Sections 2(c) and 20(a).

(c) [Reserved]

5. Retirement Benefits .

(a) In order to be eligible for the Retirement Benefits described in Section 5(b) below, the Executive must meet both of the following criteria:

(i) At the time of Executive's termination of employment with the Company (other than in circumstances in which such termination (i) constitutes a termination with Cause or (ii) does not qualify as a Separation from Service), the Executive has (1) achieved the age of 50 and served the Company for at least 15 years; or (2) achieved the age of 55 and served the Company for at least 10 years; provided, however, if such termination of employment also constitutes a Termination of Employment or a Termination Upon Change of Control, Executive must elect within thirty (30) days of such termination to receive either the benefits provided in Section 3 or Section 4, as applicable, or the benefits provided in this Section 5; and

(ii) At any time during which the Executive is receiving Retirement Benefits, the Executive shall not (1) be employed or on contract full time by a third party (excluding a non-profit organization described in Section 501(c)(3) of the Code) or (2) engage in Competition. If the Executive engages in either (1) or (2), then all Retirement Benefits shall terminate immediately and permanently.

(b) If both conditions in Sections 5(a)(i) and 5(a)(ii) above are satisfied, the Executive shall be entitled, subject to Section 14, to receive the following "**Retirement Benefits** :"

(i) **Option Exercisability.** The ability to exercise any and all options granted after the Option Effective Date (and any options granted prior to the Option Effective Date but only to the extent that such extension of exercisability would not require the Company to incur a compensation expense for financial statement purposes) to the extent such options are vested as of the date of termination of employment for the earlier of: (i) the term of the option, (ii) the termination of the option in connection with any Change of Control, or (iii) five years; and

(ii) **Performance Stock Awards.** The benefits provided under Section 4(b) ("**Performance Stock Awards** ").

(iii) [Reserved]

6. Termination of Employment due to Death or Permanent Disability .

(a) In the event of the Executive's death during his employment with the Company and the Executive having satisfied the criteria provided at Section 5(a)(i) as of or prior to the date of his death the Executive's legal representative or any person empowered to act on his behalf under his will or under the then applicable laws of descent and distribution shall be entitled to the benefits pursuant to Section 5(b)(i) ("**Option Exercisability** ") and Section 5(b)(ii) ("**Performance Stock Awards** ").

(b) In the event of the Executive's Permanent Disability during his employment with the Company and the Executive having satisfied the criteria provided at Section 5(a)(i), the Executive, and to the extent applicable, his dependents, shall be entitled to the benefits provided in Section 5(b)(i) ("**Option Exercisability** ") and Section 5(b)(ii) ("**Performance Stock Awards** ").

7. **Payment of Taxes** . All payments made to Executive under this Agreement shall be subject to all applicable federal and state income, employment and payroll taxes, including all withholding taxes.

8. [Reserved]

9. **Exclusive Remedy** . The payments and benefits provided for in Section 3, Section 4, Section 5 or Section 15 shall constitute the Executive's sole and exclusive remedy for any alleged injury or other damages arising out of the cessation of the employment relationship between the Executive and the Company. The parties hereto agree that irreparable damage would occur if any of the provisions of this Agreement were not performed in accordance with these specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to enforce specifically the terms and provisions hereof, this being in addition to any other remedy to which they are entitled at law or in equity.

10. **Proprietary and Confidential Information** . The Executive agrees to continue to abide by the terms and conditions of any Company's confidentiality and/or proprietary rights agreement between the Executive and the Company.

11. Arbitration . Any claim, dispute or controversy arising out of this Agreement, the interpretation, validity or enforceability of this Agreement or the alleged breach thereof shall be submitted by the parties to binding arbitration by the American Arbitration Association in San Jose, California or elsewhere by mutual agreement. The selection of the arbitrator and the arbitration procedure shall be governed by the Commercial Arbitration Rules of the American Arbitration Association. All costs and expenses of arbitration or litigation, including but not limited to reasonable attorneys fees and other costs reasonably incurred by the Executive, shall be paid by the Company. Judgment may be entered on the award of the arbitration in any court having jurisdiction.

12. Interpretation . Executive and the Company agree that this Agreement shall be interpreted in accordance with and governed by the laws of the State of California, without regard to such state's conflict of laws rules.

13. Conflict in Benefits . This Agreement shall supersede all prior arrangements, whether written or oral, and understandings regarding the subject matter of this Agreement. To the extent Executive is entitled to severance or other benefits upon termination of employment under this Agreement and any other agreement, including any change in control agreement entered into by the Company and the Executive, entered into prior to the Effective Date, the benefits payable under this Agreement shall supersede and replace any other such agreement. However, this Agreement is not intended to and shall not affect, limit or terminate (i) any plans, programs, or arrangements of the Company that are regularly made available to a significant number of employees of the Company, (ii) the Company's equity incentive plans, (iii) any agreement or arrangement with the Executive that has been reduced to writing and which does not relate to the subject matter hereof, or (iv) any agreements or arrangements hereafter entered into by the parties in writing, except as otherwise expressly provided herein.

14. Release of Claims . Executive shall receive the severance benefits or the Retirement Benefits pursuant to this Agreement only if Executive executes and returns to the Company, within the applicable time period set forth therein but in no event more than sixty (60) days following the date of Executive's Separation from Service, a release of claims (the "**Release of Claims** ") in favor of the Company in a form reasonably satisfactory to the Company, and permits such Release of Claims to become effective in accordance with its terms on or prior to such sixtieth day (the "**Release Agreement Deadline** "). If the Release of Claims does not become effective by the Release Agreement Deadline, the Executive will forfeit any right to severance benefits or Retirement Benefits pursuant to this Agreement. Regardless of whether the Release of Claims becomes effective prior to the Release Agreement Deadline, any severance benefits or Retirement Benefits payable prior to the Release Agreement Deadline shall be paid on the Release Agreement Deadline, with the remainder of the payments to be made as originally scheduled. Except to the minimum extent that payments must be delayed until the effectiveness (or deemed effectiveness) of the Release of Claims, all amounts will be paid as soon as practicable in accordance with the Company's normal payroll practices following Executive's Separation from Service. Notwithstanding the foregoing, the Release of Claims shall not be construed to waive any right to indemnification or contribution otherwise available to Executive under law or rules of corporate governance with respect to claims by third parties for actions or omissions in Executive's role as an officer of the Company.

15. Successors and Assigns .

(a) Successors of the Company . The Company will require any successor or assign (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, expressly, absolutely and unconditionally to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession or assignment had taken place. Failure of the Company to obtain such agreement prior to the effectiveness of any such succession transaction shall be a breach of this Agreement and shall entitle the Executive to terminate his or her employment with the Company within three (3) months thereafter and to receive the benefits provided under Section 3 of this Agreement in the event of a Termination Upon Change of Control; provided, however, that (i) such termination of employment must be a Separation from Service and (ii) the Executive must deliver a Release of Claims as provided in Section 14. As used in this Agreement, "Company" shall mean the Company as defined above and any successor or assign to its business and/or assets as aforesaid which executes and delivers the agreement provided for in this Section 15 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

(b) Heirs of Executive . This Agreement shall inure to the benefit of and be enforceable by the Executive's personal and legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

16. Notices . For purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, as follows:

if to the Company:

Power Integrations, Inc.

5245 Hellyer Avenue
San Jose, California 95138
Attn: Chief Executive Officer or Chief Financial Officer

and if to the Executive, at the address specified in this Agreement. Notice may also be given at such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

17. No Representations . Executive acknowledges that he/she is not relying and has not relied on any promise, representation or statement made by or on behalf of the Company which is not set forth in this Agreement.

18. Validity . If any one or more of the provisions (or any part thereof) of this Agreement shall be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions (or any part thereof) shall not in any way be affected or impaired thereby.

19. Consultation with Legal and Financial Advisors . Executive acknowledges that his Agreement confers significant legal rights, and may also involve the waiver of rights under other agreements; that the Company has encouraged Executive to consult with Executive's personal legal and financial advisers; and that Executive has had adequate time to consult with Executive's advisers before signing this Agreement.

20. Other Limitations. Executive is strongly encouraged to review the following provisions and consult with his or her tax and financial advisor concerning the application of any personal tax consequences related to any payments provided for under this Agreement and the following provisions.

(a) If any Stock Award (other than stock options) vesting pursuant to Section 2(a), Section 2(b), Section 3(a)(v)(2) or Section 4(b)(ii):

(i) does not constitute "deferred compensation" within the meaning of Section 409A, the shares vesting pursuant to such events will be issued (1) in respect of Section 2(a), Section 2(b) and Section 4(b)(ii) immediately prior to the consummation of the Change of Control, and (2) in respect of Section 3(a)(v)(2) on the sixtieth (60th) day following the Termination Upon Change of Control as further provided in Section 14 hereof.

(ii) does constitute "deferred compensation" within the meaning of Section 409A, the shares vesting pursuant to such events will be issued (1) in respect of Section 2(a), Section 2(b) and Section 4(b)(ii) immediately prior to the Change of Control, provided such payment can be made without adverse personal tax consequences to the Executive, or else the shares vesting pursuant to Section 2(a), Section 2(b) and Section 4(b)(ii) will be converted into the same consideration received by the holders of the Company's common stock pursuant to the Change of Control, and such consideration will be issued in accordance with the delivery schedule for such Stock Award in effect immediately prior to the Change of Control and (2) in respect of Section 3(a)(v)(2) will be issued in accordance with the delivery schedule for such Stock Award in effect immediately prior to the Termination Upon Change of Control.

(b) **Extension of Stock Option Exercise Period.** Notwithstanding anything to the contrary in this Agreement, in the event any extended exercise period provided for in this Agreement shall result in a portion of a stock option becoming subject to the provisions of Section 409A, the extended exercise period of such portion of such stock option shall be automatically shortened by the minimum extent necessary to prevent such portion of such option from becoming subject to Section 409A. In no event will any provisions in this Agreement providing for an extended exercise period result in the extension of the exercise period of any stock option beyond the maximum permitted term of such stock option as provided under the applicable equity incentive plan and stock option award agreement in effect for such stock option, assuming for the purposes of this Section 20(b) no termination of Executive's employment with the Company.

(c) [Reserved]

(d) [Reserved]

21. Definitions . As used in this Agreement, unless the context requires a different meaning, the following terms shall have the meanings set forth herein:

(a) " **2007 Equity Incentive Plan** " means that certain 2007 Equity Incentive Plan, as amended, as originally adopted by the Board of Directors on September 10, 2007, and any successor plan thereto.

(b) “ **Annual Performance Bonus** ” means the Executive’s current annual performance incentive bonus at the applicable maximum achievable Performance Level, whether consisting of cash or Stock Awards, as determined by the Board of Directors or Compensation Committee on an annual basis.

(c) “ **Cause** ” means:

(i) A material act of theft, dishonesty, fraud, intentional falsification of any employment or Company records or the commission of any criminal act which impairs Executive’s ability to perform his/her duties under this Agreement;

(ii) A material improper disclosure of the Company’s confidential, business or proprietary information by Executive;

(iii) Any action by Executive intentionally causing or expected to cause material harm to the reputation and standing of the Company, or gross negligence or willful misconduct in the performance of Executive’s assigned duties (but not mere unsatisfactory performance); or

(iv) The Executive’s conviction (including any plea of guilty or nolo contendere) for a felony causing material harm to the reputation and standing of the Company, as determined by the Company in good faith.

(d) “ **Change of Control** ” means:

(i) Any “ **person** ” (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), other than a trustee or other fiduciary holding securities of the Company under an employee benefit plan of the Company becomes the “beneficial owner” (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of (A) the outstanding shares of common stock of the Company or (B) the combined voting power of the Company’s then-outstanding securities;

(ii) The Company is party to a merger or consolidation which results in the holders of voting securities of the Company outstanding immediately prior thereto failing to continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 50% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation;

(iii) There occurs a change in the Board of Directors of the Company within a two-year period, as a result of which fewer than a majority of the Directors are Incumbent Directors. For purposes of this Agreement, an “Incumbent Director” is any director who is either:

(A) A director of the Company as of January 1, 2013; or

(B) A director who is elected or nominated for election to the Board of Directors of the Company with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but shall not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Company).

(iv) The sale or disposition of 50% or more of the Company’s assets (or consummation of any transaction having similar effect); or

(v) The dissolution or liquidation of the Company.

(e) “ **Code** ” means the Internal Revenue Code of 1986, as amended.

(f) “ **Company** ” shall mean Power Integrations, Inc., and following a Change of Control, any successor or assign to its business and/or assets that agrees or otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

(g) “ **Competition** ” shall mean rendering services for any organization or engaging in any business directly competitive with the Company or materially contrary or harmful to the interests of the Company, including, but not limited to (i) accepting employment with, or serving as a consultant, advisor or in any other capacity to, the division or other portion of the

business of any employer which competes directly with the Company; (ii) materially acting against the interest of the Company or (iii) personally recruiting, directly or indirectly, any person who is then an employee of the Company.

(h) “ **Executive Officer** ” means any employee of the Company designated an executive officer by the Board of Directors or Compensation Committee.

(i) “ **Good Reason** ” means the occurrence of any of the following conditions, without Executive’s written consent, which condition(s) remain(s) in effect 20 days after written notice to the Board of Directors from Executive of such condition(s), if such notice is given within one year of the occurrence of such condition(s):

(i) A material decrease or planned decrease in Executive’s annual salary, the cash value of Executive’s Annual Performance Bonus or employee benefits following a Change of Control;

(ii) A demotion, a material reduction in Executive’s position, responsibilities or duties or a material, adverse change in Executive’s substantive functional responsibilities or duties, provided, however, that in the event of a Change of Control, Executive will be deemed demoted and his position, responsibilities or duties materially reduced or his substantive functional responsibilities or duties materially adversely changed if Executive is not responsible for at least substantially the same function that Executive had in the Company prior to the Change of Control.

(iii) The relocation of Executive’s work place for the Company to a location more than fifty (50) miles from the current location of Executive’s work place or a material adverse change in the working conditions or established working hours which persist for a period of six continuous months; or

(iv) Any material breach of this Agreement by the Company.

(j) “ **Highest Annual Salary** ” means Executive’s highest annual salary in any of the three years preceding the applicable date of determination, provided, however, that if the Executive’s then effective annual salary would be Executive’s highest annual salary upon completion of the current year of service, then Highest Annual Salary shall mean Executive’s then effective annual salary.

(k) “ **New Executive** ” means an Executive who has served as an executive of the Company for fewer than five years. Executive’s service to the Company as an executive will be deemed to begin upon the date of commencement of employment as an Executive Officer or upon the date of promotion to an Executive Officer position. A New Executive will be first eligible for the benefits under this Agreement upon the completion of one year of continuous service as an Executive Officer of the Company, unless the Board of Directors or Compensation Committee determines otherwise.

(l) “ **Performance Level** ” means the pay out amounts (whether in cash or Stock Awards) based upon the satisfaction of one or more performance criteria as determined by the Board of Directors or Compensation Committee.

(m) “ **Performance Stock Award** ” means any Stock Award subject to vesting upon the achievement of any Performance Level regardless of the length of any performance period.

(n) “ **Permanent Disability** ” means that:

(i) The Executive has been incapacitated by bodily injury or disease so as to be prevented thereby from engaging in the performance of the Executive’s duties;

(ii) Such total incapacity shall have continued for a period of six consecutive months;

(iii) Such incapacity will, in the opinion of a qualified physician, be permanent and continuous during the remainder of the Executive’s life; and

(iv) Such incapacity results in Executive’s Separation from Service.

(o) “ **Prorated Portion** ” means a fraction the numerator of which is the number of days in an applicable performance period prior to such Executive’s termination of employment and the denominator of which is the total number of days in an applicable performance period.

(p) “ **Release of Claims** ” means the release of claims required by Section 14 of this Agreement.

(q) “ **Retention Stock Award** ” means any Stock Award subject to vesting upon the completion of time-based vesting criteria.

(r) “ **Section 409A** ” means Section 409A of the Code and the regulations and other guidance thereunder and any state law of similar effect.

(s) “ **Senior Executive** ” means an Executive who has served continuously as an executive of the Company for at least five years. Executive’s service to the Company as an executive will be deemed to begin upon the date of commencement of employment as an Executive Officer or upon the date of promotion to an Executive Officer position, unless the Board of Directors or Compensation Committee determines otherwise.

(t) “ **Separation from Service** ” means a “separation from service” for the purposes of Section 409A with respect to the Company.

(u) “ **Stock Award** ” shall have the same meaning given to it in the 2007 Equity Incentive Plan, as may be amended from time to time.

(v) “ **Termination of Employment** ” means Executive’s Separation from Service that results from:

(i) Any termination of employment of the Executive by the Company without Cause; or

(ii) Any resignation by the Executive for Good Reason.

“Termination of Employment” shall not include any termination of the employment of the Executive (a) by the Company for Cause; (b) as a result of Permanent Disability of the Executive; (c) as a result of the death of the Executive; (d) as a result of the voluntary termination of employment by the Executive for reasons other than Good Reason; or (e) a Termination Upon Change of Control.

(w) “ **Termination Upon Change of Control** ” means Executive’s Separation from Service that results from:

(i) Any termination of the employment of the Executive by the Company without Cause on or within eighteen (18) months after (i) the occurrence of a Change of Control; or (ii) the date that the person serving as of the Effective Date as Chief Executive Officer of the Company ceases to serve in such office; or

(ii) Any resignation by the Executive for Good Reason within eighteen (18) months after (i) the occurrence of a Change of Control or (ii) the date that the person serving as of the Effective Date as Chief Executive Officer of the Company ceases to serve in such office.

“Termination Upon Change of Control” shall not include any termination of the employment of the Executive (a) by the Company for Cause; (b) as a result of the Permanent Disability of the Executive; (c) as a result of the death of the Executive; or (d) as a result of the voluntary termination of employment by the Executive for reasons other than Good Reason.

* * * * *

POWER INTEGRATIONS, INC.
AMENDED AND RESTATED EXECUTIVE OFFICER BENEFITS AGREEMENT

This Amended and Restated Executive Officer Benefits Agreement (the “*Agreement*”) is made and entered into as of May 1, 2014 (the “*Effective Date*”), by and between **Power Integrations, Inc.**, a Delaware corporation, (the “*Company*”) and Mike Matthews (“*Executive*”).

Recitals

A. Executive is an Executive Officer of the Company and possesses valuable knowledge of the Company, its business and operations, and the markets in which the Company competes.

B. The Company draws upon the knowledge, experience and advice of Executive in order to manage its business for the benefit of the Company’s stockholders.

C. The Board of Directors desires to supplement Executive’s employment arrangements so as to provide additional compensation and benefits to the Executive to encourage Executive to continue to devote his attention and dedication to the Company and to create additional incentives to continue his employment with the Company.

D. The Company and Executive previously entered into an Executive Officer Benefits Agreement by and between the Company and Executive, dated July 26, 2013 (the “*Prior Agreement*”).

E. The Company and Executive have agreed to amend and restate the Prior Agreement in its entirety as set forth herein.

Agreement

Therefore, in consideration of the mutual agreements, covenants and considerations contained herein, the undersigned hereby agree and acknowledge as follows:

1. The Prior Agreement is hereby amended and restated in its entirety and the parties hereby agree to the terms hereof, including the terms set forth on Exhibit A hereto. As provided pursuant to Section 21(s) of Exhibit A hereto, the Board of Directors of the Company has determined Executive shall be eligible for the benefits provided to a Senior Executive under this Agreement immediately as of the Effective Date.

2. For the purposes of this Agreement the “*Option Effective Date*” shall mean the Effective Date unless this Agreement is an amendment to an earlier agreement in which case the “*Option Effective Date*” shall mean July 26, 2013.

3. This Agreement may only be modified or amended by a supplemental written agreement signed by Executive and the Company.

* * * * *

In Witness Whereof, the undersigned have executed this **Amended and Restated Executive Officer Benefits Agreement**, intending to be legally bound as of the Effective Date.

COMPANY:

Power Integrations, Inc.

By: /s/ Balu Balakrishnan

Name: Balu Balakrishnan

Title: President and CEO

EXECUTIVE:

/s/ Mike Matthews

Mike Matthews

Address for Notice: Executive's home address
as reflected in the records of the Company

EXHIBIT A

TERMS OF AMENDED AND RESTATED EXECUTIVE OFFICER BENEFITS AGREEMENT

1. Position and Duties. Executive shall continue to be an at-will employee of the Company employed in his/her current position at his/her then current salary rate. Executive shall also be entitled to continue to participate in and to receive benefits on the same basis as other executive or senior staff members under any of the Company's employee benefit plans as in effect from time to time. In addition, Executive shall be entitled to the benefits afforded to other employees similarly situated under the Company's employment policies. Executive agrees to devote the business time, energy and skill necessary to execute his/her duties at the Company. These duties shall include, but not be limited to, any duties consistent with his/her position which may be assigned to Executive from time to time.

2. Acceleration of Vesting of Stock Awards Upon a Change of Control . In the event of a Change of Control, and provided that Executive's employment with the Company has not terminated prior to such date, Executive shall be entitled to the following benefits:

(a) All Retention Stock Awards granted by the Company to the Executive prior to the Change of Control shall have their vesting accelerated such that 25% of the then unvested shares subject to each Retention Stock Award will be deemed vested and exercisable or issuable as of the consummation of the Change of Control. Notwithstanding the foregoing, if the Change of Control does not require the assumption or substitution by the acquiring entity (or parent thereof) of all of the Company's obligations of the then outstanding Retention Stock Awards, then (i) if Executive is a New Executive, 50% of the then unvested shares subject to each Retention Stock Awards will be accelerated and deemed vested and exercisable prior to the consummation of the Change of Control; or (ii) if Executive is a Senior Executive, 100% of the then unvested shares subject to any Retention Stock Awards will be accelerated and deemed vested and exercisable prior to the consummation of the Change of Control. The shares vesting pursuant to this Section 2(a) will be exercisable, issued or converted and paid in accordance with Sections 2(c) and 20(a). Except as otherwise provided in the applicable award agreement, the portion of any unvested Retention Stock Award that is not assumed (or an appropriate substitution provided) and that does not vest based on this Section 2(a) will be forfeited by Executive and will be of no further force or effect.

(b) All Performance Stock Awards granted by the Company to the Executive prior to the Change of Control shall have their vesting accelerated immediately prior to consummation of such Change of Control so that 100% of the then unvested shares will be deemed vested at the applicable maximum achievable Performance Level . The shares vesting pursuant to this Section 2(b) will be exercisable, issued or converted and paid in accordance with Sections 2(c) and 20(a).

(c) In the event of a Change of Control, the Company undertakes to facilitate Executive's receipt of any of the benefits set forth in this Agreement by providing written notice to Executive, at least ten (10) days in advance of the closing of such transaction, which (i) indicates the anticipated timing and material economic terms of the anticipated transaction and (ii) references the Executive's rights under this Agreement. The Company shall also provide appropriate Stock Award exercise forms and instructions to assist Executive in exercising his or her rights to acquire securities of the Company on or prior to the consummation of the Change of Control. Executive is strongly encouraged to consult with his or her tax and financial advisor prior to electing to exercise any option pursuant to this Agreement.

3. Termination Upon Change of Control .

(a) **Severance Benefits .** In the event of the Executive's Termination Upon Change of Control, Executive shall be entitled to the following separation benefits:

(i) **Salary and Accrued Benefits .** All salary and accrued but unused vacation earned through the date of Executive's termination.

(ii) **Annual Performance Bonus.** Payment of a Prorated Portion of the cash value of Executive's Annual Performance Bonus measured as of the date of termination for the year in which such termination occurs.

(iii) **Expenses .** Within fourteen (14) days of submission of proper expense reports by the Executive, reimbursement by the Company for all expenses reasonably and necessarily incurred by the Executive in connection with the business of the Company prior to his termination of employment.

(iv) Severance Payment .

(1) if Executive is a New Executive, payment of an amount equal to six (6) months of Executive's Highest Annual Salary from the Company and 50% of the cash value of Executive's Annual Performance Bonus measured as of the date of termination at the applicable maximum achievable Performance Level as in effect as of the date of such termination to be paid in a lump sum on the sixtieth (60th) day following such termination as provided in Section 14; or

(2) if Executive is a Senior Executive, payment of an amount equal to (a) six (6) months of Executive's Highest Annual Salary from the Company and 50% of the cash value of Executive's Annual Performance Bonus measured as of the date of termination at the applicable maximum achievable Performance Level as in effect as of the date of such termination to be paid in a lump sum on the sixtieth (60th) day following such termination as provided in Section 14 and (b) up to an additional six (6) months of Executive's Highest Annual Salary and 50% of such Annual Performance Bonus measured as of the date of termination at the applicable maximum achievable Performance Level, less applicable withholding, shall be paid beginning six months after termination, subject to Section 14, in ratable monthly installments for six months or until Executive secures new employment, whichever occurs earlier.

(v) Stock Awards.

(1) The ability to exercise any and all outstanding vested options granted after the Option Effective Date (and any vested options granted prior to the Option Effective Date but only to the extent that such extension of exercisability would not require the Company to incur a compensation expense for financial statement purposes) for twelve (12) months from the date of termination of employment.

(2) The vesting of all Stock Awards (to the extent such Stock Award does not also constitute a portion of Executive's Annual Performance Bonus) granted by the Company to the Executive and outstanding immediately prior to such Termination Upon Change of Control shall have their vesting accelerated, such that (i) if Executive is a New Executive, 50% of the then unvested shares subject to such Stock Award will be deemed vested and exercisable as of the date of termination of employment; or (ii) if Executive is a Senior Executive, 100% of the then unvested shares subject to such Stock Award will be deemed vested and exercisable as of the date of termination of employment. Any shares vesting pursuant to this Section 3(a)(v)(2) subject to a Performance Stock Award shall vest at the applicable maximum achievable Performance Level. The shares vesting pursuant to this Section 3(a)(v)(2) will be issued in accordance with Section 20(a). Except as otherwise provided in the applicable Stock Award agreement, the portion of any unvested Stock Award that does not vest based on this Section 3(a)(v)(2) will be forfeited by Executive and will be of no further force or effect.

(b) Benefits Continuation .

(i) In the event of Executive's Termination Upon Change of Control, Executive shall be entitled to elect continued medical and dental insurance coverage in accordance with the applicable provisions of the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, ("COBRA") and the Company shall pay such COBRA premiums for (i) six (6) months from the date of termination of employment, if Executive is a New Executive; or (ii) twelve (12) months from the date of termination of employment, if Executive is a Senior Executive. Notwithstanding the above, in the event Executive becomes eligible to be covered under another employer's group health plan (other than a plan which imposes a preexisting condition exclusion unless the preexisting condition exclusion does not apply) during the period provided for herein, the Company shall cease payment of the COBRA premiums; and

(ii) Executive shall receive the benefits, if any, under the Company's 401(k) Plan and other Company benefit plans to which he may be entitled pursuant to the terms of such plans.

4. Termination of Employment .

(a) **Severance Benefits .** In the event of the Executive's Termination of Employment, Executive shall be entitled to all separation benefits provided in Section 3(a)(i) (" **Salary and Accrued Benefits** "), Section 3(a)(ii) (" **Annual Performance Bonus** ") and 3(a)(iii) (" **Expenses** ") above. In addition, Executive shall be entitled to six (6) months of Executive's Highest Annual Salary and 50% of the cash value of Executive's Annual Performance Bonus at the applicable maximum achievable Performance Level as in effect as of the date of such termination, all less applicable withholding, paid in a lump sum within sixty (60) days of such termination as provided in Section 14.

(b) Performance Stock Awards .

(i) A Prorated Portion of all shares subject to Performance Stock Awards granted to the Executive by the Company and outstanding prior to such Termination of Employment with a performance period greater than one (1) year and granted other than in connection with Executive's Annual Performance Bonus shall vest at such Performance Level as determined by the Board of Directors or Compensation Committee on the date of such determination.

(ii) Immediately prior to the consummation of any Change of Control to occur after Executive's Termination of Employment, a Prorated Portion of Executive's outstanding Performance Stock Awards with a performance period greater than one (1) year and granted other than in connection with Executive's Annual Performance Bonus will be deemed vested at the applicable maximum achievable Performance Level. The shares vesting pursuant to this Section 4(b)(ii) will be exercisable, issued or converted and paid in accordance with Sections 2(c) and 20(a).

(c) **Benefits Continuation .**

(i) In the event of Executive's Termination of Employment, Executive shall be entitled to elect continued medical and dental insurance coverage in accordance with the applicable provisions of COBRA and the Company shall pay such COBRA premiums for six (6) months from the date of Termination of Employment. Notwithstanding the above, in the event Executive becomes eligible to be covered under another employer's group health plan (other than a plan which imposes a preexisting condition exclusion unless the preexisting condition exclusion does not apply) during the period provided for herein, the Company shall cease payment of the COBRA premiums; and

(ii) Executive shall receive the benefits, if any, under the Company's 401(k) Plan and other Company benefit plans to which he may be entitled pursuant to the terms of such plans.

5. Retirement Benefits .

(a) In order to be eligible for the Retirement Benefits described in Section 5(b) below, the Executive must meet both of the following criteria:

(i) At the time of Executive's termination of employment with the Company (other than in circumstances in which such termination (i) constitutes a termination with Cause or (ii) does not qualify as a Separation from Service), the Executive has (1) achieved the age of 50 and served the Company for at least 15 years; or (2) achieved the age of 55 and served the Company for at least 10 years; provided, however, if such termination of employment also constitutes a Termination of Employment or a Termination Upon Change of Control, Executive must elect within thirty (30) days of such termination to receive either the benefits provided in Section 3 or Section 4, as applicable, or the benefits provided in this Section 5; and

(ii) At any time during which the Executive is receiving Retirement Benefits, the Executive shall not (1) be employed or on contract full time by a third party (excluding a non-profit organization described in Section 501(c)(3) of the Code) or (2) engage in Competition. If the Executive engages in either (1) or (2), then all Retirement Benefits shall terminate immediately and permanently.

(b) If both conditions in Sections 5(a)(i) and 5(a)(ii) above are satisfied, the Executive shall be entitled, subject to Section 14, to receive the following "**Retirement Benefits** :

(i) **Option Exercisability.** The ability to exercise any and all options granted after the Option Effective Date (and any options granted prior to the Option Effective Date but only to the extent that such extension of exercisability would not require the Company to incur a compensation expense for financial statement purposes) to the extent such options are vested as of the date of termination of employment for the earlier of: (i) the term of the option, (ii) the termination of the option in connection with any Change of Control, or (iii) five years;

(ii) **Performance Stock Awards.** The benefits provided under Section 4(b) ("**Performance Stock Awards** "); and

(iii) **Medical and Dental Coverage .** The Company shall pay the Executive's medical and dental premiums until the Executive achieves the age of Medicare eligibility, and additionally, if the Executive's medical and dental coverage on the date of termination included the Executive's dependents, the premiums of such dependents until the Executive achieves the age of Medicare eligibility as follows:

(A) **COBRA Continuation Coverage .** Upon the termination of Executive's

active employment with the Company, Executive shall be entitled to elect continued medical and dental insurance coverage in accordance with the applicable provisions of COBRA and the Company shall pay such COBRA premiums.

(B) Coverage After COBRA & Prior to Medicare Eligibility . In the event the Executive is not eligible for Medicare coverage at the end of his maximum applicable COBRA coverage period, then, the Executive shall identify and locate either or both an individual conversion policy through the insurer providing insurance coverage in connection with the Company sponsored medical and dental plans available to active employees (the “**Conversion Policy**”), and/or a supplemental individual policy or an individual policy on the open market (the “**Individual Policy**”) to be effective upon the termination of his COBRA continuation coverage so that, when the coverages for Executive provided by the Conversion Policy and/or the Individual Policy are combined, such coverages provide substantially similar medical and dental benefits in the aggregate as those provided under the medical and dental plans sponsored by the Company at such time, or at any time after the termination of Executive’s employment, for active employees (the “**Comparable Coverage**”). The Company shall be responsible for the payment of any Conversion Policy premiums and/or Individual Policy premiums for the Comparable Coverage which payment shall not exceed the cost of premiums for medical and dental coverage for then active employees. If Executive is at such time eligible to participate under the Company Plans, Executive will be entitled to so participate.

(C) Coverage After COBRA & Upon Medicare Eligibility . In the event the Executive is eligible for Medicare coverage at the end of his maximum applicable COBRA coverage period, the Executive may identify and locate a Medicare supplemental policy, which may include, to the extent permitted, the medical and dental plans sponsored by the Company at such time for active employees (the “Company Plans”), that, when combined with the coverage provided by Medicare, provides Comparable Coverage. If Executive is at such time eligible to participate under the Company Plans, Executive will be entitled to so participate; provided that Executive shall be solely responsible for the payment of any Medicare premiums and/or Medical supplemental policy premiums for the Comparable Coverage (including, if applicable, any premiums under the Company Plans).

(D) Taxes, Coverage . The Executive shall be responsible for any taxes that may be attributable to or result from the payments made by the Company in accordance with this Section 5(b)(iii) or receipt of medical and dental benefits attributable to or result from such payments. Notwithstanding Section 5(b)(iii)(A) or (B), in the event Executive becomes eligible to be covered under another employer’s group health plan (other than a plan which imposes a preexisting condition exclusion to the extent permissible by law, unless the preexisting condition exclusion does not apply) during the period provided for herein, the Company shall cease payment of any premiums. The Company will use commercially reasonable efforts to provide that Executive will continue to be eligible for coverage as provided under this Section 5(b)(iii) under the Company Plans, unless the Board of Directors or Compensation Committee determines that such coverage would create an undue burden on the Company.

6. Termination of Employment due to Death or Permanent Disability .

(a) In the event of (i) the Executive’s death during his employment with the Company and the Executive having satisfied the criteria provided at Section 5(a)(i) as of or prior to the date of his death or (ii) the Executive’s death during the period while Executive was receiving Retirement Benefits as a result of compliance with the criteria provided at Section 5(a)(i) and 5(a)(ii), (1) the Executive’s legal representative or any person empowered to act on his behalf under his will or under the then applicable laws of descent and distribution shall be entitled to the benefits pursuant to Section 5(b)(i) (“**Option Exercisability**”) and Section 5(b)(ii) (“**Performance Stock Awards**”) and (2) the Executive’s dependents, to the extent applicable, shall be entitled to the benefits pursuant to Section 5(b)(iii)(A)-(D) (“**Medical and Dental Coverage**”) for that period of time until the Executive would have achieved the age of Medicare eligibility if the Executive had lived.

(b) In the event of the Executive’s Permanent Disability during his employment with the Company and the Executive having satisfied the criteria provided at Section 5(a)(i), the Executive, and to the extent applicable, his dependents, shall be entitled to the benefits provided in Section 5(b)(i) (“**Option Exercisability**”), Section 5(b)(ii) (“**Performance Stock Awards**”) and 5(b)(iii)(A)-(D) (“**Medical and Dental Coverage**”).

7. Payment of Taxes . All payments made to Executive under this Agreement shall be subject to all applicable federal and state income, employment and payroll taxes, including all withholding taxes.

8. Parachute Payment . Executive is strongly encouraged to review the following provision and consult with his or her tax and financial advisor concerning the application of any personal tax consequences related to any payments provided for under this Agreement and the following provision. In the event that any of the payments and benefits provided for in this Agreement or otherwise payable to the Executive (a “**280G Payment**”) would (i) constitute a “parachute payment” within the meaning of Section 280G of the Code, and (ii) but for this sentence, be subject to the excise tax imposed by Section 4999 of the

Code (the “**Excise Tax**”), then any such 280G Payment pursuant to this Agreement (a “**Payment**”) shall be equal to the Reduced Amount. The “**Reduced Amount**” shall be either (i) the largest portion of the Payment that would result in no portion of the Payment (after reduction) being subject to the Excise Tax or (ii) the largest portion, up to and including the total, of the Payment, whichever amount (i.e., the amount determined by clause (i) or by clause (ii)), after taking into account all applicable federal, state and local employment taxes, income taxes, and the Excise Tax (all computed at the highest applicable marginal rate), results in the receipt by Executive, on an after-tax basis, of the greater economic benefit notwithstanding that all or some portion of the Payment may be subject to the Excise Tax. If a reduction in a Payment is required pursuant to the preceding sentence and the Reduced Amount is determined pursuant to clause (x) of the preceding sentence, the reduction shall occur in the manner (the “**Reduction Method**”) that results in the greatest economic benefit for Executive. If more than one method of reduction will result in the same economic benefit, the items so reduced will be reduced pro rata (the “**Pro Rata Reduction Method**”). Notwithstanding the foregoing, if the Reduction Method or the Pro Rata Reduction Method would result in any portion of the Payment being subject to taxes pursuant to Section 409A that would not otherwise be subject to taxes pursuant to Section 409A, then the Reduction Method and/or the Pro Rata Reduction Method, as the case may be, shall be modified so as to avoid the imposition of taxes pursuant to Section 409A as follows: (A) as a first priority, the modification shall preserve to the greatest extent possible, the greatest economic benefit for Executive as determined on an after-tax basis; (B) as a second priority, Payments that are contingent on future events (e.g., being terminated without cause), shall be reduced (or eliminated) before Payments that are not contingent on future events; and (C) as a third priority, Payments that are “deferred compensation” within the meaning of Section 409A shall be reduced (or eliminated) before Payments that are not deferred compensation within the meaning of Section 409A. Unless the Company and the Executive otherwise agree in writing, any determination required under this Section 8 shall be made in writing by independent public accountants appointed by the Company and reasonably acceptable to the Executive (the “**Accountants**”), whose determination shall be conclusive and binding upon the Executive and the Company for all purposes. The Company shall bear all costs the Accountants may reasonably incur in connection with such determination, and the Company and the Executive shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section 8.

9. Exclusive Remedy . The payments and benefits provided for in Section 3, Section 4, Section 5 or Section 15 shall constitute the Executive’s sole and exclusive remedy for any alleged injury or other damages arising out of the cessation of the employment relationship between the Executive and the Company. The parties hereto agree that irreparable damage would occur if any of the provisions of this Agreement were not performed in accordance with these specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to enforce specifically the terms and provisions hereof, this being in addition to any other remedy to which they are entitled at law or in equity.

10. Proprietary and Confidential Information . The Executive agrees to continue to abide by the terms and conditions of any Company’s confidentiality and/or proprietary rights agreement between the Executive and the Company.

11. Arbitration . Any claim, dispute or controversy arising out of this Agreement, the interpretation, validity or enforceability of this Agreement or the alleged breach thereof shall be submitted by the parties to binding arbitration by the American Arbitration Association in San Jose, California or elsewhere by mutual agreement. The selection of the arbitrator and the arbitration procedure shall be governed by the Commercial Arbitration Rules of the American Arbitration Association. All costs and expenses of arbitration or litigation, including but not limited to reasonable attorneys fees and other costs reasonably incurred by the Executive, shall be paid by the Company. Judgment may be entered on the award of the arbitration in any court having jurisdiction.

12. Interpretation . Executive and the Company agree that this Agreement shall be interpreted in accordance with and governed by the laws of the State of California, without regard to such state’s conflict of laws rules.

13. Conflict in Benefits . This Agreement shall supersede all prior arrangements, whether written or oral, and understandings regarding the subject matter of this Agreement. To the extent Executive is entitled to severance or other benefits upon termination of employment under this Agreement and any other agreement, including any change in control agreement entered into by the Company and the Executive, entered into prior to the Effective Date, the benefits payable under this Agreement shall supersede and replace any other such agreement. However, this Agreement is not intended to and shall not affect, limit or terminate (i) any plans, programs, or arrangements of the Company that are regularly made available to a significant number of employees of the Company, (ii) the Company’s equity incentive plans, (iii) any agreement or arrangement with the Executive that has been reduced to writing and which does not relate to the subject matter hereof, or (iv) any agreements or arrangements hereafter entered into by the parties in writing, except as otherwise expressly provided herein.

14. Release of Claims . Executive shall receive the severance benefits or the Retirement Benefits pursuant to this Agreement only if Executive executes and returns to the Company, within the applicable time period set forth therein but in no event more than sixty (60) days following the date of Executive’s Separation from Service, a release of claims (the “**Release of**

Claims”) in favor of the Company in a form reasonably satisfactory to the Company, and permits such Release of Claims to become effective in accordance with its terms on or prior to such sixtieth day (the “**Release Agreement Deadline**”). If the Release of Claims does not become effective by the Release Agreement Deadline, the Executive will forfeit any right to severance benefits or Retirement Benefits pursuant to this Agreement. Regardless of whether the Release of Claims becomes effective prior to the Release Agreement Deadline, any severance benefits or Retirement Benefits payable prior to the Release Agreement Deadline shall be paid on the Release Agreement Deadline, with the remainder of the payments to be made as originally scheduled. Except to the minimum extent that payments must be delayed pursuant to Section 20(c) because Executive is a “specified employee” or until the effectiveness (or deemed effectiveness) of the Release of Claims, all amounts will be paid as soon as practicable in accordance with the Company’s normal payroll practices following Executive’s Separation from Service. Notwithstanding the foregoing, the Release of Claims shall not be construed to waive any right to indemnification or contribution otherwise available to Executive under law or rules of corporate governance with respect to claims by third parties for actions or omissions in Executive’s role as an officer of the Company.

15. Successors and Assigns .

(a) **Successors of the Company** . The Company will require any successor or assign (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, expressly, absolutely and unconditionally to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession or assignment had taken place. Failure of the Company to obtain such agreement prior to the effectiveness of any such succession transaction shall be a breach of this Agreement and shall entitle the Executive to terminate his or her employment with the Company within three (3) months thereafter and to receive the benefits provided under Section 3 of this Agreement in the event of a Termination Upon Change of Control; provided, however, that (i) such termination of employment must be a Separation from Service and (ii) the Executive must deliver a Release of Claims as provided in Section 14. As used in this Agreement, “Company” shall mean the Company as defined above and any successor or assign to its business and/or assets as aforesaid which executes and delivers the agreement provided for in this Section 15 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

(b) **Heirs of Executive** . This Agreement shall inure to the benefit of and be enforceable by the Executive’s personal and legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

16. Notices . For purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, as follows:

if to the Company:

Power Integrations, Inc.
5245 Hellyer Avenue
San Jose, California 95138
Attn: Chief Executive Officer or Chief Financial Officer

and if to the Executive, at the address specified in this Agreement. Notice may also be given at such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

17. No Representations . Executive acknowledges that he/she is not relying and has not relied on any promise, representation or statement made by or on behalf of the Company which is not set forth in this Agreement.

18. Validity . If any one or more of the provisions (or any part thereof) of this Agreement shall be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions (or any part thereof) shall not in any way be affected or impaired thereby.

19. Consultation with Legal and Financial Advisors . Executive acknowledges that his Agreement confers significant legal rights, and may also involve the waiver of rights under other agreements; that the Company has encouraged Executive to consult with Executive’s personal legal and financial advisers; and that Executive has had adequate time to consult with Executive’s advisers before signing this Agreement.

20. Application of Section 409A and Other Limitations. Executive is strongly encouraged to review the following provisions and consult with his or her tax and financial advisor concerning the application of any personal tax consequences related to any payments provided for under this Agreement and the following provisions.

(a) If any Stock Award (other than stock options) vesting pursuant to Section 2(a), Section 2(b), Section 3(a)(v)(2) or Section 4(b)(ii):

(i) does not constitute “deferred compensation” within the meaning of Section 409A, the shares vesting pursuant to such events will be issued (1) in respect of Section 2(a), Section 2(b) and Section 4(b)(ii) immediately prior to the consummation of the Change of Control, and (2) in respect of Section 3(a)(v)(2) on the sixtieth (60th) day following the Termination Upon Change of Control as further provided in Section 14 hereof.

(ii) does constitute “deferred compensation” within the meaning of Section 409A, the shares vesting pursuant to such events will be issued (1) in respect of Section 2(a), Section 2(b) and Section 4(b)(ii) immediately prior to the Change of Control, provided such payment can be made without adverse personal tax consequences to the Executive, or else the shares vesting pursuant to Section 2(a), Section 2(b) and Section 4(b)(ii) will be converted into the same consideration received by the holders of the Company’s common stock pursuant to the Change of Control, and such consideration will be issued in accordance with the delivery schedule for such Stock Award in effect immediately prior to the Change of Control and (2) in respect of Section 3(a)(v)(2) will be issued in accordance with the delivery schedule for such Stock Award in effect immediately prior to the Termination Upon Change of Control.

(b) **Extension of Stock Option Exercise Period.** Notwithstanding anything to the contrary in this Agreement, in the event any extended exercise period provided for in this Agreement shall result in a portion of a stock option becoming subject to the provisions of Section 409A, the extended exercise period of such portion of such stock option shall be automatically shortened by the minimum extent necessary to prevent such portion of such option from becoming subject to Section 409A. In no event will any provisions in this Agreement providing for an extended exercise period result in the extension of the exercise period of any stock option beyond the maximum permitted term of such stock option as provided under the applicable equity incentive plan and stock option award agreement in effect for such stock option, assuming for the purposes of this Section 20(b) no termination of Executive’s employment with the Company.

(c) **Other Benefits.** Notwithstanding anything to the contrary herein, the following provisions apply to the extent any benefits (“*Benefits*”) provided herein other than those described in Section 20(b) are subject to Section 409A: (A) The Benefits are intended to qualify for an exemption from application of Section 409A or comply with the requirements of Section 409A to the extent necessary to avoid adverse personal tax consequences under Section 409A, and any ambiguities herein shall be interpreted accordingly. (B) Benefits contingent on a termination of employment shall not commence until Executive has a Separation from Service. (C) Each installment of a Benefit is a separate “payment” for purposes of Treas. Reg. Section 1.409A-2(b)(2)(i). (D) Each Benefit is intended to satisfy the exemptions from application of Section 409A provided under Treasury Regulations Sections 1.409A-1(b)(4), 1.409A-1(b)(5) and 1.409A-1(b)(9) to the maximum extent available. However, if such exemptions are not available and Executive is, upon Executive’s Separation from Service, a “specified employee” for the purposes of Section 409A, then, solely to the extent necessary to avoid adverse personal tax consequences under Section 409A, the timing of the Benefit payments otherwise payable prior to such date shall be delayed until the earlier of (x) six (6) months and one day after Executive’s Separation from Service, or (y) Executive’s death, and any payments otherwise scheduled to be made after such date shall be paid as originally scheduled. (E) To the extent that any reimbursements payable to Executive pursuant to Section 3(a)(iii) are subject to the provisions of Section 409A, the following provisions will apply in addition to the provisions of any applicable expense reimbursement policy: (a) to be eligible to obtain reimbursement for such expenses Executive must submit expense reports within 45 days after the expense is incurred, (b) any such reimbursements will be paid no later than the earlier of (x) thirty (30) days after the date Executive submits receipts for the expenses or (y) December 31 of the year following the year in which the expense was incurred, (c) the amount of expenses reimbursed in one year will not affect the amount eligible for reimbursement in any subsequent year, and (d) the right to reimbursement under this Agreement will not be subject to liquidation or exchange for another benefit.

(d) **Payment of Health Care Benefits.** Notwithstanding anything to the contrary set forth herein, if the Company determines, in its sole discretion, that it cannot provide the COBRA premium, Conversion Policy premium, Individual Policy premium, or other medical and dental coverage premiums (together the “*Health Care Benefits*”) contemplated under this Agreement without potentially incurring financial costs or penalties under applicable law (including, without limitation, Section 2716 of the Public Health Service Act), the Company shall in lieu thereof pay Executive a taxable cash amount, which payment shall be made regardless of whether Executive or Executive’s eligible family members elect health care continuation coverage (the “*Health Care Benefit Payment*”). Subject to any further delay in payment required by Section 14 of this Agreement, the Health Care Benefit Payment shall be paid in monthly installments on the same schedule that such amounts would otherwise have been paid to the insurer. The Health Care Benefit Payment shall be equal to (a) the amount that the Company would have otherwise paid to provide the Health Care Benefits for the duration of the applicable severance period (which amount shall be calculated based on the premium for the first month of coverage), plus (b) an additional amount such that after payment of all taxes, Executive

retains an amount equal to the Company's aggregate cost of otherwise providing the Health Care Benefits. For purposes of calculating the "additional amount" in clause (b) of the preceding sentence, Executive shall be deemed to have: paid federal income taxes at the highest marginal rate of federal income and employment taxation for the calendar year in which the Health Care Benefit Payment is to be made, and paid applicable state and local income taxes at the highest rate of taxation for the calendar year in which the Health Care Benefit Payment is to be made, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes.

21. Definitions . As used in this Agreement, unless the context requires a different meaning, the following terms shall have the meanings set forth herein:

(a) " **2007 Equity Incentive Plan** " means that certain 2007 Equity Incentive Plan, as amended, as originally adopted by the Board of Directors on September 10, 2007, and any successor plan thereto.

(b) " **Annual Performance Bonus** " means the Executive's current annual performance incentive bonus at the applicable maximum achievable Performance Level, whether consisting of cash or Stock Awards, as determined by the Board of Directors or Compensation Committee on an annual basis.

(c) " **Cause** " means:

(i) A material act of theft, dishonesty, fraud, intentional falsification of any employment or Company records or the commission of any criminal act which impairs Executive's ability to perform his/her duties under this Agreement;

(ii) A material improper disclosure of the Company's confidential, business or proprietary information by Executive;

(iii) Any action by Executive intentionally causing or expected to cause material harm to the reputation and standing of the Company, or gross negligence or willful misconduct in the performance of Executive's assigned duties (but not mere unsatisfactory performance); or

(iv) The Executive's conviction (including any plea of guilty or nolo contendere) for a felony causing material harm to the reputation and standing of the Company, as determined by the Company in good faith.

(d) " **Change of Control** " means:

(i) Any " **person** " (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than a trustee or other fiduciary holding securities of the Company under an employee benefit plan of the Company becomes the "beneficial owner" (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of (A) the outstanding shares of common stock of the Company or (B) the combined voting power of the Company's then-outstanding securities;

(ii) The Company is party to a merger or consolidation which results in the holders of voting securities of the Company outstanding immediately prior thereto failing to continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 50% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation;

(iii) There occurs a change in the Board of Directors of the Company within a two-year period, as a result of which fewer than a majority of the Directors are Incumbent Directors. For purposes of this Agreement, an "Incumbent Director" is any director who is either:

(A) A director of the Company as of January 1, 2013; or

(B) A director who is elected or nominated for election to the Board of Directors of the Company with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but shall not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Company).

(iv) The sale or disposition of 50% or more of the Company's assets (or consummation of any transaction having similar effect); or

(v) The dissolution or liquidation of the Company.

(e) “ *Code* ” means the Internal Revenue Code of 1986, as amended.

(f) “ *Company* ” shall mean Power Integrations, Inc., and following a Change of Control, any successor or assign to its business and/or assets that agrees or otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

(g) “ *Competition* ” shall mean rendering services for any organization or engaging in any business directly competitive with the Company or materially contrary or harmful to the interests of the Company, including, but not limited to (i) accepting employment with, or serving as a consultant, advisor or in any other capacity to, the division or other portion of the business of any employer which competes directly with the Company; (ii) materially acting against the interest of the Company or (iii) personally recruiting, directly or indirectly, any person who is then an employee of the Company.

(h) “ *Executive Officer* ” means any employee of the Company designated an executive officer by the Board of Directors or Compensation Committee.

(i) “ *Good Reason* ” means the occurrence of any of the following conditions, without Executive’s written consent, which condition(s) remain(s) in effect 20 days after written notice to the Board of Directors from Executive of such condition(s), if such notice is given within one year of the occurrence of such condition(s):

(i) A material decrease or planned decrease in Executive’s annual salary, the cash value of Executive’s Annual Performance Bonus or employee benefits following a Change of Control;

(ii) A demotion, a material reduction in Executive’s position, responsibilities or duties or a material, adverse change in Executive’s substantive functional responsibilities or duties, provided, however, that in the event of a Change of Control, Executive will be deemed demoted and his position, responsibilities or duties materially reduced or his substantive functional responsibilities or duties materially adversely changed if Executive is not responsible for at least substantially the same function that Executive had in the Company prior to the Change of Control.

(iii) The relocation of Executive’s work place for the Company to a location more than fifty (50) miles from the current location of Executive’s work place or a material adverse change in the working conditions or established working hours which persist for a period of six continuous months; or

(iv) Any material breach of this Agreement by the Company.

(j) “ *Highest Annual Salary* ” means Executive’s highest annual salary in any of the three years preceding the applicable date of determination, provided, however, that if the Executive’s then effective annual salary would be Executive’s highest annual salary upon completion of the current year of service, then Highest Annual Salary shall mean Executive’s then effective annual salary.

(k) “ *New Executive* ” means an Executive who has served as an executive of the Company for fewer than five years. Executive’s service to the Company as an executive will be deemed to begin upon the date of commencement of employment as an Executive Officer or upon the date of promotion to an Executive Officer position. A New Executive will be first eligible for the benefits under this Agreement upon the completion of one year of continuous service as an Executive Officer of the Company, unless the Board of Directors or Compensation Committee determines otherwise.

(l) “ *Performance Level* ” means the pay out amounts (whether in cash or Stock Awards) based upon the satisfaction of one or more performance criteria as determined by the Board of Directors or Compensation Committee.

(m) “ *Performance Stock Award* ” means any Stock Award subject to vesting upon the achievement of any Performance Level regardless of the length of any performance period.

(n) “ *Permanent Disability* ” means that:

(i) The Executive has been incapacitated by bodily injury or disease so as to be prevented thereby from engaging in the performance of the Executive’s duties;

(ii) Such total incapacity shall have continued for a period of six consecutive months;

(iii) Such incapacity will, in the opinion of a qualified physician, be permanent and continuous during the remainder of the Executive's life; and

(iv) Such incapacity results in Executive's Separation from Service.

(o) "**Prorated Portion**" means a fraction the numerator of which is the number of days in an applicable performance period prior to such Executive's termination of employment and the denominator of which is the total number of days in an applicable performance period.

(p) "**Release of Claims**" means the release of claims required by Section 14 of this Agreement.

(q) "**Retention Stock Award**" means any Stock Award subject to vesting upon the completion of time-based vesting criteria.

(r) "**Section 409A**" means Section 409A of the Code and the regulations and other guidance thereunder and any state law of similar effect.

(s) "**Senior Executive**" means an Executive who has served continuously as an executive of the Company for at least five years. Executive's service to the Company as an executive will be deemed to begin upon the date of commencement of employment as an Executive Officer or upon the date of promotion to an Executive Officer position, unless the Board of Directors or Compensation Committee determines otherwise.

(t) "**Separation from Service**" means a "separation from service" for the purposes of Section 409A with respect to the Company.

(u) "**Stock Award**" shall have the same meaning given to it in the 2007 Equity Incentive Plan, as may be amended from time to time.

(v) "**Termination of Employment**" means Executive's Separation from Service that results from:

(i) Any termination of employment of the Executive by the Company without Cause; or

(ii) Any resignation by the Executive for Good Reason.

"Termination of Employment" shall not include any termination of the employment of the Executive (a) by the Company for Cause; (b) as a result of Permanent Disability of the Executive; (c) as a result of the death of the Executive; (d) as a result of the voluntary termination of employment by the Executive for reasons other than Good Reason; or (e) a Termination Upon Change of Control.

(w) "**Termination Upon Change of Control**" means Executive's Separation from Service that results from:

(i) Any termination of the employment of the Executive by the Company without Cause on or within eighteen (18) months after (i) the occurrence of a Change of Control; or (ii) the date that the person serving as of the Effective Date as Chief Executive Officer of the Company ceases to serve in such office; or

(ii) Any resignation by the Executive for Good Reason within eighteen (18) months after (i) the occurrence of a Change of Control or (ii) the date that the person serving as of the Effective Date as Chief Executive Officer of the Company ceases to serve in such office.

"Termination Upon Change of Control" shall not include any termination of the employment of the Executive (a) by the Company for Cause; (b) as a result of the Permanent Disability of the Executive; (c) as a result of the death of the Executive; or (d) as a result of the voluntary termination of employment by the Executive for reasons other than Good Reason.

* * * * *

POWER INTEGRATIONS, INC.
AMENDED AND RESTATED EXECUTIVE OFFICER BENEFITS AGREEMENT

This Amended and Restated Executive Officer Benefits Agreement (the “*Agreement*”) is made and entered into as of May 1, 2014 (the “*Effective Date*”), by and between **Power Integrations, Inc.**, a Delaware corporation, (the “*Company*”) and Radu Barsan (“*Executive*”).

Recitals

A. Executive is an Executive Officer of the Company and possesses valuable knowledge of the Company, its business and operations, and the markets in which the Company competes.

B. The Company draws upon the knowledge, experience and advice of Executive in order to manage its business for the benefit of the Company’s stockholders.

C. The Board of Directors desires to supplement Executive’s employment arrangements so as to provide additional compensation and benefits to the Executive to encourage Executive to continue to devote his attention and dedication to the Company and to create additional incentives to continue his employment with the Company.

D. The Company and Executive previously entered into an Executive Officer Benefits Agreement by and between the Company and Executive, dated July 26, 2013 (the “*Prior Agreement*”).

E. The Company and Executive have agreed to amend and restate the Prior Agreement in its entirety as set forth herein.

Agreement

Therefore, in consideration of the mutual agreements, covenants and considerations contained herein, the undersigned hereby agree and acknowledge as follows:

1. The Prior Agreement is hereby amended and restated in its entirety and the parties hereby agree to the terms hereof, including the terms set forth on Exhibit A hereto. The Board of Directors has determined Executive shall be eligible to receive the benefits hereunder immediately upon the Option Effective Date and shall not be subject to the requirement of completing one year of continuous service as an executive officer of the Company prior to receiving such benefits, as set forth in Section 21(k).

2. For the purposes of this Agreement the “*Option Effective Date*” shall mean the Effective Date unless this Agreement is an amendment to an earlier agreement in which case the “*Option Effective Date*” shall mean July 26, 2013.

3. This Agreement may only be modified or amended by a supplemental written agreement signed by Executive and the Company.

* * * * *

In Witness Whereof, the undersigned have executed this **Amended and Restated Executive Officer Benefits Agreement**, intending to be legally bound as of the Effective Date.

COMPANY:

Power Integrations, Inc.

By: /s/ Balu Balakrishnan

Name: Balu Balakrishnan

Title: President and CEO

EXECUTIVE:

/s/ Radu Barsan

Radu Barsan

Address for Notice: Executive's home address
as reflected in the records of the Company

EXHIBIT A

TERMS OF AMENDED AND RESTATED EXECUTIVE OFFICER BENEFITS AGREEMENT

1. Position and Duties. Executive shall continue to be an at-will employee of the Company employed in his/her current position at his/her then current salary rate. Executive shall also be entitled to continue to participate in and to receive benefits on the same basis as other executive or senior staff members under any of the Company's employee benefit plans as in effect from time to time. In addition, Executive shall be entitled to the benefits afforded to other employees similarly situated under the Company's employment policies. Executive agrees to devote the business time, energy and skill necessary to execute his/her duties at the Company. These duties shall include, but not be limited to, any duties consistent with his/her position which may be assigned to Executive from time to time.

2. Acceleration of Vesting of Stock Awards Upon a Change of Control . In the event of a Change of Control, and provided that Executive's employment with the Company has not terminated prior to such date, Executive shall be entitled to the following benefits:

(a) All Retention Stock Awards granted by the Company to the Executive prior to the Change of Control shall have their vesting accelerated such that 25% of the then unvested shares subject to each Retention Stock Award will be deemed vested and exercisable or issuable as of the consummation of the Change of Control. Notwithstanding the foregoing, if the Change of Control does not require the assumption or substitution by the acquiring entity (or parent thereof) of all of the Company's obligations of the then outstanding Retention Stock Awards, then (i) if Executive is a New Executive, 50% of the then unvested shares subject to each Retention Stock Awards will be accelerated and deemed vested and exercisable prior to the consummation of the Change of Control; or (ii) if Executive is a Senior Executive, 100% of the then unvested shares subject to any Retention Stock Awards will be accelerated and deemed vested and exercisable prior to the consummation of the Change of Control. The shares vesting pursuant to this Section 2(a) will be exercisable, issued or converted and paid in accordance with Sections 2(c) and 20(a). Except as otherwise provided in the applicable award agreement, the portion of any unvested Retention Stock Award that is not assumed (or an appropriate substitution provided) and that does not vest based on this Section 2(a) will be forfeited by Executive and will be of no further force or effect.

(b) All Performance Stock Awards granted by the Company to the Executive prior to the Change of Control shall have their vesting accelerated immediately prior to consummation of such Change of Control so that 100% of the then unvested shares will be deemed vested at the applicable maximum achievable Performance Level . The shares vesting pursuant to this Section 2(b) will be exercisable, issued or converted and paid in accordance with Sections 2(c) and 20(a).

(c) In the event of a Change of Control, the Company undertakes to facilitate Executive's receipt of any of the benefits set forth in this Agreement by providing written notice to Executive, at least ten (10) days in advance of the closing of such transaction, which (i) indicates the anticipated timing and material economic terms of the anticipated transaction and (ii) references the Executive's rights under this Agreement. The Company shall also provide appropriate Stock Award exercise forms and instructions to assist Executive in exercising his or her rights to acquire securities of the Company on or prior to the consummation of the Change of Control. Executive is strongly encouraged to consult with his or her tax and financial advisor prior to electing to exercise any option pursuant to this Agreement.

3. Termination Upon Change of Control .

(a) **Severance Benefits .** In the event of the Executive's Termination Upon Change of Control, Executive shall be entitled to the following separation benefits:

(i) **Salary and Accrued Benefits .** All salary and accrued but unused vacation earned through the date of Executive's termination.

(ii) **Annual Performance Bonus.** Payment of a Prorated Portion of the cash value of Executive's Annual Performance Bonus measured as of the date of termination for the year in which such termination occurs.

(iii) **Expenses .** Within fourteen (14) days of submission of proper expense reports by the Executive, reimbursement by the Company for all expenses reasonably and necessarily incurred by the Executive in connection with the business of the Company prior to his termination of employment.

(iv) Severance Payment .

(1) if Executive is a New Executive, payment of an amount equal to six (6) months of Executive's Highest Annual Salary from the Company and 50% of the cash value of Executive's Annual Performance Bonus measured as of the date of termination at the applicable maximum achievable Performance Level as in effect as of the date of such termination to be paid in a lump sum on the sixtieth (60th) day following such termination as provided in Section 14; or

(2) if Executive is a Senior Executive, payment of an amount equal to (a) six (6) months of Executive's Highest Annual Salary from the Company and 50% of the cash value of Executive's Annual Performance Bonus measured as of the date of termination at the applicable maximum achievable Performance Level as in effect as of the date of such termination to be paid in a lump sum on the sixtieth (60th) day following such termination as provided in Section 14 and (b) up to an additional six (6) months of Executive's Highest Annual Salary and 50% of such Annual Performance Bonus measured as of the date of termination at the applicable maximum achievable Performance Level, less applicable withholding, shall be paid beginning six months after termination, subject to Section 14, in ratable monthly installments for six months or until Executive secures new employment, whichever occurs earlier.

(v) Stock Awards.

(1) The ability to exercise any and all outstanding vested options granted after the Option Effective Date (and any vested options granted prior to the Option Effective Date but only to the extent that such extension of exercisability would not require the Company to incur a compensation expense for financial statement purposes) for twelve (12) months from the date of termination of employment.

(2) The vesting of all Stock Awards (to the extent such Stock Award does not also constitute a portion of Executive's Annual Performance Bonus) granted by the Company to the Executive and outstanding immediately prior to such Termination Upon Change of Control shall have their vesting accelerated, such that (i) if Executive is a New Executive, 50% of the then unvested shares subject to such Stock Award will be deemed vested and exercisable as of the date of termination of employment; or (ii) if Executive is a Senior Executive, 100% of the then unvested shares subject to such Stock Award will be deemed vested and exercisable as of the date of termination of employment. Any shares vesting pursuant to this Section 3(a)(v)(2) subject to a Performance Stock Award shall vest at the applicable maximum achievable Performance Level. The shares vesting pursuant to this Section 3(a)(v)(2) will be issued in accordance with Section 20(a). Except as otherwise provided in the applicable Stock Award agreement, the portion of any unvested Stock Award that does not vest based on this Section 3(a)(v)(2) will be forfeited by Executive and will be of no further force or effect.

(b) Benefits Continuation .

(i) In the event of Executive's Termination Upon Change of Control, Executive shall be entitled to elect continued medical and dental insurance coverage in accordance with the applicable provisions of the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, ("COBRA") and the Company shall pay such COBRA premiums for (i) six (6) months from the date of termination of employment, if Executive is a New Executive; or (ii) twelve (12) months from the date of termination of employment, if Executive is a Senior Executive. Notwithstanding the above, in the event Executive becomes eligible to be covered under another employer's group health plan (other than a plan which imposes a preexisting condition exclusion unless the preexisting condition exclusion does not apply) during the period provided for herein, the Company shall cease payment of the COBRA premiums; and

(ii) Executive shall receive the benefits, if any, under the Company's 401(k) Plan and other Company benefit plans to which he may be entitled pursuant to the terms of such plans.

4. Termination of Employment .

(a) **Severance Benefits .** In the event of the Executive's Termination of Employment, Executive shall be entitled to all separation benefits provided in Section 3(a)(i) (" **Salary and Accrued Benefits** "), Section 3(a)(ii) (" **Annual Performance Bonus** ") and 3(a)(iii) (" **Expenses** ") above. In addition, Executive shall be entitled to six (6) months of Executive's Highest Annual Salary and 50% of the cash value of Executive's Annual Performance Bonus at the applicable maximum achievable Performance Level as in effect as of the date of such termination, all less applicable withholding, paid in a lump sum within sixty (60) days of such termination as provided in Section 14.

(b) Performance Stock Awards .

(i) A Prorated Portion of all shares subject to Performance Stock Awards granted to the Executive by the Company and outstanding prior to such Termination of Employment with a performance period greater than one (1) year and granted other than in connection with Executive's Annual Performance Bonus shall vest at such Performance Level as determined by the Board of Directors or Compensation Committee on the date of such determination.

(ii) Immediately prior to the consummation of any Change of Control to occur after Executive's Termination of Employment, a Prorated Portion of Executive's outstanding Performance Stock Awards with a performance period greater than one (1) year and granted other than in connection with Executive's Annual Performance Bonus will be deemed vested at the applicable maximum achievable Performance Level. The shares vesting pursuant to this Section 4(b)(ii) will be exercisable, issued or converted and paid in accordance with Sections 2(c) and 20(a).

(c) **Benefits Continuation .**

(i) In the event of Executive's Termination of Employment, Executive shall be entitled to elect continued medical and dental insurance coverage in accordance with the applicable provisions of COBRA and the Company shall pay such COBRA premiums for six (6) months from the date of Termination of Employment. Notwithstanding the above, in the event Executive becomes eligible to be covered under another employer's group health plan (other than a plan which imposes a preexisting condition exclusion unless the preexisting condition exclusion does not apply) during the period provided for herein, the Company shall cease payment of the COBRA premiums; and

(ii) Executive shall receive the benefits, if any, under the Company's 401(k) Plan and other Company benefit plans to which he may be entitled pursuant to the terms of such plans.

5. **Retirement Benefits .**

(a) In order to be eligible for the Retirement Benefits described in Section 5(b) below, the Executive must meet both of the following criteria:

(i) At the time of Executive's termination of employment with the Company (other than in circumstances in which such termination (i) constitutes a termination with Cause or (ii) does not qualify as a Separation from Service), the Executive has (1) achieved the age of 50 and served the Company for at least 15 years; or (2) achieved the age of 55 and served the Company for at least 10 years; provided, however, if such termination of employment also constitutes a Termination of Employment or a Termination Upon Change of Control, Executive must elect within thirty (30) days of such termination to receive either the benefits provided in Section 3 or Section 4, as applicable, or the benefits provided in this Section 5; and

(ii) At any time during which the Executive is receiving Retirement Benefits, the Executive shall not (1) be employed or on contract full time by a third party (excluding a non-profit organization described in Section 501(c)(3) of the Code) or (2) engage in Competition. If the Executive engages in either (1) or (2), then all Retirement Benefits shall terminate immediately and permanently.

(b) If both conditions in Sections 5(a)(i) and 5(a)(ii) above are satisfied, the Executive shall be entitled, subject to Section 14, to receive the following "**Retirement Benefits** :

(i) **Option Exercisability.** The ability to exercise any and all options granted after the Option Effective Date (and any options granted prior to the Option Effective Date but only to the extent that such extension of exercisability would not require the Company to incur a compensation expense for financial statement purposes) to the extent such options are vested as of the date of termination of employment for the earlier of: (i) the term of the option, (ii) the termination of the option in connection with any Change of Control, or (iii) five years;

(ii) **Performance Stock Awards.** The benefits provided under Section 4(b) ("**Performance Stock Awards** "); and

(iii) **Medical and Dental Coverage .** The Company shall pay the Executive's medical and dental premiums until the Executive achieves the age of Medicare eligibility, and additionally, if the Executive's medical and dental coverage on the date of termination included the Executive's dependents, the premiums of such dependents until the Executive achieves the age of Medicare eligibility as follows:

(A) **COBRA Continuation Coverage .** Upon the termination of Executive's

active employment with the Company, Executive shall be entitled to elect continued medical and dental insurance coverage in accordance with the applicable provisions of COBRA and the Company shall pay such COBRA premiums.

(B) Coverage After COBRA & Prior to Medicare Eligibility . In the event the Executive is not eligible for Medicare coverage at the end of his maximum applicable COBRA coverage period, then, the Executive shall identify and locate either or both an individual conversion policy through the insurer providing insurance coverage in connection with the Company sponsored medical and dental plans available to active employees (the “ **Conversion Policy** ”), and/or a supplemental individual policy or an individual policy on the open market (the “ **Individual Policy** ”) to be effective upon the termination of his COBRA continuation coverage so that, when the coverages for Executive provided by the Conversion Policy and/or the Individual Policy are combined, such coverages provide substantially similar medical and dental benefits in the aggregate as those provided under the medical and dental plans sponsored by the Company at such time, or at any time after the termination of Executive’s employment, for active employees (the “ **Comparable Coverage** ”). The Company shall be responsible for the payment of any Conversion Policy premiums and/or Individual Policy premiums for the Comparable Coverage which payment shall not exceed the cost of premiums for medical and dental coverage for then active employees. If Executive is at such time eligible to participate under the Company Plans, Executive will be entitled to so participate.

(C) Coverage After COBRA & Upon Medicare Eligibility . In the event the Executive is eligible for Medicare coverage at the end of his maximum applicable COBRA coverage period, the Executive may identify and locate a Medicare supplemental policy, which may include, to the extent permitted, the medical and dental plans sponsored by the Company at such time for active employees (the “Company Plans”), that, when combined with the coverage provided by Medicare, provides Comparable Coverage. If Executive is at such time eligible to participate under the Company Plans, Executive will be entitled to so participate; provided that Executive shall be solely responsible for the payment of any Medicare premiums and/or Medical supplemental policy premiums for the Comparable Coverage (including, if applicable, any premiums under the Company Plans).

(D) Taxes, Coverage . The Executive shall be responsible for any taxes that may be attributable to or result from the payments made by the Company in accordance with this Section 5(b)(iii) or receipt of medical and dental benefits attributable to or result from such payments. Notwithstanding Section 5(b)(iii)(A) or (B), in the event Executive becomes eligible to be covered under another employer’s group health plan (other than a plan which imposes a preexisting condition exclusion to the extent permissible by law, unless the preexisting condition exclusion does not apply) during the period provided for herein, the Company shall cease payment of any premiums. The Company will use commercially reasonable efforts to provide that Executive will continue to be eligible for coverage as provided under this Section 5(b)(iii) under the Company Plans, unless the Board of Directors or Compensation Committee determines that such coverage would create an undue burden on the Company.

6. Termination of Employment due to Death or Permanent Disability .

(a) In the event of (i) the Executive’s death during his employment with the Company and the Executive having satisfied the criteria provided at Section 5(a)(i) as of or prior to the date of his death or (ii) the Executive’s death during the period while Executive was receiving Retirement Benefits as a result of compliance with the criteria provided at Section 5(a)(i) and 5(a)(ii), (1) the Executive’s legal representative or any person empowered to act on his behalf under his will or under the then applicable laws of descent and distribution shall be entitled to the benefits pursuant to Section 5(b)(i) (“ **Option Exercisability** ”) and Section 5(b)(ii) (“ **Performance Stock Awards** ”) and (2) the Executive’s dependents, to the extent applicable, shall be entitled to the benefits pursuant to Section 5(b)(iii)(A)-(D) (“ **Medical and Dental Coverage** ”) for that period of time until the Executive would have achieved the age of Medicare eligibility if the Executive had lived.

(b) In the event of the Executive’s Permanent Disability during his employment with the Company and the Executive having satisfied the criteria provided at Section 5(a)(i), the Executive, and to the extent applicable, his dependents, shall be entitled to the benefits provided in Section 5(b)(i) (“ **Option Exercisability** ”), Section 5(b)(ii) (“ **Performance Stock Awards** ”) and 5(b)(iii)(A)-(D) (“ **Medical and Dental Coverage** ”).

7. Payment of Taxes . All payments made to Executive under this Agreement shall be subject to all applicable federal and state income, employment and payroll taxes, including all withholding taxes.

8. Parachute Payment . Executive is strongly encouraged to review the following provision and consult with his or her tax and financial advisor concerning the application of any personal tax consequences related to any payments provided for under this Agreement and the following provision. In the event that any of the payments and benefits provided for in this Agreement or otherwise payable to the Executive (a “ **280G Payment** ”) would (i) constitute a “parachute payment” within the meaning of Section 280G of the Code, and (ii) but for this sentence, be subject to the excise tax imposed by Section 4999 of the

Code (the “**Excise Tax**”), then any such 280G Payment pursuant to this Agreement (a “**Payment**”) shall be equal to the Reduced Amount. The “**Reduced Amount**” shall be either (i) the largest portion of the Payment that would result in no portion of the Payment (after reduction) being subject to the Excise Tax or (ii) the largest portion, up to and including the total, of the Payment, whichever amount (i.e., the amount determined by clause (i) or by clause (ii)), after taking into account all applicable federal, state and local employment taxes, income taxes, and the Excise Tax (all computed at the highest applicable marginal rate), results in the receipt by Executive, on an after-tax basis, of the greater economic benefit notwithstanding that all or some portion of the Payment may be subject to the Excise Tax. If a reduction in a Payment is required pursuant to the preceding sentence and the Reduced Amount is determined pursuant to clause (x) of the preceding sentence, the reduction shall occur in the manner (the “**Reduction Method**”) that results in the greatest economic benefit for Executive. If more than one method of reduction will result in the same economic benefit, the items so reduced will be reduced pro rata (the “**Pro Rata Reduction Method**”). Notwithstanding the foregoing, if the Reduction Method or the Pro Rata Reduction Method would result in any portion of the Payment being subject to taxes pursuant to Section 409A that would not otherwise be subject to taxes pursuant to Section 409A, then the Reduction Method and/or the Pro Rata Reduction Method, as the case may be, shall be modified so as to avoid the imposition of taxes pursuant to Section 409A as follows: (A) as a first priority, the modification shall preserve to the greatest extent possible, the greatest economic benefit for Executive as determined on an after-tax basis; (B) as a second priority, Payments that are contingent on future events (e.g., being terminated without cause), shall be reduced (or eliminated) before Payments that are not contingent on future events; and (C) as a third priority, Payments that are “deferred compensation” within the meaning of Section 409A shall be reduced (or eliminated) before Payments that are not deferred compensation within the meaning of Section 409A. Unless the Company and the Executive otherwise agree in writing, any determination required under this Section 8 shall be made in writing by independent public accountants appointed by the Company and reasonably acceptable to the Executive (the “**Accountants**”), whose determination shall be conclusive and binding upon the Executive and the Company for all purposes. The Company shall bear all costs the Accountants may reasonably incur in connection with such determination, and the Company and the Executive shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section 8.

9. Exclusive Remedy . The payments and benefits provided for in Section 3, Section 4, Section 5 or Section 15 shall constitute the Executive’s sole and exclusive remedy for any alleged injury or other damages arising out of the cessation of the employment relationship between the Executive and the Company. The parties hereto agree that irreparable damage would occur if any of the provisions of this Agreement were not performed in accordance with these specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to enforce specifically the terms and provisions hereof, this being in addition to any other remedy to which they are entitled at law or in equity.

10. Proprietary and Confidential Information . The Executive agrees to continue to abide by the terms and conditions of any Company’s confidentiality and/or proprietary rights agreement between the Executive and the Company.

11. Arbitration . Any claim, dispute or controversy arising out of this Agreement, the interpretation, validity or enforceability of this Agreement or the alleged breach thereof shall be submitted by the parties to binding arbitration by the American Arbitration Association in San Jose, California or elsewhere by mutual agreement. The selection of the arbitrator and the arbitration procedure shall be governed by the Commercial Arbitration Rules of the American Arbitration Association. All costs and expenses of arbitration or litigation, including but not limited to reasonable attorneys fees and other costs reasonably incurred by the Executive, shall be paid by the Company. Judgment may be entered on the award of the arbitration in any court having jurisdiction.

12. Interpretation . Executive and the Company agree that this Agreement shall be interpreted in accordance with and governed by the laws of the State of California, without regard to such state’s conflict of laws rules.

13. Conflict in Benefits . This Agreement shall supersede all prior arrangements, whether written or oral, and understandings regarding the subject matter of this Agreement. To the extent Executive is entitled to severance or other benefits upon termination of employment under this Agreement and any other agreement, including any change in control agreement entered into by the Company and the Executive, entered into prior to the Effective Date, the benefits payable under this Agreement shall supersede and replace any other such agreement. However, this Agreement is not intended to and shall not affect, limit or terminate (i) any plans, programs, or arrangements of the Company that are regularly made available to a significant number of employees of the Company, (ii) the Company’s equity incentive plans, (iii) any agreement or arrangement with the Executive that has been reduced to writing and which does not relate to the subject matter hereof, or (iv) any agreements or arrangements hereafter entered into by the parties in writing, except as otherwise expressly provided herein.

14. Release of Claims . Executive shall receive the severance benefits or the Retirement Benefits pursuant to this Agreement only if Executive executes and returns to the Company, within the applicable time period set forth therein but in no event more than sixty (60) days following the date of Executive’s Separation from Service, a release of claims (the “**Release of**

Claims”) in favor of the Company in a form reasonably satisfactory to the Company, and permits such Release of Claims to become effective in accordance with its terms on or prior to such sixtieth day (the “**Release Agreement Deadline**”). If the Release of Claims does not become effective by the Release Agreement Deadline, the Executive will forfeit any right to severance benefits or Retirement Benefits pursuant to this Agreement. Regardless of whether the Release of Claims becomes effective prior to the Release Agreement Deadline, any severance benefits or Retirement Benefits payable prior to the Release Agreement Deadline shall be paid on the Release Agreement Deadline, with the remainder of the payments to be made as originally scheduled. Except to the minimum extent that payments must be delayed pursuant to Section 20(c) because Executive is a “specified employee” or until the effectiveness (or deemed effectiveness) of the Release of Claims, all amounts will be paid as soon as practicable in accordance with the Company’s normal payroll practices following Executive’s Separation from Service. Notwithstanding the foregoing, the Release of Claims shall not be construed to waive any right to indemnification or contribution otherwise available to Executive under law or rules of corporate governance with respect to claims by third parties for actions or omissions in Executive’s role as an officer of the Company.

15. Successors and Assigns .

(a) **Successors of the Company** . The Company will require any successor or assign (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, expressly, absolutely and unconditionally to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession or assignment had taken place. Failure of the Company to obtain such agreement prior to the effectiveness of any such succession transaction shall be a breach of this Agreement and shall entitle the Executive to terminate his or her employment with the Company within three (3) months thereafter and to receive the benefits provided under Section 3 of this Agreement in the event of a Termination Upon Change of Control; provided, however, that (i) such termination of employment must be a Separation from Service and (ii) the Executive must deliver a Release of Claims as provided in Section 14. As used in this Agreement, “Company” shall mean the Company as defined above and any successor or assign to its business and/or assets as aforesaid which executes and delivers the agreement provided for in this Section 15 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

(b) **Heirs of Executive** . This Agreement shall inure to the benefit of and be enforceable by the Executive’s personal and legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

16. Notices . For purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, as follows:

if to the Company:

Power Integrations, Inc.
5245 Hellyer Avenue
San Jose, California 95138
Attn: Chief Executive Officer or Chief Financial Officer

and if to the Executive, at the address specified in this Agreement. Notice may also be given at such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

17. No Representations . Executive acknowledges that he/she is not relying and has not relied on any promise, representation or statement made by or on behalf of the Company which is not set forth in this Agreement.

18. Validity . If any one or more of the provisions (or any part thereof) of this Agreement shall be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions (or any part thereof) shall not in any way be affected or impaired thereby.

19. Consultation with Legal and Financial Advisors . Executive acknowledges that his Agreement confers significant legal rights, and may also involve the waiver of rights under other agreements; that the Company has encouraged Executive to consult with Executive’s personal legal and financial advisers; and that Executive has had adequate time to consult with Executive’s advisers before signing this Agreement.

20. Application of Section 409A and Other Limitations. Executive is strongly encouraged to review the following provisions and consult with his or her tax and financial advisor concerning the application of any personal tax consequences related to any payments provided for under this Agreement and the following provisions.

(a) If any Stock Award (other than stock options) vesting pursuant to Section 2(a), Section 2(b), Section 3(a)(v)(2) or Section 4(b)(ii):

(i) does not constitute “deferred compensation” within the meaning of Section 409A, the shares vesting pursuant to such events will be issued (1) in respect of Section 2(a), Section 2(b) and Section 4(b)(ii) immediately prior to the consummation of the Change of Control, and (2) in respect of Section 3(a)(v)(2) on the sixtieth (60th) day following the Termination Upon Change of Control as further provided in Section 14 hereof.

(ii) does constitute “deferred compensation” within the meaning of Section 409A, the shares vesting pursuant to such events will be issued (1) in respect of Section 2(a), Section 2(b) and Section 4(b)(ii) immediately prior to the Change of Control, provided such payment can be made without adverse personal tax consequences to the Executive, or else the shares vesting pursuant to Section 2(a), Section 2(b) and Section 4(b)(ii) will be converted into the same consideration received by the holders of the Company’s common stock pursuant to the Change of Control, and such consideration will be issued in accordance with the delivery schedule for such Stock Award in effect immediately prior to the Change of Control and (2) in respect of Section 3(a)(v)(2) will be issued in accordance with the delivery schedule for such Stock Award in effect immediately prior to the Termination Upon Change of Control.

(b) **Extension of Stock Option Exercise Period.** Notwithstanding anything to the contrary in this Agreement, in the event any extended exercise period provided for in this Agreement shall result in a portion of a stock option becoming subject to the provisions of Section 409A, the extended exercise period of such portion of such stock option shall be automatically shortened by the minimum extent necessary to prevent such portion of such option from becoming subject to Section 409A. In no event will any provisions in this Agreement providing for an extended exercise period result in the extension of the exercise period of any stock option beyond the maximum permitted term of such stock option as provided under the applicable equity incentive plan and stock option award agreement in effect for such stock option, assuming for the purposes of this Section 20(b) no termination of Executive’s employment with the Company.

(c) **Other Benefits.** Notwithstanding anything to the contrary herein, the following provisions apply to the extent any benefits (“*Benefits*”) provided herein other than those described in Section 20(b) are subject to Section 409A: (A) The Benefits are intended to qualify for an exemption from application of Section 409A or comply with the requirements of Section 409A to the extent necessary to avoid adverse personal tax consequences under Section 409A, and any ambiguities herein shall be interpreted accordingly. (B) Benefits contingent on a termination of employment shall not commence until Executive has a Separation from Service. (C) Each installment of a Benefit is a separate “payment” for purposes of Treas. Reg. Section 1.409A-2(b)(2)(i). (D) Each Benefit is intended to satisfy the exemptions from application of Section 409A provided under Treasury Regulations Sections 1.409A-1(b)(4), 1.409A-1(b)(5) and 1.409A-1(b)(9) to the maximum extent available. However, if such exemptions are not available and Executive is, upon Executive’s Separation from Service, a “specified employee” for the purposes of Section 409A, then, solely to the extent necessary to avoid adverse personal tax consequences under Section 409A, the timing of the Benefit payments otherwise payable prior to such date shall be delayed until the earlier of (x) six (6) months and one day after Executive’s Separation from Service, or (y) Executive’s death, and any payments otherwise scheduled to be made after such date shall be paid as originally scheduled. (E) To the extent that any reimbursements payable to Executive pursuant to Section 3(a)(iii) are subject to the provisions of Section 409A, the following provisions will apply in addition to the provisions of any applicable expense reimbursement policy: (a) to be eligible to obtain reimbursement for such expenses Executive must submit expense reports within 45 days after the expense is incurred, (b) any such reimbursements will be paid no later than the earlier of (x) thirty (30) days after the date Executive submits receipts for the expenses or (y) December 31 of the year following the year in which the expense was incurred, (c) the amount of expenses reimbursed in one year will not affect the amount eligible for reimbursement in any subsequent year, and (d) the right to reimbursement under this Agreement will not be subject to liquidation or exchange for another benefit.

(d) **Payment of Health Care Benefits.** Notwithstanding anything to the contrary set forth herein, if the Company determines, in its sole discretion, that it cannot provide the COBRA premium, Conversion Policy premium, Individual Policy premium, or other medical and dental coverage premiums (together the “*Health Care Benefits*”) contemplated under this Agreement without potentially incurring financial costs or penalties under applicable law (including, without limitation, Section 2716 of the Public Health Service Act), the Company shall in lieu thereof pay Executive a taxable cash amount, which payment shall be made regardless of whether Executive or Executive’s eligible family members elect health care continuation coverage (the “*Health Care Benefit Payment*”). Subject to any further delay in payment required by Section 14 of this Agreement, the Health Care Benefit Payment shall be paid in monthly installments on the same schedule that such amounts would otherwise have been paid to the insurer. The Health Care Benefit Payment shall be equal to (a) the amount that the Company would have otherwise paid to provide the Health Care Benefits for the duration of the applicable severance period (which amount shall be calculated based on the premium for the first month of coverage), plus (b) an additional amount such that after payment of all taxes, Executive retains an amount equal to the Company’s aggregate cost of otherwise providing the Health Care Benefits. For purposes of

calculating the “additional amount” in clause (b) of the preceding sentence, Executive shall be deemed to have: paid federal income taxes at the highest marginal rate of federal income and employment taxation for the calendar year in which the Health Care Benefit Payment is to be made, and paid applicable state and local income taxes at the highest rate of taxation for the calendar year in which the Health Care Benefit Payment is to be made, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes.

21. Definitions . As used in this Agreement, unless the context requires a different meaning, the following terms shall have the meanings set forth herein:

(a) “**2007 Equity Incentive Plan**” means that certain 2007 Equity Incentive Plan, as amended, as originally adopted by the Board of Directors on September 10, 2007, and any successor plan thereto.

(b) “**Annual Performance Bonus**” means the Executive’s current annual performance incentive bonus at the applicable maximum achievable Performance Level, whether consisting of cash or Stock Awards, as determined by the Board of Directors or Compensation Committee on an annual basis.

(c) “**Cause**” means:

(i) A material act of theft, dishonesty, fraud, intentional falsification of any employment or Company records or the commission of any criminal act which impairs Executive’s ability to perform his/her duties under this Agreement;

(ii) A material improper disclosure of the Company’s confidential, business or proprietary information by Executive;

(iii) Any action by Executive intentionally causing or expected to cause material harm to the reputation and standing of the Company, or gross negligence or willful misconduct in the performance of Executive’s assigned duties (but not mere unsatisfactory performance); or

(iv) The Executive’s conviction (including any plea of guilty or nolo contendere) for a felony causing material harm to the reputation and standing of the Company, as determined by the Company in good faith.

(d) “**Change of Control**” means:

(i) Any “**person**” (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), other than a trustee or other fiduciary holding securities of the Company under an employee benefit plan of the Company becomes the “beneficial owner” (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of (A) the outstanding shares of common stock of the Company or (B) the combined voting power of the Company’s then-outstanding securities;

(ii) The Company is party to a merger or consolidation which results in the holders of voting securities of the Company outstanding immediately prior thereto failing to continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 50% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation;

(iii) There occurs a change in the Board of Directors of the Company within a two-year period, as a result of which fewer than a majority of the Directors are Incumbent Directors. For purposes of this Agreement, an “Incumbent Director” is any director who is either:

(A) A director of the Company as of January 1, 2013; or

(B) A director who is elected or nominated for election to the Board of Directors of the Company with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but shall not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Company).

(iv) The sale or disposition of 50% or more of the Company’s assets (or consummation of any transaction having similar effect); or

(v) The dissolution or liquidation of the Company.

(e) “ *Code* ” means the Internal Revenue Code of 1986, as amended.

(f) “ *Company* ” shall mean Power Integrations, Inc., and following a Change of Control, any successor or assign to its business and/or assets that agrees or otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

(g) “ *Competition* ” shall mean rendering services for any organization or engaging in any business directly competitive with the Company or materially contrary or harmful to the interests of the Company, including, but not limited to (i) accepting employment with, or serving as a consultant, advisor or in any other capacity to, the division or other portion of the business of any employer which competes directly with the Company; (ii) materially acting against the interest of the Company or (iii) personally recruiting, directly or indirectly, any person who is then an employee of the Company.

(h) “ *Executive Officer* ” means any employee of the Company designated an executive officer by the Board of Directors or Compensation Committee.

(i) “ *Good Reason* ” means the occurrence of any of the following conditions, without Executive’s written consent, which condition(s) remain(s) in effect 20 days after written notice to the Board of Directors from Executive of such condition(s), if such notice is given within one year of the occurrence of such condition(s):

(i) A material decrease or planned decrease in Executive’s annual salary, the cash value of Executive’s Annual Performance Bonus or employee benefits following a Change of Control;

(ii) A demotion, a material reduction in Executive’s position, responsibilities or duties or a material, adverse change in Executive’s substantive functional responsibilities or duties, provided, however, that in the event of a Change of Control, Executive will be deemed demoted and his position, responsibilities or duties materially reduced or his substantive functional responsibilities or duties materially adversely changed if Executive is not responsible for at least substantially the same function that Executive had in the Company prior to the Change of Control.

(iii) The relocation of Executive’s work place for the Company to a location more than fifty (50) miles from the current location of Executive’s work place or a material adverse change in the working conditions or established working hours which persist for a period of six continuous months; or

(iv) Any material breach of this Agreement by the Company.

(j) “ *Highest Annual Salary* ” means Executive’s highest annual salary in any of the three years preceding the applicable date of determination, provided, however, that if the Executive’s then effective annual salary would be Executive’s highest annual salary upon completion of the current year of service, then Highest Annual Salary shall mean Executive’s then effective annual salary.

(k) “ *New Executive* ” means an Executive who has served as an executive of the Company for fewer than five years. Executive’s service to the Company as an executive will be deemed to begin upon the date of commencement of employment as an Executive Officer or upon the date of promotion to an Executive Officer position. A New Executive will be first eligible for the benefits under this Agreement upon the completion of one year of continuous service as an Executive Officer of the Company, unless the Board of Directors or Compensation Committee determines otherwise.

(l) “ *Performance Level* ” means the pay out amounts (whether in cash or Stock Awards) based upon the satisfaction of one or more performance criteria as determined by the Board of Directors or Compensation Committee.

(m) “ *Performance Stock Award* ” means any Stock Award subject to vesting upon the achievement of any Performance Level regardless of the length of any performance period.

(n) “ *Permanent Disability* ” means that:

(i) The Executive has been incapacitated by bodily injury or disease so as to be prevented thereby from engaging in the performance of the Executive’s duties;

(ii) Such total incapacity shall have continued for a period of six consecutive months;

(iii) Such incapacity will, in the opinion of a qualified physician, be permanent and continuous during the remainder of the Executive's life; and

(iv) Such incapacity results in Executive's Separation from Service.

(o) "**Prorated Portion**" means a fraction the numerator of which is the number of days in an applicable performance period prior to such Executive's termination of employment and the denominator of which is the total number of days in an applicable performance period.

(p) "**Release of Claims**" means the release of claims required by Section 14 of this Agreement.

(q) "**Retention Stock Award**" means any Stock Award subject to vesting upon the completion of time-based vesting criteria.

(r) "**Section 409A**" means Section 409A of the Code and the regulations and other guidance thereunder and any state law of similar effect.

(s) "**Senior Executive**" means an Executive who has served continuously as an executive of the Company for at least five years. Executive's service to the Company as an executive will be deemed to begin upon the date of commencement of employment as an Executive Officer or upon the date of promotion to an Executive Officer position, unless the Board of Directors or Compensation Committee determines otherwise.

(t) "**Separation from Service**" means a "separation from service" for the purposes of Section 409A with respect to the Company.

(u) "**Stock Award**" shall have the same meaning given to it in the 2007 Equity Incentive Plan, as may be amended from time to time.

(v) "**Termination of Employment**" means Executive's Separation from Service that results from:

(i) Any termination of employment of the Executive by the Company without Cause; or

(ii) Any resignation by the Executive for Good Reason.

"Termination of Employment" shall not include any termination of the employment of the Executive (a) by the Company for Cause; (b) as a result of Permanent Disability of the Executive; (c) as a result of the death of the Executive; (d) as a result of the voluntary termination of employment by the Executive for reasons other than Good Reason; or (e) a Termination Upon Change of Control.

(w) "**Termination Upon Change of Control**" means Executive's Separation from Service that results from:

(i) Any termination of the employment of the Executive by the Company without Cause on or within eighteen (18) months after (i) the occurrence of a Change of Control; or (ii) the date that the person serving as of the Effective Date as Chief Executive Officer of the Company ceases to serve in such office; or

(ii) Any resignation by the Executive for Good Reason within eighteen (18) months after (i) the occurrence of a Change of Control or (ii) the date that the person serving as of the Effective Date as Chief Executive Officer of the Company ceases to serve in such office.

"Termination Upon Change of Control" shall not include any termination of the employment of the Executive (a) by the Company for Cause; (b) as a result of the Permanent Disability of the Executive; (c) as a result of the death of the Executive; or (d) as a result of the voluntary termination of employment by the Executive for reasons other than Good Reason.

* * * * *

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Balu Balakrishnan certify that:

1. I have reviewed this Form 10-Q of Power Integrations, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 2, 2014

By: /s/ BALU BALAKRISHNAN

Balu Balakrishnan
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Sandeep Nayyar, certify that:

1. I have reviewed this Form 10-Q of Power Integrations, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 2, 2014

By: /s/ SANDEEP NAYYAR

Sandeep Nayyar
Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Power Integrations, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Balu Balakrishnan, Chief Executive Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 ("Section 906"), certify to the best of my knowledge that:

- (1) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 2, 2014

By: /s/ BALU BALAKRISHNAN

Balu Balakrishnan
Chief Executive Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Registrant and will be retained by the Registrant and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION OF CHIEF FINANCIAL OFFICER

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Power Integrations, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sandeep Nayyar, Chief Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 ("Section 906"), certify to the best of my knowledge that:

- (1) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 2, 2014

By: /s/ SANDEEP NAYYAR

Sandeep Nayyar
Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Registrant and will be retained by the Registrant and furnished to the Securities and Exchange Commission or its staff upon request.