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The following table summarizes our contractual obligations at December 31, 2008, and the effect such obligations are expected to have on our liquidity and cash flow over the next five years (in thousands).

	Payments by Period				
	Total	< 1 year	1-3 years	4-5 years	Thereafter
Operating leases	\$ 9,099	\$ 1,261	\$ 3,285	\$ 2,292	\$ 2,261
Outstanding purchase commitments	10,256	10,256			
	<u>\$19,355</u>	<u>\$11,517</u>	<u>\$ 3,285</u>	<u>\$ 2,292</u>	<u>\$ 2,261</u>

Because of the uncertainty as to the timing of payments related to our liabilities for unrecognized tax benefits, we have excluded estimated obligations of \$4.8 million from the table above.

Off Balance Sheet Arrangements

As of December 31, 2008, we had no off-balance sheet arrangements as defined in Item 303(a)(4) of the Securities and Exchange Commission's Regulation S-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our cash equivalents and investments are subject to market risk, primarily interest rate and credit risk. Our investments are managed by outside professional managers within investment guidelines set by us. Such guidelines include security type, credit quality and maturity and are intended to limit market risk by restricting our investments to high quality debt instruments with relatively short-term maturities.

We do not use derivative financial instruments in our investment portfolio. Investments in debt securities are classified as available-for-sale or trading, and no gains or losses are recognized by us in our results of operations due to changes in interest rates unless such securities are sold prior to maturity or are determined to be other-than-temporarily impaired. Available-for-sale investments are reported at fair value with the related unrealized gains being included in accumulated other comprehensive income, a component of stockholders' equity. Trading securities are reported at fair value with unrealized gains and losses included in earnings.

Fluctuations in interest rates of +/- 10% could impact our annual results of operations by approximately \$0.3 million.

Foreign Currency Exchange Risk

Our sales outside the United States are transacted in U.S. dollars. Accordingly, our sales are not generally impacted by foreign currency rate changes. In 2008, the primary functional currency of the Company's offshore operations was the local currency, primarily the New Taiwan Dollar and the Chinese Yuan. To date, fluctuations in foreign currency exchange rates have not had a material impact on our results of operations. However, fluctuations in the currency of +/- 10% in such local currencies could impact our annual results of operations by approximately \$1.7 million.

Value Change to Investments

As of February 28, 2009, all of our holdings in auction rate securities, which have a face value of \$38.8 million, have failed to reset as a result of current market conditions. Should these auctions

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continue to fail and if the credit rating for these securities decline, a 10% decline in the par value could impact our results of operations by approximately \$3.9 million.

In valuing the auction-rate securities using the discounted cash flow model, a change in the risk premium and time-to-maturity by 10% would result in a change in the value of our auction-rate securities portfolio by \$0.1 million and \$0.2 million, respectively.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

MONOLITHIC POWER SYSTEMS, INC.
CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
of Monolithic Power Systems, Inc.:

We have audited the accompanying consolidated balance sheets of Monolithic Power Systems, Inc. and subsidiaries (collectively, the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Monolithic Power Systems, Inc. and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2008, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements*. Effective January 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—An interpretation of FASB Statement No. 109*.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 26, 2009 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

San Jose, California
February 26, 2009

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
of Monolithic Power Systems, Inc.:

We have audited the internal control over financial reporting of Monolithic Power Systems, Inc. and subsidiaries (collectively, the "Company") as of December 31, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended

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December 31, 2008 of the Company, and our report dated February 26, 2009 expressed an unqualified opinion on those financial statements and included an explanatory paragraph relating to the adoption of Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, effective January 1, 2008.

/s/ Deloitte & Touche LLP

San Jose, California
February 26, 2009

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MONOLITHIC POWER SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 83,266	\$ 83,114
Short-term investments	21,922	27,765
Accounts receivable, net of allowances of \$0 and \$227, respectively, in 2008 and 2007	9,115	8,239
Inventories	18,887	17,487
Deferred income tax assets, net—current	75	72
Prepaid expenses and other current assets	2,622	4,733
Restricted cash	7,360	7,350
Total current assets	<u>143,247</u>	<u>148,760</u>
Property and equipment, net	14,163	14,175
Long-term investments	37,425	—
Deferred income tax assets, net—long-term	19	776
Other assets	438	539
Restricted assets	7	8,340
Total assets	<u>\$195,299</u>	<u>\$172,590</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 4,674	\$ 6,154
Accrued compensation and related benefits	7,848	8,299
Accrued liabilities	13,360	14,959
Total current liabilities	<u>25,882</u>	<u>29,412</u>
Non-current income tax liability	4,762	5,318
Other long-term liabilities	10	323
Total liabilities	<u>30,654</u>	<u>35,053</u>
Commitments and contingencies (Notes 9 and 10)		
Stockholders' equity:		
Common stock, \$0.001 par value, \$34 and \$33 in 2008 and 2007, respectively; shares authorized: 150,000,000; shares issued and outstanding: 33,646,821 and 33,454,595 in 2008 and 2007, respectively	147,298	143,890
Deferred stock compensation	—	(3)
Retained earnings (accumulated deficit)	17,411	(6,815)
Accumulated other comprehensive income (loss)	(64)	465
Total stockholders' equity	<u>164,645</u>	<u>137,537</u>
Total liabilities and stockholders' equity	<u>\$195,299</u>	<u>\$172,590</u>

See accompanying notes to consolidated financial statements.

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MONOLITHIC POWER SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Year Ended December 31,		
	2008	2007	2006
Revenue	\$160,511	\$134,004	\$105,015
Cost of revenue	61,184	48,781	38,107
Gross profit	99,327	85,223	66,908
Operating expenses:			
Research and development	34,850	27,342	22,301
Selling, general and administrative	35,256	29,537	27,594
Lease abandonment	—	(496)	1,218
Patent litigation settlement	—	9,800	3,000
Provision for litigation	6,714	9,370	11,560
Total operating expenses	76,820	75,553	65,673
Income from operations	22,507	9,670	1,235
Other income (expense):			
Interest and other income	3,587	4,741	2,637
Other expense	(652)	(139)	(273)
Total other income, net	2,935	4,602	2,364
Income before income taxes	25,442	14,272	3,599
Income tax provision	1,216	2,692	6,024
Net income (loss)	\$ 24,226	\$ 11,580	\$ (2,425)
Basic income (loss) per share	\$ 0.72	\$ 0.37	\$ (0.08)
Diluted income (loss) per share	\$ 0.67	\$ 0.33	\$ (0.08)
Weighted-average common shares outstanding	33,509	31,703	29,502
Stock options, restricted stock and warrants	2,611	3,387	—
Diluted weighted-average common equivalent shares outstanding	36,120	35,090	29,502

See accompanying notes to consolidated financial statements.

MONOLITHIC POWER SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share amounts)

	<u>Common Stock</u>		<u>Deferred Stock Compensation</u>	<u>Notes Receivable from Stockholders</u>	<u>Retained Earnings (Accumulated Deficit)</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>					
Balance as of December 31, 2005	29,155,722	\$ 98,342	\$ (4,544)	\$ (398)	\$ (15,094)	\$ (138)	\$ 78,168
Cumulative effect of applying SAB 108—accounts payable					331		331
Cumulative effect of applying SAB 108—stock compensation		269			(269)		—
Components of comprehensive loss:							
Net loss					(2,425)		(2,425)
Foreign exchange loss						(60)	(60)
Total comprehensive loss							(2,485)
Exercise of stock options, net of income tax benefit of \$1,758	944,743	5,689					5,689
Exercise of warrants	31,282	—					—
Shares purchased through ESPP	172,037	1,209					1,209
Stock-based compensation expense, net of forfeitures		9,936	1,526				11,462
Compensation expense for non-employee stock options		62					62
Reclass of deferred compensation		(2,531)	2,531				—
Sale of common stock	12,500	191					191
Repayment of stockholder note receivable				398			398
Issuance of restricted stock	53,097	—					—
Balance as of December 31, 2006	<u>30,369,381</u>	<u>\$113,168</u>	<u>\$ (487)</u>	<u>\$ —</u>	<u>\$ (17,458)</u>	<u>\$ (198)</u>	<u>\$ 95,025</u>
Cumulative effect of adopting FIN 48 —adjustment to retained earnings					(937)		(937)
Components of comprehensive loss:							
Net income					11,580		11,580
Unrealized gains						46	46
Foreign exchange gain						617	617
Total comprehensive income							12,243

MONOLITHIC POWER SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY—(Continued)
(in thousands, except share amounts)

	<u>Common Stock</u>		<u>Deferred Stock Compensation</u>	<u>Notes Receivable from Stockholders</u>	<u>Retained Earnings (Accumulated Deficit)</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>					
Exercise of stock options, including net excess tax benefit of \$2,684	2,902,927	18,333					18,333
Shares purchased through ESPP	180,148	1,645					1,645
Stock-based compensation expense, net of forfeitures		10,646	484				11,130
Compensation expense for non- employee stock options		98					98
Issuance of restricted stock	2,139	—					—
Balance as of December 31, 2007	<u>33,454,595</u>	<u>\$143,890</u>	<u>\$ (3)</u>	<u>\$ —</u>	<u>\$ (6,815)</u>	<u>\$ 465</u>	<u>\$ 137,537</u>
Components of comprehensive loss:							
Net income					24,226		24,226
Impairment of Auction Rate Securities						(1,400)	(1,400)
Unrealized gains						(1)	(1)
Foreign exchange gain						872	872
Total comprehensive income							<u>23,697</u>
Exercise of stock options, including net excess tax benefit of \$765	1,417,585	13,480					13,480
Repurchase of common shares	(1,430,105)	(25,043)					(25,043)
Shares purchased through ESPP	125,207	1,778					1,778
Stock-based compensation expense, net of forfeitures		13,151	3				13,154
Compensation expense for non- employee stock options		42					42
Issuance of restricted stock	79,539	—					—
Balance as of December 31, 2008	<u>33,646,821</u>	<u>\$147,298</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 17,411</u>	<u>\$ (64)</u>	<u>\$ 164,645</u>

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MONOLITHIC POWER SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2008	2007	2006
Cash flows from operating activities:			
Net income (loss)	\$ 24,226	\$ 11,580	\$ (2,425)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	5,725	4,184	2,724
Loss on disposal of property and equipment	5	127	128
Deferred income tax assets	710	1,694	1,921
Tax benefit from stock option transactions	2,110	3,646	1,842
Excess tax benefit from stock option transactions	(765)	(2,684)	(1,437)
Stock-based compensation	13,158	11,228	11,524
Changes in operating assets and liabilities:			
Accounts receivable	(876)	917	381
Inventories	(1,356)	(10,747)	(572)
Prepaid expenses and other assets	2,206	(3,671)	289
Accounts payable	(1,382)	208	(687)
Accrued and long-term liabilities	(1,816)	4,292	896
Accrued income taxes payable and noncurrent tax liabilities	(1,897)	1,926	(2,371)
Accrued compensation and related benefits	(458)	3,425	1,610
Net cash provided by operating activities	<u>39,590</u>	<u>26,125</u>	<u>13,823</u>
Cash flows from investing activities:			
Property and equipment purchases	(5,233)	(6,653)	(7,474)
Proceeds from sale of property and equipment	—	58	1
Purchase of short-term investments	(36,608)	(58,776)	(87,294)
Purchase of long-term investments	(28,050)	—	—
Proceeds from sale of short-term investments	30,985	58,774	98,434
Proceeds from sale of long-term investments	725	—	—
Changes in restricted assets	8,566	(7,350)	1,097
Net cash provided by (used in) investing activities	<u>(29,615)</u>	<u>(13,947)</u>	<u>4,764</u>
Cash flows from financing activities:			
Proceeds from issuance of common stock	12,715	15,649	4,123
Proceeds from employee stock purchase plan	1,778	1,645	1,209
Repurchase of common stock	(25,043)	—	—
Excess tax benefits from stock option transactions	765	2,684	1,437
Repayment of stockholder note receivable	—	—	398
Net cash provided by (used in) financing activities	<u>(9,785)</u>	<u>19,978</u>	<u>7,167</u>
Effect of change in exchange rates	<u>(38)</u>	<u>142</u>	<u>(29)</u>
Net increase in cash and cash equivalents	152	32,298	25,725
Cash and cash equivalents, beginning of period	83,114	50,816	25,091
Cash and cash equivalents, end of period	<u>\$ 83,266</u>	<u>\$ 83,114</u>	<u>\$ 50,816</u>
Supplemental disclosures of non-cash investing and financing activities:			
Cash paid (refund) for taxes	\$ (2,482)	\$ (1,688)	\$ 4,608
Liability accrued for equipment purchases	\$ 228	\$ 372	\$ 355
Unrealized loss on auction-rate securities	\$ 1,400	\$ —	\$ —
Other-than-temporary impairment of long-term investments	\$ (1,250)	\$ —	\$ —
Value of auction-rate security put right	\$ 1,250	\$ —	\$ —

See accompanying notes to consolidated financial statements

MONOLITHIC POWER SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Business—Monolithic Power Systems, Inc. (MPS or the Company) was incorporated in the State of California on August 22, 1997. On November 17, 2004, the Company was reincorporated in the State of Delaware. MPS designs, develops and markets proprietary, advanced analog and mixed-signal semiconductors. The company combines advanced process technology with its highly experienced analog designers to produce high-performance power management integrated circuits (ICs) for DC to DC converters, LED drivers, Cold Cathode Fluorescent Lamp (CCFL) backlight controllers, Class-D audio amplifiers, and other Linear ICs. MPS products are used extensively in computing and network communications products, LCD monitors and TVs, and a wide variety of consumer and portable electronics products. MPS partners with world-class manufacturing organizations to deliver top quality, ultra-compact, high-performance solutions through productive, cost-efficient channels.

Basis of Presentation—The consolidated financial statements include the accounts of Monolithic Power Systems, Inc. and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Foreign Currency Transactions—The Company's foreign subsidiaries operate primarily using their respective local currencies, and therefore, the local currency has been determined to be the functional currency for each foreign subsidiary. Accordingly, all assets and liabilities of the Company's foreign subsidiaries are translated using exchange rates in effect at the end of the period. Revenue and costs are translated using average exchange rates for the period. The resulting translation adjustments are presented as a separate component of accumulated other comprehensive income (loss) in stockholders' equity.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Certain Significant Risks and Uncertainties—Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, short-term and long-term investments and accounts receivable. The Company's cash consists of checking and savings accounts. The Company's cash equivalents include short-term, highly liquid investments purchased with remaining maturities at the date of purchase of three months or less. The Company's short-term investments consist primarily of commercial paper and the Company's long-term investments consist of government-backed student loan auction-rate securities. The Company generally does not require its customers to provide collateral or other security to support accounts receivable. To manage credit risk, management performs ongoing credit evaluations of its customers' financial condition.

The Company participates in the dynamic high technology industry and believes that changes in any of the following areas could have a material adverse effect on the Company's future financial position, results of operations or cash flows: advances and trends in new technologies and industry standards; competitive pressures in the form of new products or price reductions on current products; changes in product mix; changes in the overall demand for products offered by the Company; changes in third-party manufacturers; changes in key suppliers; changes in certain strategic relationships or

MONOLITHIC POWER SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

customer relationships; litigation or claims against the Company based on intellectual property, patent, product, regulatory or other factors; fluctuations in foreign currency exchange rates; risk associated with changes in domestic and international economic and/or political regulations; availability of necessary components or subassemblies; availability of foundry capacity; and the Company's ability to attract and retain employees necessary to support its growth.

The Company is also a party to litigation with several competitors (see Note 10).

Fair Value of Financial Instruments—The Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements*, effective January 1, 2008. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles in the United States of America, and requires that assets and liabilities carried at fair value be classified and disclosed in one of the three categories, as follows:

- Level 1: Quoted prices in active markets for identical assets;
- Level 2: Significant other observable inputs; and
- Level 3: Significant unobservable inputs.

The Company also adopted the provisions of SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115*, effective January 1, 2008. This statement permits entities to choose to measure financial instruments and certain other items at fair value. The UBS put right is being accounted for as a fair-value instrument under SFAS No. 159, with changes in fair value being included in earnings.

The Company's financial instruments include cash and cash equivalents, short-term and long-term investments and the UBS put right. Cash equivalents are stated at cost which approximates fair market value based on quoted market prices. Short-term, long-term investments and the UBS put right are stated at their fair market value. Please refer to Note 2, Fair Value Measurements, for further information.

The face value of the Company's holdings in auction rate securities is \$38.8 million, of which \$20.6 million are currently classified as long-term, "available-for-sale" investments and the remainder as long-term, "trading" investments. The auction-rate securities and other marketable securities are accounted for in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Investments in trading securities are recorded at fair value, with unrealized gains and losses included in earnings. Investments in available-for-sale securities are recorded at fair value, and unrealized gains or losses (that are deemed to be temporary) are recognized, net of taxes, through shareholders' equity, as a component of accumulated other comprehensive income in our consolidated balance sheet. The Company records an impairment charge to earnings when an investment has experienced a decline in value that is deemed to be other-than-temporary.

Inventories—Inventories are stated at the lower of the standard cost (which approximates actual cost on a first-in, first-out basis) or current estimated market value. The Company monitors manufacturing variances and revises standard costs if necessary. Due to continued demand changes, potential obsolescence, and product life cycle, the Company writes down inventory to net realizable values, as needed.

The Company's products also contain critical components supplied by a single or limited number of third parties. The Company has an inventory of such components to ensure an available supply of

MONOLITHIC POWER SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

products for its customers. Any significant shortage of such components or the failure of the third-party suppliers to maintain or enhance these components could materially adversely affect the Company's results of operations.

Property and Equipment—Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally three to five years. Leasehold improvements are amortized over the shorter of the estimated useful life or the lease period.

Long-Lived Assets—The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when the sum of the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. Such impairment loss would be measured as the difference between the carrying amount of the asset and its fair value based on the present value of estimated future cash flows.

Other Assets—Other assets consist primarily of intangibles assets for the land use rights in Chengdu and long-term lease deposits.

Restricted Cash—At December 31, 2008, the Company had restricted assets of \$7.4 million. In July 2007, the Company placed in escrow \$7.4 million as a result of a settlement with Taiwan Sumida Electronics, Inc. ("TSE") and for which the Company could be liable if certain conditions are met (see Note 10).

Revenue Recognition—The Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104, *Revenue Recognition* ("SAB 104") issued by the Staff of the SEC. SAB 104 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the fee is fixed or determinable; and (4) collectibility is reasonably assured. Determination of criteria (3) and (4) are based on management's judgment regarding the fixed nature of the fee charged for products delivered and the collectibility of those fees. The application of these criteria has resulted in the Company generally recognizing revenue upon shipment (when title passes) to customers. Should changes in conditions cause management to determine these criteria are not met for certain future transactions, revenue recognized for any reporting period could be adversely impacted.

More than 90% of the Company's distributor sales are made through distribution arrangements with third parties. These arrangements do not include any special payment terms (the Company's normal payment terms are 30-45 days), price protection or exchange rights. Returns are limited to the Company's standard product warranty. Certain of the Company's large distributors have contracts that include limited stock rotation rights that permit the return of a small percentage of the previous six months' purchases in return for a compensating new order of equal or greater dollar value.

The Company maintains a sales reserve for stock rotation rights, which is based on historical experience of actual stock rotation returns on a per distributor basis and information related to products in the distribution channel. This reserve is recorded at the time of sale.

If the Company enters into arrangements that have rights of return that are not estimable, the Company recognizes revenue under such arrangements only after the distributor has sold the Company's products to an end customer.

MONOLITHIC POWER SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Less than 10% of the Company's distributor sales are made through small distributors based on purchase orders rather than formal distribution arrangements. These distributors do not receive any stock rotation rights.

The terms in a majority of the Company's distribution agreements include the non-exclusive right to sell, and the agreement to use best efforts to promote and develop a market for, the Company's products in certain regions of the world and the ability to terminate the distribution agreement by either party with up to three months notice. The Company provides a one year warranty against defects in materials and workmanship. Under this warranty, the Company will repair the goods, provide replacements at no charge, or, under certain circumstances, provide a refund to the customer for defective products. Estimated warranty returns and warranty costs are based on historical experience and are recorded at the time product revenue is recognized.

In 2006, the Company signed a distribution agreement with a U.S. distributor. Revenue from this distributor is recognized upon sale by the distributor to the end customer because the distributor has certain rights of return which management believes are not estimable. For the year ended December 31, 2008 and 2007, the deferred revenue balance from this distributor was \$0.5 million and \$0.3 million, respectively.

Stock-Based Compensation—Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123(R), *Share-Based Payment*. SFAS No. 123(R) establishes accounting for stock-based awards based on the fair value of the award measured at grant date. Accordingly, stock-based compensation cost is recognized as an expense over the requisite service period. The Company previously recognized expense for employee stock-based awards in accordance with Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations and provided the required pro forma disclosures of SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS No. 123"). The Company elected to adopt SFAS No. 123(R) using the modified prospective application method. Under the modified prospective method, prior period results are not restated. The fair value of (i) stock options granted or modified after December 31, 2005 and (ii) the unvested portion of stock options granted after the Company's initial filing of its registration statement on Form S-1 on July 13, 2004 for its initial public offering and before the adoption of SFAS No. 123(R) are recognized as compensation expense using the Black-Scholes option pricing method. Stock options granted prior to July 13, 2004, the date the Company filed its initial registration statement on Form S-1, will continue to be accounted for and recognized as compensation expense using the intrinsic value method under APB Opinion No. 25 and related interpretations as required under SFAS 123(R). Prior to the adoption of SFAS No. 123(R), tax benefits in excess of compensation cost recognized were reported as operating cash flows. SFAS No. 123(R) requires excess tax benefits to be reported as a financing cash flow rather than as a component of operating cash flows.

MONOLITHIC POWER SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company has two stock option plans and an employee stock purchase plan—the 1998 Stock Option Plan, the 2004 Equity Incentive Plan and the 2004 Employee Stock Purchase Plan. The Company recognized stock-based compensation expenses for the years ended December 31, 2008, 2007 and 2006, as follows (in thousands):

	Year ended December 31,		
	2008	2007	2006
Non-Employee	\$ 42	\$ 98	\$ 62
ESPP	676	600	440
Restricted Stock	3,054	1,844	933
Stock Options	9,386	8,686	10,089
TOTAL	<u>\$13,158</u>	<u>\$11,228</u>	<u>\$11,524</u>

Research and Development—Costs incurred in research and development are charged to operations as incurred.

Income Taxes—The Company accounts for income taxes under an asset and liability approach. This process involves calculating the temporary and permanent differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The temporary differences result in deferred tax assets and liabilities, which are recorded on the Company's Consolidated Balance Sheet in accordance with SFAS No. 109, *Accounting for Income Taxes*, which established financial accounting and reporting standards for the effect of income taxes. The Company must assess the likelihood that its deferred tax assets will be recovered from future taxable income and, to the extent the Company believes that recovery is not likely, the Company must establish a valuation allowance. Changes in the Company's valuation allowance in a period are recorded through the income tax provision on the Consolidated Statement of Operations.

Based on the available objective evidence, which includes the recent financial history of the Company and the forecasted taxable loss for the United States, management concluded that it is more likely than not that the Company's deferred tax assets would not be fully realizable. Accordingly, the Company had a valuation allowance of \$14.4 million and \$11.9 million as of December 31, 2008 and 2007, respectively.

On January 1, 2007, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—An interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes* and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Under FIN 48, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Company adopted SFAS 123(R) as of January 1, 2006 and, as a result, incurred significant stock-based compensation expense, some of which related to incentive stock options for which no corresponding tax benefit is recognized unless a disqualifying disposition occurs. Disqualifying dispositions result in a reduction of income tax expense in the period when the disqualifying disposition

MONOLITHIC POWER SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

occurs in an amount equal to the tax benefit relating to previously recognized stock compensation expense. Tax benefits related to realized tax deductions in excess of previously expensed stock compensation are recorded as an addition to paid-in-capital.

Patent Litigation—Costs incurred in registering and defending the Company's patents and other proprietary rights are charged to operations as incurred (See Note 10).

Comprehensive Income (Loss)—Comprehensive income represents the change in the Company's net assets during the period from non-owner sources. Comprehensive income (loss) includes unrealized gains/(losses) on investments and foreign exchange gains/(losses) for the years ended December 31, 2008, 2007 and 2006.

	Years ended December 31,		
	2008	2007	2006
Net income (loss)	\$24,226	\$11,580	\$(2,425)
Other comprehensive income (loss):			
Impairment of Auction-Rate Securities	(1,400)	—	—
Unrealized gain (loss) on available-for-sale securities	(1)	46	—
Foreign currency translation adjustments	872	617	(60)
Comprehensive income (loss)	<u>\$23,697</u>	<u>\$12,243</u>	<u>\$(2,485)</u>

Accumulated other comprehensive gains (losses) presented in the Consolidated Balance Sheet at December 31, 2008 consists primarily of an impairment of the Company's holdings in auction-rate securities in the amount of \$1.4 million, offset by \$1.3 million, primarily due to favorable fluctuations of the renminbi. Accumulated other comprehensive income presented in the Consolidated Balance Sheet at December 31, 2007 consists primarily of \$0.4 million in foreign currency translation gains.

New Accounting Standards To Be Adopted—In May 2008, the FASB issued SFAS No. 162 ("SFAS 162"), *The Hierarchy of Generally Accepted Accounting Principles*. SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States. This Statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. The Company is currently evaluating the potential impact, if any, the adoption of SFAS 162 will have on its consolidated financial statements.

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MONOLITHIC POWER SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

2. Fair Value Measurements

The following is a schedule of the Company's cash and cash equivalents and short-term and long-term investments as of December 31, 2008 and 2007.

	Adjusted Cost and Estimated Fair Market Value as of December 31,	
	2008	2007
Cash, Cash Equivalents, Restricted Cash and Investments		
Cash in Banks	\$ 68,269	\$ 35,206
Government Agencies / Treasuries	8,878	37,996
Commercial Paper	28,041	15,527
Auction Rate Securities backed by Student-Loan Notes	37,425	22,150
Restricted Cash	7,360	7,350
Total Cash, Cash Equivalents, Restricted Cash and Investments	<u>\$149,973</u>	<u>\$118,229</u>
Reported as:		
Cash and Cash Equivalents	\$ 83,266	\$ 83,114
Short-term Investments	21,922	27,765
Long-term Investments	37,425	—
Restricted cash	7,360	7,350
Total Cash, Cash Equivalents, Restricted Cash and Investments	<u>\$149,973</u>	<u>\$118,229</u>

The contractual maturities of the Company's investments classified as available-for-sale or trading securities as of December 31, 2008 and 2007 is as follows:

	2008	2007
Less than 1 year	\$21,922	\$ 3,963
1 — 5 years	—	1,652
Greater than 5 years	37,425	22,150
	<u>\$59,347</u>	<u>\$27,765</u>

The Company adopted the provisions of SFAS No. 157, *Fair Value Measurements*, effective January 1, 2008. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles in the United States of America, and requires that assets and liabilities carried at fair value be classified and disclosed in one of the three categories noted below. The following table details the fair value measurements as of December 31, 2008 within the fair value hierarchy of the financial assets that are required to be recorded at fair value (in thousands):

	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	
Total	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 83,266	\$ —	\$ —	
Fixed income available-for-sale securities	21,922	—	—	
Auction-rate securities	36,175	—	36,175	
Put Right	1,250	—	1,250	
	<u>\$142,613</u>	<u>\$ 105,188</u>	<u>\$ 37,425</u>	

MONOLITHIC POWER SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Fixed income available-for-sale securities includes government agencies and treasuries and commercial paper, \$21.9 million of which are classified as short-term investments and the remainder of which is classified as cash and cash equivalents on the Consolidated Balance Sheet. At December 31, 2008, we had \$45.0 million invested in money market funds, \$39.4 million of which is guaranteed by the Government-sponsored Temporary Liquidity Guarantee Program. At December 31, 2008, there was an immaterial amount of unrealized gains and losses from these investments.

The following table provides a reconciliation of the beginning and ending balances for the assets measured at fair value using significant unobservable inputs (Level 3) (in thousands):

	<u>Auction-Rate Securities</u>	<u>Put Right</u>	<u>Total</u>
Beginning balances as of January 1, 2008	\$ —	\$ —	\$ —
Transfer into Level 3	\$ 11,500	\$ —	\$ 11,500
Unrealized loss	\$ (2,650)	\$ —	\$ (2,650)
Purchases, sales and settlements (net)	\$ 27,325	\$ —	\$ 27,325
Unrealized gain resulting from the valuation of the UBS put right	\$ —	\$ 1,250	\$ 1,250
Ending balances as of December 31, 2008	<u>\$ 36,175</u>	<u>\$ 1,250</u>	<u>\$ 37,425</u>

The Company's Level 3 assets consist of government-backed student loan auction-rate securities and the UBS put right. The market for auction-rate securities, with interest rates that reset through a Dutch auction every 7 to 35 days became illiquid in 2008. As of December 31, 2008, the Company's investment portfolio included \$36.1 million, net of impairment charges of \$2.7 million, in government-backed student loan auction-rate securities, which the Company has classified as long-term investments. The portfolio also included a UBS auction-rate put right, which was valued at \$1.3 million in accordance with the fair value measurement provisions of SFAS No. 159. As of December 31, 2008, \$38.8 million, the face value of the Company's auction-rate security investments, have failed to reset through successful auctions and it is unclear as to when these investments will regain their liquidity. The underlying maturity of these auction-rate securities is up to 30 years and the underlying credit quality of these instruments in which the Company has invested remains AAA rated.

The Company used the guidelines set forth in FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities* to determine whether the impairment is temporary or other-than temporary. Temporary impairment charges are recorded in accumulated other comprehensive income (loss) within equity and have no impact on net income. Other-than-temporary impairment charges are recorded in other income expenses in the Consolidated Statement of Operations.

In October 2008, the Company accepted an offer to participate in an auction-rate security rights offering from UBS to sell up to \$18.2 million in the face amount of eligible auction-rate securities commencing in June 2010. The offer gives the Company the right but not the obligation to sell these securities at par to UBS and will allow the Company to borrow up to \$18.2 million beginning October 7, 2008. In accepting the offer, the Company also entered into a release of claims in favor of UBS.

Since the Company accepted this put right from UBS in October 2008, the Company intends to sell these securities at par to UBS commencing in June 2010 and therefore does not possess the intent to hold these securities for a period of time sufficient to allow for any anticipated recovery in fair value. The impairment related to these securities of \$1.3 million was therefore be considered to be other-than-temporary and charged to operations.

MONOLITHIC POWER SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Having accepted UBS' rights offering and elected the fair value option under SFAS No. 159, the Company valued the resulting put right at fair value estimated to be equal to the par value of the auction-rate securities less their fair value as determined by management. The value of the put right was \$1.3 million, which the Company recorded in other income in the Consolidated Statement of Operations.

For the remaining auction-rate securities for which the put right (described above) does not apply, and which have a face value of \$20.6 million, management concluded that as of December 31, 2008, the impairment of \$1.4 million was temporary based on the following analysis:

- The decline in the fair value of the security is not attributable to adverse conditions specifically related to the security or to specific conditions in an industry or in a geographic area;
- The decline in the fair value of the security has not existed for an extended period of time;
- Management possesses both the intent and the ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value;
- The security has not been downgraded by a rating agency;
- The financial condition of the issuer has not deteriorated; and
- All scheduled interest payments have been made pursuant to the reset terms and conditions.

Unless another rights offering or other similar offers are made to and accepted by the Company on terms that the Company deems favorable, the Company intends to hold the balance of these investments through successful auctions at par, which the Company believes could take approximately 1.5 years.

The valuation of the auction-rate securities is subject to fluctuations in the future, which will depend on many factors, including the collateral quality, potential to be called or restructured, underlying final maturity, insurance guaranty, liquidity and market conditions, among others. To determine the fair value of the auction-rate securities at December 31, 2008, the Company used a discounted cash flow model, for which there are three valuation parameters, including time-to-liquidity, discount rate and expected return. The parameters are as follows:

	<u>Q108</u>	<u>Q208</u>	<u>Q308</u>	<u>Q408</u>
Time-to-Liquidity (decreased by 3 months every quarter, except as noted)	24-months	21 months	18 months	18 months
Expected Return (Based on the 2-year treasury rate, plus a contractual penalty rate)	4.3%	4.3%	3.9%	2.3%
Discount Rate (Based on the 2-year LIBOR, the cost of debt and a liquidity risk premium)	5.0%	5.0%	7.3%	6.8%

The gross impairment charge was \$2.7 million as of December 31, 2008, of which \$1.4 million was recorded as temporary and the remaining \$1.3 million was recorded as other-than-temporary.

If the auctions continue to fail, the liquidity of the Company's investment portfolio may be negatively impacted and the value of its investment portfolio could decline.

MONOLITHIC POWER SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

3. Inventories

Inventories consist of the following (in thousands):

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Work in progress	\$10,653	\$ 8,101
Finished goods	8,234	9,386
Total inventories	<u>\$18,887</u>	<u>\$17,487</u>

4. Property and Equipment, net

Property and equipment consist of the following (in thousands):

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Computers, software and equipment	\$ 27,622	\$ 22,438
Furniture and fixtures	355	403
Leasehold improvements	1,778	1,593
Vehicles	329	268
Total	30,084	24,702
Less accumulated depreciation and amortization	(15,921)	(10,527)
Property and equipment, net	<u>\$ 14,163</u>	<u>\$ 14,175</u>

Depreciation expense for the years ended December 31, 2008, 2007 and 2006 was \$5.7 million, \$4.2 million and \$2.7 million, respectively.

5. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Warranty (see Note 9)	\$ 764	\$ 1,025
Legal expenses and settlement costs	8,791	9,664
Professional fees	66	746
Deferred revenue	841	1,306
Other	2,898	2,218
Total accrued liabilities	<u>\$13,360</u>	<u>\$14,959</u>

6. Stockholders' Equity

1998 Stock Option Plan

Under the Company's 1998 Stock Option Plan (the 1998 Plan), the Company reserved 11,807,024 shares of common stock for issuance to the Company's employees, directors and consultants. Options granted under the 1998 Plan have a maximum term of ten years and generally

MONOLITHIC POWER SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

vest over four years at the rate of 25 percent one year from the date of grant and 1/48th monthly thereafter. On November 19, 2004, the effective date of the Company's initial public offering, the 1998 Plan was terminated for future grants and the remaining 1,392,750 shares available for grant were moved to the Company's 2004 Equity Incentive Plan (the 2004 Plan). In addition, throughout the year, shares underlying options from the 1998 Plan that are cancelled (for example, upon termination of service) are transferred to the 2004 Plan based on the number of cancellations that occur throughout the year.

2004 Equity Incentive Plan

The Company's Board of Directors adopted the Company's 2004 Equity Incentive Plan in March 2004, and the Company's stockholders approved it in November 2004. Options granted under the 2004 Plan have a maximum term of ten years. New hire grants generally vest over four years at the rate of 25 percent one year from the date of grant and 1/48th monthly thereafter. Refresh grants generally vest over four years at the rate of 50 percent two years from the date of grant and 1/48th monthly thereafter. There were 800,000 shares initially reserved for issuance under the 2004 Plan. The 2004 Plan provides for annual increases in the number of shares available for issuance beginning on January 1, 2005 equal to the least of: 5% of the outstanding shares of common stock on the first day of the year, 2,400,000 shares, or a number of shares determined by the Board of Directors. The following is a summary of the 2004 Plan, which includes stock options and restricted stock awards and units:

Available for Grant as of December 31, 2007	1,603,319
2008 Additions to Plan	1,672,730
2008 Grants	(2,877,917)
2008 Cancellations	<u>415,469</u>
Available for Grant as of December 31, 2008	<u>813,601</u>

MONOLITHIC POWER SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

A summary of the status of the Company's stock option plans at December 31, 2008, 2007 and 2006 and changes therein are presented in the table below:

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value of Shares Expected to be Exercised
Outstanding at December 31, 2005 (3,428,626 options exercisable at a weighted-average exercise price of \$3.65 per share)	8,379,216	\$ 5.87	8.06	\$76,465,538
Options granted (weighted-average fair value of \$8.05 per share)	2,129,000	14.37		
Options exercised	(944,743)	4.15		
Options forfeited	(485,278)	10.97		
Outstanding at December 31, 2006 (4,576,160 options exercisable at a weighted-average exercise price of \$4.82 per share)	9,078,195	\$ 7.77	7.21	\$37,698,914
Options granted (weighted-average fair value of \$7.21 per share)	1,537,400	17.02		
Options exercised	(2,902,927)	5.39		
Options forfeited and expired	(269,862)	10.82		
Outstanding at December 31, 2007 (3,722,936 options exercisable at a weighted-average exercise price of \$6.94 per share)	7,442,806	\$ 10.50	6.64	\$81,762,963
Options granted (weighted-average fair value of \$6.08 per share)	2,566,290	17.10		
Options exercised	(1,417,585)	8.97		
Options forfeited and expired	(394,874)	14.72		
Outstanding at December 31, 2008	8,196,637	\$ 12.62	5.91	\$20,193,958
Options exercisable at December 31, 2008 and expected to become exercisable	7,506,407	\$ 12.31	5.88	\$19,992,208
Options vested and exercisable at December 31, 2008	3,766,630	\$ 8.26	5.54	\$19,050,764

MONOLITHIC POWER SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following summarizes information as of December 31, 2008 concerning outstanding and exercisable options:

Range of Exercises Prices	Options Outstanding			Options Exercisable	
	Number of Options Outstanding as if 12/31/2008	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Options Exercisable as of 12/31/2008	Weighted Average Exercise Price
\$0.08 – \$5.00	1,315,642	4.41	\$ 2.81	1,315,642	\$ 2.81
\$7.50 – \$8.41	1,009,956	6.28	\$ 7.98	890,103	\$ 7.93
\$8.50 – \$11.84	821,481	5.89	\$ 9.81	662,213	\$ 9.84
\$11.85 – \$13.01	1,105,754	5.93	\$ 12.54	240,196	\$ 11.97
\$13.17 – \$15.64	905,282	6.32	\$ 15.06	202,083	\$ 14.49
\$15.74 – \$16.00	1,223,441	6.50	\$ 15.86	130,214	\$ 15.97
\$16.23 – \$18.77	895,914	6.02	\$ 18.06	247,669	\$ 17.71
\$18.91 – \$25.12	811,667	6.31	\$ 21.97	78,510	\$ 20.25
\$25.14	31,500	6.59	\$ 25.14	—	\$ —
\$25.84	76,000	6.46	\$ 25.84	—	\$ —
	<u>8,196,637</u>			<u>3,766,630</u>	

The total fair value of options that vested was \$9.4 million, \$8.7 million and \$10.1 million, respectively, for the years ended December 31, 2008, 2007 and 2006. Total intrinsic value of options exercised was \$20.5 million, \$36.3 million and \$10.4 million, respectively, for the years ended December 31, 2008, 2007 and 2006. Net cash proceeds from the exercise of stock options were \$12.7 million for the year ended December 31, 2008. At December 31, 2008, unamortized compensation expense related to unvested options was approximately \$21.0 million. The weighted average period over which compensation expense related to these unvested options will be recognized is approximately 2.8 years.

The employee stock-based compensation expense recognized under SFAS 123(R) was determined using the Black-Scholes option pricing model. Option pricing models require the input of subjective assumptions and these assumptions can vary over time. The Company used the following weighted-average assumptions to determine the fair value of the awards granted during the respective periods:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Expected term (years)	4.1	4.4	4.9
Expected volatility	40.1%	44.9%	60.6%
Risk-free interest rate	2.6%	4.6%	4.7%
Dividend yield	—	—	—

In estimating the expected term, the Company considered its historical stock option exercise experience, post vesting cancellations and remaining contractual term of the options outstanding. The estimated expected volatility included the historical stock prices of MPS and companies similar to MPS, as the Company does not have sufficient historical data as a public company to determine reasonable estimates. MPS considered companies of similar size, industry and financial structure to devise its estimate. The Company uses the U.S. Treasury yield for its risk-free interest rate and a dividend yield of zero as it does not issue dividends. The Company applies a forfeiture rate that is based on options that have been forfeited historically.

MONOLITHIC POWER SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Restricted Stock

A portion of the Company's shares of common stock were issued under restricted stock purchase agreements. Under these agreements, in the event of a termination of an employee, the Company has the right to repurchase the common stock at the original issuance price of \$0.001. The repurchase right expires over a 4-year period. A summary of our restricted stock awards is presented in the table below:

	Restricted Stock Awards	Weighted Average Grant Date Fair Value	Weighted Average Remaining Recognition Period (Years)
Outstanding at December 31, 2005	336,577	\$ 8.88	1.84
Awards granted	75,200	15.8	
Awards released	(88,188)	8.62	
Awards forfeited	(22,103)	10.74	
Outstanding at December 31, 2006	301,486	\$ 10.54	1.32
Awards granted	—	—	
Awards released	(98,086)	10.12	
Awards forfeited	(27,861)	9.99	
Outstanding at December 31, 2007	175,539	\$ 10.86	1.31
Awards granted	—	—	
Awards released	(88,576)	10.53	
Awards forfeited	(16,586)	9.62	
Outstanding at December 31, 2008	70,377	\$ 11.55	0.48

The Company also grants restricted stock units, which vest generally over two to four years as determined by the Company's Compensation Committee, and are issued upon vesting. A summary of the restricted stock units is presented in the table below:

	Restricted Stock Units	Weighted Average Grant Date Fair Value	Weighted Average Remaining Recognition Period (Years)
Granted as of December 31, 2005	—	\$ —	—
Awards granted	60,000	11.85	
Awards released	—	—	
Awards forfeited	—	—	
Granted as of December 31, 2006	60,000	\$ 11.85	1.82
Awards granted	152,500	16.75	
Awards released	(30,000)	11.85	
Awards forfeited	—	—	
Total granted through December 31, 2007	182,500	\$ 15.37	1.91
Awards granted	311,627	18.48	
Awards released	(96,125)	15.39	
Awards forfeited	(8,359)	15.98	
Total granted through December 31, 2008	389,643	\$ 18.11	2.72

MONOLITHIC POWER SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The total fair value of restricted stock awards and units that vested and the compensation expense related to restricted stock awards and units was \$3.0 million, \$1.8 million and \$0.9 million for the years ended December 31, 2008, 2007 and 2006, respectively. The intrinsic value related to restricted stock awards and units released for the years ended 2008, 2007 and 2006 was \$3.4 million, \$2.2 million and \$1.1 million, respectively. The total intrinsic value of restricted awards and units outstanding at December 31, 2008, 2007 and 2006 were \$5.8 million, \$7.7 million and \$4.0 million, respectively. At December 31, 2008, unamortized compensation expense related to unvested restricted stock awards and units was approximately \$5.1 million with a weighted average remaining recognition period of 2.4 years.

In 2001, the Company sold restricted stock awards to an employee and accepted as payment a note receivable in the amount of \$0.4 million, bearing interest at the rate of 5.9% annually. The note was classified as a stockholder note receivable in the stockholders' equity section of the Company's balance sheet at December 31, 2005 and 2004 respectively. The note was repaid in full in March 2006.

2004 Employee Stock Purchase Plan

Under the 2004 Employee Stock Purchase Plan (the Purchase Plan), eligible employees may purchase common stock through payroll deductions. Participants may not purchase more than 2,000 shares in a six-month offering period or stock having a value greater than \$25,000 in any calendar year as measured at the beginning of the offering period in accordance with the Internal Revenue Code and applicable Treasury Regulations. A total of 200,000 shares of common stock were reserved for issuance under the Purchase Plan. The Purchase Plan provides for an automatic annual increase beginning on January 1, 2005 by an amount equal to the least of 1,000,000 shares; 2% of the outstanding shares of common stock on the first day of the year; or a number of shares as determined by the Board of Directors. For the years ended December 31, 2008, 2007 and 2006, 125,207 shares, 180,148 shares and 172,037 shares, respectively, were issued under the Purchase Plan. The following is a summary of the Purchase Plan and changes during the year ended December 31, 2008:

Available Shares as of December 31, 2007	1,497,217
2008 Additions to Plan	669,092
2008 Purchases	<u>(125,207)</u>
Available Shares as of December 31, 2008	<u>2,041,102</u>

The Purchase Plan is considered compensatory under SFAS 123(R) and is accounted for in accordance with FASB Technical Bulletin 97-1 ("FTB 97-1") *Accounting under Statement 123 for Certain Employee Stock Purchase Plans with a Look-Back Option*. The intrinsic value for stock purchased was \$0.8 million, \$1.2 million and \$0.8 million for the years ended December 31, 2008, 2007 and 2006, respectively. The unamortized expense as of December 31, 2008 was \$0.1 million, which will be recognized over 0.1 years. The Black-Scholes option pricing model was used to value the employee stock purchase rights. For the years ended December 31, 2008, 2007 and 2006, the following assumptions were used in the valuation of the stock purchase rights:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Expected term (years)	0.5	0.5	0.5
Expected volatility	48.3%	45.2%	48.0%
Risk-free interest rate	2.0%	5.1%	5.1%
Dividend yield	—	—	—

MONOLITHIC POWER SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Cash proceeds from employee stock purchases for the year ended December 31, 2008 was \$1.8 million.

7. Net Income (Loss) Per Share

Basic net income (loss) per share excludes dilution and is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted net income (loss) per share is calculated using the treasury stock method and reflects the potential dilution that would occur if outstanding securities or other contracts to issue common stock were exercised or converted into common stock. For the years ended December 31, 2008, 2007 and 2006, the Company had securities outstanding, which could potentially dilute basic net income per share in the future, but were excluded from the computation of diluted net loss per share in the periods presented, as their effect would have been anti-dilutive. The following table shows the number of shares of common stock issuable upon conversion or exercise of such outstanding securities:

	Year ended December 31,		
	2008	2007	2006
Stock Options	3,241,066	2,392,236	9,078,195
Restricted Stock	—	—	361,486
Total	<u>3,241,066</u>	<u>2,392,236</u>	<u>9,439,681</u>

8. Income Taxes

The components of income before income taxes for the years ended December 31, 2008, 2007 and 2006 are (in thousands):

	2008	2007	2006
United States	\$ 5,540	\$(13,589)	\$ (468)
International	19,902	27,861	4,067
Consolidated	<u>\$25,442</u>	<u>\$ 14,272</u>	<u>\$3,599</u>

Federal income taxes have not been provided for the unremitted earnings of foreign subsidiaries totaling \$43.1 million because such earnings are intended to be permanently reinvested.

The income tax provision consists of the following (in thousands):

	Year ended December 31,		
	2008	2007	2006
Current:			
Federal	\$ (643)	\$ 431	\$4,012
State	67	1	1
Foreign	1,082	271	91
Deferred:			
Federal	(1,245)	(3,551)	(981)
State	(490)	(1,701)	334
Foreign	(47)	(71)	—
Valuation allowance	2,492	7,312	2,567
Income tax provision	<u>\$ 1,216</u>	<u>\$ 2,692</u>	<u>\$6,024</u>

MONOLITHIC POWER SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The effective tax rate differs from the applicable U.S. statutory federal income tax rate as follows:

	December 31,		
	2008	2007	2006
U.S. statutory federal tax rate	34.0%	34.0%	34.0%
State taxes, net of federal benefit	0.6	5.8	5.8
Research and development credits	(2.7)	(15.2)	(27.2)
Stock compensation	6.3	12.0	67.3
Foreign income taxed at lower rates	(35.7)	(76.3)	(42.5)
Subpart F/Inventory transfer	0.3	1.2	27.7
Decrease of prior year FIN 48 liabilities	(4.4)	—	—
Change in valuation allowance	5.2	52.0	71.4
Litigation reserves & Other	1.2	5.3	30.9
Effective tax rate	<u>4.8%</u>	<u>18.8%</u>	<u>167.4%</u>

The components of deferred tax assets and liabilities consist of the following (in thousands):

	December 31,	
	2008	2007
Deferred tax assets:		
Research tax credits	\$ 4,189	\$ 3,076
Stock compensation	5,095	4,319
Other costs not currently deductible	4,636	5,387
Depreciation and amortization	530	—
Total deferred tax assets	<u>14,450</u>	<u>12,782</u>
Valuation allowance	(14,356)	(11,934)
Net deferred tax assets	<u>94</u>	<u>848</u>
Deferred tax liabilities:		
Depreciation and amortization	—	(46)
Total deferred tax liabilities	<u>—</u>	<u>(46)</u>
Net deferred tax assets	<u>\$ 94</u>	<u>\$ 802</u>

As of December 31, 2008, the Company had research tax credit carryforwards of \$6.5 million for federal income tax purposes, which begin to expire in 2021 and \$5.7 million for state income tax purposes, which can be carried forward indefinitely.

On January 1, 2007, the Company adopted FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes—An interpretation of FASB Statement No. 109” (“FIN 48”). FIN 48 sets forth the accounting for uncertainty in income taxes recognized in an entity’s financial statements in accordance with FASB Statement No. 109, “Accounting for Income Taxes” and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Under FIN 48, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

MONOLITHIC POWER SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

As a result of the implementation of FIN 48, the Company recognized a cumulative adjustment in the liability for unrecognized income tax benefits in the amount of \$0.9 million, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings. At the adoption date of January 1, 2007, the Company had \$5.3 million of unrecognized tax benefits, \$4.8 million of which would affect its effective tax rate if recognized. At December 31, 2008, the Company had \$8.6 million of unrecognized tax benefits, \$4.8 million of which would affect its effective tax rate if recognized.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

Balance at January 1, 2007	\$ 5,297
Gross increases for tax positions of prior years	113
Gross increases for tax positions of current year	<u>2,500</u>
Balance at December 31, 2007	\$ 7,910
Gross increases for tax positions of prior year	96
Gross increases for tax position of current year	1,794
Reductions for prior year tax positions	(1,245)
Reduction due to statutes expiring	<u>(2)</u>
Balance at December 31, 2008	<u><u>\$ 8,553</u></u>

The Company recognizes interest and penalties, if any, related to uncertain tax positions in its income tax provision. As of January 1, 2007, December 31, 2007 and December 31, 2008, the Company has approximately \$0.1 million, \$0.3 million and \$0.4 million, respectively, of accrued interest related to uncertain tax positions.

Uncertain tax positions relate to the allocation of income and deductions among the Company's global entities and to the determination of the research and experimental tax credit. The Company estimates that there will be no material changes in its uncertain tax positions in the next 12 months.

The Company files income tax returns in the U.S. federal jurisdiction, and various U.S. states and foreign jurisdictions. Generally, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years prior to 2004 because of the statute of limitations.

9. Commitments and Contingencies

The following table summarizes the Company's commitments as of December 31, 2008 (in thousands).

	Payments by Period						
	Total	2009	2010	2011	2012	2013	Thereafter
Operating leases	\$ 9,099	\$ 1,261	\$1,143	\$1,062	\$1,080	\$1,123	\$ 3,430
Outstanding purchase commitments	10,256	10,256	—	—	—	—	—
	<u>\$19,355</u>	<u>\$11,517</u>	<u>\$1,143</u>	<u>\$1,062</u>	<u>\$1,080</u>	<u>\$1,123</u>	<u>\$ 3,430</u>

MONOLITHIC POWER SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Lease Obligations

In December 2006, the Company relocated its corporate headquarters from Los Gatos, California to San Jose, California and wrote off the fair value of the Los Gatos lease in the amount of \$1.3 million, of which \$0.1 million was recorded in cost of revenue and \$1.2 million was recorded in operating expenses. In May 2007, the Company entered into a sublease agreement to rent a portion of its Los Gatos property for a period of 21 months commencing on June 1, 2007 during which the Company is to receive gross payments of \$0.7 million. As the amount the Company expects to receive is greater than the amount the Company originally estimated, the Company reduced the estimate of its remaining liability by \$0.5 million in the second quarter of 2007. The Company leases its headquarters and sales offices in San Jose, California under a non-cancelable operating lease which expires in October 2016. In addition, the Company entered into a five-year lease arrangement in September 2004 for its manufacturing facility located in Chengdu, China, with an option to purchase the facility as discussed in the next section. The Company also leases its sales offices in Japan, China, Taiwan and Korea. Certain of the Company's facility leases provide for periodic rent increases. Rent expense for the years ended December 31, 2008, 2007 and 2006 was \$1.1 million, \$0.4 million (net of \$0.5 million of benefit discussed above) and \$2.5 million (including \$1.3 million of lease write off discussed above), respectively.

Chengdu, China Commitment

In September 2004, the Company signed an agreement with a Chinese local authority to construct a facility in Chengdu, China, initially for the testing of its ICs. Pursuant to this agreement, the Company contributed capital in the form of cash, in-kind assets, and/or intellectual property, of at least \$5.0 million to its wholly-owned Chinese subsidiary as the registered capital for the subsidiary and exercised the option to purchase land use rights for the facility of approximately \$0.2 million. The Company also has the option to acquire the facility after a five-year lease term for the original construction cost less rents paid, which is currently estimated at \$2.0 million, which option becomes exercisable in March 2011.

Warranty and Indemnification Provisions

The Company provides a standard one-year warranty against defects in materials and workmanship and will either repair the goods, provide replacements at no charge to the customer, or refund amounts for defective units. On occasion the Company permits the return of defective products outside the normal warranty period. In such cases, the Company accrues for the related costs at the time the decision to permit the return is made. Reserve requirements are recorded in the period of sale and are based on an assessment of the products sold with warranty and historical warranty costs incurred.

The changes in warranty reserves during 2008, 2007 and 2006 are as follows (in thousands):

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Balance at beginning of year	\$1,025	\$1,038	\$ 490
Warranty costs	(109)	(243)	(442)
Reserve adjustments and unused warranty provision	(724)	—	—
Warranty provision for product sales	572	230	990
Balance at end of year	<u>\$ 764</u>	<u>\$1,025</u>	<u>\$1,038</u>

MONOLITHIC POWER SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company provides indemnification agreements to a supplier and certain direct or indirect customers. The Company agrees to reimburse these parties for any damages, costs and expenses incurred by them as a result of legal actions taken against them by third parties for infringing upon their intellectual property rights as a result of using the Company's products and technologies. These indemnification provisions are varied in their scope and are subject to certain terms, conditions, limitations and exclusions. Such costs were \$0.5 million and \$0.4 million for the years ended December 31, 2007 and 2006, respectively. There were no indemnification costs in 2008. These costs are charged to operations as incurred. The Company also provides for indemnification of its directors and officers.

10. Litigation

O2Micro, Inc.

Since November 2000, the Company has been engaged in multiple legal proceedings involving patent infringement claims with O2Micro, Inc. and its parent corporation, O2Micro International Limited (referred to hereinafter as "O2Micro"). All of these claims relate to the Company's cold cathode fluorescent lighting (CCFL) backlight inverter products.

In the United States District Court for the Northern District of California, O2Micro alleged that certain of the Company's CCFL products infringe O2Micro's '722 patent. On October 30, 2007, following the jury's verdict, the Court entered judgment that all of the '722 patent claims asserted by O2Micro against the Company are invalid and denied all post-trial motions. Subsequently, O2Micro filed an appeal and the Company filed a cross-appeal, with the Federal Circuit. The appeals are currently pending.

On May 1, 2007, the Company filed for declaratory judgment relief in the United States District Court for the Northern District of California against O2Micro that certain of the Company's CCFL products do not infringe O2Micro's '129 patent and that the '129 patent is invalid and unenforceable. On August 20, 2008, the parties filed a joint stipulation to a dismissal with prejudice of their respective claims for relief in which O2Micro covenants not to assert or reassert its '129 patent against the Company or its direct and indirect customers for infringement by the Company's series of power inverter controller products.

On September 30, 2008, based on information and belief that O2Micro had alleged to the Company's customer that certain of its inverter controller products infringe O2Micro's patents, the Company filed for declaratory judgment relief in the United States District Court for the Northern District of California against O2Micro that those products do not infringe O2Micro's 6,856,519 ('519) patent family. On February 11, 2009, O2Micro filed a counterclaim against the Company and its customers that certain of the Company's inverter controller products infringe three patents in the '519 patent family and O2Micro's 7,417,382 ('382) patent.

On December 15, 2008, O2Micro filed a complaint with the International Trade Commission alleging the patent infringement of the '519 and '382 patents against certain of the Company's products. This case is still in the early proceedings.

In addition to the U.S. litigation described above, O2Micro has brought various legal proceedings against the Company in Taiwan based upon a Taiwan patent. The Company previously posted cash bonds of approximately \$7.9 million with the Taiwan Courts in support of its counter-injunctions and to prevent O2Micro from seizing the Company's assets. In July 2008, the parties agreed to cease all

MONOLITHIC POWER SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

provisional remedial disputes against each other and allow the parties to retrieve the bonds posted. As a result of the agreement, the Company retrieved the bonds, totaling approximately \$7.9 million, in the second half of 2008.

Taiwan Sumida Electronics

On July 30, 2007, the Company settled its litigation with TSE concerning the Indemnification Agreement. As of December 31, 2008, the Company had \$7.4 million held in escrow for which the Company could be liable subject to the outcome of certain legal activities which are still pending in front of the Federal Circuit Court of Appeal.

Linear Technology Corporation

On July 1, 2008, the United States District Court for the District of Delaware issued a judgment as a matter of law that the Company did not breach its October 1, 2005 Settlement and License Agreement with Linear. The Company plans to seek recovery of its attorney fees and costs from Linear, pursuant to a prevailing party attorneys fees provision in the Settlement and License Agreement. However, there can be no assurance that the Company can be successful in obtaining such recovery.

The court also found as a matter of law that the Company did not willfully infringe the patent claims of U.S. Patent Numbers 5,481,178 and 6,580,258 asserted by Linear against MPS' accused MP1543 product, which has been discontinued. However, the jury returned a verdict that an evaluation board containing the previously discontinued MP1543 product had directly infringed the asserted patent claims and that Linear's patents mentioned above are valid. The parties had stipulated to a total of ten dollars in nominal patent infringement damages in the event that Linear prevailed in that dispute. The court has not issued a final judgment concerning the patent infringement and validity claims.

Chip Advanced Technology Inc.

On December 12, 2007, the Company filed a patent infringement lawsuit in the U.S. District Court for the Central District of California against Chip Advanced Technology Inc. ("CAT"), asserting that CAT willfully infringed a MPS patent that enables efficient low voltage, low current power conversions, such as DC-DC step down converters. In the complaint, MPS seeks unspecified damages and a court-ordered injunction against future infringement by CAT. Through this lawsuit, MPS intends to vigorously protect and enforce its intellectual property. On September 16, 2008, the Company amended its complaint to add trade secret misappropriation claims against CAT. As the case is in its early stages, the Company is not able to determine the outcome of the litigation.

11. Employee Benefits Plan

The Company sponsors a 401(k) savings and profit-sharing plan ("the Plan") for all employees in the United States who meet certain eligibility requirements. Participants may contribute up to the amount allowable as a deduction for federal income tax purposes. The Company is not required to contribute and did not contribute to the Plan for the years ended December 31, 2008, 2007 and 2006.

12. Major Customers

The following table summarizes the percentages of accounts receivable, net and corresponding revenue for those customers, with accounts receivable balances at year end that accounted for 10% or

MONOLITHIC POWER SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

more of total accounts receivable, net at the end of 2008 and 2007 or with sales that accounted for 10% or more of the Company's revenue for each respective year:

<u>Customers</u>	<u>Revenue</u> Year ended December 31,			<u>Accounts Receivable, Net</u> as of December 31,	
	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2008</u>	<u>2007</u>
A	20%	18%	17%	14%	11%
B	10%	15%	14%	*	21%
C	*	*	*	16%	*

* Represents less than 10% of accounts receivable, net or revenue

13. Segment Information

As defined by the requirements of SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, the Company operates in one reportable segment, the design, development, marketing and sale of high-performance, mixed-signal analog semiconductors for the computing, consumer electronics and communications markets. The Company's chief operating decision maker is its chief executive officer. The Company does not specifically allocate any of its resources to or measure the performance of, individual product families.

The Company derived a substantial majority of its revenue from sales to customers located outside North America during 2008, 2007 and 2006, with geographic revenue based on the customers' ship-to location.

The following is a summary of revenue by geographic region based on customer ship-to location for the years ended December 31, 2008, 2007 and 2006 (in thousands):

<u>Country</u>	<u>Year ended December 31,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
China	\$ 72,402	\$ 66,582	\$ 49,754
Taiwan	21,978	18,698	23,750
Korea	25,747	15,917	11,915
Japan	15,583	12,312	6,930
Europe	12,918	9,229	7,093
USA	4,330	3,612	3,965
Other	7,553	7,654	1,608
Total	<u>\$160,511</u>	<u>\$134,004</u>	<u>\$105,015</u>

The following is a summary of net revenue by product type for the years ended December 31, 2008, 2007 and 2006 (in thousands):

<u>Product Family</u>	<u>Year ended December 31,</u>					
	<u>2008</u>		<u>2007</u>		<u>2006</u>	
	<u>Amount</u>	<u>% of Revenue</u>	<u>Amount</u>	<u>% of Revenue</u>	<u>Amount</u>	<u>% of Revenue</u>
DC to DC Converters	\$115,373	71.9%	\$ 86,701	64.7%	\$ 71,715	68.3%
LCD Backlight Inverters	32,308	20.1%	35,713	26.7%	29,201	27.8%
Audio Amplifiers	12,830	8.0%	11,590	8.6%	4,099	3.9%
Total	<u>\$160,511</u>	<u>100.0%</u>	<u>\$134,004</u>	<u>100.0%</u>	<u>\$105,015</u>	<u>100.0%</u>

MONOLITHIC POWER SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following is a summary of long-lived assets by geographic region, excluding restricted assets, as of December 31, 2008 and 2007 (in thousands):

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
China	\$10,470	\$10,598
United States	3,646	3,635
Taiwan	103	105
Japan	31	26
Other	41	55
Total	<u>\$14,291</u>	<u>\$14,419</u>

14. Valuation and Qualifying Accounts

The Company had the following activity in its accounts receivable allowances (in thousands):

	<u>Accounts Receivable Allowances</u>
Balance, December 31, 2005	<u>\$ 227</u>
Balance, December 31, 2006	<u>227</u>
Balance, December 31, 2007	227
Deductions	<u>(227)</u>
Balance, December 31, 2008	<u>\$ —</u>

15. Stock Repurchase Program

On February 5, 2008, the Company announced that its Board of Directors approved a stock repurchase program that authorizes the Company to repurchase up to \$25.0 million of its common stock through the end of 2008. As of December 31, 2008, the following shares have been repurchased through the open market and subsequently retired:

<u>2008 Calendar Year</u>	<u>Shares Repurchased</u>	<u>Average Price per Share</u>	<u>Value (in thousands)</u>
February	27,500	\$ 16.88	\$ 464
March	527,332	\$ 17.12	\$ 9,028
April	201,863	\$ 20.03	\$ 4,043
May	100	\$ 21.98	\$ 2
June	18,000	\$ 21.66	\$ 390
July	14,155	\$ 21.86	\$ 309
August	100	\$ 22.03	\$ 2
September	307,355	\$ 18.82	\$ 5,784
October	333,700	\$ 15.05	\$ 5,021
Total Shares Repurchased	<u>1,430,105</u>		<u>\$ 25,043</u>

MONOLITHIC POWER SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

16. Quarterly Financial Data (Unaudited)

	Three months ended			
	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008
	(in thousands, except per share amounts)			
Revenue	\$35,409	\$41,502	\$ 48,891	\$ 34,709
Cost of revenue*	13,044	15,375	18,201	14,564
Gross profit	22,365	26,127	30,690	20,145
Operating expenses:				
Research and development*	7,572	8,602	9,420	9,256
Selling, general and administrative*	8,728	8,912	9,560	8,056
Provision for litigation expense	736	4,294	1,090	594
Total operating expenses	17,036	21,808	20,070	17,906
Income from operations	5,329	4,319	10,620	2,239
Other income (expense):	—	—	—	—
Interest and other income	1,434	810	684	659
Interest and other expense	(6)	(112)	(389)	(145)
Total other income, net	1,428	698	295	514
Income before income taxes	6,757	5,017	10,915	2,753
Income tax provision (benefit)	822	417	458	(481)
Net income	\$ 5,935	\$ 4,600	\$ 10,457	\$ 3,234
Basic net income per share	\$ 0.18	\$ 0.14	\$ 0.31	\$ 0.10
Diluted net income per share	\$ 0.17	\$ 0.13	\$ 0.29	\$ 0.09
Weighted average common shares Outstanding	33,340	33,229	33,869	33,587
Stock options and restricted stock	2,551	3,003	2,733	1,599
Diluted weighted-average common equivalent shares outstanding	35,891	36,232	36,602	35,186
* Stock-based compensation has been included in the following line items:				
Cost of revenue	\$ 45	\$ 128	\$ 76	\$ 95
Research and development	1,207	1,396	1,471	1,747
Selling, general and administrative	1,535	1,819	1,787	1,852
Total	\$ 2,787	\$ 3,343	\$ 3,334	\$ 3,694

MONOLITHIC POWER SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	Three months ended			
	March 31, 2007	June 30, 2007	September 30, 2007	December 31, 2007
	(in thousands, except per share amounts)			
Revenue	\$24,496	\$30,833	\$ 40,188	\$ 38,487
Cost of revenue*	8,963	11,248	14,662	13,908
Gross profit	15,533	19,585	25,526	24,579
Operating expenses:				
Research and development*	5,932	6,428	7,489	7,493
Selling, general and administrative*	6,197	7,119	8,071	8,150
Lease abandonment	—	(496)	—	—
Patent litigation settlement	—	9,800	—	—
Provision for litigation	2,847	4,028	1,452	1,043
Total operating expenses	14,976	26,879	17,012	16,686
Income (loss) from operations	557	(7,294)	8,514	7,893
Other income (expense):				
Interest and other income	1,007	1,169	1,223	1,342
Interest and other expense	(7)	(22)	8	(118)
Total other income, net	1,000	1,147	1,231	1,224
Income (loss) before income taxes	1,557	(6,147)	9,745	9,117
Income tax provision (benefit)	1,886	219	752	(165)
Net income (loss)	\$ (329)	\$ (6,366)	\$ 8,993	\$ 9,282
Basic net income (loss) per share	\$ (0.01)	\$ (0.20)	\$ 0.28	\$ 0.28
Diluted net income (loss) per share	\$ (0.01)	\$ (0.20)	\$ 0.25	\$ 0.26
Weighted average common shares outstanding	30,482	31,382	31,995	32,919
Stock options and restricted stock	—	—	3,958	3,216
Diluted weighted-average common equivalent shares outstanding	30,482	31,382	35,953	36,135
* Stock-based compensation has been included in the following line items:				
Cost of revenue	\$ 111	\$ 113	\$ 149	\$ 166
Research and development	1,101	952	1,326	1,246
Selling, general and administrative	1,108	1,440	1,748	1,768
Total	\$ 2,320	\$ 2,505	\$ 3,223	\$ 3,180

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934 as of the end of the period covered by this Annual Report on Form 10-K. Our disclosure controls and procedures have been designed to ensure that material information relating to us, including our consolidated subsidiaries, required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on our evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective at December 31, 2008 and provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control over Financial Reporting

Our management, including our Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) and Rule 15d-(f). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external purposes in accordance with generally accepted accounting principles ("GAAP").

Our internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in *design* exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly

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designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in *operation* exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or competence to perform the control effectively. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the company's financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

Our management, including our Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2008. In performing this assessment, management used the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—An Integrated Framework. Based upon this assessment, our management has concluded that, as of December 31, 2008, our internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Our independent registered public accounting firm, Deloitte & Touche LLP, which audited the consolidated financial statements included in this annual report on Form 10-K, has issued an attestation report, included elsewhere herein, on the effectiveness of our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

While our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance that their respective objectives will be met, we do not expect that our disclosure controls and procedures or our internal control over financial reporting are or will be capable of preventing or detecting all errors and all fraud. Any control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2008 that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Reference is made to the information regarding directors and nominees, code of ethics, corporate governance matters and disclosure relating to compliance with Section 16(a) of the Securities Exchange Act of 1934 appearing under the captions "Election of Directors" and "Compliance with Section 16(a) Beneficial Ownership Reporting Compliance" in our Proxy Statement for our Annual Meeting of Stockholders to be held on May 21, 2009, which information is incorporated in this Form 10-K by reference. Information regarding executive officers is set forth under the caption "Executive Officers of the Registrant" in Part I of this Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is set forth under "Executive Officer Compensation" in our Proxy Statement for the 2009 Annual Meeting of Stockholders, and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is set forth under the captions "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information" in our Proxy Statement for the 2009 Annual Meeting of Stockholders, and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is set forth under the captions "Certain Relationships and Related Transactions" and "Election of Directors" in our Proxy Statement for the 2009 Annual Meeting of Stockholders, and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is set forth under the caption "Accounting Fees" in our Proxy Statement for the 2009 Annual Meeting of Stockholders, and is incorporated herein by reference.

PART IV**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.****(a) Documents filed as part of this report****(1) All financial statements**

Index to Financial Statements
Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets
Consolidated Statements of Operations
Consolidated Statements of Stockholders' Equity
Consolidated Statements of Cash Flows
Notes to Consolidated Financial Statements

(2) Schedules

All schedules have been omitted because the required information is not present or not present in amounts sufficient to require submission of the schedules, or because the information required is included in the consolidated financial statements or notes thereto.

(3) Exhibits

The exhibits listed on the accompanying index to exhibits in Item 15(b) below are filed as part of, or hereby incorporated by reference into, this Form 10-K.

(b) Exhibits

<u>Exhibit Number</u>	<u>Description</u>
3.1(1)	Amended and Restated Certificate of Incorporation.
3.2(2)	Amended and Restated Bylaws.
10.1+(3)	Registrant's 1998 Stock Plan and form of option agreement.
10.2+	Registrant's Amended 2004 Equity Incentive Plan and form of option agreement.
10.3+(4)	Registrant's 2004 Employee Stock Purchase Plan and form of subscription agreement.
10.4+(5)	Form of Directors' and Officers' Indemnification Agreement.
10.5†(6)	Foundry Agreement between the Registrant and Advanced Semiconductor Manufacturing Corp. of Shanghai, dated August 14, 2001.
10.6(7)	Office Lease, First Amendment to Office Lease, and Second Amendment to Office Lease between the Registrant and Boccardo Corporation, dated May 6, 2002, October 30, 2003, and May 6, 2004, respectively.
10.7+(8)	Employment Agreement with Michael Hsing and Amendment thereof.
10.8+(9)	Employment Agreement with Maurice Sciammas and Amendment thereof.
10.9+(10)	Employment Agreement with Jim Moyer.
10.10+(11)	Employment Agreement with Deming Xiao and Amendment thereof.
10.11+(12)	Employment Agreement with Paul Ueunten and Amendment thereof.
10.12(13)	Distribution Agreement with Asian Information Technology Inc. Ltd., dated March 1, 2004.

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<u>Exhibit Number</u>	<u>Description</u>
10.13(14)	Business Purchase Agreement with Uppertech Hong Kong Ltd., dated March 1, 2004.
10.14†(15)	Investment and Cooperation Contract, dated August 19, 2004.
10.15†(16)	Patent License Agreement, dated May 1, 2004.
10.16†(17)	Settlement Agreement with Linear Technology Corporation.
10.17+(18)	Employment Agreement with C. Richard Neely, Jr. and Amendment thereof
10.18(19)	Settlement Agreement with Microsemi Corporation.
10.19(20)	Settlement Agreement with Micrel Corporation.
10.20+(21)	Employment Agreement with Adriana Chiocchi and Amendment thereof.
10.21+(22)	Form of Performance Unit Agreement.
10.22(23)	Sublease Agreement between the Registrant and FedEx Freight West, Inc. and Brokaw Interests dated June 13, 2006.
10.23+(24)	Letter Agreement with Victor Lee.
10.25(25)	Judgment on Appeal by the U.S. Court of Appeals for the Federal Circuit in the litigation between O2Micro International Limited v. Monolithic Power Systems, Inc., Nos. CV-00-4071 and CV-01-3995 (N.D. Cal.), on appeal as Nos. 2006-1338 and -1377 (Fed. Cir.).
10.26(26)	Sublease Agreement between the Registrant and Anchor Bay Technologies for the property located at 983 University Avenue, Building A, Los Gatos, CA 95032 dated May 14, 2007.
10.27+(27)	Letter Agreement with Douglas McBurnie.
10.28+(28)	Letter Agreement with Karen A. Smith Bogart.
10.29(29)	Order issued on 6/25/07 in response to the summary judgment motions of both parties in the Monolithic Power Systems, Inc. v. Taiwan Sumida Electronics, Inc. case.
10.30(30)	Settlement Agreement with Taiwan Sumida Electronics.
10.31+(31)	Registrant's Employee Bonus Plan, as amended effective March 6, 2008.
10.32(33)	Lease Agreement between the Registrant and Brokaw Interests, dated October 23, 2008
10.33(34)	Form of Restricted Stock Award Agreement
14.1(32)	Code of Ethics.
21.1	Subsidiaries of Monolithic Power Systems, Inc.
23.1	Consent of Independent Registered Public Accounting Firm.
24.1	Power of Attorney (included on Signature page to this Form 10-K).
31.01	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.02	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.01*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

+ Management contract or compensatory plan or arrangement.

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- † Confidential treatment requested for portions of this agreement, which portions have been omitted and filed separately with the Securities and Exchange Commission
- * This exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that Section, nor shall it be deemed incorporated by reference in any filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.
- (1) Incorporated by reference to Exhibit 3.2 of the Registrant’s Form S-1 Registration Statement (Registration No. 333-117327), declared effective by the Securities and Exchange Commission on November 18, 2004.
 - (2) Incorporated by reference to Exhibit 3.4 of the Registrant’s Form S-1 Registration Statement (Registration No. 333-117327), declared effective by the Securities and Exchange Commission on November 18, 2004.
 - (3) Incorporated by reference to Exhibit 10.1 of the Registrant’s Form S-1 Registration Statement (Registration No. 333-117327), declared effective by the Securities and Exchange Commission on November 18, 2004.
 - (4) Incorporated by reference to Exhibit 10.2 of the Registrant’s Form S-1 Registration Statement (Registration No. 333-117327), declared effective by the Securities and Exchange Commission on November 18, 2004 and to exhibits 9.01(c) (1) and (2) to the Registrant’s Current Report on Form 8-K, filed with the Securities and Exchange Commission on December 7, 2004.
 - (4) Incorporated by reference to Exhibit 10.3 of the Registrant’s Form S-1 Registration Statement (Registration No. 333-117327), declared effective by the Securities and Exchange Commission on November 18, 2004.
 - (5) Incorporated by reference to Exhibit 10.4 of the Registrant’s Form S-1 Registration Statement (Registration No. 333-117327), declared effective by the Securities and Exchange Commission on November 18, 2004.
 - (6) Incorporated by reference to Exhibit 10.5 of the Registrant’s Form S-1 Registration Statement (Registration No. 333-117327), declared effective by the Securities and Exchange Commission on November 18, 2004.
 - (7) Incorporated by reference to Exhibit 10.6 of the Registrant’s Form S-1 Registration Statement (Registration No. 333-117327), declared effective by the Securities and Exchange Commission on November 18, 2004.
 - (8) Incorporated by reference to Exhibit 10.7 of the Registrant’s current report on Form 8-K filed with the Securities and Exchange Commission on March 11, 2008 and Exhibit 10.1 of the Registrant’s current report on Form 8-K filed with the Securities and Exchange Commission on December 19, 2008.
 - (9) Incorporated by reference to Exhibit 10.8 of the Registrant’s current report on Form 8-K filed with the Securities and Exchange Commission on March 11, 2008 and Exhibit 10.3 of the Registrant’s current report on Form 8-K filed with the Securities and Exchange Commission on December 19, 2008.
 - (10) Incorporated by reference to Exhibit 10.9 of the Registrant’s Form S-1 Registration Statement (Registration No. 333-117327), declared effective by the Securities and Exchange Commission on November 18, 2004.
 - (11) Incorporated by reference to Exhibit 10.10 of the Registrant’s current report on Form 8-K filed with the Securities and Exchange Commission on March 11, 2008 and Exhibit 10.4 of the Registrant’s current report on Form 8-K filed with the Securities and Exchange Commission on December 19, 2008.
 - (12) Incorporated by reference to Exhibit 10.11 of the Registrant’s current report on Form 8-K filed with the Securities and Exchange Commission on March 11, 2008 and Exhibit 10.6 of the Registrant’s current report on Form 8-K filed with the Securities and Exchange Commission on December 19, 2008.

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- (13) Incorporated by reference to Exhibit 10.11 of the Registrant's Form S-1 Registration Statement (Registration No. 333-117327), declared effective by the Securities and Exchange Commission on November 18, 2004.
- (14) Incorporated by reference to Exhibit 10.12 of the Registrant's Form S-1 Registration Statement (Registration No. 333-117327), declared effective by the Securities and Exchange Commission on November 18, 2004.
- (15) Incorporated by reference to Exhibit 10.13 of the Registrant's Form S-1 Registration Statement (Registration No. 333-117327), declared effective by the Securities and Exchange Commission on November 18, 2004.
- (16) Incorporated by reference to Exhibit 10.14 of the Registrant's Form S-1 Registration Statement (Registration No. 333-117327), declared effective by the Securities and Exchange Commission on November 18, 2004.
- (17) Incorporated by reference to Exhibit 10.1 of the Registrant's quarterly report on Form 10-Q, filed with the Securities and Exchange Commission on March 13, 2006.
- (18) Incorporated by reference to Exhibit 10.17 of the Registrant's current report on Form 8-K filed with the Securities and Exchange Commission on March 11, 2008 and Exhibit 10.2 of the Registrant's current report on Form 8-K filed with the Securities and Exchange Commission on December 19, 2008.
- (19) Incorporated by reference to Exhibit 10.18 of the Registrant's annual report on Form 10-K, filed with the Securities and Exchange Commission on March 28, 2006.
- (20) Incorporated by reference to Exhibit 10.1 of the Registrant's current report on Form 8-K filed with the Securities and Exchange Commission on September 22, 2006.
- (21) Incorporated by reference to Exhibit 10.20 of the Registrant's current report on Form 8-K filed with the Securities and Exchange Commission on March 11, 2008 and Exhibit 10.5 of the Registrant's current report on Form 8-K filed with the Securities and Exchange Commission on December 19, 2008.
- (22) Incorporated by reference to Exhibit 10.1 of the Registrant's current report on Form 8-K filed with the Securities and Exchange Commission on November 1, 2006.
- (23) Incorporated by reference to Exhibit 99.1 of the Registrant's current report on Form 8-K filed with the Securities and Exchange Commission on June 16, 2006.
- (24) Incorporated by reference to Exhibit 10.1 of the Registrant's current report on Form 8-K filed with the Securities and Exchange Commission on September 14, 2006.
- (25) Incorporated by reference to Exhibit 99.1 of the Registrant's current report on Form 8-K filed with the Securities and Exchange Commission on April 11, 2007.
- (26) Incorporated by reference to Exhibit 10 of the Registrant's current report on Form 8-K filed with the Securities and Exchange Commission on May 17, 2007.
- (27) Incorporated by reference to Exhibit 10.1 of the Registrant's current report on Form 8-K filed with the Securities and Exchange Commission on May 25, 2007.
- (28) Incorporated by reference to Exhibit 10.2 of the Registrant's current report on Form 8-K filed with the Securities and Exchange Commission on May 25, 2007.
- (29) Incorporated by reference to Exhibit 99.1 of the Registrant's current report on Form 8-K filed with the Securities and Exchange Commission on June 28, 2007.
- (30) Incorporated by reference to Exhibit 10.5 of the Registrant's quarterly report on Form 10-Q filed with the Securities and Exchange Commission on August 1, 2007.
- (31) Incorporated by reference to Exhibit 10.31 of the Registrant's annual report on Form 10-K filed with the Securities and Exchange Commission on March 11, 2008.
- (32) Incorporated by reference to Exhibit 14.1 of the Registrant's annual report on Form 10-K filed with the Securities and Exchange Commission on March 16, 2007.
- (33) Incorporated by reference to Exhibit 10 of the Registrant's current report on Form 8-K filed with the Securities and Exchange Commission on October 24, 2008.
- (34) Incorporated by reference to Exhibit 10.1 of the Registrant's current report on Form 8-K filed with the Securities and Exchange Commission on February 15, 2008.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

MONOLITHIC POWER SYSTEMS, INC.

By: /s/ MICHAEL R. HSING

Michael R. Hsing
President and Chief Executive Officer

Date: February 27, 2009

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Michael R. Hsing and C. Richard Neely, Jr., and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution and re-substitution, for him and in his name, place, and stead, in any and all capacities, to sign any and all amendments to this Report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming that all said attorneys-in-fact and agents, or any of them or their or his substitute or substituted, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on February 27, 2009 by the following persons on behalf of the registrant and in the capacities indicated:

<u>/s/ MICHAEL R. HSING</u> Michael R. Hsing	President, Chief Executive Officer, and Director (Principal Executive Officer)
<u>/s/ C. RICHARD NEELY, JR.</u> C. Richard Neely, Jr.	Chief Financial Officer (Principal Financial and Accounting Officer and Duly Authorized Officer)
<u>/s/ KAREN A. SMITH BOGART</u> Karen A. Smith Bogart	Director
<u>/s/ HERBERT CHANG</u> Herbert Chang	Director
<u>/s/ ALAN EARHART</u> Alan Earhart	Director
<u>/s/ VICTOR K. LEE</u> Victor K. Lee	Director
<u>/s/ DOUGLAS MCBURNIE</u> Douglas McBurnie	Director
<u>/s/ JAMES C. MOYER</u> James C. Moyer	Director
<u>/s/ UMESH PADVAL</u> Umesh Padval	Director