POWER INTEGRATIONS INC
Form 10-K/A
September 27, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K/A

(Amendment No. 2)

(Mark One)

x **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2006**

or

¨ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from __________ to __________**

Commission File Number 0-23441

POWER INTEGRATIONS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**94-3065014**
(State or other jurisdiction of Incorporation or organization)	**(I.R.S. Employer Identification No.)**
5245 Hellyer Avenue, San Jose, California	**95138-1002**
(Address of principal executive offices)	**(Zip code)**

(408) 414-9200

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, $0.001 par value per share	The Nasdaq Stock Market, Inc.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ¨ NO x

Indicate by check mark if the registrant is not required to file reports pursuant to section 13 or Section 15(d) of the Act. YES ¨ NO x

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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

The aggregate market value of registrant s voting and non-voting common stock held by nonaffiliates of registrant on June 30, 2006, the last business day of the registrant s most recently completed second fiscal quarter, was approximately $333,759,321, based upon the closing sale price of the common stock as reported on The NASDAQ Stock Market, now The NASDAQ Global Market. Shares of common stock held by each officer, director and holder of 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not a conclusive determination for other purposes.

Outstanding shares of registrant s common stock, $0.001 par value, as of June 30, 2007: 28,682,475.

EXPLANATORY NOTE

This Amendment No. 2 (this Amendment) to the Annual Report on Form 10-K, originally filed with the Securities and Exchange Commission on August 8, 2007 and amended by Amendment No. 1 to Form 10-K on Form 10-K/A filed with the Securities and Exchange Commission on August 14, 2007 (the Form 10-K) of Power Integrations, Inc. is being filed solely for the purpose to amend Item 11 of Part III of the Form 10-K to revise the table under the caption Potential Payment upon Retirement or Change of Control to correct the amounts set forth in the column of that table under the heading Severance. No other changes have been made to Item 11.

In addition, we are also including Exhibits 31.1 and 31.2 required by the filing of this amendment.

PART III

Item 11. Executive Compensation.

COMPENSATION DISCUSSION AND ANALYSIS

The primary objectives of the Compensation Committee of our board of directors with respect to executive compensation are as follows:

1. to attract and retain qualified senior executive management

2. to fairly compensate senior executives for the value of work provided

3. to compensate executives for achieving specific company goals and objectives

4. to provide equity awards to executives so that each executive has a meaningful ownership interest in our company

5. to implement executive compensation programs in an objective and non-discriminatory manner

To achieve these objectives, the Compensation Committee implements and maintains compensation plans that tie a substantial portion of executives overall compensation to our company s financial performance and the price of our common stock. Overall, an executive s total compensation is intended to create an executive compensation program that is set at levels competitive with the executive compensation paid by other comparable public technology companies.

Role of our Chief Executive Officer in Determining Compensation

The chief executive officer reviews with the Compensation Committee on a regular basis our compensation philosophy and programs, including 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, our chief executive officer, 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 them with advice on competitive compensation plans. The Compensation Committee considers, but is not bound to and does not always accept, management s and 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.

Comparative Compensation Analysis

Power Integrations aligns both its cash and equity compensation to market comparables. The Compensation Committee selects peer companies on the basis of fiscal and business similarities to Power Integrations. The Compensation Committee analyzes market compensation practices annually using the most directly relevant published survey sources available, including surveys from Radford Surveys + Consulting (Radford) for the 2006 compensation analysis and Radford and Culpepper and Associates, Inc. for the 2007 compensation analysis. For 2006 and 2007, the Compensation Committee considered peer companies to be semiconductor companies with annual revenues in the range of $100 million to $400 million. A total of twenty one (21) companies are included in the group of peer companies. A sample of the considered peer companies includes Triquint Semiconductor, Inc., IXYS Corporation, Cree, Inc., Micrel Inc., and Photon Dynamics, Inc. In 2006, the Compensation Committee engaged an independent compensation consulting firm, Meyercord & Associates, Inc. (Meyercord), to assist in the analysis of compensation survey data. Meyercord attends Compensation Committee meetings and provides peer group analysis, feedback and recommendations to the Compensation Committee. 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.

Timing of Equity Awards

Subject to business needs, our policy is to grant option awards to new employees on the first trading day of the month following the date of hire, and annually to grant continuing employees option awards on the third trading day following the earnings release for the first fiscal quarter of each year. Given that we have not been current in our SEC filings and our common stock is currently delisted by The NASDAQ Stock Market, we have not granted any option awards in fiscal 2007. We intend to delay these grants until we are current in our SEC filings and our common stock is once again listed by The NASDAQ Stock Market. All Company option grants are set at the closing price on the day of the grant.

Comparative Compensation Analysis

The Compensation Committee is not bound by award formulas and is free to exercise its discretion to adjust cash bonus awards and equity awards.

Executive Compensation Components

Executive compensation is broken out into the following components:

Base Salary. The Compensation Committee establishes base salaries for our executives based on the scope of their responsibilities, taking into account competitive market compensation paid by other companies for similar positions. Generally, the Compensation Committee believes that executive base salaries should be targeted at or above the 50^{th} percentile of salaries for executives in similar positions and with similar responsibilities at peer companies in order to attract and retain qualified executives. The Compensation Committee generally reviews base salaries annually, and adjusts them from time to time to realign salaries with market levels after taking into account individual responsibilities, performance and experience. The 2006 salaries of each of the named executive officers are set forth in the table below entitled Summary Compensation Table.

Annual Bonus. The Compensation Committee believes that a substantial portion of the annual cash compensation for each executive officer should be in the form of variable incentive bonuses and our policy is to target annual incentive bonuses at or above the 50^{th} percentile of peer companies. We established this policy and target in order to attract qualified executives, align their interests with those of our stockholders, and provide appropriate executive and leadership incentives. Generally, an executive s annual target bonus is aligned with the target bonuses of executives with similar positions in comparable companies. For fiscal 2007, this is approximately 65% of base salary for our Chief Executive Officer, and 40% of base salary for all other named executive officers. The annual incentive bonuses are intended to compensate officers for achieving annual financial goals at the corporate level. The 2006 target bonuses for each of the named executive officers are set forth in the table below entitled Grants of Plan-Based Awards in 2006.

Our annual management bonus plan provides for a cash bonus, dependent upon the level of achievement of annual financial performance. Depending on the achievement of the predetermined target, the annual bonus may be greater than the target bonus. In 2006, executives were eligible for an annual bonus, 100% of which was tied to non-GAAP earnings per share targets. The non-GAAP earnings per share targets exclude the following items: revenue related to a ship and debit settlement related to periods prior to 2006, expenses associated with the restatement of prior years earnings, certain expenses related to legal fees in defending the company s intellectual property and related tax effects. These items were excluded because the Compensation Committee reasoned that these items were not indicative of our core operating performance and did not relate to achieving the compensation objectives as discussed above. During 2006 the Compensation Committee reviewed our definition of non-GAAP earnings per share as we incurred unexpected costs associated with our restatement of our financial statements as well as our patent litigation, and revised the definition of non-GAAP earnings per share so that the bonuses to be paid would continue to be tied to core company operating performance that the Compensation Committee designed the annual bonus plan to reward.

The Compensation Committee concluded that for 2006 the sole performance metric for the annual bonus would be a non-GAAP earnings per share target of $0.83 per share to earn a 100% bonus because this would be the key performance metric indicative of company success. The minimum threshold to earn a bonus would be $0.69 per share, below which no bonus would be earned. For every $0.01 per share increase above $0.83 per share, each executive would earn an additional 7% of their target bonus, not to exceed a maximum of 250% of their target bonus. The actual non-GAAP earnings for 2006 were $0.97 per share, or $0.14 per share above the target, and thus each executive was awarded a bonus of 198% of target.

Long-Term Equity-Based Incentive Awards. The goal of Power Integrations long-term, equity-based incentive awards is to align the interests of executive officers with stockholders and to provide each executive officer with an incentive to manage Power Integrations from the perspective of an owner with an equity stake in the business. We further believe that long-term performance is achieved through a culture that encourages long-term performance by our executive officers through the use of stock-based awards. We believe that having a meaningful potential financial gain through the company stock option plan assists us in retaining our executive officers and helps align their financial interests with our stockholders interests. The Compensation Committee has not set stock ownership guidelines for executives because in some cases, guidelines would place a financial burden on the executive. The Compensation Committee considers the available shares for distribution and determines the size of the grants of equity-based incentives according to several factors, including the executive s past performance and expected future contribution, the retention value of the executive s prior unvested option grants, the company s growth and performance outlook, and the option grants provided to executives in similar positions at comparable companies. The Compensation Committee does not believe the accounting treatment of the various types of equity awards should be the primary basis for making equity award decisions and instead primarily bases its decisions on executive and company performance and the practice of competitor companies.

During 2006, the Compensation Committee made option grants to Power Integrations executive officers as indicated in the Grants of Plan-Based Awards in 2006 table below. Each grant allows the executive officer to acquire shares of Power Integrations common stock at a fixed price per share. The option grant will provide a return only if Power Integrations common stock appreciates over the option term.

Other Compensation. Our executives are party to employment agreements and offer letters (Employment Agreements) that contain provisions regarding severance benefits in the event the executive is terminated without cause or is terminated in connection with a change in control. These benefits are continued health plan coverage and extended time to exercise stock options in the event of termination of employment after a set age following an extended amount of service to our company. The Compensation Committee believes these severance provisions are necessary to retain our current executives and to attract future executives. These severance benefits are coupled with non-competition and non-solicitation obligations intended to protect our proprietary data that might not be enforceable in the absence of additional consideration. The severance benefits are also intended to motivate named executive officers to continue employment with the company and maximize stockholder value in the event of a potential change in control. A summary of the material terms of these Employment Agreements, together with a quantification of the benefits available under the agreements, may be found in the section below entitled Summary of Executive Compensation Employment Contracts and Termination of Employment and Change of Control Agreements.

Perquisites and Generally Available Benefit Programs

We annually review the perquisites that named executive officers receive. Our named executive officers, like our other employees, are eligible to participate in our employee stock purchase plan. In addition, the named executive officers may participate in the various employee benefit plans that are generally available to all employees, including medical, vision and dental care plans; flexible spending accounts for healthcare; life, accidental death and dismemberment and disability insurance; and paid time off.

We also maintain a 401(k) retirement savings plan for the benefit of all of our employees, including our named executive officers. In 2006, we made contributions of up to $3,000 to each employee s 401(K) account. We do not provide specified retirement programs such as pension plans, or deferred compensation plans. We provide certain retirement benefits to the named executive officers, as described below under the heading Pension Benefits .

Federal Tax Considerations

Section 162(m) of the Internal Revenue Code of 1986, as amended, limits Power Integrations to a deduction for federal income tax purposes of no more than $1 million of compensation paid to certain named executive officers in a taxable year. Compensation above $1 million may be deducted if it is performance-based compensation within the meaning of the Internal Revenue Code. For 2006, no executive was paid more than $1 million. To date, the tax effects of Internal Revenue Code Section 162(m) have not been a material factor in establishing appropriate executive compensation.

2007 Executive Compensation Actions

On June 5, 2007, the Compensation Committee approved, consistent with the compensation philosophy and goals described above, the following salary and bonus plan.

2007 Executive Officer Bonus Plan

Each Officer, as described below, was assigned a 2007 target bonus. Bonuses will be earned based on company performance against the 2007 Executive Officer Bonus Plan s established revenue targets and operating income targets. The operating income targets are based on non-GAAP operating income, which excludes certain expenses, including (a) SFAS 123(R) charges, (b) specified legal fees and settlements, and (c) any settlements with the Internal Revenue Service. Weighting of the target components is as follows:

Revenue	25%
Operating Income	75%
Total	100%

Revenue Component of Executive s Bonus:

No pay out will be made if our 2007 actual revenue does not exceed at least an established minimum amount of revenue as set forth in the 2007 Executive Officer Bonus Plan. As 2007 actual revenue increases above the minimum amount of revenue, the actual bonus increases, up to 100% of the revenue component of the target bonus when actual revenue equals target revenue in the 2007 Executive Officer Bonus Plan, and continues increasing thereafter as actual revenue increases, up to a maximum of 200% of the revenue component of the target bonus.

Operating Income Component of Executive s Bonus:

No pay out will be made if our 2007 actual operating income does not exceed at least an established minimum amount of operating income as set forth in the 2007 Executive Officer Bonus Plan. As 2007 actual operating income increases above the minimum amount of operating income, the actual bonus increases, up to 100% of the operating income component of the target bonus when actual operating income equals target operating income in the 2007 Executive Officer Bonus Plan, and continues increasing thereafter as actual operating income increases, up to a maximum of 200% of the operating income component of the target bonus. We believe these metrics are directly tied to our company s core operating performance, are key factors in driving stockholder value, and are important business elements that our executives can meaningfully influence. By focusing on these metrics, we seek to align the financial interests of our executives with those of our stockholders. We do not believe the target goals can be easily achieved, and will require our executives to effectively implement our business plan.

2007 Salaries and Target Bonuses

Executive Officer	Title	2007 Salary	2007 Target Bonus
Balu Balakrishnan	Chief Executive Officer	$ 385,000	$ 250,000
Rafael Torres	Chief Financial Officer	$ 245,000	$ 100,000
Derek Bell	Vice President, Engineering	$ 265,000	$ 100,000
Bruce Renouard	Vice President, Worldwide Sales	$ 255,000	$ 100,000
John Tomlin	Vice President, Operations	$ 265,000	$ 100,000
Cliff Walker	Vice President, Corporate Development	$ 250,000	$ 100,000

COMPENSATION COMMITTEE REPORT(1)

The Compensation Committee of the Board of Power Integrations, Inc. has reviewed and discussed with management the information contained in the Compensation Discussion and Analysis section of this Form 10-K and, based upon the review and discussions, recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Form 10-K.

COMPENSATION COMMITTEE:

E. Floyd Kvamme (Chairman)

Alan D. Bickell(2)

R. Scott Brown

Steven J. Sharp(2)

Summary of Executive Compensation

The following table shows the compensation awarded to, or earned by, our chief executive officer, our chief financial officer, our three other most highly compensated executive officers serving in such capacity at December 31, 2006, and, our former chief financial officer for whom disclosure otherwise would have been required but for the fact that he was no longer serving as an executive officer at the end of the fiscal year. We refer to these employees collectively as our named executive officers.

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(1) 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 Securities Act of 1933 or the Securities Exchange Act of 1934 Act, whether made before or after the date hereof and irrespective of any general incorporation language contained in such filing.

(2) On July 30, 2007, the Compensation Committee was reconstituted by removing Mr. Bickell and adding Mr. Sharp.

Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus(1)	Option Awards(2)	Non-Equity Incentive Plan Compensation(3)	All Other Compensation	Total
Balu Balakrishnan President and Chief Executive Officer	2006	$ 362,250	$ 1,000	$ 2,291,278	$ 495,000	$ 9,510(4)	$ 3,159,040
Rafael Torres(5) Chief Financial Officer and Vice President, Finance and Administration	2006	$ 104,308	$ 50,000	$ 144,904	$ 90,049	$ 4,234(6)	$ 393,495
John Cobb(7) Former Chief Financial Officer	2006	$ 86,824				$ 200,000	$ 286,824
Bruce Renouard Vice President, Worldwide Sales	2006	$ 242,500		$ 508,490	$ 198,000	$ 9,517(8)	$ 958,507
John Tomlin Vice President, Operations	2006	$ 252,500		$ 504,663	$ 198,000	$ 4,748(9)	$ 959,911
Cliff Walker Vice President, Corporate Development	2006	$ 237,500		$ 512,270	$ 198,000	$ 9,626(10)	$ 957,396

(1) With respect to Mr. Balakrishnan, this represents his work on one patent that was assigned to Power Integrations in 2006. With respect to Mr. Torres, this amount reflects a required payment under his employment agreement.

(2) The dollar amounts in this column reflect the compensation expense reported by us for awards granted in, and prior to, the fiscal year ended December 31, 2006. These amounts have been calculated in accordance with SFAS No. 123(R) disregarding the estimates of forfeiture and using the Black-Scholes-Merton option pricing model. Assumptions used in the calculation of these amounts are included in Note 5, Stockholders Equity, in our notes to consolidated financial statements. These amounts do not purport to reflect the value that could be recognized by the named executive officers upon sale of the underlying securities.

(3) The dollar amounts in this column reflect the earning of annual incentive bonuses.

(4) Represents $3,000 contributed by Power Integrations to Mr. Balakrishnan s 401(k) account, $2,460 for his life insurance premium, and $4,050 for reimbursement of personal income tax preparation fees.

(5) On June 30, 2006, Power Integrations entered into an employment agreement with Mr. Torres, Power Integrations Vice President of Finance and Administration and Chief Financial Officer, as amended July 6, 2006, to commence employment on July 19, 2006. Under the employment agreement, Mr. Torres received a salary of $240,000 per year with a target bonus of $100,000 for 2006, prorated from his start date plus an initial bonus of $50,000. Power Integrations granted Mr. Torres options to purchase 150,000 shares of the company s common stock at the fair market value as determined on the date of the option grant.

(6) Represents $3,000 contributed by Power Integrations to Mr. Torres 401(k) account and $1,234 for his life insurance premium.

(7) Mr. Cobb resigned from Power Integrations effective May 4, 2006. As a result of his resignation, he was not entitled to any severance benefits, including those pursuant to his employment agreement. He was paid $200,000 for provision of consulting services for a six month period beginning in June 2006.

(8) Represents $3,000 contributed by Power Integrations to Mr. Renouard s 401(k) account, $1,683 for his life insurance premium and $4,834 for reimbursement of taxes paid to a foreign country.

(9) Represents $3,000 contributed by Power Integrations to Mr. Tomlin s 401(k) account and $1,748 for his life insurance premium.

(10) Represents $3,000 contributed by Power Integrations to Mr. Walker s 401(k) account, $1,650 for his life insurance premium and $4,976 for vacation cash out hours allowed for all employees.

Grants of Plan Based Awards in 2006

The following table shows for the fiscal year ended December 31, 2006, certain information regarding grants of plan-based awards, and non-equity incentive plan awards, to the named executive officers:

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1) Threshold(2)	Target(3)	Maximum(4)	All Other Option Awards: Number of Securities Underlying Options (#)(5)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards(6)
Balu Balakrishnan		$ 5,000	$ 250,000	$ 625,000			
	02/07/06				180,000	$ 26.75	$ 2,558,196
Rafael Torres(7)		$ 2,000	$ 100,000	$ 250,000			
	07/19/06				150,000	$ 16.13	$ 1,283,055
John Cobb(8)							
	02/07/06				40,000	$ 26.75	$ 568,488
Bruce Renouard		$ 2,000	$ 100,000	$ 250,000			
	02/07/06				40,000	$ 26.75	$ 568,488
John Tomlin		$ 2,000	$ 100,000	$ 250,000			
	02/07/06				40,000	$ 26.75	$ 568,488
Cliff Walker		$ 2,000	$ 100,000	$ 250,000			
	02/07/06				40,000	$ 26.75	$ 568,488

(1) These columns set forth the target amounts of each named executive officer s annual cash bonus award for the year ended December 31, 2006 under our annual cash bonus award program. The actual cash bonus awards earned for the year ended December 31, 2006 for each named executive officer are set forth in the 2006 Summary Compensation Table above. As such, the amounts set forth in these columns do not represent additional compensation earned by the named executive officers for the year ended December 31, 2006. For a description of our annual cash bonus award program, see Compensation Discussion and Analysis.

(2) Threshold represents the minimum amount earned for meeting the minimum performance metric of non-GAAP earnings per share of $0.69.

(3) Target represents the amount earned for attaining the performance metric of non-GAAP earnings per share $0.83.

(4) Maximum represents the maximum payout under the program, which is 250% of target.

(5) Stock options were granted pursuant to the 1997 Stock Option Plan and were immediately exercisable. However, as discussed in Stock Options Amendments immediately below, certain executive options were amended to limit exercisability to a specific year. Six months from the date of grant, 1/8th of the shares subject to the stock option vest, with the remainder vesting monthly over the subsequent 42 months subject to the optionee s continued employment or service with Power Integrations. Power Integrations has a right to repurchase shares issued upon the exercise of unvested options until such shares become vested. Under the terms of the 1997 Stock Option Plan, the administrator retains the discretion, subject to the 1997 Stock Option Plan limits, to modify the terms of outstanding options and to reprice outstanding options. The options generally have a maximum term of 10 years, subject to earlier termination in certain situations related to cessation of employment or service. See Note 5, Stockholders Equity, to our notes to consolidated financial statements.

(6) Represents the grant date fair value of such option award as determined in accordance with SFAS No. 123(R). These amounts have been calculated in accordance with SFAS No. 123(R) using the Black-Scholes-Merton valuation model, see Note 5, Stockholders Equity, to our notes to consolidated financial statements.

(7) Mr. Torres incentive plan award, above, was pro-rated to his start date of July 19, 2006 to achieve his actual award as per footnote 5 of the Summary Compensation Table above.

(8) Mr. Cobb s options that were granted in 2006, none of which had vested, were cancelled upon his resignation from Power Integrations, effective May 4, 2006.

The amount of salary and bonus in proportion to total compensation in 2006 varied by executive but was consistent with the Compensation Committee s objectives with respect to executive compensation. See Compensation Discussion and Analysis above for a discussion of our annual bonus structure and other elements of compensation.

Stock Option Amendments

In December 2006, we permitted our named executive officers to amend certain stock options held by them to change the terms of the stock options to either (a) increase the exercise price of certain options, or (b) specify that they would only be exercisable during a specified calendar year. They could make a separate election for each separate option. We did this to enable the named executive officers to avoid the application of Section 409A of the Internal Revenue Code to these options, which imposes significant additional taxes on stock options granted with an exercise price lower than the fair market value on the date of grant that vest after December 31, 2004. We had determined that the exercise prices of certain options previously granted to our current and former officers were granted at less than the fair market value of our common stock at the time of such grants, and therefore enabled them to effect this cure by increasing the exercise price or restricting the exercise period. The table below (under the heading Outstanding Equity Awards at 2006 Fiscal Year End) indicates the officers who elected to amend certain stock options to the terms as described above.

Agreement with Former Chief Financial Officer

On June 15, 2006, we entered into an agreement with John Cobb, our former Chief Financial Officer. Pursuant to the Agreement, among other things, Mr. Cobb confirmed his resignation as an officer and employee of Power Integrations, confirmed that he was not entitled to any severance benefits from Power Integrations, and agreed to release Power Integrations from any and all claims that Mr. Cobb may have against Power Integrations. The agreement also provided for Mr. Cobb to provide us with six months of consulting services (including answering questions, assisting in the orderly transition of his duties, and assisting with our special investigation of our option granting processes), for a fee of $200,000.

Outstanding Equity Awards at 2006 Fiscal Year-End

The following table shows for the fiscal year ended December 31, 2006, certain information regarding outstanding equity awards at fiscal year end for the named executive officers.

	Option Awards				
Name	**Number of Securities Underlying Unexercised Options Exercisable(1)**	**Number of Securities underlying Unexercised Options Unexerciseable**	**Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options**	**Option Exercise Price**	**Option Expiration Date**
Balu Balakrishnan	51,500			$ 14.22	04/20/09
	33,361			$ 15.06	04/14/10
	6,639			$ 15.06	04/14/10
	261,346			$ 12.10	05/31/11
	15,000			$ 12.10	12/31/07(2)
		15,390		$ 12.10	12/31/08(2)
	2,699			$ 17.75	01/08/13
	2,934		118	$ 18.95	01/08/13(3)

Name	Option Awards Number of Securities Underlying Unexercised Options Exercisable(1)	Number of Securities underlying Unexercised Options Unexerciseable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options	Option Exercise Price	Option Expiration Date
	141,050			$ 17.75	01/08/13
	153,317		6,133	$ 18.95	01/08/13(3)
	136,887			$ 14.82	02/21/12
	25,000			$ 14.82	12/31/07(2)
		31,366		$ 14.82	12/31/08(2)
	7,403			$ 12.10	05/31/11
	861			$ 12.10	12/31/07(2)
	4,779			$ 14.82	02/21/12
	1,968			$ 14.82	12/31/07(2)
	180,000		142,500	$ 26.75	02/07/16
	200,000		104,167	$ 17.18	01/24/15
	40,000			$ 15.06	04/14/10
	196,327		57,262	$ 27.22	02/04/14
	3,673		1,071	$ 27.22	02/04/14
Rafael Torres	150,000		150,000	$ 16.13	07/19/16
John Cobb	4,903			$ 12.10	05/31/10
	861			$ 12.10	12/31/07(2)
	68,013			$ 12.10	05/31/10
	13,723			$ 12.10	12/31/07(2)
	4,779			$ 14.82	02/21/12
	1,968			$ 14.82	12/31/07(2)
	30,637			$ 14.82	02/21/12
	12,616			$ 14.82	12/31/07(2)
	1,643			$ 17.75	01/08/13
	2,934			$ 17.75	12/31/07(2)
	11,481			$ 17.75	01/08/13
	20,504			$ 17.75	12/31/07(2)
	2,066			$ 27.22	02/04/14
	26,059			$ 27.22	02/04/14
	14,062			$ 17.18	01/24/15
Bruce Renouard	20,504		821	$ 18.95	01/08/13(3)
	18,863			$ 17.75	01/08/13
	3,673		1,071	$ 27.22	02/04/14
	51,471			$ 14.82	02/21/12
	21,782			$ 14.82	12/31/07(2)
		20,000		$ 14.82	12/31/08(2)
	4,779			$ 14.82	02/21/12
		1,968		$ 14.82	12/31/09(2)
	40,000		31,667	$ 26.75	02/07/16
	41,327		12,054	$ 27.22	02/04/14
	45,000		23,438	$ 17.18	01/24/15
	2,699			$ 17.75	01/08/13
	2,934		118	$ 18.95	01/08/13(3)
John Tomlin	40,000		31,667	$ 26.75	02/07/16
	16,467		821	$ 18.95	01/08/13(3)
	1,989			$ 14.82	02/21/12
	1,968			$ 14.82	12/31/07(2)

	Option Awards				
Name	**Number of Securities Underlying Unexercised Options Exercisable(1)**	**Number of Securities underlying Unexercised Options Unexerciseable**	**Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options**	**Option Exercise Price**	**Option Expiration Date**
	105,091			$ 18.60	10/10/11
	18,459			$ 18.60	12/31/07(2)
		18,000		$ 18.60	12/31/08(2)
	3,843			$ 14.82	12/31/07(2)
	45,000		23,438	$ 17.18	01/24/15
	46,327		13,512	$ 27.22	02/04/14
	3,673		1,071	$ 27.22	02/04/14
	2,934		118	$ 18.95	01/08/13(3)
	1,699			$ 17.75	01/08/13
Cliff Walker	4,779			$ 14.82	02/21/12
	1,968			$ 14.82	12/31/07(2)
	6,639			$ 15.06	04/14/10
	41,327		12,054	$ 27.22	02/04/14
	18,863			$ 17.75	01/08/13
	20,504		821	$ 18.95	01/08/13(3)
	8,361			$ 15.06	04/14/10
	7,403			$ 12.10	05/31/11
	861			$ 12.10	12/31/07(2)
	41,262			$ 14.82	02/21/12
		6,991		$ 14.82	12/31/08(2)
		10,000		$ 14.82	12/31/09(2)
	40,000		31,667	$ 26.75	02/07/16
	50,000		26,042	$ 17.18	01/24/15
	3,673		1,071	$ 27.22	02/04/14
	23,951			$ 12.10	05/31/11
	2,785			$ 12.10	12/31/07(2)
	2,699			$ 17.75	01/08/13
	2,934		118	$ 18.95	01/08/13(3)
	15,000			$ 15.06	04/14/10

(1) Except as described in footnote (2) below, options in this table were granted from the 1997 Stock Option Plan and are immediately exercisable (except that they are not exercisable during the period during which the registration statements registering the sale of the common stock upon exercise are not effective, which is the case until such time as we are current in our SEC filings and relisted on Nasdaq) and vest fully within four years from the grant date subject to the optionee s continued employment or service with Power Integrations. Such options generally vest at the rate of 1/8 on the six-month anniversary of the date of grant and 1/48 monthly thereafter. Power Integrations has a right to repurchase shares issued upon the exercise of unvested options until such shares become vested. Under the terms of the 1997 Stock Option Plan, the administrator retains the discretion, subject to the 1997 Stock Option Plan limits, to modify the terms of outstanding options and to reprice outstanding options. The options generally have a maximum term of 10 years, subject to earlier termination in certain situations related to cessation of employment or service.

(2) As described under *Stock Option Amendments* above, our named executive officers voluntarily amended a number of the stock options held by them to provide that they were only exercisable during a specified calendar year. This is one of the options that were so amended, and the option expiration date is the last day of the calendar year in which they are exercisable.

(3) As described under *Stock Option Amendments* above, our named executive officers voluntarily amended a number of the stock options held by them to increase the exercise price. This is one of the options that were so amended, and the option exercise price reflects the exercise price as so increased.

2006 Option Exercises

The following table presents information concerning the aggregate number of shares for which options were exercised during fiscal 2006 for each of the named executive officers.

	Option Awards	
Name	Number of Shares Acquired on Exercise	Value Realized on Exercise(1)
Balu Balakrishnan	1,500	$ 17,007
Rafael Torres		
John Cobb		
Bruce Renouard		
John Tomlin		
Cliff Walker		

(1) Represents the difference between the aggregate market price of the common stock acquired on the date of exercise and the aggregate exercise price.

Employment Contracts and Termination of Employment and Change of Control Arrangements

Chief Executive Officer Benefits Agreement. As of April 25, 2002, Power Integrations entered into a chief executive officer benefits agreement with Balu Balakrishnan (the CEO Benefits Agreement). The form of the agreement was approved by the compensation committee on April 18, 2002. The CEO Benefits Agreement provides for certain benefits, including:

- acceleration of vesting upon a change of control of Power Integrations,
- severance benefits in the event of termination of employment by Power Integrations without cause on or within 18 months after a change of control or resignation by the chief executive officer for good reason within 18 months after a change of control,
- severance benefits in the event of termination of employment by Power Integrations without cause or resignation by the chief executive officer for good reason, and
- retirement benefits.

A change of control is defined in the CEO Benefits Agreement as an acquisition by any person of a beneficial ownership of 50% or more of Power Integrations voting stock, certain mergers or other business combinations involving Power Integrations, the sale of more than 50% of Power Integrations assets, liquidation of Power Integrations, or a change in the majority of the incumbent members of the board of directors (except changes in the board of directors composition approved by a majority of the directors).

Upon a change of control, 50% of Mr. Balakrishnan s then-unvested shares will vest, but if an acquiring company does not assume the options, 100% of Mr. Balakrishnan s then-unvested shares will vest.

Mr. Balakrishnan is entitled to severance benefits in the event that he is terminated without cause on or within 18 months after a change of control or in the event that he resigns for good reason within 18 months after a change of control. Cause includes, among other acts, a material act of theft, dishonesty, fraud, falsification of records, improper disclosure of confidential information, or an intentional act by an executive causing harm to the reputation of Power Integrations, and good reason includes, among other acts, a material decrease in an executive s compensation or benefits following a change of control, a demotion or material reduction in responsibility level, or relocation of more than 50 miles from executive s current work place or a material adverse change in working conditions or established working hours which persist for a period of six months.

Such severance benefits include a lump-sum cash payment equal to twelve months of his highest annual salary plus targeted annual incentive bonus, acceleration of 100% of all his then-outstanding stock options, extension of the post-termination stock option exercise period to one year, and continued medical and dental coverage under the Power Integrations health plans for twelve months at Power Integrations expense.

In addition, Mr. Balakrishnan is entitled to severance benefits in the event of termination of employment by Power Integrations without cause or resignation by Mr. Balakrishnan for good reason. Such severance benefits include a lump-sum cash payment equal to twelve months of his highest annual salary plus targeted annual incentive bonus, acceleration of 50% of all his then-unvested stock options, and continued medical and dental coverage under the Power Integrations health plans for twelve months at Power Integrations expense.

Mr. Balakrishnan is entitled to retirement benefits if he has served Power Integrations for 15 years, and has achieved an age of 50, or has served Power Integrations for 10 years and has achieved an age of 55, is not employed elsewhere full time, or otherwise engaged in competition with Power Integrations, and does not recruit or employ any present or future employee of Power Integrations. Mr. Balakrishnan is entitled to the extension of his post-termination stock option exercise period for vested options for the term of the option and medical and dental benefits for his dependents at Power Integrations expense until he achieves the age of 65; thereafter, participation in the health plans would be at Mr. Balakrishnan s expense. These retirement benefits will also become available if Mr. Balakrishnan s employment terminates due to death or disability.

The post-termination exercise period for Mr. Balakrishnan s vested stock options granted prior to the date of the benefits agreement will be extended only if such extension does not require Power Integrations to incur a compensation expense for financial statement purposes.

If any of the payments and benefits provided under the CEO Benefits Agreement in connection with a change of control (the Payments) would result in a parachute payment under Section 280G of the Internal Revenue Code of 1986, as amended, the amount of such Payments will be either (i) the full amount of the Payments or (ii) a reduced amount which would result in no portion of the Payments being subject to excise tax (as defined in the CEO Benefits Agreement), whichever amount provides the greatest amount of benefit to the chief executive officer.

Executive Officer Benefits Agreements. As of April 25, 2002, Power Integrations entered into executive officer benefits agreements with John Cobb, our former Chief Financial Officer, Bruce Renouard, vice president, worldwide sales, John Tomlin, vice president, operations, and Clifford J. Walker, vice president, corporate development (the Executive Officer Benefits Agreements). The form of the Executive Officer Benefits Agreement was approved by the compensation committee on April 18, 2002. For the executive officers specified in this paragraph, the Executive Officer Benefits Agreements provide for certain benefits, as described below, including:

- acceleration of vesting of stock options upon a change of control of Power Integrations,
- severance benefits in the event of termination of employment by Power Integrations without cause on or within 18 months after a change of control or resignation by the executive officer for good reason within 18 months after a change of control,
- severance benefits in the event of termination of employment by Power Integrations without cause or resignation by the executive officer for good reason, and
- retirement benefits.

A change of control is defined in the Executive Officer Benefits Agreements as an acquisition by any person of a beneficial ownership of 50% or more of Power Integrations voting stock, certain mergers or other business combinations involving Power Integrations, the sale of more than 50% of Power Integrations assets, liquidation of Power Integrations, or a change in the majority of the incumbent members of the board of directors (except changes in the board of directors composition approved by a majority of the directors).

Upon a change of control, 25% of the executive officer s then-unvested shares will vest, but if an acquiring company does not assume the options, 50% of the executive s then-unvested shares will vest.

Each executive officer is entitled to severance benefits in the event that he is terminated without cause on or within 18 months after a change of control or in the event that he resigns for good reason within 18 months after a change of control. Cause includes, among other acts, a material act of theft, dishonesty, fraud, falsification of records, improper disclosure of confidential information, or an intentional act by an executive causing harm to the reputation of Power Integrations, and good reason includes, among other acts, a material decrease in an executive s compensation or benefits following a change of control, a demotion or material reduction in responsibility level, or relocation of more than 50 miles from executive s current work place or a material adverse change in working conditions or established working hours which persist for a period of six months.

Such severance benefits include a lump-sum cash payment equal to six months of the executive officer s highest annual salary plus 50% of the executive officer s targeted annual incentive bonus, vesting of 50% of his then-unvested shares, extension of the post-termination stock option exercise period to one year, and continued medical and dental coverage under the Power Integrations health plans for six months at Power Integrations expense.

In addition, each executive officer is entitled to severance benefits in the event of termination of employment by Power Integrations without cause or resignation by such executive officer for good reason. Such severance benefits include a lump-sum cash payment equal to six months of the executive officer s highest annual salary plus 50% of the executive officer s targeted annual incentive bonus, and continued medical and dental coverage under the Power Integrations health plans for six months at Power Integrations expense.

Each executive officer is entitled to retirement benefits if he has served Power Integrations for 15 years, and has achieved an age of 50, or has served Power Integrations for 10 years and has achieved an age of 55, is not employed elsewhere, full time, or otherwise engaged in competition with Power Integrations, and does not recruit or employ any present or future employee of Power Integrations. The executive officer is entitled to the extension of his post-termination stock option exercise period for vested options for the earlier of the term of the option and five years and medical and dental benefits for his dependents at Power Integrations expense until he achieves the age of 65; thereafter, participation in the health plans would be at the executive officer s expense. These retirement benefits will also become available if the executive officer was eligible for such benefits and his employment terminates due to death or disability.

The post-termination exercise period for an executive officer s vested stock options granted prior to the date of the benefits agreement will be extended only if such extension does not require Power Integrations to incur a compensation expense for financial statement purposes.

If any of the payments and benefits provided under the Executive Officer Benefits Agreements in connection with a change of control (the Payments) would result in a parachute payment under Section 280G of the Internal Revenue Code of 1986, as amended, the amount of such Payments will be either (i) the full amount of the Payments or (ii) a reduced amount which would result in no portion of the Payments being subject to excise tax (as defined in the Executive Officer Benefits Agreements), whichever amount provides the greatest amount of benefit to the executive officer.

Pension Benefits

The following table provides information concerning the actuarial present value of retirement health benefits as of December 31, 2006.

	Option Awards		
Name	**Number of Years Credited Service**		**Present Value of Accumulated Benefit**
Balu Balakrishnan	18	$	20,265
Rafael Torres		$	
Bruce Renouard	5	$	5,957
John Tomlin	5	$	4,483
Cliff Walker	12	$	17,539

Mr. Balakrishnan and Mr. Walker are eligible to receive medical benefits upon retirement. The valuation method and all material assumptions are as follows:

The amounts determined in the above/following table are associated with the provision of health care coverage after retirement. The valuation method is pursuant to the Financial Accounting Standards Board s Statement of Financial Accounting Standards No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions. The Projected Unit Credit attribution method was used; the attribution of the obligation is over the period from hire to benefit eligibility (the earlier of age 50 with 15 years of service or age 55 with 10 years of service). Other than for eligibility purposes, service is not considered in the calculation. The benefit consists of health care coverage from retirement until age 65. The basis for the benefit is premiums paid by the employer to a third-party insurer, without additional subsidy imputed. The obligations were calculated using the following assumptions:

The discount rate for future payments was 5.75% as of 12/31/2006 (and 5.50% as of 12/31/2005).

The assumed annual increase in health care costs is 11% as of 12/31/2006, with the annual increase lessening by 1/2% per year, to an ultimate rate of 5% in 2019.

25% of active participants are assumed to become eligible and elect coverage at retirement.

Retirement is assumed to take place at age 62, or at first eligibility if older.

2/3 of active employees are assumed to have eligible spouses who, at the employee's retirement, will be covered by the plan. Husbands are assumed to be three years older than their wives.

Potential Payments upon Retirement or Change of Control

The following table provides information concerning the estimated payments and benefits that would be provided in each of the circumstances described above. Payments and benefits are estimated assuming that the triggering event took place on the last business day of fiscal 2006 (December 29, 2006), and the price per share of Power Integrations common stock is the closing price on the Pink Sheets as of that date ($23.45). There can be no assurance that a triggering event would produce the same or similar results as those estimated below if such event occurs on any other date or at any other price, of if any other assumption used to estimate potential payments and benefits is not correct. Due to the number of factors that affect the nature and amount of any potential payments or benefits, any actual payments and benefits may be different.

		Potential Payments Upon Involuntary Termination Other Than for Cause or Voluntary Termination for Good Reason			Continuation Of Service Without Termination	
Name/Type of Benefit	**Retirement Benefits (1)**	**Severance (2)**	**After Change of Control Acquiring Company Assumes Options (3)**	**After Change of Control Acquiring Company Does Not Assume Options (4)**	**After Change of Control Acquiring Company Assumes Options (5)**	**After Change of Control Acquiring Company Does Not Assume Options (6)**
Balu Balakrishnan						
Cash Severance Base Salary	$	$ 365,000	$ 365,000	$ 365,000	$	$
Cash Severance Bonus		250,000	250,000	250,000		
Vesting Acceleration(7)		340,635	681,257	681,257	340,635	681,257
Continued Coverage of Employee Benefits(8)	$ 172,917	13,301	13,301	13,301		
Total Termination Benefits(9):	$ 172,917	$ 968,936	$ 1,309,558	$ 1,309,558	$ 340,635	$ 681,257
Bruce Renouard						
Cash Severance Base Salary	$	$ 122,500	$ 122,500	$ 122,500	$	$
Cash Severance Bonus		50,000	50,000	50,000		
Vesting Acceleration(7)			94,491	113,393	37,800	75,594
Continued Coverage of Employee Benefits(8)		2,931	2,931	2,931		
Total Termination Benefits:(9)	$	$ 175,431	$ 269,922	$ 288,824	$ 37,800	$ 75,594
John Tomlin						
Cash Severance Base Salary	$	$ 127,500	$ 127,500	$ 127,500	$	$
Cash Severance Bonus		50,000	50,000	50,000		
Vesting Acceleration(7)			94,491	113,393	37,800	75,594
Continued Coverage of Employee Benefits(8)		6,067	6,067	6,067		
Total Termination Benefits:(9)	$	$ 183,567	$ 278,058	$ 296,960	$ 37,800	$ 75,594
Cliff Walker						
Cash Severance Base Salary	$	$ 120,000	$ 120,000	$ 120,000	$	$
Cash Severance Bonus		50,000	50,000	50,000		
Vesting Acceleration(7)			104,699	125,639	41,882	83,758
Continued Coverage of Employee Benefits(8)	58,616	2,931	2,931	2,931		
Total Termination Benefits(9)	$ 58,616	$ 172,931	$ 277,630	$ 298,570	$ 41,882	$ 83,758

(1) Reflects medical and dental benefits until the age of 65 based upon the rates at December 31, 2006.

(2) Reflects benefits in the event of involuntary termination other than for cause or voluntary termination for good reason; with respect to Mr. Balakrishnan twelve months salary plus his targeted annual bonus plus 50% of all his then-unvested options plus twelve months medical and dental coverage.

(3) Reflects benefits in the event of a change of control where the acquiring company assumes outstanding options. For termination within 18 months of a change of control other than for cause or voluntary termination for good reason, with respect to Mr. Balakrishnan twelve months salary plus his targeted annual bonus plus 100% of all his then-unvested options plus twelve months medical and dental coverage; for all others, six months salary plus 50% of targeted bonus plus 25% of unvested options would vest upon change of control and 50% of then-unvested options would vest upon severance plus six months medical and dental coverage.

(4) Reflects benefits in the event of a change of control where the acquiring company did not assume outstanding options. For termination other than for cause or voluntary termination for good reason, with respect to Mr. Balakrishnan twelve months salary plus his targeted annual bonus plus 100% of all his then-unvested options plus twelve months medical and dental coverage; for all others, six months salary plus 50% of targeted bonus plus 50% of unvested options would vest upon change of control and 50% of then-unvested options would vest upon severance plus six months medical and dental coverage.

(5) Reflects benefits in the event of a change of control where the acquiring company assumes outstanding options and continuation of service. With respect to Mr. Balakrishnan 50% of all his then-unvested options would vest; for all others, 25% of the unvested options would vest.

(6) Reflects benefits in the event of a change of control where the acquiring company did not assume outstanding options and continuation of service. With respect to Mr. Balakrishnan 100% of all his then-unvested options would vest; for all others, 50% of the unvested options would vest.

(7) Reflects the aggregate market value of unvested option grants. For unvested option grants, aggregate market value is computed by multiplying (i) the difference between $23.45, the closing price per share on the Pink Sheets at December 29, 2006, and the exercise price of the option, by (ii) the number of shares underlying unvested options at December 29, 2006.

(8) For retirement, upon completion of service and age requirements, health coverage is paid until the age of 65. For severance, reflects the cost of health coverage (COBRA) to maintain the benefits currently provided.

(9) Assuming a termination date of December 29, 2006 and a price per share of $23.45, Power Integrations believes that the named executives listed in the table above would not have been entitled to a gross-up payment for any excise tax liabilities under Section 280G of the Internal Revenue Code.

Compensation of Directors

Each of our board members, with the exception of our one employee director, Balu Balakrishnan, receives $5,000 per quarter to serve as a member of our board of directors. In addition, the chairman of our audit committee, compensation committee and nominating committee receive $5,000, $1,875, and $1,250 per quarter, respectively, to serve as chairpersons of these committees. Our non-employee board members receive compensation to attend board meetings via phone or in person of $750 and $1,500, respectively. The members of our audit, compensation and nominating committees receive additional compensation for committee meeting attendance via phone or in person of $500 and $1,000, respectively. Non-employee directors are reimbursed for all reasonable travel and related expenses incurred in connection with attending board and committee meetings. The two members of our Special Committee, which was established in March 2006 in connection with our investigation of previous stock option grant activity, each received a one-time payment of $25,000.

Additionally, directors who are not employees of Power Integrations each receive options to purchase shares of common stock under the 1997 Outside Directors Stock Option Plan (the Directors Plan). The Directors Plan provides for the automatic grant of nonstatutory stock options to our nonemployee directors over their period of service on the board of directors. The Directors Plan provides that each future nonemployee director of Power Integrations will be granted an option to purchase 30,000 shares of common stock on the date on which such individual first becomes a nonemployee director of Power Integrations (the Initial Grant). Thereafter, each nonemployee director who has served on the board of directors continuously for 12 months will be granted an additional option to purchase 10,000 shares of common stock (an Annual Grant). Subject to an optionee s continuous service with Power Integrations, 1/3rd of an Initial Grant will become exercisable one year after the date of grant and 1/36th of the Initial Grant will become exercisable monthly thereafter. Each Annual Grant will become exercisable in twelve equal monthly installments beginning in the 25th month after the date of grant, subject to the optionee s continuous service. The exercise price per share of all options granted under the Directors Plan is equal to the fair market value of a share of common stock on the date of grant. Options granted under the Directors Plan have a maximum term of ten years after the date of grant, subject to earlier termination upon an optionee s cessation of service. In the event of certain changes in control of Power Integrations, all options outstanding under the Directors Plan will become immediately vested and exercisable in full.

Mr. Earhart, who left the board of directors as of May of 2006, waived his right to receive a fee and grant of stock options as compensation for his services in 2005 as a director. Mr. Balakrishnan, our chief executive officer and president, is not separately compensated for his services as a member of the board of directors.

The following table shows for the fiscal year ended December 31, 2006 certain information with respect to the compensation of all non-employee directors of Power Integrations:

Director Compensation for Fiscal Year 2006

Name	Fees Earned(1)	Option Awards(2)(3)	Total
Alan D. Bickell	$ 78,250	$ 317,389	$ 395,639
Balakrishnan S. Iyer	$ 78,750	$ 316,963	$ 395,713
R. Scott Brown	$ 42,000	$ 247,295	$ 289,295
Dr. James Fiebiger	$ 56,000	$ 498,715	$ 554,715
Steven J. Sharp	$ 42,250	$ 326,988	$ 369,238
Nicholas E. Brathwaite	$ 40,000	$ 310,506	$ 350,506
E. Floyd Kvamme	$ 65,000	$ 326,988	$ 391,988

(1) This column represents annual director fees, committee chairman fees and meeting attendance fees earned in 2006. It excludes fees paid in 2006 but earned in 2005.

(2) The amounts shown in this column represent the dollar amounts recognized for financial statement reporting purposes for the fiscal year ended December 31, 2006 in accordance with SFAS No. 123(R), excluding an estimate of forfeitures related to service-based vesting conditions, and thus include amounts from awards granted in and prior to 2006. Assumptions used in the calculation of these amounts are described in Note 5, Stockholders Equity, in our notes to consolidated financial statements. All grants were made subject to individual award agreements, the form of which was previously filed with the SEC.

(3) The following options were outstanding as of December 31, 2006: Mr. Bickell, 115,000; Mr. Iyer, 50,000; Mr. Brown, 115,000; Mr. Fiebiger, 30,000; Mr. Sharp, 105,000; Mr. Brathwaite, 75,834; and Mr. Kvamme, 135,000.

Grants of Options to Directors

The following table sets forth each grant of options to Power Integrations non-employee directors during 2006 under the Directors Plan, together with the exercise price per share and grant fair value of each award computed in accordance with SFAS No. 123(R) using the Black-Scholes-Merton model. Subject to Mr. Fiebiger s continued service with Power Integrations, $1/3^{rd}$ of Mr. Fiebiger s Initial Grant will become exercisable one year after the date of grant and $1/36^{th}$ of his Initial Grant will become exercisable monthly thereafter. The Annual Grants to the other directors listed below will become exercisable in twelve equal monthly installments beginning in the 25th month after the date of grant, subject to the optionee s continued service. The exercise price per share of all options granted under the Directors Plan is equal to the fair market value of a share of common stock on the date of grant. Options granted under the Directors Plan have a maximum term of ten years after the date of grant, subject to earlier termination upon an optionee s cessation of service.

Non-employee Director	**Options Granted in 2006 (#)**	**Grant Date**	**Exercise Price Per Share ($)**	**Grant Date Fair Value of Option Award ($)**
Alan D. Bickell	10,000	04/21/06	23.96	132,508
Balakrishnan S. Iyer	10,000	02/13/06	25.88	137,500
R. Scott Brown	10,000	07/15/06	15.29	81,083
Dr. James Fiebiger	30,000	03/22/06	24.79	396,081
Steven J. Sharp	10,000	12/12/06	25.48	134,148
Nicholas E. Brathwaite	10,000	01/31/06	26.49	140,741
E. Floyd Kvamme	10,000	12/12/06	25.48	134,148

Compensation Committee Interlocks and Insider Participation

During 2006, Power Integrations compensation committee consisted of Mr. Kvamme, Mr. Brown and Mr. Bickell. None of the members of the compensation committee during 2006 is or was an officer or employee of Power Integrations or its subsidiaries. None of Power Integrations executive officers serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of Power Integrations board of directors or compensation committee.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Amendment to Report to be signed on its behalf by the undersigned, thereunto duly authorized.

POWER INTEGRATIONS, INC.

Dated: September 27, 2007

By: /s/ RAFAEL TORRES

Rafael Torres

Chief Financial Officer

INDEX TO EXHIBITS

TO

AMENDMENT NO. 2 TO

ANNUAL REPORT ON FORM 10-K/A

For the Year Ended

December 31, 2006

Exhibit	Description of Document
31.1	Certification by Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification by Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002