

POWER INTEGRATIONS INC  
Form DEF 14A  
March 25, 2016

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934  
(Amendment No. )

Filed by the Registrant  Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to § 240.14a-12

Power Integrations, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box)

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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2. Aggregate number of securities to which transaction applies:

3. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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1. Amount Previously Paid:

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2. Form, Schedule or Registration Statement No.:

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3. Filing Party:

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4. Date Filed:

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POWER INTEGRATIONS, INC.  
5245 Hellyer Avenue  
San Jose, California 95138-1002

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MAY 13, 2016

Dear Stockholder:

You are cordially invited to attend the 2016 Annual Meeting of Stockholders of Power Integrations, Inc., a Delaware corporation. The meeting will be held on Friday, May 13, 2016, at 2:00 p.m., local time, at our executive offices located at 5245 Hellyer Avenue, San Jose, California 95138 for the following purposes:

1. To elect the Power Integrations Board of Directors' seven nominees as directors to serve until the 2017 annual meeting of stockholders and until their successors are duly elected and qualified.
2. To approve, on an advisory basis, the compensation of Power Integrations' named executive officers, as disclosed in this proxy statement.
3. To approve the Power Integrations, Inc. 2016 Incentive Award Plan, as described in this proxy statement.
4. To approve the amendment and restatement of the Power Integrations, Inc. 1997 Employee Stock Purchase Plan as described in this proxy statement.
5. To ratify the selection by the Audit Committee of the Board of Directors of Deloitte & Touche LLP as the independent registered public accounting firm of Power Integrations for the fiscal year ending December 31, 2016.
6. To conduct any other business properly brought before the meeting.

These items of business are more fully described in the proxy statement accompanying this Notice.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to Be Held on May 13, 2016, at 2:00 p.m. at 5245 Hellyer Avenue, San Jose, California 95138

The proxy statement and annual report to stockholders are available at <http://www.edocumentview.com/POWI>

The Board of Directors recommends that you vote FOR Proposals 1, 2, 3, 4 and 5 identified above.

We are mailing to most of our stockholders a Notice of Internet Availability of Proxy Materials (the "Notice") instead of a paper copy of this proxy statement and our 2015 Annual Report. The Notice contains instructions on how to access those documents over the internet. The Notice also contains instructions on how to request a paper copy of our proxy materials, including this proxy statement, our 2015 Annual Report and a form of proxy card or voting instruction card. All stockholders who do not receive a Notice will receive a paper copy of the proxy materials by mail. We believe that this process will allow us to provide our stockholders with the information they need in a timelier manner, while reducing the environmental impact and lowering the costs of printing and distributing our proxy materials.

The record date for the Annual Meeting was March 23, 2016. Only stockholders of record at the close of business on that date may vote at the meeting or any adjournment thereof.

By Order of the Board of Directors

/s/ Sandeep Nayyar  
Sandeep Nayyar  
Chief Financial Officer & Vice President of Finance

San Jose, California  
March 24, 2016

You are cordially invited to attend the meeting in person. Whether or not you expect to attend the meeting, please complete, date, sign and return a proxy card, or vote over the telephone or the internet as instructed in these materials, as promptly as possible in order to ensure your representation at the meeting. Even if you have voted by proxy, you may still vote in person if you attend the meeting. Please note, however, that if your shares are held of record by a broker, bank or other nominee and you wish to vote at the meeting, you must obtain a proxy issued in your name from that record holder.

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POWER INTEGRATIONS, INC.

5245 Hellyer Avenue

San Jose, California 95138-1002

PROXY STATEMENT FOR THE 2016 ANNUAL MEETING OF STOCKHOLDERS

May 13, 2016

QUESTIONS AND ANSWERS ABOUT THESE PROXY MATERIALS AND VOTING

Why am I receiving these materials?

The Board of Directors of Power Integrations, Inc. is soliciting your proxy to vote at the 2016 Annual Meeting of Stockholders (the "Annual Meeting"), including at any adjournments or postponements of the Annual Meeting. You are invited to attend the Annual Meeting to vote on the proposals described in this proxy statement. However, you do not need to attend the Annual Meeting to vote your shares. Instead, you may simply complete, sign and return a proxy card, or follow the instructions below or in the Notice described below to submit your proxy over the telephone or on the internet.

Why did I receive a Notice in the mail regarding the availability of proxy materials on the internet?

We are pleased to take advantage of rules of the Securities and Exchange Commission (the "SEC") that allow companies to furnish their proxy materials over the internet. Accordingly, we are sending to most of our stockholders of record a Notice of Internet Availability of Proxy Materials (the "Notice") on or about April 1, 2016. To those that we do not send a Notice, we will send a full set of proxy materials, which include this proxy statement and an annual report to stockholders, on or about the same date. All stockholders will have the ability to access the proxy materials on the website referred to in the Notice or request to receive a printed set of the proxy materials. Instructions on how to access the proxy materials over the internet or to request a printed copy may be found in the Notice. In addition, stockholders may request to receive proxy materials in printed form or electronically by email on an ongoing basis. A stockholder's election to receive proxy materials by mail or email will remain in effect until the stockholder terminates it.

Will I receive any other proxy materials by mail?

If we send you a Notice, we may (but are not required to) send you a proxy card, along with a second Notice, on or after April 1, 2016.

How do I attend the Annual Meeting?

The Annual Meeting will be held on Friday, May 13, 2016, at 2:00 p.m., local time, at our executive offices located at 5245 Hellyer Avenue, San Jose, California 95138. Directions to the Annual Meeting may be found at the end of this proxy statement. Information on how to vote in person at the Annual Meeting is discussed below.

Who can vote at the Annual Meeting?

Only stockholders of record at the close of business on March 23, 2016, will be entitled to vote at the Annual Meeting. On this record date, there were 28,699,725 shares of common stock outstanding and entitled to vote.

Stockholder of Record: Shares Registered in Your Name

If on March 23, 2016, your shares were registered directly in your name with Power Integrations' transfer agent, Computershare, then you are a stockholder of record. As a stockholder of record, you may vote in person at the Annual Meeting or vote by proxy. Whether or not you plan to attend the Annual Meeting, we urge you to fill out and return the enclosed proxy card or vote by proxy over the telephone or on the internet as instructed below or in the Notice to ensure your vote is counted.

Beneficial Owner: Shares Registered in the Name of a Broker or Bank

If on March 23, 2016, your shares were held, not in your name, but rather in an account at a brokerage firm, bank, dealer, or other similar organization, then you are the beneficial owner of shares held in "street name" and the proxy materials are, or a Notice is, being sent to you by that organization. The organization holding your account is considered to be the stockholder of record for purposes of voting at the Annual Meeting. As a beneficial owner, you have the right to direct your broker or other agent regarding how to vote the shares in your account. You are also invited to attend the Annual Meeting. However, since you are not the stockholder of record, you may not vote your shares in person at the Annual Meeting unless you request and obtain a valid proxy from your broker or other agent.



What am I voting on?

There are five matters scheduled for a vote:

• Election of our Board of Directors' seven nominees as directors to serve until the 2017 annual meeting of stockholders and until their successors are duly elected and qualified;

• Approval, on an advisory basis, of the compensation of Power Integrations' named executive officers, as disclosed in this proxy statement in accordance with SEC rules;

• Approval of the Power Integrations, Inc. 2016 Incentive Award Plan, as described in this proxy statement;

• Approval of the amendment and restatement of the Power Integrations, Inc. 1997 Employee Stock Purchase Plan, as described in this proxy statement; and

Ratification of the selection by the Audit Committee of the Board of Directors of Deloitte & Touche LLP as the independent registered public accounting firm of Power Integrations, Inc. for its fiscal year ending December 31, 2016.

These items of business are more fully described in the proxy statement accompanying this Notice.

What if another matter is properly brought before the Annual Meeting?

The Board of Directors knows of no other matters that will be presented for consideration at the Annual Meeting. If any other matters are properly brought before the Annual Meeting, it is the intention of the persons named in the proxy card to vote on those matters in accordance with their best judgment.

Why didn't I receive a Notice in the mail regarding the internet availability of proxy materials?

We are providing stockholders who have previously requested to receive paper copies of the proxy materials with paper copies of the proxy materials instead of a Notice. If you would like to reduce the costs incurred by us in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via email or the internet. To sign up for electronic delivery, please follow the instructions provided in your Notice, or if you received a printed version of the proxy materials by mail, by following the instructions provided with your proxy materials and on your proxy card or voting instruction card, to vote using the internet and, when prompted, indicate that you agree to receive or access stockholder communications electronically in future years. Alternatively, you can go to [www.investorvote.com/powi](http://www.investorvote.com/powi) and enroll for online delivery of annual meeting and proxy voting materials.

Can I vote my shares by filling out and returning the Notice?

No. The Notice will, however, provide instructions on how to vote by internet, by telephone, by requesting and returning a paper proxy card, or by submitting a ballot in person at the Annual Meeting.

How do I vote?

You may either vote "For" all the nominees to the Board of Directors or you may "Withhold" your vote for any nominee you specify. For each of the other matters to be voted on, you may vote "For" or "Against" or abstain from voting. The procedures for voting are as follows:

Stockholder of Record: Shares Registered in Your Name

If you are a stockholder of record, you may vote in person at the Annual Meeting, vote by proxy using a proxy card (which is enclosed if you received this proxy statement by mail or that you may request or that we may elect to deliver at a later time), vote by proxy over the telephone, or vote by proxy on the internet. Whether or not you plan to attend the Annual Meeting, we urge you to vote by proxy to ensure your vote is counted. You may still attend the Annual Meeting and vote in person if you have already voted by proxy.

• To vote in person, come to the Annual Meeting and we will give you a ballot when you arrive.

To vote using the proxy card, simply complete, sign and date the proxy card (which is enclosed if you received this proxy statement by mail or that you may request or that we may elect to deliver at a later time), and return it promptly in the envelope provided. If you return your signed proxy card to us before the Annual Meeting, we will vote your shares as you direct.

To vote over the telephone, dial toll-free 1-800-652-VOTE (8683) in the United States or Canada using a touch-tone phone and follow the recorded instructions. You will be asked to provide Power Integrations' number and control number from the enclosed proxy card or Notice. Specific instructions to be followed by any registered



stockholder interested in voting via telephone are set forth on the proxy card or Notice. Your vote must be received by 1:00 a.m., Central time, on May 13, 2016, to be counted.

To vote on the internet, registered holders may go to [www.investorvote.com/powi](http://www.investorvote.com/powi) to complete an electronic proxy card. You will be asked to provide Power Integrations' number and control number from the enclosed proxy card or Notice. Specific instructions to be followed by any registered stockholder interested in voting via the internet are set forth on the proxy card or Notice. Your vote must be received by 1:00 a.m., Central time, on May 13, 2016, to be counted.

#### Beneficial Owner: Shares Registered in the Name of Broker or Bank

If you are a beneficial owner of shares registered in the name of your broker, bank, or other agent, you should have received a voting instruction form with these proxy materials or Notice containing voting instructions from that organization rather than from Power Integrations. Simply complete and mail the voting instruction form or follow the voting instructions in the Notice to ensure that your vote is counted. Alternatively, you may vote by telephone or over the internet as instructed by your broker or bank. To vote in person at the Annual Meeting, you must obtain a valid proxy from your broker, bank, or other agent. Follow the instructions from your broker or bank included with these proxy materials, or contact your broker or bank to request a proxy form.

We provide internet proxy voting to allow you to vote your shares online, with procedures designed to ensure the authenticity and correctness of your proxy vote instructions. However, please be aware that you must bear any costs associated with your internet access, such as usage charges from internet access providers and telephone companies.

How many votes do I have?

On each matter to be voted upon, you have one vote for each share of common stock you own as of March 23, 2016.

What happens if I do not vote?

#### Stockholder of Record; Shares Registered in Your Name

If you are a stockholder of record and do not vote by completing your proxy card, by telephone, over the internet or in person at the Annual Meeting, your shares will not be voted.

#### Beneficial Owner; Shares Registered in the Name of a Broker or Bank

If you are a beneficial owner and do not instruct your broker, bank or other agent how to vote your shares, the question of whether your broker or nominee will still be able to vote your shares depends on whether the New York Stock Exchange ("NYSE") deems the particular proposal to be a "routine" matter. Brokers and nominees can use their discretion to vote "uninstructed" shares with respect to matters that are considered to be "routine," but not with respect to "non-routine" matters. Under the rules and interpretations of the NYSE, "non-routine" matters are matters that may substantially affect the rights or privileges of stockholders, such as mergers, stockholder proposals, elections of directors (even if not contested), executive compensation (including any advisory stockholder votes on executive compensation and on the frequency of stockholder votes on executive compensation), and certain corporate governance proposals, even if management supported. Accordingly, your broker or nominee may not vote your shares on Proposals 1, 2, 3 or 4 without your instructions, but may vote your shares on Proposal 5.

What if I return a proxy card or otherwise vote but do not make specific choices?

If you return a signed and dated proxy card or otherwise vote without marking voting selections, your shares will be voted, as applicable, "For" the election of all our seven nominees for director, "For" the advisory approval of executive compensation, "For" the approval of the Power Integrations, Inc. 2016 Incentive Award Plan, "For" the amendment and restatement of the Power Integrations, Inc. 1997 Employee Stock Purchase Plan, and "For" the ratification of the Audit Committee's selection of Deloitte & Touche LLP as the independent registered public accounting firm of Power Integrations for its fiscal year ending December 31, 2016. If any other matter is properly presented at the Annual Meeting, your proxy holder (one of the individuals named on your proxy card) will vote your shares using his or her best judgment.

Who is paying for this proxy solicitation?

We will pay for the entire cost of soliciting proxies. In addition to these proxy materials, our directors and employees may also solicit proxies in person, by telephone, or by other means of communication. Directors and employees will not be paid any additional compensation for soliciting proxies. We may also reimburse brokerage firms, banks and

other agents for the cost of forwarding proxy materials to beneficial owners.

3

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What does it mean if I receive more than one Notice or set of proxy materials?

If you receive more than one Notice or set of proxy materials, your shares may be registered in more than one name or in different accounts. Please follow the voting instructions on the proxy cards in the proxy materials or Notices to ensure that all of your shares are voted.

Can I change my vote or revoke my proxy after submitting my proxy?

Stockholder of Record; Shares Registered in Your Name

Yes. You can change your vote or revoke your proxy at any time before the final vote at the Annual Meeting. If you are the record holder of your shares, you may change your vote or revoke your proxy in any one of the following ways:

• You may submit another properly completed proxy card with a later date.

• You may vote again over the internet or by telephone.

• You may send a timely written notice that you are revoking your proxy to Power Integrations' Secretary at 5245 Hellyer Avenue, San Jose, California 95138-1002.

• You may attend the Annual Meeting and vote in person. Simply attending the Annual Meeting will not, by itself, revoke your proxy.

Your most current proxy card or telephone or internet proxy is the one that is counted.

Beneficial Owner; Shares Registered in the Name of a Broker or Bank

If your shares are held by your broker or bank as a nominee or agent, you should follow the instructions provided by your broker or bank.

When are stockholder proposals due for next year's annual meeting?

To be considered for inclusion in next year's proxy materials, your proposal must be submitted in writing by December 2, 2016, to our Corporate Secretary at 5245 Hellyer Avenue, San Jose, California 95138-1002; provided, however, that if our 2017 annual meeting of stockholders is held before April 13, 2017, or after June 12, 2017, then the deadline is a reasonable amount of time prior to the date we begin to print and mail our proxy statement for the 2017 annual meeting of stockholders. If you wish to submit a proposal that is not to be included in next year's proxy materials or nominate a director pursuant to our Bylaws, you must provide specified information in writing to our Corporate Secretary at the address above by December 2, 2016, except that if our 2017 annual meeting of stockholders is held before April 13, 2017, or after June 12, 2017, notice by the stockholder to be timely must be received not later than the close of business on the tenth day following the day on which such public announcement of the date of such meeting is made. You are also advised to review our Bylaws, which contain a description of the information required to be submitted as well as additional requirements about advance notice of stockholder proposals and director nominations.

How are votes counted?

Votes will be counted by the inspector of election appointed for the Annual Meeting, who will separately count; with respect to the proposal to elect directors, votes "For," "Withhold" and broker non-votes; and with respect to other proposals, votes "For," "Against," abstentions and, if applicable, broker non-votes. Abstentions and broker non-votes have no effect and will not be counted towards the vote total for any proposal.

What are "broker non-votes"?

When a beneficial owner of shares held in "street name" does not give instructions to the broker or nominee holding the shares as to how to vote on matters deemed by the NYSE to be "non-routine," the broker or nominee cannot vote the shares. These unvoted shares are counted as "broker non-votes."

How many votes are needed to elect directors?

The election of directors at this Annual Meeting is an uncontested election and, as a result, the majority voting provisions of our Corporate Governance Guidelines are applicable to this election. Pursuant to our Corporate Governance Guidelines, each of the nominees has tendered an irrevocable resignation as a director, which resignation is conditioned upon both (A) such director failing to have received more "For" votes than "Withheld" votes in this election and (B) acceptance by the Board of Directors of such resignation. Under our Corporate Governance Guidelines, the

nominees were required to tender the irrevocable resignations before our Board of Directors could nominate the nominees for re-election as director.

4

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If, in an uncontested election such as this election, a director fails to receive more “For” votes than “Withheld” votes for election, then, within 90 days following certification of the stockholder vote, the Nominating and Governance Committee will act to determine whether to accept the director’s conditional resignation and will submit such recommendation for prompt consideration by the Board of Directors, and the Board of Directors will act on the Nominating and Governance Committee’s recommendation. The Nominating and Governance Committee and the Board of Directors may consider any factors they deem relevant in deciding whether to accept a director’s conditional resignation.

Although for the election of our seven nominees as directors, the seven nominees receiving the most “For” votes (among votes properly cast in person or by proxy and entitled to vote on the election of directors) will be elected as a director, if a director receives more “Withheld” votes than “For” votes that director may cease to be a director if the Board of Directors determines that, based on the fact that the director received more “Withheld” votes than “For” votes, and the other facts the Board of Directors may deem relevant, the Board of Directors decides to accept a director’s conditional resignation.

How many votes are needed to approve the compensation of the company’s named executive officers, the approval of the Power Integrations, Inc. 2016 Incentive Award Plan, as described in this proxy statement, the approval of the amendment and restatement of the Power Integrations, Inc. 1997 Employee Stock Purchase Plan, as described in this proxy statement, and the ratification of the Audit Committee’s selection of Deloitte & Touche LLP as our independent auditors?

To be approved, each of the compensation of the company’s named executive officers, the approval of the Power Integrations, Inc. 2016 Incentive Award Plan, the approval of the amendment and restatement of the Power Integrations, Inc. 1997 Employee Stock Purchase Plan, and the ratification of Deloitte & Touche LLP as the independent registered public accounting firm of Power Integrations, Inc. for its fiscal year ending December 31, 2016, must receive more “For” votes than “Against” votes on the matter. If you “Abstain” from voting, it will have no effect. Broker non-votes will also have no effect.

What is the quorum requirement?

A quorum of stockholders is necessary to hold a valid meeting. A quorum will be present if stockholders holding at least a majority of the outstanding shares entitled to vote are present at the Annual Meeting in person or represented by proxy. On the record date, there were 28,699,725 shares outstanding and entitled to vote. Thus the holders of 14,349,863 shares must be present in person or represented by proxy at the Annual Meeting to have a quorum. Your shares will be counted towards the quorum only if you submit a valid proxy (or one is submitted on your behalf by your broker, bank or other nominee) or if you attend the Annual Meeting. Abstentions and broker non-votes will be counted towards the quorum requirement. If there is no quorum, the chairman of the Annual Meeting or the holders of a majority of the shares present at the Annual Meeting in person or represented by proxy may adjourn the Annual Meeting to another date.

How can I find out the results of the voting at the Annual Meeting?

We expect to announce the preliminary voting results at the Annual Meeting. In addition, final voting results will be published in a current report on Form 8-K that we expect to file with the SEC within four business days after the Annual Meeting. If final voting results are not available to us in time to file a Form 8-K within four business days after the Annual Meeting, we intend to file a Form 8-K to publish preliminary results and, within four business days after the final results are known to us, file an amendment to the Form 8-K to publish the final results.

What proxy materials are available on the internet?

The proxy statement and annual report to stockholders are available at: <http://www.edocumentview.com/POWI>.

PROPOSAL 1  
ELECTION OF DIRECTORS

Power Integrations' Board of Directors (the "Board") is elected annually at each annual meeting. Vacancies on the Board may be filled only by persons elected by a majority of the remaining directors. A director elected by the Board to fill a vacancy shall serve for the remainder of the year, and until the director's successor is duly elected and qualified. This includes vacancies created by an increase in the number of directors.

The Board currently has seven members, all of whose terms of office expire at the Annual Meeting. Proxies may not be voted for a greater number of persons than the number of nominees named.

Each of the nominees listed below is currently a director of Power Integrations who was previously elected by the stockholders. If elected at the Annual Meeting, each of these nominees would be elected and qualified to serve until the 2017 annual meeting of stockholders and until his successor is duly elected and qualified, or, if sooner, until the director's death, resignation or removal. It is Power Integrations' policy to encourage directors and nominees for director to attend the Annual Meeting. Five of the company's directors attended the 2015 annual meeting of stockholders, four of which by way of teleconference.

Directors are elected by a plurality of the votes of the holders of shares present in person or by proxy and entitled to vote on the election of directors. Unless marked otherwise we will vote proxies returned to us for the nominees named below. The seven nominees receiving the highest number of affirmative votes will be elected. If a nominee receives more "Withheld" votes than "For" votes, then notwithstanding the election of that nominee, if our Board determines that, based on the fact that the director received more "Withheld" votes than "For" votes, and the other facts the Board may deem relevant, our Board may decide to accept the nominee's conditional resignation previously submitted as required under our Corporate Governance Guidelines. See "How many votes are needed to elect directors?" in "Questions and Answers about These Proxy Materials and Voting" above for a description of these guidelines. If any nominee becomes unavailable for election as a result of an unexpected occurrence, your shares will be voted for the election of a substitute nominee proposed by Power Integrations. Each person nominated for election has agreed to serve if elected. Power Integrations' management has no reason to believe that any nominee will be unable to serve.

This Proposal 1 is to elect our seven nominees nominated as directors. The biographies of each of the nominees below contain information regarding the person's age as of March 12, 2016, service as a director, business experience, director positions held currently or at any time during the last five years, information regarding involvement in certain legal or administrative proceedings, if applicable, and the experiences, qualifications, attributes and skills of each director, including those that led to the Nominating and Governance Committee and the Board's conclusion that the director should continue to serve as a director of Power Integrations.

Nicholas E. Brathwaite, age 57, has served as a director of Power Integrations since January 2000. A veteran of the semiconductor industry, Mr. Brathwaite served as a member of the board of directors of Tessera Technologies, Inc., a technology innovator that invests in, licenses and delivers innovative miniaturization technologies, from February 2008 until May 2011 and Photon Dynamics, Inc., a provider of products and services to flat-panel display manufacturers, prior to its acquisition in October 2008.

Mr. Brathwaite is a founding Partner of Riverwood Capital, a growth equity, middle market technology investment firm with investments in Asia, Latin America and the United States (including five semiconductor companies), which he joined in January 2008. Mr. Brathwaite has been involved with semiconductor companies, hardware development (including power supplies) and electronic services (including manufacturing) since 1986. Mr. Brathwaite was the chief executive officer of Aptina Imaging Corporation, a fabless semiconductor company and a wholly owned subsidiary of Micron Technology, serving similar markets, customers and applications as those of Power Integrations, from April 2008 to July 2009, and was chairman of the company's board of directors until Aptina was acquired by ON Semiconductor in August 2014. He served as the vice president of technology of Flextronics International Ltd., an electronics company, from 1995 to 2000, and as Flextronics' chief technology officer from 2000 until 2007, where he played a leading role in the transformation of Flextronics from a small contract manufacturer to a global electronics manufacturing service provider, during which revenues grew from \$150 million to \$30 billion. At Flextronics he initiated, built and managed several businesses with revenues ranging from \$30 million to \$6 billion, including ODM

services, power supplies and other component businesses. He joined Flextronics in 1995 when Flextronics acquired nChip, Inc., a multi-chip module company, where Mr. Brathwaite held the position of vice president and general manager of operations from 1992 to 1996. As a founding member of nChip, Inc., Mr. Brathwaite was responsible for all manufacturing and operational activities including wafer fabrication, wafer test and module assembly. Before joining nChip, Inc., Mr. Brathwaite spent six years with Intel Corporation, a microprocessor company, in various engineering management positions in technology development and manufacturing. Mr. Brathwaite currently serves on the board of directors of Inphi Corporation, a high speed analog semiconductor company.

Mr. Brathwaite has significant experience in mergers and acquisitions, having participated in more than 50 transactions ranging from \$2 million to \$10 billion; he was a member of Flextronics's four-person acquisition committee and was responsible for leading due diligence and integration activities on several of these acquisitions. Mr. Brathwaite is familiar with many of Power Integrations' customers, including important decision makers and decision making processes, and is familiar with Asian and European markets, supply-chain and business processes. Mr. Brathwaite received a B.S. in Applied Chemistry from McMaster University, and a M.S. in Polymer Science & Engineering from University of Waterloo. Mr. Brathwaite has also completed the Wharton Executive Education Training Program on Corporate Governance.

Balakrishnan S. Iyer, age 59, has served as a director of Power Integrations since February 2004. Mr. Iyer has served on public company boards since 2001, and currently serves on the boards of: IHS Inc., a leading source of information, insight and analytics in critical areas that shape today's business landscape; QLogic Corporation, a provider of high performance server and storage networking infrastructure products; and Skyworks Solutions, Inc., an innovator in high performance analog semiconductors. Mr. Iyer also served on the board of directors of Life Technologies Corporation, an S&P 500 company in the life science technology industry prior to its acquisition by Thermo Fisher Scientific Inc. in 2014; Overture Systems prior to the sale of the company to Yahoo; and Conexant Systems, Inc., a designer, developer and seller of semiconductor systems solutions for communications applications, prior to the company's acquisition by Golden Gate Capital.

Mr. Iyer retired from Conexant Systems in 2003 after serving for five years as senior vice president and chief financial officer. In that role, Mr. Iyer was responsible for all the financial functions for the company including operational finance, controllership, treasury, tax and investor relations as well as strategy and business development. He raised \$1 billion for the company and completed more than a dozen acquisitions valued at over \$2 billion. He also led the execution of the strategic restructuring of the company from an integrated semiconductor company with a full range of manufacturing operations to a family of pure-play fabless semiconductor companies. Earlier in his career, Mr. Iyer worked in Silicon Valley for 17 years in the semiconductor industry in finance roles at Advanced Micro Devices, Cypress Semiconductor and VLSI Technology (where he was senior vice president and chief financial officer), and in engineering roles at National Semiconductor Corporation.

Mr. Iyer has significant experience in audit committee matters, as well as corporate governance, financing and acquisition matters. At IHS, he has served as chairman of the audit committee since he joined its board of directors in 2003, helping oversee the company's preparation to become a public company, including the recruiting of key finance team members, preparation of the registration statement and implementation of SOX 404. Mr. Iyer is also chairman of the audit committee at QLogic and chairman of the governance and nominating committee at Skyworks Solutions, and was previously chairman of the audit and nominating committees at Life Technologies as well as the governance and nominating committee at Conexant Systems. He serves on the board of directors of the Forum for Corporate Directors, an organization focused on corporate governance and also on the advisory board of the California State University Fullerton Center for Corporate Reporting and Governance. As a board member, Mr. Iyer has overseen more than 50 acquisitions and divestitures valued at over \$25 billion, and more than \$5 billion in equity and debt financing.

Mr. Iyer has a B.S. in Mechanical Engineering from the Indian Institute of Technology, a M.S. in Industrial Engineering from the University of California, Berkeley and an M.B.A. in Finance from the Wharton School, University of Pennsylvania.

E. Floyd Kvamme, age 78, has served as a director of Power Integrations since September 1989 and was elected non-executive Chairman of the Board in April 2011. Mr. Kvamme has served as a director of more than 15 companies in the semiconductor, software and optical-systems markets, including: National Semiconductor Corporation, Photon Dynamics, Inc., a publicly traded provider of products and services to flat-panel display manufacturers, and a number of other publicly traded companies including TriQuint Semiconductor, Brio, Lotus, Harmonic, MiniStor and Bachman Information Systems. He currently serves on the board of Harmonic Inc., a broadband optical networking and digital video systems company.

From 1984 through 2008, Mr. Kvamme was a general partner (and now serves as a partner emeritus) of Kleiner Perkins Caufield & Byers, a venture-capital company. Mr. Kvamme has over 40 years of experience in the semiconductor industry in engineering, sales and marketing and management roles. From 2001 to 2009, Mr. Kvamme

was co-chairman of the President's Council of Advisors on Science and Technology, advising President George W. Bush on science and technology matters. Prior to joining Kleiner Perkins, Mr. Kvamme served as general manager of National Semiconductor's semiconductor division from 1973 to 1979, during which time sales grew from \$200 million to nearly \$1 billion. He was also in charge of product planning and marketing at National Semiconductor in the formative years of the integrated circuit era, and was responsible for the company's distribution-oriented sales force at National Semiconductor from 1971 to 1979. From 1979 to 1982 he was the president of National Advanced Systems, responsible for all activities worldwide in this computer systems subsidiary of National Semiconductor including extensive dealings with Asia-particularly Japan in which Hitachi was a major supplier. He was also executive vice

president of marketing and sales at Apple Computer from 1982 to 1984, responsible for all sales, marketing and advertising of Apple in the United States and some foreign countries.

Mr. Kvamme has a B.S.E.E. in Electrical Engineering from the University of California, Berkeley and an M.S.E. in Semiconductor Electronics from Syracuse University, and did post-masters studies in circuit design, computer design and control systems at the University of California, Los Angeles.

Alan D. Bickell, age 79, has served as a director of Power Integrations since April 1999. Mr. Bickell was previously a member of the board of directors of Asiainfo Holdings, where he served as chairman of the audit committee and as a member of the compensation committee. Mr. Bickell spent more than 30 years with Hewlett Packard Company, a computer-hardware company, serving as corporate senior vice president and managing director of geographic operations from 1992 until his retirement in 1996. In his role at Hewlett Packard, Mr. Bickell's responsibilities included overseeing the company's worldwide field-sales infrastructure, as well as general management responsibility for the company's international presence in the Asia Pacific, Latin America and Canada.

Mr. Bickell has extensive experience in finance, accounting and MIS systems, as well as significant experience in international operations, having resided in Japan, Australia, Scotland, Switzerland and Hong Kong during his career at Hewlett Packard. Mr. Bickell also has significant corporate governance experience through his role at Hewlett Packard and his service on the boards of Power Integrations, Asiainfo Holdings and Peking University Educational Foundation (USA).

Mr. Bickell has a B.S. in Business Administration from Menlo College, and an M.B.A. from Santa Clara University.

Balu Balakrishnan, age 61, has served as president and chief executive officer and as a director of Power Integrations since January 2002. He served as president and chief operating officer from April 2001 to January 2002. From January 2000 to April 2001, he was vice president of engineering and strategic marketing. From September 1997 to January 2000, he was vice president of engineering and new business development. From September 1994 to September 1997, Mr. Balakrishnan served as vice president of engineering and marketing. Before joining Power Integrations in 1989, Mr. Balakrishnan was employed for 11 years by National Semiconductor Corporation, where his responsibilities included engineering and product-line management.

Mr. Balakrishnan, who has more than 35 years of engineering, marketing and management experience in the semiconductor industry, is the chief inventor of Power Integrations' TOPSwitch<sup>®</sup>, TinySwitch<sup>®</sup>, LinkSwitch<sup>®</sup>, InnoSwitch<sup>®</sup> and EcoSmart<sup>®</sup> technologies and has been issued 176 U.S. patents. He has received the Discover Award for Technological Innovation as well as a TechAmerica Innovator Award, both in recognition of the environmental benefits of EcoSmart technology. Mr. Balakrishnan has an M.S.E.E. from the University of California, Los Angeles, and a B.S.E.E. from Bangalore University, India. He has also completed the Directors Certification Program at the University of California, Los Angeles.

William George, Ph.D., age 73, has served as a director of Power Integrations since March 2009. A veteran of the semiconductor industry, Dr. George served as a director of Silicon Image, Inc., a designer and developer of mixed-signal integrated circuits, from 2005 until its acquisition in March 2015. He also served on the board of Ramtron International Corporation from 2005 to 2012, a leading supplier of integrated circuits enabled by ferroelectric random access memory (FRAM). At both Ramtron and Silicon Image, he served on audit, compensation and nominating and governance committees.

From 1999 until 2007, Dr. George was the executive vice president of operations at ON Semiconductor, a supplier of performance power solutions, where he was responsible for internal and external manufacturing, supply chain, planning, quality and technology development. From 2007 through his retirement in 2008 he directed the start-up of ON Semiconductor's foundry services business. From 1991 to 1994, Dr. George was assigned by Motorola to Sematech Consortium, an alliance of leading American semiconductor companies formed in 1987 to restore American competitiveness in semiconductor manufacturing. At Sematech he served as the executive vice president and chief operating officer, with responsibility for operations, business development, marketing, member liaison, and strategic planning. From 1968 until 1999, Dr. George was employed by Motorola, Inc., and served as corporate vice president and director of manufacturing for Motorola's semiconductor components group from June 1997 until July 1999, with responsibility for manufacturing operations, quality, and technology development. He has extensive experience in the analog semiconductor field, including foundry management, packaging and test services.

Dr. George is a member of the Sandia National Laboratories Research Advisory Board. He received a B.S. degree in Metallurgical Engineering from the University of Oklahoma and a Ph.D. in Materials Science from Purdue University. Steven J. Sharp, age 74, has served as a director of Power Integrations since 1988, and served as non-executive chairman of the board from May 2006 to April 2011. Mr. Sharp served as Power Integrations' interim chief executive officer during its first year in 1988. A 55 year veteran of the semiconductor industry, Mr. Sharp served as a member of the board of directors of TriQuint Semiconductor, Inc., a manufacturer of semiconductor components, from 1991 until its acquisition at the beginning of 2015. He

also served on the boards of Pixelworks Inc., a publicly traded fabless semiconductor company supplying graphics integrated circuits used in projectors, monitors and TVs, and Megatest, a publicly traded company that designed, manufactured, marketed and serviced automatic test equipment for the integrated circuit industry. Mr. Sharp has previously served on all the committees of each board of directors on which he has served.

Mr. Sharp was president and chief executive officer of TriQuint Semiconductor from September 1991 until July 2002. Prior to TriQuint, Mr. Sharp was associated with various venture capital and start-up semiconductor firms, helping start Crystal Semiconductor (now Cirrus Logic, Inc.), Gazelle Microcircuits, Inc. (now TriQuint), Megatest Corporation (now Teradyne, Inc.) and Volterra Semiconductor Corporation. In 1989, he also founded Silicon Architects, Inc. (since acquired by Synopsys, Inc.) Mr. Sharp's extensive engineering and management experience in the analog semiconductor field also includes 23 years with Texas Instruments and Philips. Mr. Sharp also has extensive experience in mergers and acquisitions, having been involved in approximately 20 transactions, as well as public and private financings.

Mr. Sharp has a B.S. degree in Mechanical Engineering from Southern Methodist University, an M.S.E.S from the California Institute of Technology, and an M.B.A. from Stanford University. He has also attended director training at Harvard University.

#### THE BOARD RECOMMENDS

#### A VOTE IN FAVOR OF EACH NAMED NOMINEE

#### Independence of the Board

As required under the NASDAQ Stock Market ("NASDAQ") listing standards, a majority of the members of our Board must qualify as "independent," as affirmatively determined by our Board. The Board consults with Power Integrations' counsel to ensure that the Board's determinations are consistent with all relevant securities laws and other laws and regulations regarding the definition of "independent," including those set forth in pertinent listing standards of NASDAQ, as in effect from time to time.

Consistent with these considerations, after review of all relevant identified transactions or relationships between each director, or any of his family members, and Power Integrations, its senior management and its independent registered public accounting firm, the Board affirmatively has determined that all of the directors, other than Mr. Balakrishnan, our president and chief executive officer, are independent directors within the meaning of the applicable NASDAQ listing standards. In making this determination, the Board found that none of the directors or nominees for director other than Mr. Balakrishnan had a material or other disqualifying relationship with Power Integrations. Mr. Balakrishnan, by virtue of being Power Integrations' president and chief executive officer, is not an independent director.

#### Information Regarding the Board and Its Committees

The Board has adopted corporate governance guidelines to help assure that the Board will have the necessary authority and practices in place to make decisions that are independent of Power Integrations' management. The guidelines are also intended to align the interests of directors and management with those of Power Integrations' stockholders. The corporate governance guidelines set forth the practices the Board will follow with respect to, among other things, Board composition and selection, Board meetings, executive officer succession planning, Board committees, compensation, director stock ownership and director education and orientation. The corporate governance guidelines are available on our website: [www.power.com](http://www.power.com).

The Board has an Audit Committee, a Compensation Committee and a Nominating and Governance Committee. The following table provides membership information and meeting information for 2015 for each of the Audit, Compensation and Nominating and Governance Committees:

| Name                   | Audit | Compensation | Nominating and Governance |
|------------------------|-------|--------------|---------------------------|
| Alan D. Bickell        | X     | X            | †                         |
| Nicholas E. Brathwaite |       |              | X                         |
| William L. George      | X     | X            |                           |
| Balakrishnan S. Iyer   | X     | †            | X                         |

|                             |   |   |   |   |
|-----------------------------|---|---|---|---|
| E. Floyd Kvamme             |   | X | X | † |
| Total meetings in year 2015 | 8 | 4 | 2 |   |

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Committee Chairman.

9

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Below is a description of each committee of the Board. Each of the committees has authority to engage legal counsel or other experts or consultants, as it deems appropriate to carry out its responsibilities. The Board has determined that each member of each committee meets the applicable rules and regulations regarding “independence” and that each member is free of any relationship that would interfere with his individual exercise of independent judgment with regard to Power Integrations.

#### Audit Committee

The Audit Committee of the Board oversees Power Integrations’ corporate accounting and financial reporting process. For this purpose, the Audit Committee performs several functions, including:

- evaluates the performance of and assesses the qualifications of the independent registered public accounting firm;
- determines and approves the engagement of the independent registered public accounting firm;
- determines whether to retain or terminate the existing independent registered public accounting firm or to appoint and engage a new independent registered public accounting firm;
- reviews and approves the retention of the independent registered public accounting firm to perform any proposed permissible non-audit services;
- monitors the rotation of partners of the independent registered public accounting firm on Power Integrations’ audit engagement team as required by law;
- confers with management and the independent registered public accounting firm regarding the effectiveness of internal controls over financial reporting;
- establishes procedures, as required under applicable law, for the receipt, retention and treatment of complaints received by Power Integrations regarding accounting, internal accounting controls or auditing matters and the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters;
- meets to review Power Integrations’ annual audited financial statements and quarterly financial statements with management and the independent registered public accounting firm;
- reviews and, if it determines appropriate, approves related person transactions;
- reviews and discusses with management and, as appropriate, the independent auditor, the company’s major financial risk exposures and the steps taken by management to monitor and control these exposures; and
- adopts procedures for monitoring and enforcing compliance with the Code of Business Conduct and Ethics.

As of the date of this proxy statement, three directors compose the Audit Committee: Messrs. Bickell and Iyer and Dr. George. The Board has adopted a written Audit Committee Charter which can be found on our website at [www.power.com](http://www.power.com).

The Board annually reviews the NASDAQ listing standards definition of independence for Audit Committee members and has determined that all members of Power Integrations’ Audit Committee are independent (as independence is currently defined in Rule 5605(c)(2)(A)(i) and (ii) of the NASDAQ listing standards). The Board has determined that each member of the Audit Committee qualifies as an “audit committee financial expert,” as defined in applicable SEC rules. The Board made a qualitative assessment of each member’s level of knowledge and experience based upon his extensive experience as set forth above in each of their respective biographies, including as a senior executive officer with financial oversight functions.

#### Compensation Committee

The Compensation Committee of the Board reviews and approves the overall compensation strategy and policies for Power Integrations. For this purpose, the Compensation Committee performs several functions, including:

- with respect to the chief executive officer, reviews and approves all compensation, including incentive-based compensation and equity compensation awards while seeking to achieve an appropriate level of risk and reward, and
- develops and reviews annual performance objectives and goals relevant to compensation and awards and evaluates the performance of the chief executive officer in light of these goals and objectives;
- reviews incentive-based compensation plans in which our executive officers participate, and determines the salaries, incentive and equity compensation for executive officers, and oversees the evaluation of management;

approves all employment, severance, or change-in-control agreements, special or supplemental benefits, or provisions including the same, applicable to executive officers;  
proposes the adoption, amendment, and termination of stock option plans, stock appreciation rights plans, retirement and profit sharing plans, stock bonus plans, stock purchase plans, bonus plans, deferred compensation plans, and other similar programs;

10

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grants rights, participation and interests in our compensation plans to eligible participants;  
approves and periodically reviews the salary, bonus and equity award ranges for non-executive officers and other employees, and authorizes the chief executive officer to approve compensation levels for such non-executive officers and other employees within such ranges;  
reviews and approves such other compensation matters as the Board or the chief executive officer wishes to have the Compensation Committee approve;  
reviews and recommends to the Board the compensation to be paid to our non-employee directors for their service on the Board and its committees and any changes thereto, other than compensation received pursuant to automatic equity award grants under stockholder approved equity compensation plans;  
reviews with management the Compensation Discussion and Analysis (included in this proxy statement) and considers whether to recommend that it be included in proxy statements and other filings;  
reviews and evaluates the results of advisory votes of the company's stockholders regarding executive compensation; and  
reviews with the chief executive officer the plans for succession to the offices of Power Integrations' executive officers and makes recommendations to be considered by the Board with respect to the selection of appropriate individuals to succeed to those positions.

As of the date of this proxy statement, three directors compose the Compensation Committee: Messrs. Bickell, Kvamme and Dr. George. All members of Power Integrations' Compensation Committee are independent (as independence is currently defined in Rule 5605(a)(2) of the NASDAQ listing standards). The Board has adopted a written Compensation Committee Charter, which can be found on our website at [www.power.com](http://www.power.com).

#### Compensation Committee Processes and Procedures

The Compensation Committee of the Board determines all compensation for our executive officers, including our chief executive officer. The Compensation Committee also administers our compensation plans, including equity incentive plans, and makes recommendations to the Board regarding the adoption, amendment, and termination of these compensation plans. The Compensation Committee also analyzes, considers and recommends to the Board the compensation to be paid to our non-employee directors for their service on the Board and its committees, other than compensation received pursuant to automatic equity award grants under stockholder-approved equity compensation plans.

The Compensation Committee has the authority to obtain advice or assistance from consultants, legal counsel, accounting or other advisors as appropriate, to perform its duties, and to determine the terms, costs and fees for such engagements, which are paid for by Power Integrations. The Compensation Committee also has full access to all books, records, facilities and personnel of Power Integrations. The Compensation Committee may from time to time delegate duties or responsibilities to subcommittees or to one member of the Compensation Committee.

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

Our chief executive officer, Mr. Balakrishnan, reviews with the Compensation Committee on a regular basis our compensation philosophy and programs, including the compensation of the named executive officers, so that the Compensation Committee can recommend any changes necessary to keep our compensation philosophy and programs aligned with our business objectives. Mr. Balakrishnan makes recommendations to the Compensation Committee with respect to the compensation of the named executive officers. The Compensation Committee also utilizes an outside compensation consultant to provide it with advice on competitive compensation plans. The Compensation Committee considers, but is not bound to and does not always accept, management's or the outside consultant's recommendations with respect to executive compensation. The Compensation Committee discusses Mr. Balakrishnan's compensation with him, but deliberates and makes decisions with respect to Mr. Balakrishnan's compensation without him present. Mr. Balakrishnan and other executive officers attend some of the Compensation Committee's meetings, but leave the meetings as appropriate when matters of executive compensation specific to them are discussed.

In 2015, the Compensation Committee engaged an independent compensation consulting firm, Meyercord & Associates, Inc. ("Meyercord"), to assist in the analysis of compensation survey data. Meyercord attended Compensation Committee meetings from time to time and provided peer group analysis, feedback and recommendations to the Compensation Committee on executive compensation and director compensation. Meyercord was instructed to review compensation at peer companies for the named executive officers and the company's directors, and to give comments and recommendations based on that review. Meyercord was

also expected to use its experience with the company and other similar companies and to apply judgment based on that experience. In addition to survey data, the Compensation Committee analyzes information reported in peer companies' SEC filings for all elements of compensation, including salary, cash incentive compensation and equity compensation. The Compensation Committee reviews on at least an annual basis the six factors required by NASDAQ to be reviewed by the Compensation Committee regarding the compensation consultant prior to receiving advice from the compensation consultant.

Subject to business needs, the Compensation Committee's policy is to grant option awards or restricted stock units (RSUs) to certain new employees on the first trading day of the month following the date of hire. In addition, we make grants of annual options, performance stock units and restricted stock units to continuing non-executive employees on the first day the company's common stock trades on the Nasdaq Global Select Market in April of such year, and the Compensation Committee makes grants to executive officers on the date of Compensation Committee action with respect to performance stock units and restricted stock units, and generally on the third trading day after announcement of our financial results for the fourth quarter of the prior fiscal year with respect to stock options. All option grants are set at the closing price on the date of grant.

Our Board determines outside director compensation, after receiving the recommendations from the Compensation Committee and the same independent consultant engaged by the Compensation Committee and used by the Compensation Committee in connection with determining executive officer compensation.

A further description of the Compensation Committee processes and procedures and the specific determinations of the Compensation Committee with respect to executive compensation for fiscal year 2015 are described in greater detail in the Compensation Discussion and Analysis section of this proxy statement.

#### Nominating and Governance Committee

The Nominating and Governance Committee of the Board is responsible for recommending the nomination of directors to the Board and for establishing and monitoring our corporate governance. For this purpose, the Nominating and Governance Committee performs several functions, including:

- evaluates and recommends to the Board director nominees for each election of directors;
- determines criteria for selecting new directors, including desired board skills and attributes, and identifies and actively seeks individuals qualified to become directors;
- reviews and makes recommendations to the Board concerning qualifications and the appointment and removal of committee members;
- develops, recommends for Board approval, and reviews on an ongoing basis the adequacy of Power Integrations' corporate governance principles;
- reviews, discusses and assesses the performance of the Board, including Board committees; and
- considers Board nominees and proposals submitted by stockholders or proposals to be submitted by the company to the company's stockholders regarding corporate governance matters and makes recommendations to the Board regarding such matters, and establishes any policies, processes and procedures, including procedures to facilitate stockholder communication with the Board.

The Board has adopted a written Nominating and Governance Committee Charter, which can be found on our website at [www.power.com](http://www.power.com). As of the date of this proxy statement, three directors compose the Nominating and Governance Committee: Messrs. Brathwaite, Iyer and Kvamme. All members of the Nominating and Governance Committee are independent (as independence is currently defined in Rule 5605(a)(2) of the NASDAQ listing standards).

In considering whether to recommend any candidates for inclusion in the Board's slate of recommended director nominees, including candidates recommended by stockholders, the Nominating and Governance Committee applies the criteria set forth in Power Integrations' Corporate Governance Guidelines. These criteria include the candidate's ability to read and understand financial statements, age, personal integrity and ethics, relevant expertise upon which to be able to offer advice and guidance to management, having sufficient time to devote to the affairs of the company, demonstrated experience in his or her field, ability to exercise sound business judgment, and having the commitment to rigorously represent the long-term interests of the company's stockholders. In addition, when conducting its assessment, the Nominating and Governance Committee considers any criteria for director qualifications set by the

Board, as well as diversity, skills, and such other factors as it deems appropriate given the current needs of the Board and the company to maintain a balance of knowledge, experience and capability. When considering diversity, the Board and Nominating and Governance Committee views “diversity” as diversity of experience and expertise. The Board and Nominating and Governance Committee believe that having a Board diverse in experience and expertise enables the Board, as a body, to have the broad range of requisite expertise and experience to guide the company and management and to fulfill its role of oversight and stewardship. However, neither the Board nor the Nominating and Governance Committee has developed a policy

with respect to diversity in identifying nominees for director, other than as set forth in the Corporate Governance Guidelines to consider diversity when assessing nominees.

In the case of incumbent directors whose terms of office are set to expire, the Nominating and Governance Committee reviews such directors' overall service to the company during their term, including the number of meetings attended, level of participation, quality of performance, and any other relationships and transactions that might impair such directors' independence. In the case of new director candidates, the Nominating and Governance Committee also determines whether the nominee should be independent for NASDAQ purposes, which determination is based upon applicable NASDAQ listing standards, applicable SEC rules and regulations and the advice of counsel, if necessary. The Nominating and Governance Committee does not assign specific weights to particular criteria and no particular criterion is necessarily applicable to all prospective nominees. The Nominating and Governance Committee then uses its network of contacts to compile a list of potential candidates, but may also engage, if it deems appropriate, a professional search firm. The Nominating and Governance Committee conducts any appropriate and necessary inquiries into the backgrounds and qualifications of possible candidates after considering the function and needs of the Board. The Nominating and Governance Committee meets to discuss and consider such candidates' qualifications and then recommends a nominee to the Board by majority vote.

To date, the Nominating and Governance Committee has not paid a fee to any third party to assist in the process of identifying or evaluating director candidates. To date, the Nominating and Governance Committee has not received a timely recommended director nominee from a stockholder or stockholders holding more than 5% of our voting stock. The Nominating and Governance Committee will consider director candidates recommended by stockholders who demonstrate, by written documentation, satisfactory to the Nominating and Governance Committee, that such stockholders hold outstanding shares of the company. The Nominating and Governance Committee does not intend to alter the manner in which it evaluates candidates, including the minimum criteria set forth above, based on whether the candidate was recommended by a stockholder or not. Stockholders who wish to recommend individuals for consideration by the Nominating and Governance Committee to become nominees for election to the Board in 2017 may do so by delivering a written recommendation to the Nominating and Governance Committee at the following address: 5245 Hellyer Avenue, San Jose, California 95138-1002 by January 1, 2017. Submissions must include the full name of the proposed nominee, a description of the proposed nominee's business experience for at least the previous five years, complete biographical information, and a description of the proposed nominee's qualifications as a director. Any such submission must be accompanied by the written consent of the proposed nominee to be named as a nominee and to serve as a director if elected.

#### Board Leadership Structure

As set forth in Power Integrations' Corporate Governance Guidelines, the Board's leadership structure shall be either (a) a separate Chairman of the Board and Chief Executive Officer, or (b) a Chairman of the Board and Chief Executive Officer who is the same person, together with a Lead Independent Director; the Nominating and Governance Committee determined that either of these structures is appropriate for Power Integrations as each provides for an independent director to take the functional role where it is appropriate for an independent director to fulfill that function. Currently, the Chairman of the Board and Chief Executive Officer are separate persons.

#### Role of the Board in Risk Oversight

The Board has an active role, as a whole and also at the committee level, in overseeing management of the company's risks. The Board regularly reviews information regarding the company's credit, liquidity and operations, as well as the risks associated with each. The Audit Committee's charter mandates the Audit Committee to review and discuss with management, and the company's independent registered public accounting firm, as appropriate, the company's major financial risk exposures and the steps taken by management to monitor and control these exposures. The Compensation Committee is responsible for overseeing the management of risks relating to the company's executive compensation plans and arrangements. The Nominating and Governance Committee manages risks associated with the independence of the Board and potential conflicts of interest. While each committee is responsible for evaluating certain risks and overseeing the management of such risks, the entire Board is regularly informed through committee reports about such risks.

#### Compensation Policies and Practices as They Relate to Risk Management

With the help of the Compensation Committee's independent compensation consulting firm, Meyercord and Associates, Inc., the Compensation Committee has reviewed the company's compensation policies and practices as they relate to risk management for all employees, including executive officers. The compensation policies and practices reviewed by the Compensation Committee included: 1) annual base salaries; 2) the 2016 Bonus Plan; 3) equity incentive awards under the 2007

Equity Incentive Plan; 4) the Employee Stock Purchase Plan; and 5) the Executive Officer Benefits Agreements with the company's executive officers. Following such review, the Compensation Committee determined that risks arising from the company's compensation policies and practices for its employees are not reasonably likely to have a material adverse effect on the company. In coming to this conclusion, the Compensation Committee also considered the mitigating effects of the company's compensation "claw-back" policy which conditions the earning and payment of any cash or stock bonuses to executive officers on an agreement to repay a portion of such bonuses in the event of a restatement resulting from intentional misconduct by such officers.

#### Meetings of the Board

The Board met five times in 2015. All directors attended at least 75% of the aggregate number of the meetings of the Board and the committees on which they served, held during the portion of the last fiscal year for which they were directors or committee members in 2015.

As required under applicable NASDAQ listing standards, in fiscal year 2015, Power Integrations' independent directors met in regularly scheduled executive sessions at which only independent directors were present.

#### Stockholder Communications with the Board

Power Integrations' Board has adopted a formal process by which stockholders may communicate with the Board or any of its directors. Stockholders who wish to communicate with the Board may do so by sending written communications addressed as follows: Power Integrations Board Communication, 5245 Hellyer Avenue, San Jose, California 95138-1002. Any communication sent must state the number of shares owned by the stockholder making the communication. The communications will be reviewed by the Chairman of the Board. The Chairman of the Board will forward such communication to the Board or to any individual director to whom the communication is addressed unless the communication is unduly frivolous, hostile, threatening or similarly inappropriate, in which case, the Chairman of the Board shall discard the communication.

#### Code of Business Conduct and Ethics

Power Integrations has adopted the Power Integrations, Inc. Code of Business Conduct and Ethics, which applies to all officers, directors and employees. The Code of Business Conduct and Ethics can be found on our website, [www.power.com](http://www.power.com), and is available in print to any stockholder who requests it. Requests for printed copies of the Code of Business Conduct and Ethics can be made by writing to Attn: Investor Relations Department, Power Integrations, Inc., 5245 Hellyer Avenue, San Jose, California 95138-1002.

#### Board Stock Ownership Guidelines

Pursuant to Power Integrations' Corporate Governance Guidelines and to align the interests of the company's directors with the interests of the company's stockholders, the Board believes that directors should have a significant financial stake in the company. Accordingly, the Board believes that each director who has served on the Board for three years (excluding service prior to the date of adoption of the Board's stock ownership guidelines) should own not less than 1,000 shares of the company's common stock. At its discretion, the Board may evaluate whether this requirement should be waived in the case of any director, who, because of his or her personal circumstances, would incur a hardship by complying with this requirement. Currently all members of the Board own at least the required minimum of 1,000 shares of our common stock.

#### Chief Executive Officer Stock-Ownership Guidelines

Pursuant to Power Integrations' Corporate Governance Guidelines and to align the interests of our chief executive officer with the interests of the company's stockholders, the Board believes that a chief executive officer should have a significant financial stake in the company. Accordingly, the Board believes that our chief executive officer who has served as such for five years (excluding service prior to the date of adoption of the chief executive officer stock ownership guidelines) should own an aggregate number of shares of our common stock that shall have a value equal to or exceeding the chief executive officer's then current annual base salary. At its discretion, the Board may evaluate whether this requirement should be waived in the case of a chief executive officer, who, because of his or her personal circumstances, would incur a hardship by complying with this requirement, including as a result of a decrease in the value of our common stock.

In addition to the stock options, RSUs and PSUs held by Balu Balakrishnan, Mr. Balakrishnan also owns an aggregate of 440,584 shares of our common stock outright, including through his personal trust, which has a value as of March 11, 2016 of approximately \$21.3 million.

#### Executive Officer Stock Ownership

Although we do not have minimum mandatory stock ownership guidelines for our executive officers other than our chief executive officer, the structure of our compensation programs act as a functional equivalent of minimum stock ownership requirements, as our executive officers: (1) hold unvested stock options to acquire our common stock, which options cannot be exercised and the underlying common stock cannot be sold until such stock vests; (2) our executive officers hold unvested restricted stock units, or RSUs, which entitle the executive officers to receive shares of our common stock in the future upon vesting (unvested RSUs as of March 11, 2016, for the company's named executive officers were as follows: 121,575 shares for Mr. Balakrishnan; 29,599 shares for Mr. Nayyar; 23,475 shares for Mr. Walker; 24,078 shares for Mr. Barsan; and 20,806 shares for Mr. Petrakian; and (3) our executive officers hold unvested performance stock units, or PSUs, and long-term performance stock units, or PRSUs, which entitle the executive officer to receive shares of our common stock in the future upon vesting which occurs upon achieving established performance metrics (currently collectively 108,200 shares for Mr. Balakrishnan; 27,700 shares for Mr. Nayyar; 21,800 shares for Mr. Walker; 22,000 shares for Mr. Barsan; and 18,596 shares for Mr. Petrakian).

#### Minimum Vesting Periods for Executive Officer Equity Grants

Although we do not have minimum mandatory vesting periods for equity grants made to our executive officers, our historical practice, and the practice our Compensation Committee fully intends to continue in the future, is to have vesting periods on our equity grants as follows: (1) for stock options, vesting over four years with 25% of the shares subject to the stock option vesting on the first anniversary of the date of grant and the remainder vesting in equal monthly installments over the next three years; (2) for RSUs, vesting over four years with 25% of the shares subject to the RSU vesting on each of the first four anniversaries of the date of grant; (3) for PSUs, vesting after one year, but only to the extent that the performance metrics for the PSUs are met; and (4) for PRSUs vesting after three years, but only to the extent that the performance metrics for the PRSUs are met.

#### Minimum Vesting Periods for Director Equity Grants

Directors who are not employees of Power Integrations each receive an annual equity compensation grant, which consists entirely of RSUs or entirely of options, at such director's election, that vests in full effective immediately prior to the commencement of the company's first annual meeting of stockholders in the year following the year of the annual grant, provided that the recipient is still providing services to the company as a director. A new eligible director generally would receive a similar grant pro-rated to the remaining portion of the year prior to the next annual grants of equity awards to non-employee directors.

#### Prohibition on Hedging

Our Board has adopted a policy that prohibits directors, executive officers and other "insiders" from engaging in short sales, transactions in put or call options, hedging transactions or other inherently speculative transactions with respect to our common stock at any time.

**PROPOSAL 2  
ADVISORY VOTE ON EXECUTIVE COMPENSATION**

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, and Section 14A of the Exchange Act, Power Integrations' stockholders are entitled to vote to approve, on an advisory basis, the compensation of the company's named executive officers as disclosed in this proxy statement in accordance with SEC rules. This vote is not intended to address any specific item of compensation, but rather the overall compensation of the company's named executive officers and the philosophy, policies and practices described in this proxy statement. The compensation of the company's named executive officers subject to the vote is disclosed in the Compensation Discussion and Analysis, the compensation tables, and the related narrative disclosure contained in this proxy statement. As discussed in those disclosures, the company believes that its compensation policies and decisions are focused on pay-for-performance principles, strongly aligned with our stockholders' interests and consistent with current market practices. Compensation of the company's named executive officers is designed to enable the company to attract and retain talented and experienced executives to lead the company successfully in a competitive environment.

Our executive compensation program has been designed to retain and encourage a talented, motivated and focused executive team by providing competitive compensation within our market. We believe that our executive compensation program provides an appropriate balance between salary and "at-risk" forms of variable incentive compensation, as well as a mix of incentives that encourage executive focus on both short- and long-term goals as a company without encouraging inappropriate risks to achieve performance.

Highlights of our program include:

A mixture of salary and variable incentive compensation that provides for a substantial portion of executive compensation to be "at-risk" and dependent on our performance as a company which aligns the interests of executive officers with those of the company's stockholders;

Long-term, equity-based incentive compensation to align the interests of executive officers with stockholders and to provide each executive officer with an incentive to manage the company from the perspective of an owner with an equity stake in the business; and

A compensation "claw-back" policy which conditions the earning and payment of any cash or stock bonuses to executive officers on an agreement to repay a portion of such bonuses in the event of a restatement resulting from intentional misconduct by such officers.

Accordingly, the Board is asking the stockholders to indicate their support for the compensation of the company's named executive officers as described in this proxy statement by casting a non-binding advisory vote "FOR" the following resolution:

"RESOLVED, that the compensation paid to the Power Integrations' named executive officers, as disclosed in the proxy statement pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion, is hereby APPROVED."

Because the vote is advisory, it is not binding on the Board or the company. Nevertheless, the views expressed by the stockholders, whether through this vote or otherwise, are important to management and the Board and, accordingly, the Board and the Compensation Committee intend to consider the results of this vote in making determinations in the future regarding executive compensation arrangements.

Advisory approval of this proposal requires the vote of the holders of a majority of the shares present in person or represented by proxy and voting on this proposal at the Annual Meeting. Abstentions and broker non-votes will have no effect.

**THE BOARD RECOMMENDS  
A VOTE IN FAVOR OF PROPOSAL 2**



### PROPOSAL 3

#### APPROVAL OF 2016 INCENTIVE AWARD PLAN

We are requesting that the stockholders approve the adoption of the Power Integrations, Inc. 2016 Incentive Award Plan, which we refer to as the 2016 Plan. On March 17, 2016, the Board adopted the 2016 Plan, subject to stockholder approval.

The Board adopted the 2016 Plan to provide a means to continue to offer a competitive equity compensation program to secure and retain the services of high-caliber employees, directors, and consultants of our company and its affiliates, to provide a means by which these eligible individuals may be given an opportunity to benefit from increases in the value of the common stock through the grant of stock awards, and to thereby align the long-term compensation and interests of those individuals with our stockholders.

Approval of the 2016 Plan will allow us to continue to grant equity-based awards at levels determined appropriate by our Board and Compensation Committee. The 2016 Plan will allow us to utilize restricted stock units, performance stock units and performance cash awards to secure and retain the services of employees and consultants of the company and its affiliates as well as members of our Board, and to provide long term incentives that align the interests of these individuals with the interests of our stockholders.

In addition, the 2016 Plan is designed to further our stockholders' interests and to reflect corporate governance best practices including:

• Stockholder approval is required for additional shares. The 2016 Plan authorizes a fixed number of shares, so that stockholder approval is required to issue any additional shares, allowing our stockholders to have direct input on our equity compensation programs. The 2016 Plan does not contain an "evergreen" feature pursuant to which the shares authorized for issuance under the 2016 Plan can be automatically replenished.

• No automatic single trigger vesting. The 2016 Plan does not provide for automatic single trigger vesting on a change in control.

• No automatic grants. The 2016 Plan does not provide for any automatic grants to employees, consultants or directors.

• Limit on director compensation. The 2016 Plan contains an annual limit on director compensation (both cash and equity-based) to reflect our commitment to current best practices in corporate governance.

Approval of the 2016 Plan by our stockholders is also required to ensure that performance-based stock units and performance-based cash awards granted under the 2016 Plan may qualify as "performance-based compensation" within the meaning of Section 162(m) of the Internal Revenue Code, which is referred to in this proxy statement as "Section 162(m)." Section 162(m) denies a deduction to any publicly held corporation and its affiliates for certain compensation paid to "covered employees" in a taxable year to the extent that compensation to a covered employee exceeds \$1 million. However, some kinds of compensation, including qualified "performance-based compensation," are not subject to this deduction limitation. For the grant of awards under a plan to qualify as "performance-based compensation" under Section 162(m), among other things, the plan must (i) describe the employees eligible to receive such awards, (ii) provide a per-person limit on the number of shares subject to various types of awards, and the amount of cash that may be subject to performance-based cash awards, granted to any employee under the plan in any year, and (iii) include one or more pre-established performance criteria upon which the performance goals for performance-based awards may be granted (or become vested or exercisable). These terms must be approved by the stockholders and, accordingly, our stockholders are requested to approve the 2016 Plan, which is described in more detail below.

We manage our long-term stockholder dilution by limiting the number of equity incentive awards granted annually. The Board monitors our annual stock award burn rate, dilution and overhang, among other factors, in its efforts to maximize stockholders' value by granting what, in the Board's judgment, are the appropriate number of equity incentive awards necessary to attract, reward, and retain employees, consultants and directors. The table below illustrates our burn rate, dilution, and overhang for the past three fiscal years with details of each calculation noted below the table.

|                 | 2015   | 2014   | 2013   |
|-----------------|--------|--------|--------|
| Burn Rate       | 1.62%  | 1.38%  | 1.60%  |
| Actual Dilution | 1.95%  | 2.26%  | 4.46%  |
| Overhang        | 13.46% | 16.39% | 19.81% |

(1) Burn Rate is (number of shares subject to equity awards granted during a fiscal year)/ number of shares outstanding at the end of the fiscal year).

(2) Actual Dilution is (number of options exercised during the fiscal year + number of RSUs released during the fiscal year)/(number of shares outstanding at the end of the fiscal year).

(3) Overhang is (number of shares subject to equity awards at the end of a fiscal year + number of shares available for future awards)/(number of shares outstanding at the end of the fiscal year + number of shares subject to equity awards + number of shares available for future awards).

Whether or not stockholders approve the 2016 Plan, our 2007 Equity Incentive Plan will continue to remain in effect. Under our 2007 Equity Incentive Plan, the number of shares available for issuance is reduced by: one (1) share for each share of stock issued pursuant to an option or a stock appreciation right granted, and two (2) shares for each share of common stock issued pursuant to a restricted stock award, restricted stock unit award, or other stock award granted. However, because only 2,146,225 shares of our common stock remained available for grant under the 2007 Equity Incentive Plan as of December 31, 2015 (equal to 1,073,112 shares available for stock awards), if our stockholders do not approve the 2016 Plan, our ability to use equity-based compensation to attract, retain and motivate our employees, directors and consultants in what is an extremely competitive hiring environment would be constrained.

The affirmative vote of the holders of a majority of the shares present, in person or represented by proxy and entitled to vote at the annual meeting, will be required to approve the 2016 Plan. Abstentions will be counted toward the tabulation of votes cast on proposals presented to the stockholders and will have the same effect as negative votes. Broker non-votes are counted towards a quorum, but are not counted for any purpose in determining whether this matter has been approved.

#### THE BOARD RECOMMENDS A VOTE IN FAVOR OF PROPOSAL 3

The terms and provisions of the 2016 Plan are summarized below. This summary, however, does not purport to be a complete description of the 2016 Plan. The 2016 Plan has been filed with the SEC as an Appendix to this proxy statement and may be accessed from the SEC's homepage at [www.sec.gov](http://www.sec.gov). The following summary is qualified in its entirety by reference to the complete text of the 2016 Plan. Any stockholder that wishes to obtain a copy of the actual plan document may do so by written request to Power Integrations' Secretary at 5245 Hellyer Avenue, San Jose, California 95138-1002.

The following is a summary of the material features of the 2016 Plan:

#### General

**Eligible Award Recipients.** Members of our Board and employees and consultants of the company and its affiliates are eligible to participate in the 2016 Plan. As of March 1, 2016, we have 593 employees (including nine officers), six non-employee directors and no consultants who are eligible to participate in the 2016 Plan.

Available Awards. The Plan provides for the grant of restricted stock unit awards, performance stock unit awards and performance cash awards. No other forms of equity-based awards, including stock options and stock appreciation rights, may be granted under the Plan.

Purpose. The 2016 Plan is intended to help the company secure and retain the services of eligible award recipients and provide incentives for these individuals to exert maximum efforts for the success of the company and its affiliates.

#### Administration

The Board administers the 2016 Plan. The Board may delegate administration of the 2016 Plan to a committee or committees of our Board (each, a “Committee”). The Board may also delegate to one or more officers the ability to decide certain

terms of some awards to non-officers within parameters determined by the Board in accordance with the 2016 Plan. Subject to the provisions of the 2016 Plan, the Board has the authority to determine who will be granted awards; when and how each award will be granted; what type of award will be granted; the provisions of each award, including when a person will be permitted to receive cash or common stock under the award; the number of shares of common stock subject to, or the cash value of, an award; and the fair market value applicable to an award. The Board also has the power to construe and interpret the 2016 Plan, settle controversies under the Plan, accelerate the vesting of awards, approve forms of award agreements under the 2016 Plan and adopt procedures relating to the 2016 Plan. All determinations, interpretations and constructions made by the Board in good faith will not be subject to review by any person and will be final, binding and conclusive on all persons.

#### Shares Subject to the 2016 Plan

**Share Reserve.** The aggregate number of shares of common stock of the company that may be issued pursuant to awards from and after the effective date will not exceed one million five hundred thousand (1,500,000) shares (the “Share Reserve”).

**Reversion of Shares to the Share Reserve.** If any shares of common stock issued pursuant to an award are forfeited back to the company because of the failure to meet a contingency or condition required to vest such shares in the participant, then the shares that are forfeited will revert to and again become available for issuance under the 2016 Plan. If any shares of common stock subject to an award are not delivered to a participant because such shares are withheld for the payment of taxes, the number of shares subject to the award that are not delivered to the participant will not remain available for subsequent issuance under the 2016 Plan.

**Section 162(m) Limitations.** Subject to the terms of the share reserve described above and the provisions relating to capitalization adjustments discussed below, to the extent required to comply with Section 162(m), the following limitations will apply.

- (i) A maximum of two hundred fifty thousand (250,000) shares of common stock subject to performance stock unit awards may be granted to any one participant during any one fiscal year; and
- (ii) A maximum of ten million dollars (\$10,000,000) may be granted as a performance cash award to any one participant during any one fiscal year.

Such limits are designed to allow us to grant awards that are exempt from the \$1 million limitation on the income tax deductibility of compensation paid per covered employee imposed by Section 162(m).

**Limitation on Grants to Non-Employee Directors.** The maximum number of shares subject to awards granted under this 2016 Plan or otherwise during a single fiscal year to any non-employee director, taken together with any cash fees paid to such non-employee director during the fiscal year, will not exceed three hundred thousand dollars (\$300,000) in total value (calculating the value of any such awards based on the grant date fair value of such stock unit awards for financial reporting purposes).

**Source of Shares.** The stock issuable under the 2016 Plan will be shares of authorized but unissued or reacquired common stock, including shares repurchased by the company on the open market or otherwise.

#### Eligibility

Awards may be granted to employees and consultants of the company and its affiliates, as well as members of the Board; provided, however, that awards may not be granted to employees, directors and consultants who are providing

continuous service only to any “parent” of the company, as such term is defined in rule 405, unless (i) the stock underlying such awards is treated as “service recipient stock” under section 409A of the Code (for example, because the awards are granted pursuant to a corporate transaction such as a spin off transaction) or (ii) the company, in consultation with its legal counsel, has determined that such awards are otherwise exempt from (or, alternatively, comply with) the distribution requirements of section 409A of the Code.

#### Provisions of Awards

Restricted Stock Unit Awards. Each restricted stock unit award agreement will be in such form and will contain such terms and conditions as the Board deems appropriate. The terms and conditions of restricted stock unit award agreements may change from time to time, and the terms and conditions of separate restricted stock unit award agreements need not be identical. Each restricted stock unit award agreement will conform to (through incorporation of the provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

**Consideration.** At the time of grant of a restricted stock unit award, the Board will determine the consideration, if any, to be paid by the participant upon delivery of each share of common stock subject to the restricted stock unit award. The consideration to be paid (if any) by the participant for each share of common stock subject to a restricted stock unit award may be paid in any form of legal consideration that may be acceptable to the Board, in its sole discretion, and permissible under applicable law.

**Vesting.** At the time of the grant of a restricted stock unit award, the Board may impose such restrictions on or conditions to the vesting of the restricted stock unit award as it, in its sole discretion, deems appropriate.

**Payment.** A restricted stock unit award may be settled by the delivery of shares of common stock, their cash equivalent, any combination thereof or in any other form of consideration, as determined by the Board and contained in the restricted stock unit award agreement.

**Additional Restrictions.** At the time of the grant of a restricted stock unit award, the Board, as it deems appropriate, may impose such restrictions or conditions that delay the delivery of the shares of common stock (or their cash equivalent) subject to a restricted stock unit award to a time after the vesting of such restricted stock unit award.

**Dividend Equivalents.** Dividend equivalents may be credited in respect of shares of common stock covered by a restricted stock unit award, as determined by the Board and contained in the restricted stock unit award agreement. At the sole discretion of the Board, such dividend equivalents may be converted into additional shares of common stock covered by the restricted stock unit award in such manner as determined by the Board. Any additional shares covered by the restricted stock unit award credited by reason of such dividend equivalents will be subject to all of the same terms and conditions of the underlying restricted stock unit award agreement to which they relate.

**Termination of Participant's Continuous Service.** Except as otherwise provided in the applicable restricted stock unit award agreement, such portion of the restricted stock unit award that has not vested will be forfeited upon the participant's termination of continuous service.

**Performance Awards.**

**Performance Stock Unit Awards.** A performance stock unit award is a restricted stock unit award that is granted or vests contingent upon the attainment during a performance period of certain performance goals. A performance stock unit award may, but need not, require the participant's completion of a specified period of continuous service. The length of any performance period, the performance goals to be achieved during the performance period, and the measure of whether and to what degree such performance goals have been attained will be conclusively determined by the Committee (or, if not required for compliance with Section 162(m), the Board), in its sole discretion. In addition, to the extent permitted by applicable law and the applicable award agreement, the Board or Committee may determine that cash may be used in payment of performance stock unit awards.

**Performance Period.** The performance period will be the period of time selected by the Board or Committee over which the attainment of one or more performance goals will be measured for the purpose of determining a participant's right to, and the payment of, a performance unit award or a performance cash award. Performance periods may be of varying and overlapping duration, at the sole discretion of the Board or Committee.

**Performance Criteria.** The performance criteria under the 2016 Plan will be the one or more criteria that the Committee selects for purposes of establishing the performance goals for a performance period. The performance criteria that will be used to establish the performance goals may be based on any one of, or combination of, the following: (i) earnings (including earnings per share and net earnings); (ii) earnings before interest, taxes and depreciation; (iii) earnings before interest, taxes, depreciation and amortization; (iv) total stockholder return; (v) return

on equity or average stockholder's equity; (vi) return on assets, investment, or capital employed; (vii) stock price; (viii) margin (including gross or operating margin); (ix) income (before or after taxes); (x) operating income; (xi) operating income after taxes; (xii) pre-tax profit; (xiii) operating cash flow; (xiv) orders, sales or revenue targets; (xv) increases in revenue or product revenue; (xvi) expenses and cost reduction goals; (xvii) improvement in or attainment of working capital levels; (xviii) economic value added (or an equivalent metric); (xix) market share; (xx) cash flow; (xxi) cash flow per share; (xxii) share price performance; (xxiii) debt reduction; (xxiv) implementation or completion of projects or processes; (xxv) customer satisfaction; (xxvi) stockholders' equity; (xxvii) capital expenditures; (xxviii) debt levels; (xxix) operating profit or net operating profit; (xxx) workforce diversity; (xxxi) growth of net income or operating income; (xxxii) billings; (xxxiii) quality measures; and (xxxiv) to the extent that an award is not intended to comply with Section 162(m), other measures of performance selected by the Board or Committee.

Performance Goals. "Performance goals" means, for a performance period, the one or more goals established by the Committee or Board for the performance period based upon the performance criteria. Performance goals may be based on a

20

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Company-wide basis, with respect to one or more business units, divisions, Affiliates, or business segments, and in either absolute terms or relative to the performance of one or more comparable companies or the performance of one or more relevant indices. Unless specified otherwise by the Board or Committee (i) in the Award Agreement at the time the Award is granted or (ii) in such other document setting forth the performance goals at the time the performance goals are established, the Board or Committee will appropriately make adjustments in the method of calculating the attainment of performance goals for a performance period as follows: (1) to exclude restructuring and/or other nonrecurring charges; (2) to exclude exchange rate effects; (3) to exclude the effects of changes to generally accepted accounting principles; (4) to exclude the effects of any statutory adjustments to corporate tax rates; (5) to exclude the dilutive effects of acquisitions or joint ventures; (6) to assume that any business divested by the Company achieved performance objectives at maximum levels during the balance of a performance period following such divestiture; (7) to exclude the effect of any change in the outstanding shares of common stock of the company by reason of any stock dividend or split, stock repurchase, reorganization, recapitalization, merger, consolidation, spin-off, combination or exchange of shares or other similar corporate change, or any distributions to common stockholders other than regular cash dividends; (8) to exclude the effects of stock based compensation and the award of bonuses under the company's bonus plans; (9) to exclude costs incurred in connection with potential acquisitions or divestitures that are required to be expensed under generally accepted accounting principles; (10) to exclude the goodwill and intangible asset impairment charges that are required to be recorded under generally accepted accounting principles and (11) to exclude the effect of any other unusual, non-recurring gain or loss or any other adjustment made to arrive at the company's non-GAAP financial information as presented in the company's SEC filings. For all Awards intended to qualify as performance-based compensation under Section 162(m) of the Code, such determinations shall be made within the time prescribed by, and otherwise in compliance with, Section 162(m) of the Code.

**Performance Cash Awards.** A performance cash award is a cash award that is payable contingent upon the attainment during a performance period of certain performance goals. A performance cash award may also require the participant's completion of a specified period of continuous service. At the time of grant of a performance cash award, the length of any performance period, the performance goals to be achieved during the performance period, and the measure of whether and to what degree such performance goals have been attained will be conclusively determined by the Committee (or, if not required for compliance with Section 162(m), the Board), in its sole discretion.

**Discretion.** The Board or Committee retains the discretion to reduce or eliminate the compensation or economic benefit due upon attainment of performance goals and to define the manner of calculating the performance criteria it selects to use for a performance period.

**Section 162(m) Compliance.** Unless otherwise permitted in compliance with Section 162(m) with respect to an award intended to qualify as "performance-based compensation" thereunder, the Committee will establish the performance goals applicable to, and the formula for calculating the amount payable under, the award no later than the earlier of (A) the date ninety (90) days after the commencement of the applicable performance period, and (B) the date on which twenty-five percent (25%) of the performance period has elapsed, and in any event at a time when the achievement of the applicable performance goals remains substantially uncertain. Prior to the payment of any compensation under an award intended to qualify as "performance-based compensation" under Section 162(m), the Committee will certify the extent to which any performance goals and any other material terms under such award have been satisfied (other than in cases where the performance goals relate solely to the increase in the value of the common stock). Notwithstanding satisfaction or any completion of any performance goals, shares subject to awards, cash or other benefits granted, issued, retainable and/or vested under an award on account of satisfaction of such performance goals may be reduced by the Committee on the basis of any further considerations as the Committee, in its sole discretion, will determine.

**Withholding Obligations**

Unless prohibited by the terms of an award agreement, the company may, in its sole discretion, satisfy any federal, state or local tax withholding obligation relating to an award by any of the following means or by a combination of such means, accordance with the terms of the 2016 Plan: (i) causing the participant to tender a cash payment; (ii) withholding shares of common stock from the shares of common stock issued or otherwise issuable to the participant in connection with the award; (iii) withholding cash from an award settled in cash; (iv) withholding payment from any amounts otherwise payable to the participant; or (v) by such other method as may be set forth in the award agreement.

#### Adjustments Upon Changes in Common Stock; Other Corporate Events

Capitalization Adjustments. In the event of a capitalization adjustment (such as a merger, stock dividend, stock split and similar event), the Board will appropriately and proportionately adjust: (i) the class(es) and maximum number of securities subject to the 2016 Plan, (ii) the class(es) and maximum number of securities that may be awarded to any person, and (iii) the class(es)

and number of securities and price per share of stock subject to outstanding awards. The Board will make such adjustments, and its determination will be final, binding and conclusive.

**Dissolution.** Except as otherwise provided in the award agreement, in the event of a dissolution of the company, all outstanding awards (other than awards consisting of vested and outstanding shares of common stock not subject to a forfeiture condition or the company's right of repurchase) will terminate immediately prior to the completion of such dissolution, and the shares of common stock subject to the company's repurchase rights or subject to a forfeiture condition may be repurchased or reacquired by the company notwithstanding the fact that the holder of such award is providing continuous service, provided that the Board may, in its sole discretion, cause some or all awards to become fully vested and/or no longer subject to repurchase or forfeiture (to the extent such awards have not previously expired or terminated) before the dissolution is completed but contingent on its completion.

**Transactions.** The following provisions will apply to awards in the event of a transaction (as defined in the 2016 Plan), unless otherwise provided in the award agreement or any other written agreement between the company or any affiliate and the participant or unless otherwise expressly provided by the Board at the time of grant of an award. In the event of a transaction, the Board may take one or more of the following actions with respect to awards, contingent upon the closing or completion of the transaction:

- arrange for the surviving corporation or acquiring corporation (or the surviving or acquiring corporation's parent company) to assume or continue the award or to substitute a similar award for the award (including, but not limited to, an award to acquire the same consideration paid to the stockholders of the company pursuant to the transaction);

- arrange for the assignment of any reacquisition or repurchase rights held by the company in respect of common stock issued pursuant to the award to the surviving corporation or acquiring corporation (or the surviving or acquiring corporation's parent company);

- accelerate the vesting, in whole or in part, of the award to a date prior to the effective time of such transaction as the Board determines (or, if the Board does not determine such a date, to the date that is five days prior to the effective date of the Transaction);

- arrange for the lapse, in whole or in part, of any reacquisition or repurchase rights held by the company with respect to the award;

- cancel or arrange for the cancellation of the award, to the extent not vested prior to the effective time of the transaction, in exchange for such cash consideration or no consideration, as the Board, in its sole discretion, may consider appropriate; and

- make a payment, in such form as may be determined by the Board equal to the value of the property the participant would have received upon the settlement of the award immediately prior to the effective time of the transaction. Payments under this provision may be delayed to the same extent that payment of consideration to the holders of the common stock in connection with the Transaction is delayed as a result of escrows, earn outs, holdbacks or any other contingencies.

The Board need not take the same action or actions with respect to all awards or portions thereof or with respect to all participants. The Board may take different actions with respect to the vested and unvested portions of an award.

**Change in Control.** An award may be subject to additional acceleration of vesting upon or after a qualifying termination that occurs in connection with a change in control (as defined in the 2016 Plan) as may be provided in the award agreement for such award or as may be provided in any other written agreement between the company or any

affiliate and the participant, but in the absence of such provision, no such acceleration will occur.

#### Clawbacks

All Awards granted under the 2016 Plan will be subject to recoupment in accordance with any clawback policy that the company is required to adopt pursuant to the listing standards of any national securities exchange or association on which the company's securities are listed or as is otherwise required by the Dodd-Frank Wall Street Reform and Consumer Protection Act or other applicable law. In addition, the Board may impose such other clawback, recovery or recoupment provisions in an award agreement as the Board determines necessary or appropriate, including but not limited to a reacquisition right in respect of previously

acquired shares of common stock or other cash or property upon the occurrence of Cause (as defined in the 2016 Plan). No recovery of compensation under such a clawback policy will be an event giving rise to a right to resign for “good reason” or “constructive termination” (or similar term) under any agreement with the company.

#### Plan Term; Earlier Termination or Suspension of the Plan

**Suspension and Termination.** The Board may suspend or terminate the 2016 Plan at any time. Unless sooner terminated, the 2016 Plan will automatically terminate on the day before the tenth anniversary of the earlier of (i) the date the 2016 Plan is adopted by the Board, or (ii) the date the 2016 Plan is approved by the stockholders of the company. No awards may be granted under the 2016 Plan while the 2016 Plan is suspended or after it is terminated.

**No Impairment of Rights.** Suspension or termination of the 2016 Plan will not impair rights and obligations under any award granted while the 2016 Plan is in effect except with the written consent of the affected participant or as otherwise permitted in the 2016 Plan.

#### Summary of U.S. Federal Income Tax Consequences

The information set forth below is a summary only and does not purport to be complete. The information is based upon current federal income tax rules and therefore is subject to change when those rules change. Because the tax consequences to any recipient may depend on his or her particular situation, each recipient should consult the recipient’s tax adviser regarding the federal, state, local, and other tax consequences of the grant or exercise of an award or the disposition of stock acquired as a result of an award. The 2016 Plan is not qualified under the provisions of Section 401(a) of the Code and is not subject to any of the provisions of the employee Retirement Income Security Act of 1974. Our ability to realize the benefit of any tax deductions described below depends on our generation of taxable income as well as the requirement of reasonableness, the provisions of Section 162(m) and the satisfaction of our tax reporting obligations.

#### Restricted Stock Unit Awards and Performance Stock Unit Awards

Generally, the recipient of a restricted stock unit award or performance stock unit will recognize ordinary income at such time as the stock is delivered equal to the fair market value of the shares of our common stock received. Subject to the requirement of reasonableness, the provisions of Section 162(m) and the satisfaction of a tax reporting obligation, we will generally be entitled to a tax deduction equal to the taxable ordinary income realized by the recipient of the stock unit award.

#### Performance Cash Awards

The payment of a performance cash award will result in the recipient’s recognition of ordinary income equal to the dollar amount received. Subject to the requirement of reasonableness, the provisions of Section 162(m), and the satisfaction of a tax reporting obligation, we will generally be entitled to a tax deduction equal to the taxable ordinary income realized by the recipient of the cash award.

#### New Plan Benefits

All future grants under the 2016 Plan are within the discretion of the plan administrator and are therefore not determinable.

#### PROPOSAL 4

APPROVAL OF THE AMENDMENT AND RESTATEMENT OF THE 1997 EMPLOYEE STOCK PURCHASE PLAN

Our Board is requesting stockholder approval of an amendment and restatement of our 1997 employee Stock Purchase Plan, also referred to as the Purchase Plan, to increase the maximum number of shares of common stock that may be issued under the Purchase Plan by 500,000 shares and to make certain other non-material changes to the Purchase Plan. The Board approved the amendment and restatement of the Purchase Plan on March 17, 2016, subject to stockholder approval. Our stockholders have previously approved the reservation of 3,000,000 shares of our common stock for purchase by employees under the Purchase Plan. As of December 31, 2015, a total of 191,735 shares remain available for future purchases, without giving effect to the proposed amendment and restatement. The Purchase Plan, as amended and restated, has been filed with the SEC as an Appendix to this proxy statement and may be accessed from the SEC's website at [www.sec.gov](http://www.sec.gov).

We manage our long-term stockholder dilution by limiting the number of equity incentive awards granted annually. The Board monitors our annual stock award burn rate, dilution and overhang, among other factors, in its efforts to maximize stockholders'

value by granting what, in the Board’s judgment, are the appropriate number of equity incentive awards necessary to attract, reward, and retain employees, consultants and directors. The table below illustrates our burn rate, dilution, and overhang for the past three fiscal years with details of each calculation noted below the table.

|                 | 2015   | 2014   | 2013   |
|-----------------|--------|--------|--------|
| Burn Rate       | 1.62%  | 1.38%  | 1.60%  |
| Actual Dilution | 1.95%  | 2.26%  | 4.46%  |
| Overhang        | 13.46% | 16.39% | 19.81% |

(1) Burn Rate is (number of shares subject to equity awards granted during a fiscal year)/ number of shares outstanding at the end of the fiscal year).

(2) Actual Dilution is (number of options exercised during the fiscal year + number of RSUs released during the fiscal year) / (number of shares outstanding at the end of the fiscal year).

Overhang is (number of shares subject to equity awards at the end of a fiscal year + number of shares available for (3) future awards) / (number of shares outstanding at the end of the fiscal year + number of shares subject to equity awards + number of shares available for future awards).

Should our stockholders fail to approve the amendment and restatement of the Purchase Plan, the Purchase Plan will continue to remain in effect in accordance with its current terms. However, because only 191,735 shares of our common stock remained available for purchase under the Purchase Plan as of December 31, 2015, our ability to use equity-based compensation to attract, retain and motivate our employees in what is an extremely competitive hiring environment would be constrained.

Approval of this proposal requires the affirmative vote of a majority of the shares present or represented by proxy and entitled to vote on this proposal. Abstentions will be counted toward the tabulation of votes cast and will have the same effect as negative votes. Broker non-votes will have no effect on the outcome of this vote.

#### THE BOARD RECOMMENDS A VOTE IN FAVOR OF PROPOSAL 4

The material terms and provisions of the Purchase Plan are summarized below. This summary, however, does not purport to be a complete description of the Purchase Plan. The Purchase Plan has been filed with the SEC as an Appendix to this proxy statement and may be accessed from the SEC’s home page at [www.sec.gov](http://www.sec.gov). The following summary is qualified in its entirety by reference to the complete text of the Purchase Plan. Any stockholder that wishes to obtain a copy of the actual plan document may do so by written request to: Secretary, Power Integrations, Inc., 5245 Hellyer Avenue, San Jose, California 95138-1002.

The following is a summary of the material features of the Purchase Plan:

#### General

At the beginning of each offering under the Purchase Plan (an “Offering”), each participant in the Purchase Plan is granted the right to purchase, through accumulated payroll deductions, up to a number of shares of our common stock determined on the first day of the Offering (a “Purchase Right”). The Purchase Right is automatically exercised on each purchase date during the Offering unless the participant has withdrawn from participation in the Purchase Plan prior to such date. The Purchase Plan is intended to qualify as an “employee stock purchase plan” under section 423 of the

Internal Revenue Code with respect to participants subject to United States income taxation.

Stock Subject to Purchase Plan

Subject to approval of this Proposal 4, a maximum of 3,500,000 of our authorized but unissued or reacquired shares of common stock may be issued under the Purchase Plan, subject to appropriate adjustment in the event of any stock dividend, stock split, reverse stock split, recapitalization or similar change in our capital structure. Currently, 3,000,000 shares (of which, as noted above, only 191,735 shares remain available for purchase as of December 31, 2015) are authorized for issuance under the Purchase Plan, subject to adjustment as described above. If any Purchase Right expires or terminates, the shares subject to the unexercised portion of such Purchase Right will again be available for issuance under the Purchase Plan.

## Administration

The Purchase Plan is administered by the Board or a committee of the Board. (For purposes of this discussion, the term “Board” refers to either the Board or such committee.) Subject to the provisions of the Purchase Plan, the Board determines the terms and conditions of Purchase Rights granted under the Purchase Plan. The Board has the authority to interpret the Purchase Plan and Purchase Rights granted thereunder, and any such interpretation of the Board will be binding.

## Eligibility

Any of our employees or any employees of our parent or subsidiary designated by the Board for inclusion in the Purchase Plan are eligible to participate in an Offering so long as the employee is customarily employed for at least 20 hours per week and more than five months in any calendar year, unless that employee owns or holds options to purchase, or as a result of participation in the Purchase Plan, would own or hold options to purchase, five percent or more of the total combined voting power or value of all classes of our stock or of any parent or subsidiary. As of March 1, 2016, approximately 530 employees, including nine executive officers, were eligible to participate in the Purchase Plan.

## Offering Periods

Generally, the Offering under the Purchase Plan is for a period of 6 months (an “Offering Period”). Offering Periods under the Purchase Plan are sequential, with a new Offering Period beginning every six months. Offering Periods generally commence on February 1 and August 1 of each year (an “Offering Date”) and end on the last day of January and July, respectively. Each Offering Period is generally comprised of one six-month purchase periods (a “Purchase Period”). Shares are purchased on the last day of the Purchase Period (a “Purchase Date”). The Board may establish a different term for any Offering (not to exceed 27 months) or Purchase Period or different commencement or ending dates for an Offering or a Purchase Period.

## Participation and Purchase of Shares

Participation in an Offering under the Purchase Plan is limited to eligible employees who authorize payroll deductions prior to the Offering Date. Payroll deductions may not exceed 15% of an employee’s compensation on any payday during the Offering Period, provided that the Board may establish a different limit from time to time. An employee who becomes a participant in the Purchase Plan will automatically participate in each Offering beginning immediately after the last day of the Offering Period in which he or she is a participant until the employee withdraws from the Purchase Plan, becomes ineligible to participate, or terminates employment.

Subject to any uniform limitations or notice requirements imposed by us, a participant may increase or decrease his or her rate of payroll deductions or withdraw from the Purchase Plan at any time during an Offering. Upon withdrawal, we will refund without interest the participant’s accumulated payroll deductions not previously applied to the purchase of shares. Once a participant withdraws from an Offering, that participant may not again participate in the same Offering at any later time. If the fair market value of a share of common stock on the Offering Date of the current Offering in which employees are participating is greater than such fair market value on the Offering Date of a new Offering, then, unless a participant elects otherwise, each participant will be automatically withdrawn from the current Offering after purchasing shares and enrolled in the new Offering.

Subject to certain limitations, each participant in an Offering is granted a Purchase Right consisting of an option to purchase the lesser of (a) that number of whole shares of stock determined by dividing \$50,000 by the fair market

value of a share of our common stock on such Offering Date or (b) 5,000 shares. As a further limitation, no participant may purchase shares of common stock under our Purchase Plan or any other employee stock purchase plan having a fair market value exceeding \$25,000 (based on the fair market value of our common stock on the first day of the Offering Period in which the shares are purchased) for each calendar year in which a Purchase Right is outstanding.

On the Purchase Date, we issue to each participant in the Offering the number of shares of our common stock equal to the amount of payroll deductions accumulated for the participant during the Purchase Period divided by the purchase price, limited in any case by the number of shares subject to the participant's Purchase Right for that Offering. The price at which shares are issued under the Purchase Plan is established by the Board but may not be less than 85% of the lesser of the fair market value per share of common stock on the Offering Date or on the Purchase Date. The fair market value of the common stock on any relevant date generally will be the closing price per share as reported on the Nasdaq Global Select Market. On March 18, 2016, the closing price of our common stock as reported on the Nasdaq Global Select Market on was \$49.66 per share. Any payroll deductions under the Purchase Plan not applied to the purchase of shares will be returned to the participant without interest, unless the amount

remaining is less than the amount necessary to purchase a whole share of common stock, in which case the remaining amount may be applied to the next Purchase Period.

#### Effect of Certain Change in Control Transactions

If a Change in Control (as defined in the Purchase Plan) occurs, the surviving, continuing, successor or purchasing corporation or parent corporation thereof may assume our rights and obligations under the Purchase Plan. However, if such corporation elects not to assume the outstanding Purchase Rights, the Purchase Date of the then current Offering Period will be accelerated to a date specified by the Board that occurs before the Change in Control. Any Purchase Rights that are not assumed or exercised prior to the Change in Control will terminate.

#### Termination or Amendment

The Board may at any time amend or terminate the Purchase Plan, except that termination will not affect purchase rights previously granted under the Purchase Plan, and no amendment may adversely affect a purchase right previously granted under the Purchase Plan without the consent of the Participant to whom such purchase rights were granted (except to the extent permitted by the Purchase Plan or as may be necessary to qualify the Purchase Plan as an employee stock purchase plan pursuant to Section 423 of the Internal Revenue Code or to obtain qualification or registration of the shares under applicable federal, state or foreign securities laws). No Purchase Rights may be granted under the Plan after it is terminated.

Approval of the stockholders of the company will be required for any amendment of the Plan for which stockholder approval is required by applicable law or listing requirements, including any amendment that (i) materially increases the number of shares of common stock available for issuance under the Purchase Plan, (ii) materially expands the class of individuals eligible to become participants and receive purchase rights, (iii) materially increases the benefits accruing to participants under the Purchase Plan or materially reduces the price at which shares of common stock may be purchased under the Purchase Plan, (iv) materially extends the term of the Purchase Plan, or (v) expands the types of awards available for issuance under the Purchase Plan, but in each case only to the extent stockholder approval is required by applicable law or listing requirements. In addition, an amendment to the Purchase Plan that authorizes the sale of more shares than are authorized for issuance under the Plan or changes the definition of the corporations that may be designated by the Board as participating companies must be approved by the stockholders of the company within twelve (12) months of the adoption of such amendment.

#### Summary of U.S. Federal Income Tax Consequences

The following is a summary of the principal United States federal income taxation consequences to participants and us with respect to participation in the Purchase Plan. This summary is not intended to be exhaustive, and does not discuss the income tax laws of any city, state or foreign jurisdiction in which a participant may reside.

The Purchase Plan is intended to qualify as an “employee stock purchase plan” within the meaning of Section 423 of the Code with respect to participants subject to United States income taxation. Under such an arrangement, a participant will be taxed on amounts withheld for the purchase of shares of common stock as if such amounts were paid directly to the participants. However, no taxable income will be recognized by a participant, and no deductions will be allowable to us, upon either the grant or exercise of Purchase Rights. Taxable income is not to be recognized until there is a sale or other disposition of the shares acquired under the Purchase Plan.

If a participant sells or otherwise disposes of the purchased shares within two years after the beginning of the Offering Period in which such shares were acquired or within one year after the actual Purchase Date of those shares, then the participant will recognize ordinary income in the year of sale or disposition equal to the amount by which the fair

market value of the shares on the Purchase Date exceeded the purchase price paid for those shares, and we will be entitled to an income tax deduction, for the taxable year in which such disposition occurs, equal in amount to such excess. The participant will also recognize a capital gain to the extent the amount realized upon the sale of the shares exceeds the sum of the aggregate purchase price for those shares and the ordinary income recognized in connection with their acquisition.

If the participant sells or disposes of the purchased shares more than two years after the beginning of the Offering Period in which such shares were acquired and more than one year after the actual Purchase Date of those shares, the participant will recognize ordinary income in the year of sale or disposition equal to the lesser of (a) the amount by which the fair market value of the shares on the sale or disposition date exceeded the purchase price paid for those shares, or (b) 15% of the fair market value of the shares at the beginning of that Offering period. Any additional gain upon the disposition will be taxed as a long-term capital gain. We will not be entitled to an income tax deduction with respect to such disposition.

## New Plan Benefits

The benefits to be received by our executive officers and employees under the Purchase Plan are not determinable because the amounts of future stock purchases, if any, will be based upon elections made by participants subject to the terms and limits of the Purchase Plan. Directors who are not employees do not qualify as participants and thus cannot participate in the Purchase Plan; as such, they are not eligible to receive benefits under the Purchase Plan.

## PROPOSAL 5

### RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board has selected Deloitte & Touche LLP as Power Integrations' independent registered public accounting firm for the fiscal year ending December 31, 2016, and the Board has directed that management submit the selection of Deloitte & Touche LLP as Power Integrations' independent registered public accounting firm for ratification by the stockholders at the Annual Meeting. Deloitte & Touche LLP has audited Power Integrations' financial statements since 2005. Representatives of Deloitte & Touche LLP are expected to be present at the Annual Meeting. They will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

Neither Power Integrations' bylaws nor other governing documents or law requires stockholder ratification of the selection of Deloitte & Touche LLP as Power Integrations' independent registered public accounting firm. However, the Board is submitting the selection of Deloitte & Touche LLP to the stockholders for ratification as a matter of good corporate practice. If the stockholders fail to ratify the selection, the Audit Committee will reconsider whether or not to retain that firm. Even if the selection is ratified, the Audit Committee in its discretion may direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of Power Integrations and its stockholders.

The affirmative vote of the holders of a majority of the shares present in person or represented by proxy and voting on this proposal at the Annual Meeting will be required to ratify the selection of Deloitte & Touche LLP. Abstentions and broker non-votes will not be counted for any purpose in determining whether this matter has been approved.

#### Principal Accountant Fees and Services

The following table represents aggregate fees billed to Power Integrations for the fiscal years ended December 31, 2015, and December 31, 2014, by Deloitte & Touche LLP, Power Integrations' independent registered public accounting firm (in thousands).

|                                   | Fiscal 2015 | Fiscal 2014 |
|-----------------------------------|-------------|-------------|
| Audit Fees <sup>(1)</sup>         | \$ 1,184    | \$ 1,173    |
| Audit-Related Fees <sup>(2)</sup> | 74          | 94          |
| Tax Fees <sup>(3)</sup>           | 229         | 185         |
| All Other Fees <sup>(4)</sup>     | —           | 18          |
| Total Fees                        | \$ 1,487    | \$ 1,470    |

Audit fees consist of fees billed for professional services rendered for the audit of our consolidated annual financial statements and review of the interim consolidated financial statements included in quarterly reports and services (1) that are normally provided by Deloitte & Touche LLP in connection with statutory and regulatory filings or engagements. Audit fees for 2015 and 2014 include fees for professional services rendered for the audits of the effectiveness of internal control over financial reporting.

(2) In 2015 and 2014, audit-related fees pertained to professional services rendered in connection with our acquisition of Cambridge Semiconductor Limited and building purchase.

(3) In 2015 and 2014, tax fees related primarily to tax planning and tax compliance advice.

(4) In 2014, all other fees related primarily to our 2014 IRS tax settlement.



All fees described above were approved by the Audit Committee.

**Pre-Approval Policy and Procedures**

The Audit Committee has a policy to approve in advance the engagement of the independent registered public accounting firm for all audit services and non-audit services, based on independence, qualifications and, if applicable, performance, and approve the fees and other terms of any such engagement; provided, however, that the Audit Committee may establish pre-approval policies and procedures for any engagement to render such services, provided that such policies and procedures (a) are detailed as to particular services, (b) do not involve delegation to management of the Audit Committee's responsibilities, and (c) provide that, at its next scheduled meeting, the Audit Committee is informed as to each such service for which the independent auditor is engaged pursuant to such policies and procedures. In addition, the Audit Committee may delegate to one or more members of the committee the authority to grant pre-approvals for such audit and non-audit services, provided that (1) the decisions of such member(s) to grant any such pre-approval shall be presented to the Audit Committee at its next scheduled meeting and (2) the Audit Committee has established policies and procedures for such pre-approval of services consistent with the requirements of clauses (a) and (b) above.

**THE BOARD RECOMMENDS**

**A VOTE IN FAVOR OF PROPOSAL 5.**

## REPORT OF THE AUDIT COMMITTEE OF THE BOARD\*

During 2015, three independent, non-employee directors composed the Audit Committee: Messrs. Bickell, Iyer and Dr. George.

Management is responsible for Power Integrations' internal controls and the financial reporting process. The independent registered public accounting firm is responsible for performing an independent audit of Power Integrations' consolidated financial statements in accordance with generally accepted auditing standards and to issue a report thereon. The Audit Committee's responsibility is to monitor and oversee these processes.

In this context, the Audit Committee has reviewed and discussed the audited consolidated financial statements for the fiscal year ended December 31, 2015, with management and Deloitte & Touche LLP. The Audit Committee has discussed with Deloitte & Touche LLP the matters required to be discussed by Auditing Standard No. 16, Communications with Audit Committees, as adopted by the Public Company Accounting Oversight Board ("PCAOB"). The Audit Committee has also received the written disclosures and the letter from Deloitte & Touche LLP required by applicable requirements of the PCAOB regarding the independent accountants' communications with the Audit Committee concerning independence, and has discussed with the independent registered public accounting firm the accounting firm's independence.

Based on its discussions with management and the independent registered public accounting firm, the Audit Committee has recommended to the Board of Directors that the audited financial statements be included in Power Integrations' Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

### AUDIT COMMITTEE

Balakrishnan S. Iyer (Chairman)

Alan D. Bickell

William L. George

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\* The material in this report is not "soliciting material," is not deemed "filed" with the SEC, and is not to be incorporated by reference into any filing of Power Integrations under the 1933 or 1934 Act, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information, as of March 11, 2016, with respect to the beneficial ownership of Power Integrations' common stock by:

- each person known by Power Integrations to be the beneficial owner of more than 5% of Power Integrations common stock,
- each executive officer named in the Summary Compensation Table,
- each director and director nominee of Power Integrations, and
- all executive officers and directors of Power Integrations as a group.

| Beneficial Owners <sup>(1)</sup>   | Beneficial Ownership            |                                 |   |
|--|---------------------------------|---------------------------------|---|
|  | Number of Shares <sup>(2)</sup> | Percent of Total <sup>(3)</sup> |   |
| 5% Stockholders  |                                 |                                 |   |
| Neuberger Berman Group LLC <sup>(4)</sup>  |                                 |                                 |   |
| 605 Third Avenue<br>New York, NY 10158   | 3,040,277                       | 10.6                            | % |
| BlackRock, Inc. <sup>(5)</sup>   |                                 |                                 |   |
| 40 East 52nd Street<br>New York, NY 10022  | 2,666,105                       | 9.3                             | % |
| The Vanguard Group <sup>(6)</sup>  |                                 |                                 |   |
| 100 Vanguard Blvd.<br>Malvern, PA 19355  | 2,105,756                       | 7.3                             | % |
| Named Executive Officers and Directors   |                                 |                                 |   |
| Balu Balakrishnan <sup>(7)</sup>   | 870,913                         | 3.0                             | % |
| Sandeep Nayyar <sup>(8)</sup>  | 23,565                          | *                               |   |
| Clifford J. Walker <sup>(9)</sup>  | 114,846                         | *                               |   |
| Radu Barsan  | 187                             | *                               |   |
| Raja Petrakian <sup>(10)</sup>   | 3,577                           | *                               |   |
| Alan D. Bickell <sup>(11)</sup>  | 51,966                          | *                               |   |
| Nicholas E. Brathwaite <sup>(12)</sup>   | 65,118                          | *                               |   |
| Dr. William George <sup>(13)</sup>   | 50,130                          | *                               |   |
| Balakrishnan S. Iyer <sup>(14)</sup>   | 45,091                          | *                               |   |
| E. Floyd Kvamme <sup>(15)</sup>  | 293,398                         | 1.0                             | % |
| Steven J. Sharp <sup>(16)</sup>  | 79,294                          | *                               |   |
| All directors and current executive officers as a group (15 persons) <sup>(17)</sup> | 1,692,964                       | 5.7                             | % |

\* Less than 1%

Power Integrations believes that the persons named in the table have sole voting and dispositive power with respect (1) to all shares of common stock shown as beneficially owned by them, subject to community property laws (where applicable), except where otherwise stated in the footnotes to this table.

(2) A person is deemed to be the beneficial owner of securities that can be acquired by such person within 60 days, such as upon the exercise of options to purchase our common stock granted to executive officers.

(3) Percentages are based on 28,699,296 shares of common stock outstanding on March 11, 2016, provided that any additional shares of common stock that the stockholder has the right to acquire within 60 days after March 11,

2016, or May 10, 2016, are deemed to be outstanding for the purposes of calculating that stockholder's percentage of beneficial ownership.

Based on Schedule 13G filed with the SEC on February 10, 2016, reporting beneficial ownership as of December 31, 2015. Each of Neuberger Berman Group LLC ("NBG") and Neuberger Berman Investment Advisers LLC (4) ("NBIA") has shared voting and dispositive power with respect to these shares, and Neuberger Berman Equity Funds ("NBEF") has shared voting and dispositive power with respect to 2,504,080 of these shares. Neuberger Berman Group LLC and its

affiliates may be deemed to be beneficial owners of the shares because they or certain affiliated persons have shared power to retain, dispose of or vote the securities of unrelated clients. Neuberger Berman Group LLC or its affiliated persons do not, however, have any economic interest in the securities of those clients. The clients have the sole right to receive and the power to direct the receipt of dividends from or proceeds from the sale of such securities. No one client has an interest of more than 5% of Power Integrations.

Based on a Schedule 13G/A filed with the SEC on January 27, 2016, reporting beneficial ownership as of (5) December 31, 2015. Blackrock has sole voting power with respect to 2,601,419 of these shares, and sole dispositive power with respect to all of these shares.

Based on Schedule 13G/A filed with the SEC on February 10, 2016, reporting beneficial ownership as of (6) December 31, 2015. The Vanguard Group, Inc. has sole voting power with respect to 54,985 of these shares, sole investment power with respect to 2,050,171 of these shares, shared voting power with respect to 2,300 of these shares, and shared dispositive power with respect to 55,585 of these shares.

Consists of 440,584 shares held by the Balu and Mohini Balakrishnan Family Trust Dated 6-9-1993, of which Mr. (7) Balakrishnan is a trustee, 9,725 shares of common stock issuable upon the vesting of restricted stock units and 420,604 shares of common stock issuable upon exercise of options exercisable within 60 days after March 11, 2016.

(8) Includes 1,500 shares of common stock issuable upon the vesting of restricted stock units and 10,668 shares of common stock issuable upon exercise of options exercisable within 60 days after March 11, 2016.

(9) Includes 1,500 shares of common stock issuable upon the vesting of restricted stock units and 73,500 shares of common stock issuable upon exercise of options exercisable within 60 days after March 11, 2016.

(10) Includes 2,952 shares of common stock issuable upon the vesting of restricted stock units.

(11) Includes 45,666 shares of common stock issuable upon exercise of options exercisable within 60 days after March 11, 2016.

(12) Includes 42,166 shares of common stock issuable upon exercise of options exercisable within 60 days after March 11, 2016.

(13) Includes 42,372 shares of common stock issuable upon exercise of options exercisable within 60 days after March 11, 2016.

(14) Includes 37,333 shares of common stock issuable upon exercise of options exercisable within 60 days after March 11, 2016.

(15) Includes 49,000 shares of common stock issuable upon exercise of options exercisable within 60 days after March 11, 2016.

(16) Includes 55,170 shares of common stock issuable upon exercise of options exercisable within 60 days after March 11, 2016.

(17) Consists of shares held by each executive officer and director, including: 94,879 shares held by executive officers other than named executive officers; 5,375 shares of common stock issuable upon the vesting of restricted stock

units to executive officers who are not named executive officers; and 67,401 shares of common stock issuable upon exercise of options to executive officers, who are not named executive officers, within 60 days after March 11, 2016; and the shares described in footnotes 7 through 16 above.

#### Equity Compensation Plan Information

The following table provides information about Power Integrations' common stock that may be issued upon the exercise of options and rights under all of the existing equity compensation plans as of December 31, 2015, which consist of the Power Integrations 1997 Outside Directors Stock Option Plan, the Power Integrations 1997 Employee Stock Purchase Plan and the Power Integrations 2007 Equity Incentive Plan. None of the company's existing equity compensation plans permit the repricing of stock appreciation rights or stock options for a lower exercise price or cash buyouts without stockholder approval.

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options and Rights (a) | Weighted-Average Exercise Price of Outstanding Options and Rights (b) |
|---------------|---|---|
|---------------|---|---|