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As filed with the Securities and Exchange Commission on July 13, 2004

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-1
REGISTRATION STATEMENT

Under

The Securities Act of 1933

MONOLITHIC POWER SYSTEMS, INC.

(Exact name of Registrant as specified in its charter)

California	**3674**	**77-0466789**
(State or Other Jurisdiction of Incorporation or Organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

983 University Avenue
Building A
Los Gatos, CA 95032
(408) 357-6600

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

Michael Hsing
President and Chief Executive Officer
Monolithic Power Systems, Inc.
983 University Avenue
Building A
Los Gatos, CA 95032
(408) 357-6600

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ☐

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ☐

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price (1)	Amount of Registration Fee
Common Stock $0.001 par value	$100,000,000	$12,670

(1) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(o) under the Securities Act of 1933.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment that specifically states that this registration statement shall then become effective in accordance with Section 8(a) of the Securities Act of 1933, or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to Section 8(a), may determine.

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The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion. Dated July 13, 2004.

Shares

Monolithic Power Systems, Inc.

Common Stock

This is an initial public offering of shares of common stock of Monolithic Power Systems, Inc.

Monolithic Power Systems is offering of the shares to be sold in the offering. The selling stockholders identified in this prospectus are offering an additional shares. Monolithic Power Systems will not receive any of the proceeds from the sale of the shares being sold by the selling stockholders.

Prior to this offering, there has been no public market for the common stock. It is currently estimated that the initial public offering price per share will be between $ and $. Application has been made for quotation on the Nasdaq National Market under the symbol "MPWR".

See "Risk Factors" on page 6 to read about certain factors you should consider before buying shares of the common stock.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed on the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Initial public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to Monolithic Power Systems	$	$
Proceeds, before expenses, to the Selling Stockholders	$	$

To the extent that the underwriters sell more than shares of common stock, the underwriters have the option to purchase up to an additional shares from Monolithic Power Systems at the initial public offering price less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on , 2004.

Goldman, Sachs & Co. **Merrill Lynch & Co.**

Deutsche Bank Securities **Piper Jaffray**

Prospectus dated , 2004.

PROSPECTUS SUMMARY

This summary highlights the information contained elsewhere in this prospectus. You should read the entire prospectus carefully, especially the risks of investing in our common stock discussed under “Risk Factors.”

Monolithic Power Systems is a high performance analog and mixed-signal semiconductor company. We design, develop, and market proprietary, advanced analog and mixed-signal semiconductors for large and high growth markets. Our semiconductors, or integrated circuits (ICs), are used in a variety of electronic products, such as notebook computers, flat panel displays, cellular handsets, digital cameras, wireless local area network (LAN) access points, home entertainment systems, and personal digital assistants. Our ICs are used to perform functions such as lighting electronic displays, converting or controlling voltages within systems, and amplifying sound. We differentiate our ICs by offering solutions that are more highly-integrated, smaller in size, more energy efficient, more accurate with respect to performance specifications, and, accordingly, more cost-effective than many competing solutions. Our ability to offer these benefits to customers is enabled by our three core strengths: our deep system-level and applications knowledge, our strong analog and mixed-signal design expertise, and our proprietary process technology.

We are focused on delivering products for large and high growth markets, currently targeting the computing, consumer electronics, and wireless markets. In 2004, according to International Data Corporation (IDC), these markets, including the notebook computer, flat panel display, cellular handset, and personal data assistant markets, are expected to represent unit sales of over 700 million in the aggregate. There are a number of trends driving growth in these target markets, including a drive toward smaller form factors, a focus on enhanced audio and visual experiences, and continuing growth in wireless connectivity. While these trends have driven growth in our target markets, they have also presented new challenges for suppliers of ICs into these markets. For example, in the cellular handset and notebook computing areas, customers are looking for semiconductors that are both more highly-integrated to facilitate smaller form factors and that are more energy efficient to improve battery run times. Similarly, in the flat panel television market, customers are looking for semiconductors that offer advanced sound and image quality, while simultaneously enabling them to make their products more affordable.

We deliver products to our customers that are highly-integrated, small in size, energy efficient, accurate, and cost-effective, positioning us well to address these industry trends. Our product families currently include:

- Cold cathode fluorescent lamp (CCFL) backlight inverter ICs, used in lighting electronic displays, such as those found in notebook computers and flat panels;
- Direct current (DC) to DC converter ICs, used to convert and control voltages within a variety of electronic devices;
- Light emitting diode (LED) driver ICs, used in lighting displays, such as those found in cellular handsets and personal digital assistants; and
- Audio amplifier ICs, used to amplify sound and particularly well-suited for small form factor and portable electronic devices.

We sell our products primarily to third parties with whom we have distribution arrangements and through our direct sales and applications support organization to original design manufacturers, who typically design and manufacture electronic products on behalf of original equipment manufacturers, and to electronic manufacturing service providers, who typically provide manufacturing services for original equipment manufacturers or for other electronic product suppliers. Our semiconductors are

ultimately contained in electronic products sold by original equipment manufacturers such as Dell, Hewlett-Packard, IBM, and Sony in the computing industry, LG Electronics, Panasonic, Samsung, and Sharp in the consumer electronics industry, and Motorola and Sony/Ericsson in the wireless industry.

Our competitive differentiation in the analog and mixed-signal semiconductor industry is founded on our three core strengths: our deep system-level and applications knowledge, our strong analog and mixed-signal design expertise, and our proprietary process technology. Our deep system-level and applications knowledge is important because it allows us to work closely with our customers to identify new product opportunities and areas of potential integration, as well as to reduce our customers' time to market. We have also assembled a strong team of analog and mixed-signal design engineers that average over 15 years of design experience. Through our analog and mixed-signal design expertise, we have developed a portfolio of intellectual property and know-how that we are able to apply across our products and markets. Finally, our proprietary process technology is a source of competitive differentiation as it allows us to integrate power devices, analog circuitry, and digital circuitry onto a single chip in a cost-effective manner.

Our proprietary process technology offers many benefits over conventional analog and mixed-signal process technologies. A key deficiency of conventional analog and mixed-signal process technologies is that they generally cannot support integration of power devices at high power levels without resulting in either unacceptably large semiconductors or significant levels of power loss. High levels of power loss result in significant heat dissipation, which then must be managed to avoid harm to a system. To avoid these problems, many other analog and mixed-signal semiconductor vendors design solutions comprised of multiple chips. Our process technology overcomes this limitation, allowing us to deliver smaller, single-chip solutions with strong degrees of both efficiency and accuracy. In addition, we believe that having one process technology that is broadly applicable across a wide range of analog and mixed-signal applications simplifies our design process and results in higher design productivity. Through our process technology, we are able to simplify our manufacturing process, improve our yields, and lower our manufacturing costs.

We utilize a fabless business model, working with third parties to manufacture our ICs. In contrast to many fabless semiconductor companies that utilize standard process technologies, we have developed our own proprietary process technology and collaborate with our foundry partners to install our technology in their facilities for use solely on our behalf.

Our goal is to be a leading provider of proprietary, advanced analog and mixed-signal ICs. To accomplish our goal, we intend to:

- Focus on large and high growth markets;
- Leverage our core strengths to expand our product portfolio;
- Continue to invest in research and development to extend our technology leadership position; and
- Expand our sales and applications support organization globally.

As of March 31, 2004, we had 104 employees located in the United States, Taiwan, China, and Korea. Of these employees, 35% were dedicated to research and development.

We were incorporated in California in 1997, and will reincorporate in Delaware prior to the consummation of this offering. Our executive offices are located at 983 University Avenue, Building A, Los Gatos, CA 95032. Our telephone number is (408) 357-6600. Our e-mail address is info@monolithicpower.com, and our World Wide Web site is located at http://www.monolithicpower.com. Information contained on our company Web site is not a part of this prospectus.

The Offering

Common stock we are offering	shares
Common stock the selling stockholders are offering	shares
Common stock to be outstanding after this offering	shares
Proposed Nasdaq National Market symbol	MPWR
Use of proceeds	For general corporate purposes, including working capital, marketing, research and development and capital expenditures. For more information, see "Use of Proceeds."

Except as otherwise indicated, whenever we present the number of shares of common stock outstanding, we have:

- based this information on the shares outstanding as of March 31, 2004, excluding:
  - 6,469,934 shares of common stock issuable upon exercise of outstanding options at a weighted average exercise price of $2.34 per share;
  - 2,057,308 shares of common stock available for future issuance under our existing stock option plan and our stock option plan adopted in connection with this offering;
  - 200,000 shares of common stock reserved for issuance under our employee stock purchase plan adopted in connection with this offering; and
  - 213,718 shares of common stock issuable upon exercise of outstanding warrants at a weighted average exercise price of $1.68 per share;
- given effect to the automatic conversion of our outstanding preferred stock into common stock upon completion of this offering;
- assumed no exercise of options after March 31, 2004; and
- assumed no exercise of the underwriters' over-allotment option.

Monolithic Power Systems and MPS are among the trademarks of Monolithic Power Systems, Inc. This prospectus also contains brand names, trademarks, and service marks of companies other than Monolithic Power Systems, Inc., and these brand names, trademarks, and service marks are the property of their respective holders.

This prospectus contains market data and industry forecasts that were obtained from industry publications. These publications generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. While we believe that these market data and industry forecasts are reliable, we have not independently verified, and make no representation as to the accuracy of, such information.

SUMMARY CONSOLIDATED FINANCIAL DATA

Our summary consolidated financial data is presented in the following table to aid you in your analysis of a potential investment in our common stock. You should read this data together with "Management's Discussion and Analysis of Financial Condition and Results of Operations," for each of the three years in the period ended December 31, 2003 and for the three months ended March 31, 2004 and our consolidated financial statements and related notes appearing elsewhere in this prospectus. Pro forma net loss per common share reflects the conversion of all outstanding preferred stock into common stock from the beginning of the period presented or at the date of original issuance, if later. The as adjusted balance sheet data assumes the conversion of all outstanding convertible preferred stock into common stock and reflects our receipt of the estimated net proceeds from our sale of shares of common stock in this offering at an assumed initial public offering price of $ per share after deducting the estimated underwriting discounts and commissions and the estimated expenses of this offering.

	Year ended December 31,					Three months ended March 31,	
	1999	2000	2001	2002	2003	2003	2004
			(in thousands, except per share data)			(unaudited)	
Consolidated Statement of Operations Data:							
Revenues	$ 572	$ 5,252	$ 8,130	$12,206	$24,204	$ 3,256	$ 6,795
Cost of revenues	520	3,853	5,975	6,831	10,930	1,865	3,273
Gross profit	52	1,399	2,155	5,375	13,274	1,391	3,522
Operating expenses:							
Research and development (excluding stock-based compensation)	1,175	1,435	2,610	4,459	5,493	1,281	1,364
Sales and marketing (excluding stock-based compensation)	37	387	976	1,443	2,181	465	999
General and administrative (excluding stock-based compensation)	101	715	832	997	1,733	350	532
Patent litigation	—	—	958	1,603	4,332	1,097	601
Stock-based compensation	54	494	180	167	2,741	148	2,950
Total operating expenses	1,367	3,031	5,556	8,669	16,480	3,341	6,446
Loss from operations	(1,315)	(1,632)	(3,401)	(3,294)	(3,206)	(1,950)	(2,924)
Total other income (expense), net	40	29	(172)	57	170	76	25
Net loss	(1,275)	(1,603)	(3,573)	(3,237)	(3,036)	(1,874)	(2,899)
Accretion of redeemable convertible preferred stock	—	—	—	447	1,340	335	335
Net loss attributable to common stockholders	$(1,275)	$(1,603)	$(3,573)	$ (3,684)	$ (4,376)	$ (2,209)	$ (3,234)
Basic and diluted net loss per common share	$ (0.27)	$ (0.33)	$ (0.63)	$ (0.63)	$ (0.71)	$ (0.37)	$ (0.50)
Shares used in basic and diluted net loss per common share	4,689	4,846	5,682	5,863	6,143	6,018	6,482
Pro forma basic and diluted net loss per common share					$ (0.20)	$ (0.10)	$ (0.15)
Shares used in pro forma basic and diluted net loss per common share					21,599	21,474	21,938

	March 31, 2004	
	Actual	As Adjusted
Consolidated Balance Sheet Data:		
Cash and cash equivalents	$ 8,939	$
Short-term investments	1,003	
Restricted assets	6,056	
Working capital	11,277	
Total assets	24,520	
Redeemable convertible preferred stock	18,748	
Convertible preferred stock	11,163	
Total stockholders' equity	1,482	

RISK FACTORS

An investment in our common stock is very risky. You should carefully consider the risks described below, together with all of the other information in this prospectus, before making a decision to invest in our common stock. If any of the following risks actually occur, our business, financial condition, operating results, and growth prospects could be adversely affected. In such an event, the trading price of our common stock could decline and you could lose all or part of your investment in our common stock.

Risks Related to Our Business and Industry

We have a history of losses, and we may not achieve or sustain profitability on a quarterly or annual basis.

We have incurred losses on an annual basis since our inception. As of March 31, 2004, we had an accumulated deficit of $18.3 million. We expect to incur significant operating expenses over the next several years in connection with the continued development and expansion of our business. Our operating expenses include general and administrative expenses, selling and marketing expenses, litigation expenses, stock based compensation expenses, and research and development expenses relating to products that will not be introduced and will not generate revenues until later periods, if at all. We may not achieve or sustain profitability on a quarterly or annual basis in the future.

If we are unsuccessful in our current lawsuits with O2 Micro International Limited in either the U.S. or in Taiwan, we could be enjoined from selling many of our products and/or be required to pay substantial damages or fines. Any unfavorable outcome would cause our revenues to decline significantly and severely harm our business and operating results.

We are engaged in multiple legal proceedings against O2 Micro, Inc. and its parent corporation, O2 Micro International Limited. We refer to O2 Micro and O2 International together as O2. These proceedings involve various claims and counterclaims in the United States and Taiwan by us and O2 alleging patent infringements and misappropriation of trade secrets. O2 has also taken legal action against some of our customers and users of our products in the United States and Taiwan. We generally agree to indemnify our customers against patent infringement claims, and we are currently defending one of our customers (at our expense) against a claim by O2. In addition, O2 has obtained an injunction in Taiwan prohibiting us from manufacturing, designing, displaying, importing or selling two of our most significant products in Taiwan, either directly or through a third party acting at our request. While we believe, based on the advice of our Taiwan counsel Chen and Lin, that our course of business is in compliance with this injunction, O2 has attempted on several occasions to convince the court otherwise. All of these legal proceedings are complex. We describe the proceedings and related events in detail under “Business—Legal Proceedings”, and we strongly advise investors to read that section carefully.

The legal proceedings in which we are involved expose us to the following risks:

1. We could be ordered to pay monetary fines and/or damages if we are found to be in violation of the Taiwan injunction or liable to O2 on its claims against us;
2. We could be enjoined from selling many of our products, either into Taiwan or in the U.S.;
3. We could be liable to customers who have purchased our products and whom we have indemnified against liability for damages arising from claims by O2 or others that our products infringe patents of O2 or others;
4. Our management team could be required to devote so much time, effort and energy to the legal proceedings that the rest of our business suffers;

5. Our customers and end-users of our products could decide not to use our products to ensure that they will not be brought into the litigation and/or sued directly by O2, or, if they are sued directly by O2, our products could be seized from them; and

6. Interim developments in the various legal proceedings may contribute to increased volatility in our stock price as the market assesses the impact of those developments on the likelihood that we will or will not ultimately prevail in the litigation with O2.

The outcomes described above could result in us having to pay fines or substantial money damages to O2 and/or to our customers. We could also be prevented by an injunction from selling many of our products directly or indirectly into the U.S. and/or Taiwan. A significant portion of our expected future revenues over the next several years is expected to come from users of our CCFL backlight inverter product family in Taiwan. Even if we are ultimately successful, we could lose customers due to the uncertainty surrounding the litigation. Any of these results would have a material and adverse effect on our results of operations for one or more quarters, and any injunction that prohibits us from selling significant products for any length of time would have an immediate and drastic negative effect on our business and results of operations.

Until the litigation is resolved, we will continue to incur substantial legal expenses, which vary directly with the level of activity in the legal proceedings. This level of activity is not entirely within our control, as we often need to respond to legal action by O2. Consequently, we may find it difficult to predict the legal expenses for any given quarter, which will impair our ability to forecast our results of operations for that quarter.

We are aware that on May 28, 2002, O2 was issued U.S. Patent No. 6,396,722 (“the ’722 patent”), a continuation of O2’s U.S. Patent No. 6,259,615 B1. We are also aware that O2 has filed for related patents in other Asian counties. We are not aware that any foreign patents have been issued in response to these patent applications and do not know when, if ever, any such patent will issue. Nevertheless, we expect O2 may pursue claims against us in the U.S. based on the ’722 patent and on any foreign patents that O2 may obtain in the future. Depending on the scope and severity of those claims, any injunctions that may be issued against us, or damages that may be awarded against us, could have a material and adverse effect on our business and results of operations.

This risk factor only summarizes the various legal proceedings and related events. We strongly advise you to read “Business—Legal Proceedings” for a more detailed description.

Due to our limited operating history, we may have difficulty both in accurately predicting our future revenues and appropriately budgeting for our expenses.

We were incorporated in 1997 and did not begin generating meaningful revenues until 2000. As a result, we have only a short history from which to predict future revenues. This limited operating experience combined with the rapidly evolving nature of the markets into which we sell our products, as well as other factors which are beyond our control, reduces our ability to accurately forecast quarterly or annual revenues. We are currently expanding our staffing and increasing our expense levels in anticipation of future revenue growth. If our revenues do not increase as anticipated, significant losses could result due to our higher expense levels.

We expect our operating results to fluctuate from quarter to quarter and year to year, which may make it difficult to predict our future performance and could cause our stock price to decline.

Our revenues, expenses, and results of operations are difficult to predict, have varied significantly in the past and will continue to fluctuate significantly from quarter to quarter and year to year in the

future due to a number of factors, many of which are beyond our control. For example, our revenues for the first quarter of each year tend to be significantly less than the revenues for the last quarter of the previous year. We expect fluctuations to continue for a number of reasons, including:

- the timing of developments in the O2 litigation and the related expenses;
- general economic conditions in the countries where our products are used;
- seasonality and variability in the computer, consumer electronics, and wireless markets;
- the timing of new product introductions by us and our competitors;
- the scheduling, rescheduling, or cancellation of orders by our customers;
- the cyclical nature of demand for our customers' products;
- inventory level and product obsolescence;
- our ability to develop new process technologies and achieve volume production;
- changes in manufacturing yields;
- movements in exchange rates, interest rates, or tax rates; and
- the availability of adequate supply commitments from our outside suppliers.

Due to the factors noted above and other risks discussed in this section, many of which are beyond our control, you should not rely on quarter-to-quarter or year-over-year comparisons to predict our future financial performance. Unfavorable changes in any of the above factors may seriously harm our business and cause our stock price to decline.

The highly cyclical nature of the semiconductor industry, which has produced significant and sometimes prolonged downturns, could materially adversely affect our operating results, financial condition, and cash flows.

The semiconductor industry has historically been highly cyclical and, at various times, has experienced significant downturns and wide fluctuations in supply and demand. These conditions have caused significant variances in product demand, production capacity and rapid erosion of average selling prices. Although the semiconductor industry has recently experienced strong demand, the industry may experience severe or prolonged downturns in the future, which could result in pricing pressure on our products as well as lower demand for our products. Because a significant portion of our expenses is fixed in the short term or is incurred in advance of anticipated sales, we may not be able to decrease our expenses in a timely manner to offset any shortfall of sales. This could materially adversely affect our operating results, financial condition, and cash flows.

If demand for our products declines in the major end markets that we serve, our revenues will decrease.

Applications of our products in the computer, consumer electronics and wireless markets have and we believe will continue to account for a majority of our revenues. In addition, within these markets we are dependent upon a small number of products. We are particularly dependent on the computing market, including notebook and flat panel monitor applications, and we expect that a significant level of our revenues and operating results will continue to be dependent upon notebook and flat panel monitor applications for at least the near term. If demand for our products declines in the major end markets that we serve, our revenues will decrease.

We receive a significant portion of our revenues from a small number of customers and the loss of any one of these customers or failure to collect a receivable from them could adversely affect our operations and financial position.

We market our products through distribution arrangements and through our direct sales and applications support organization to customers that include original equipment manufacturers, original design manufacturers, and electronic manufacturing service providers. Receivables from our customers are not secured by any type of collateral and are subject to the risk of being uncollectible. Significant deterioration in the liquidity or financial position of any of our major customers or any group of our customers could have a material adverse impact on the collectibility of our accounts receivable and our future operating results.

In addition, in 2003, CTP, Yosun, and Ambit/Unique Logistics, third parties with whom we currently have or formerly had distribution arrangements, accounted for 30%, 16%, and 14% of our revenues, respectively. We terminated our distribution arrangement with CTP in March 2004, and entered into expanded distribution agreements with Asian Information Technology, or AIT, and Uppertech. Any future termination or loss of a distribution arrangement could reduce customers' willingness or ability to purchase our products and could thereby reduce our revenues and adversely affect our future operating results.

We primarily conduct our sales on a purchase order basis, rather than pursuant to long-term supply contracts. The loss of any significant customer, any material reduction in orders by any of our significant customers or by their OEM customers, the cancellation of a significant customer order, or the cancellation or delay of a customer's or OEM's significant program or product could reduce our revenues and adversely affect our operations and financial position. For example, revenues from our audio amplifier product family declined from 13.9% of total revenues in 2002 to 1.3% of total revenues in 2003. The decline was due to the loss of one major customer who placed a large non-recurring order in the third and fourth quarters of 2002.

Moreover, we believe a high percentage of our products are eventually sold to a small number of end customer original equipment manufacturers, or OEMs, such as Dell, Hewlett-Packard, IBM, and Sony. Although we communicate with OEMs in an attempt to achieve "design wins," which are decisions by OEMs and/or original design manufacturers to use our products, we do not have agreements with any of these end customers, formal or informal. Therefore, there can be no assurance that they will continue to choose to incorporate our ICs into their products. We cannot be certain that we will continue to achieve design wins from large OEMs, that our direct customers will continue to be successful in selling to OEMs, or that the OEMs will be successful in selling products which incorporate our ICs.

We have recently had to improve our internal accounting systems and controls, and if we fail to make continued improvements, our business may suffer.

Our reporting obligations as a public company will place a significant strain on our management, operational and financial resources and systems for the foreseeable future. As we have been an early stage private company, we have had limited accounting personnel and other resources with which to address our internal controls and procedures. As a result, when our auditors audited our financial statements as of and for the year ended December 31, 2003, they identified in their report to our audit committee significant deficiencies in our internal accounting controls. Two of these significant deficiencies rose to the level of "material weaknesses," while the third was considered a "reportable condition." The two material weaknesses were that (i) we lacked certain formalized accounting policies and procedures, including written procedures for the monthly, quarterly, and annual "closing" of our financial books and records and (ii) we lacked sufficient staff in our accounting and information technology departments. The reportable condition was that our accounting personnel lacked adequate

training on our enterprise resource planning system. The report also contained other observations and recommendations, none of which rose to the level of a "reportable condition." Following our receipt of this report, we consulted with our audit committee and undertook remedial steps to address these reportable conditions, including hiring additional staff, training our new and existing staff, and establishing monthly, quarterly, and annual closing procedures.

We believe our actions remedied the material weaknesses and reportable conditions in our internal controls. At the direction of our audit committee, we engaged our external auditors to audit our financial statements for the quarter ended March 31, 2004. In their report to the audit committee following this audit, the material weaknesses and reportable conditions previously identified were no longer reported; however, other matters that did not constitute material weaknesses and reportable conditions were identified. If we fail to adequately address these matters and fail to appropriately staff our accounting and finance function, our internal control procedures may not prove adequate to meet the demands that will be placed upon us as a public company, including the requirements of the Sarbanes-Oxley Act of 2002.

The loss of any of our key personnel or the failure to attract or retain specialized technical and management personnel could impair our ability to grow our business.

Our future success depends upon our ability to attract and retain highly qualified technical and managerial personnel. We are particularly dependent upon the continued services of Michael Hsing, our President and Chief Executive Officer, who founded our company and developed our proprietary process technology. Also, personnel with highly skilled analog and mixed-signal design engineering expertise are scarce and competition for personnel with these skills is intense. There can be no assurance that we will be able to retain existing key employees or that we will be successful in attracting, integrating or retaining other highly qualified personnel in the future. If we are unable to retain the services of existing key employees or are unsuccessful in attracting new highly qualified employees, our business could be harmed.

In addition, Tim Christoffersen and Dave Satterfield, our Chief Financial Officer and Controller, have served in those positions since only June 2004 and February 2004, respectively. Accordingly, our finance team has worked together for a relatively short period. Any failure of our finance team to communicate or work together effectively could adversely affect our business and results of operations.

We currently depend on one third-party supplier to provide us with wafers for our products. If our wafer supplier fails to provide us sufficient wafers at acceptable yields and at anticipated costs, our revenues and gross margins may decline.

We have a supply arrangement for the production of wafers with Advanced Semiconductor Manufacturing Corporation of Shanghai, or ASMC. Although certain aspects of our relationship with ASMC are contractual, many important aspects of this relationship depend on their continued cooperation. We began this relationship with ASMC in 2001 and commenced volume production at ASMC's facilities in the first half of 2003. We cannot assure you that we will continue to work successfully with ASMC in the future, that they will continue to provide us with sufficient capacity at their foundries to meet our needs, or that they will not seek an early termination of their wafer supply agreement with us. In addition, the fabrication of ICs is a highly complex and precise process. Problems in the fabrication process can cause a substantial percentage of wafers to be rejected or numerous ICs on each wafer to be non-functional, thereby reducing yields. The failure of ASMC to supply us wafers at acceptable yields could prevent us from fulfilling our customers' orders for our products and would likely cause a decline in our revenues.

Although we provide ASMC with rolling forecasts of our production requirements, their ability to provide wafers to us is limited by the available capacity of the facilities in which they manufacture

wafers for us. An increased need for capacity to meet internal demands or demands of other customers could cause ASMC to reduce capacity available to us. ASMC may also require us to pay amounts in excess of contracted or anticipated amounts for wafer deliveries or require us to make other concessions in order to acquire the wafer supply necessary to meet our customers' requirements. If ASMC extends lead times, limits supplies, or increases prices due to capacity constraints or other factors, our revenues and gross margins may decline.

Further, as is common in the semiconductor industry, our customers may reschedule or cancel orders on relatively short notice. We are required under our agreement with ASMC to order wafers at least three months in advance. If we cancel these orders after ASMC's commencement of manufacturing, which generally occurs six to eight weeks before scheduled delivery of the wafers, we must pay cancellation fees to ASMC. If our customers cancel orders after we have ordered the corresponding wafers from ASMC, we may be forced to incur cancellation fees or to purchase wafers that we may not be able to resell, which would adversely affect our operating results, financial condition, and cash flows.

We might not be able to deliver our products on a timely basis if our relationships with our assembly and test subcontractors are disrupted or terminated.

All of our products are assembled by third-party subcontractors and a small percentage of our testing is performed by third-party subcontractors. We do not have any ongoing agreements with these subcontractors. As a result, we may not have direct control over product delivery schedules or product quality. Also, due to the amount of time typically required to qualify assembly and test subcontractors, we could experience delays in the shipment of our products if we were forced to find alternate third parties to assemble or test our products. Any future product delivery delays or disruptions in our relationships with our subcontractors could have a material adverse effect on our operating results, financial condition, and cash flows.

Failure to protect our proprietary technologies or maintain the right to certain technologies may negatively affect our ability to compete. In the future, third parties could assert that our products infringe their intellectual property rights, which could result in restrictions or prohibitions on the sale of our products and cause us to pay license fees and damages.

We rely heavily on our proprietary technologies. Our future success and competitive position depend in part upon our ability to obtain and maintain protection of certain proprietary technologies used in our products. We pursue patents for some of our new products and unique technologies, and we also rely on a combination of nondisclosure agreements and other contractual provisions, as well as our employees' commitment to confidentiality and loyalty, to protect our technology, know-how, and processes. Despite the precautions we take, it may be possible for unauthorized third parties to copy aspects of our current or future technology or products or to obtain and use information that we regard as proprietary. We intend to continue protecting our proprietary technology, including through patents. There can be no assurance that the steps we take will be adequate to protect our proprietary rights, that our patent applications will lead to issued patents, that others will not develop or patent similar or superior products or technologies, or that our patents will not be challenged, invalidated, or circumvented by others. Furthermore, the laws of the countries in which our products are or may be developed, manufactured, or sold may not protect our products and intellectual property rights to the same extent as laws in the United States. Our failure to adequately protect our proprietary technologies could harm our business.

The semiconductor industry is characterized by frequent claims of infringement and litigation regarding patent and other intellectual property rights, such as our litigation with O2. Patent infringement is an ongoing risk, in part because other companies in our industry could have patent

rights that may not be identifiable when we initiate development efforts. Litigation may be necessary to enforce our intellectual property rights, and we may have to defend ourselves against infringement claims. Any such litigation could be very costly and may divert our management's resources. Further, we have agreed to indemnify our customers in some circumstances against liability from infringement by our products. In the event any third party were to make an infringement claim against us or our customers, we could be enjoined from selling selected products or could be required to indemnify our customers or pay royalties or other damages to third parties. If we were unable to obtain necessary licenses or other rights on acceptable terms, we would either have to change our products so that they did not infringe or stop making the infringing products, which could have a material adverse effect on our operating results, financial condition, and cash flows.

We derive a substantial majority of our revenues from direct or indirect sales to foreign customers and have significant foreign operations, which may expose us to political, regulatory, economic, foreign exchange, and operational risks.

We derive a substantial majority of our revenues from direct or indirect sales to foreign customers, including 98.6% from sales into Asia for 2003, a majority of which represents revenues from parties with whom we have distribution arrangements for resale to users of our products in Taiwan. As a result, we are subject to increased risks due to this concentration of business and operations. There are risks inherent in doing business internationally, including:

- changes in, or impositions of, legislative or regulatory requirements, including tax laws in the United States and in the countries in which we manufacture or sell our products;
- trade restrictions;
- transportation delays;
- work stoppages;
- economic and political instability;
- changes in import/export regulations, tariffs, and freight rates;
- longer accounts receivable collection cycles and difficulties in collecting accounts receivables;
- difficulties in collecting receivables and enforcing contracts generally;
- currency exchange rate fluctuations; and
- less effective protection of intellectual property.

Our manufacturing partners are subject to extensive government regulation, which could increase our costs or limit our ability to sell products and conduct activities in China.

Most of our manufacturing partners, including ASMC, our current foundry, are located in China. In addition, we currently anticipate establishing a facility in China, initially for the testing of our ICs. The Chinese government has broad discretion and authority to regulate the technology industry in China. China's government has implemented policies from time to time to regulate economic expansion in China. It also exercises significant control over China's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. New regulations or the readjustment of previously implemented regulations could require us and our manufacturing partners to change our business plans, increase our costs, or limit our ability to sell products and conduct activities in China, which could adversely affect our business and operating results.

In addition, the Chinese government and provincial and local governments have provided, and continue to provide, various incentives to encourage the development of the semiconductor industry in China. Such incentives include tax rebates, reduced tax rates, favorable lending policies, and other measures, some or all of which may be available to our manufacturing partners and to us with respect to the facility we propose to establish in China. Any of these incentives could be reduced or eliminated by governmental authorities at any time. Any such reduction or elimination of incentives currently provided to our manufacturing partners could adversely affect our business and operating results.

We may be unsuccessful in developing and selling new products or in penetrating new markets required to maintain or expand our business.

We operate in a dynamic environment characterized by rapidly changing technologies and industry standards and technological obsolescence. Our competitiveness and future success depend on our ability to design, develop, manufacture, assemble, test, market, and support new products and enhancements on a timely and cost-effective basis. A fundamental shift in technologies in any of our product markets could have a material adverse effect on our competitive position within these markets. Our failure to develop new technologies or to react to changes in existing technologies could materially delay our development of new products, which could result in product obsolescence, decreased revenues, and/or a loss of market share to competitors.

The success of a new product depends on accurate forecasts of long-term market demand and future technological developments, as well as on a variety of specific implementation factors, including:

- timely and efficient completion of process design and device structure improvements;
- timely and efficient implementation of manufacturing, assembly, and test processes;
- product performance;
- the quality and reliability of the product; and
- effective marketing, sales and service.

To the extent that we fail to introduce new products or penetrate new markets, our revenues and financial condition could be materially adversely affected.

Because of the lengthy sales cycles for our products and the fixed nature of a significant portion of our expenses, we may incur substantial expenses before we earn associated revenues and may not ultimately achieve our forecasted sales for our products.

The introduction of new products presents significant business challenges because product development plans and expenditures must be made up to two years or more in advance of any sales. It takes us up to 12 months or more to design and manufacture a new product prototype. Only after we have a prototype do we introduce the product to the market and begin selling efforts in an attempt to achieve design wins. This sales process, which averages 6 to 12 months, requires us to expend significant sales and marketing resources without any assurance of success. Volume production of products that use our ICs, if any, may not be achieved for an additional 3 to 6 months after an initial sale. Sales cycles for our products are lengthy for a number of reasons:

- our customers usually complete an in-depth technical evaluation of our products before they place a purchase order;
- the commercial adoption of our products by original equipment manufacturers, or OEMs, and original device manufacturers is typically limited during the initial release of their product to evaluate product performance and consumer demand;

- our products must be designed into a customer's product or system; and
- the development and commercial introduction of our customers' products incorporating new technologies frequently are delayed.

As a result of our lengthy sales cycles, we may incur substantial expenses before we earn associated revenues because a significant portion of our operating expenses is relatively fixed and based on expected revenues. The lengthy sales cycles of our products also make forecasting the volume and timing of orders difficult. In addition, the delays inherent in lengthy sales cycles raise additional risks that customers may cancel or change their orders. Our sales are made by purchase orders. Because industry practice allows customers to reschedule or cancel orders on relatively short notice, backlog is not always a good indicator of our future sales. If customer cancellations or product changes occur, we could lose anticipated sales and not have sufficient time to reduce our inventory and operating expenses.

Our products must meet exacting specifications, and undetected defects and failures may occur, which may cause customers to return or stop buying our products and may expose us to product liability risk.

Our customers generally establish demanding specifications for quality, performance, and reliability that our products must meet. Integrated circuits as complex as ours often encounter development delays and may contain undetected defects or failures when first introduced or after commencement of commercial shipments, which might require product replacement or recall. We have from time to time in the past experienced product quality, performance or reliability problems. If defects and failures occur in our products, we could experience lost revenues, increased costs, including warranty expense and costs associated with customer support, delays in or cancellations or rescheduling of orders or shipments, and product returns or discounts, any of which would harm our operating results.

In addition, product liability claims may be asserted with respect to our technology or products. Although we currently have insurance, there can be no assurance that we have obtained a sufficient amount of insurance coverage, that asserted claims will be within the scope of coverage of the insurance, or that we will have sufficient resources to satisfy any asserted claims.

We compete against many companies with substantially greater financing and other resources, and our market share may be reduced if we are unable to respond to our competitors effectively.

The analog and mixed-signal semiconductor industry is highly competitive, and we expect competitive pressures to continue. Our ability to compete effectively and to expand our business will depend on our ability to continue to recruit applications and design talent, our ability to introduce new products, and our ability to maintain the rate at which we introduce these new products. We compete with several domestic and international semiconductor companies, many of which have substantially greater financial and other resources with which to pursue engineering, manufacturing, marketing, and distribution of their products. We are in direct and active competition, with respect to one or more of our product lines, with at least 10 manufacturers of such products, of varying size and financial strength. The number of our competitors has grown due to expansion of the market segments in which we participate. We consider our primary competitors to include Intersil Corporation, Linear Technology, Maxim Integrated Products, Micrel Incorporated, Microsemi Corporation, National Semiconductor Corporation, O2, Semtech Corporation, STMicroelectronics, and Texas Instruments. We expect continued competition from existing competitors as well as competition from new entrants in the

semiconductor market. Our ability to compete successfully in the rapidly evolving area of integrated circuit technology depends on several factors, including:

- our success in designing and manufacturing new products that implement new technologies;
- our ability to recruit applications and design talent;
- our protection of our processes, trade secrets, and know-how;
- our ability to maintain high product quality, reliability, and customer support;
- the pricing policies of our competitors;
- the performance of competitors' products;
- our ability to deliver in large volume on a timely basis; and
- our manufacturing, distribution, and marketing capability.

We cannot assure you that our products will continue to compete favorably or that we will be successful in the face of increasing competition from new products and enhancements introduced by existing competitors or new companies entering this market.

Major earthquakes or other natural disasters and resulting systems outages may cause us significant losses.

Our corporate headquarters, the production facilities of our third-party wafer supplier, a portion of our assembly and research and development activities, and certain other critical business operations are located in or near seismically active regions and are subject to periodic earthquakes. We do not maintain earthquake insurance and could be materially and adversely affected in the event of a major earthquake. Much of our revenues, as well as our manufacturers and assemblers, are concentrated in Southeast Asia. Such concentration increases the risk that other natural disasters, labor strikes, terrorism, war, political unrest, epidemics, and/or health advisories like Sudden Acute Respiratory Syndrome or bird flu could disrupt our operations. In addition, we rely heavily on our internal information and communications systems and on systems or support services from third parties to manage our operations efficiently and effectively. Any of these are subject to failure due to a natural disaster or other disruption. System-wide or local failures that affect our information processing could have material adverse effects on our business, financial condition, operating results, and cash flows.

We intend to expand our operations, which may strain our resources and increase our operating expenses.

We plan to expand our operations, domestically and internationally, and may do so through internal growth, strategic relationships, or acquisitions. We expect that this expansion will strain our systems and operational and financial controls. In addition, we are likely to incur significantly higher operating costs. To manage our growth effectively, we must continue to improve and expand our systems and controls. If we fail to do so, our growth will be limited. If we fail to effectively manage our planned expansion of operations, our business and operating results may be harmed.

We may engage in future acquisitions that dilute the ownership interests of our stockholders and cause us to incur debt or to assume contingent liabilities, and we may be unable to successfully integrate these companies into our operations, which would adversely affect our business.

As a part of our business strategy, we expect to review acquisition prospects that would complement our current product offerings, enhance our design capability or offer other growth opportunities. While we have no current agreements and no active negotiations underway with respect to any acquisitions, we may acquire businesses, products or technologies in the future. In the event of

future acquisitions, we could use a significant portion of our available cash, issue equity securities which would dilute current stockholders' percentage ownership, and/or incur substantial debt or contingent liabilities. Such actions by us could impact our operating results and/or the price of our common stock.

In addition, if we are unsuccessful in integrating any acquired company into our operations or if integration is more difficult than anticipated, we may experience disruptions that could harm our business.

Risks Related To This Offering

There has been no prior public market for our common stock, and an active public market may not develop.

Prior to this offering, there has been no public market for our common stock. We cannot assure you that an active trading market will develop or be sustained or that the market price of our common stock will not decline. The initial public offering price for the shares of our common stock will be determined by us and the representatives of the underwriters and may not be indicative of prices that will prevail in the trading market. We do not know the extent to which investor interest will lead to the development of an active public market. The lack of an active market may impair your ability to sell your shares at the time you wish to sell them or at a price which you consider reasonable. The lack of an active market may also reduce the fair market value of your shares. An inactive market may also impair our ability to raise capital by selling shares and may impair our ability to acquire other companies or technology by using our shares as consideration.

We expect our stock price to be volatile.

The trading price of our common stock is likely to be highly volatile and could be subject to wide fluctuations in price in response to various factors, many of which are beyond our control, including:

- the depth and liquidity of the market for our common stock;
- developments generally affecting the semiconductor industry;
- commencement of or developments relating to our involvement in litigation, including the ongoing O2 litigation;
- investor perceptions of us and our business;
- changes in securities analysts' expectations or our failure to meet those expectations;
- actions by institutional or other large stockholders;
- terrorist acts;
- actual or anticipated fluctuations in our results of operations;
- developments with respect to intellectual property rights;
- announcements of technological innovations or significant contracts by us or our competitors;
- introduction of new products by us or our competitors;
- our sale of common stock or other securities in the future;
- conditions and trends in technology industries;
- changes in market valuation or earnings of our competitors;
- changes in the estimation of the future size and growth rate of our markets;

- our results of operations and financial performance; and
- general economic, industry and market conditions.

In addition, the stock market in general often experiences substantial volatility that is seemingly unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock.

Sales of substantial amounts of our common stock could harm the market price of our stock.

A substantial amount of our shares will be eligible for sale shortly after this offering. If our stockholders sell substantial amounts of common stock in the public market soon after the lock-up period ends, the market price of our common stock could fall. Based on shares outstanding as of March 31, 2004, upon completion of this offering, we will have shares of common stock outstanding. Of these shares, the shares sold in this offering will be freely tradable. Another 20,621,113 shares will be eligible for sale in the public market 180 days from the date of this prospectus, all of which are subject to lock-up agreements with us and/or the underwriters. Either we or the underwriters may in our respective sole discretion and at any time without notice, release all or any portion of the securities from the restrictions imposed by our respective lock-up agreements with securityholders prior to the expiration of such 180-day period. The remaining 95,833 shares are restricted securities that will become eligible for sale in the public market pursuant to Rule 144 at various dates in the future. The sale of a significant number of these shares could cause the price of our common stock to decline. For more detailed information, see “Shares Eligible for Future Sale.”

Because of their significant stock ownership, our officers and directors will be able to exert significant influence over our future direction.

Executive officers, directors, and entities affiliated with them will, in the aggregate, beneficially own approximately % of our outstanding common stock following the completion of this offering. These stockholders, if acting together, would be able to significantly influence all matters requiring approval by our stockholders, including the election of directors and the approval of mergers or other business combination transactions. For more detailed information, see “Principal and Selling Stockholders.”

Management will have broad discretion over the use of proceeds from this offering.

The net proceeds from this offering will be used for general corporate purposes, including working capital and capital expenditures. We currently anticipate spending a portion of the net proceeds on sales and marketing activities, research and development activities, general and administrative matters and on capital expenditures. In addition, we may use a portion of the net proceeds to acquire or invest in complementary businesses or products or to obtain the right to use complementary technologies. We have not reserved or allocated specific amounts for these purposes, and we cannot specify with certainty how we will use the net proceeds. Accordingly, our management will have considerable discretion in the application of the net proceeds, and you will not have the opportunity, as part of your investment decision, to assess whether the proceeds are being used appropriately. The net proceeds may be used for corporate purposes that do not increase our operating results or market value. Until the net proceeds are used, they may be placed in investments that do not produce income or that lose value.

You will incur immediate and substantial dilution in the net tangible book value of the stock you purchase.

The initial public offering price is substantially higher than the prices paid for our common stock in the past and higher than the book value of the shares we are offering. This is referred to as dilution.

Accordingly, if you purchase common stock in the offering, you will incur immediate dilution of approximately $ per share in the net tangible book value per share of our common stock from the price you pay for our common stock. The exercise of outstanding options or warrants will result in further dilution.

Effective upon the closing of this offering, we will implement anti-takeover provisions that could discourage a third party from acquiring us and consequently decrease the market value of your investment.

Effective upon the closing of this offering, our certificate of incorporation and bylaws will contain provisions that may have the effect of delaying or preventing a change of control or changes in management that a stockholder might consider favorable. Our planned certificate and bylaws, among other things, will provide for a classified board of directors, require that stockholder actions occur at duly called meetings of the stockholders, limit who may call special meetings of stockholders, and require advance notice of stockholder proposals and director nominations. These provisions, along with the provisions of the Delaware General Corporation Law, such as Section 203, prohibiting certain business combinations with an interested stockholder, may delay or impede a merger, tender offer or proxy contest involving us. Any delay or prevention of a change of control transaction or changes in management could cause the market price of our common stock to decline. For more information about particular anti-takeover provisions, see “Description of Capital Stock.”

FORWARD-LOOKING INFORMATION

This prospectus contains forward-looking statements. When used in this prospectus, the words “anticipate,” “believe,” “estimate,” “will,” “intend,” and “expect” and similar expressions identify forward-looking statements. Although we believe that our plans, intentions and expectations reflected in those forward-looking statements are reasonable, we can give no assurance that these plans, intentions or expectations will be achieved. Our actual results, performance or achievements could differ materially from those contemplated, expressed or implied, by the forward-looking statements contained in this prospectus. Important factors that could cause actual results to differ materially from our forward-looking statements are set forth in this prospectus, including under the heading “Risk Factors.” All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements set forth in this prospectus. Other than as required by federal securities laws, we are under no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise.

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. We are offering to sell and seeking offers to buy shares of our common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock.

USE OF PROCEEDS

We estimate that we will receive net proceeds of approximately $ million, or $ million if the underwriters exercise their over-allotment option in full, from this offering of our common stock, based on an assumed initial public offering price of $ per share and after deducting estimated underwriting discounts and commissions and estimated offering expenses. We will not receive any proceeds from the sale of common stock by the selling stockholders. We currently anticipate spending a portion of the net proceeds on sales and marketing activities, research and development activities, general and administrative matters, including patent litigation, and on capital expenditures, including the facility in China described in “Business—Manufacturing.” We have not yet allocated specific amounts for these purposes. In addition, we may use a portion of the net proceeds to acquire or invest in complementary businesses or products or to obtain the right to use complementary technologies. Except for our preliminary agreement to establish a facility in China, we have no commitments with respect to any acquisition or investment, and we are not involved in any negotiations with respect to any similar transaction. The principal purposes of this offering are to obtain additional capital, to enhance our ability to acquire other businesses, products or technologies, to create a public market for our common stock, to facilitate our future access to public equity markets, to provide liquidity for our existing stockholders, to improve the effectiveness of our stock option plans in attracting and retaining key employees, to increase the visibility of our company in a marketplace in which several of our competitors are publicly-held companies, and to provide our customers greater assurances as to our long-term viability, which is enhanced by being subject to the financial reporting and disclosure obligations of a public company. The amounts and timing of our actual expenditures will depend on numerous factors, including the status of our product development efforts, sales and marketing activities, technological advances, amount of cash generated or used by our operations and competition. We may find it necessary or advisable to use the net proceeds for other purposes, and we will have broad discretion in the application of the balance of the net proceeds. Pending the uses described above, we intend to invest the net proceeds in short-term, interest-bearing, investment-grade securities.

DIVIDEND POLICY

We have never declared or paid any cash dividends on our capital stock and do not intend to pay dividends in the foreseeable future. We anticipate that we will retain any earnings to support operations and to finance the growth and development of our business.

CAPITALIZATION

Our capitalization as of March 31, 2004 is set forth in the following table;

- on an actual basis;
- on a pro forma basis to reflect the conversion of all outstanding preferred stock into shares of our common stock; and
- on the same pro forma basis as adjusted to give effect to the receipt of the estimated net proceeds from this offering, at an assumed initial public offering price of $ per share.

The table does not include options outstanding as of March 31, 2004 to purchase 6,469,934 shares of our common stock with a weighted average exercise price of $2.34 and warrants outstanding as of March 31, 2004 to purchase 213,718 shares of our common stock at a weighted average exercise price of $1.68. You should read this table in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," our financial statements and the notes to those financial statements and "Description of Capital Stock."

	March 31, 2004		
	Actual	Pro forma	Pro forma as adjusted
		(in thousands, except share data) (unaudited)	(unaudited)
Series D redeemable convertible preferred stock, 5,300,000 shares authorized, 5,087,767 shares issued and outstanding, actual; no shares, pro forma and pro forma as adjusted	$ 18,748	$ —	$ —
Stockholder's equity:			
Convertible preferred stock, 10,548,260 shares authorized, actual and pro forma; 5,000,000 shares authorized, pro forma as adjusted; 10,368,260 shares issued and outstanding, actual; no shares issued and outstanding, pro forma and pro forma as adjusted	11,163	—	—
Common stock, 35,800,000 shares authorized, actual and pro forma; 150,000,000 shares authorized, pro forma as adjusted; 6,768,782 shares issued and outstanding, actual; 22,224,809 shares issued and outstanding, pro forma; shares issued and outstanding, pro forma as adjusted	23,946	53,857	
Notes receivable from stockholder	(398)	(398)	(398)
Accumulated other comprehensive income	(3)	(3)	(3)
Deferred stock compensation	(14,937)	(14,937)	(14,937)
Accumulated deficit	(18,289)	(18,289)	(18,289)
Total stockholders' equity	1,482	20,230	
Total capitalization	$ 20,230	$ 20,230	$

DILUTION

Our pro forma net tangible book value as of March 31, 2004 was approximately $0.91 per share of our common stock. Our pro forma net tangible book value per share represents the amount of our total tangible assets reduced by the amount of our total liabilities and divided by the total number of shares of our common stock outstanding, as of March 31, 2004. After giving effect to our sale in this offering of shares of our common stock at an assumed initial public offering price of $ per share and after deducting estimated underwriting discounts and commissions and estimated offering expenses, our pro forma net tangible book value as of March 31, 2004 would have been $ per share of our common stock. This represents an immediate increase in net tangible book value of $ per share to our existing stockholders and an immediate dilution of $ per share to you. The following table illustrates this per share dilution:

Initial public offering price per share		$
Pro forma net tangible book value per share before this offering	$0.91	
Increase attributable to investors in this offering		
Pro forma net tangible book value per share after the offering		
Dilution per share to investors in this offering		$

The differences between our existing stockholders and investors with respect to the number of shares of common stock purchased from us, the total consideration paid to us and the average price per share paid for both common and preferred stock is summarized on a pro forma basis, as of March 31, 2004 before underwriters' discount and offering expenses in the following table. The following table does not include 6,683,652 shares of common stock reserved for issuance upon the exercise of outstanding options and warrants as of March 31, 2004. To the extent that outstanding options are exercised, there will be further dilution to new investors.

	Shares Purchased		Total Consideration		
	Number	Percent	Amount	Percent	Average Price
			(in thousands)		
Existing stockholders	22,225		$		$
New investors					
Total		100%	$	100%	

If the underwriters' over-allotment option is exercised in full, the number of shares of common stock held by existing stockholders will be reduced to % of the total number of shares of common stock to be outstanding after this offering, and the number of shares of common stock held by the new investors will be increased to shares or % of the total number of shares of common stock outstanding after this offering.

SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read together with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements included elsewhere in this prospectus. The selected consolidated balance sheet data as of December 31, 2002 and 2003 and March 31, 2004 and the selected consolidated statements of operations data for each of the three years in the period ended December 31, 2003 and the three months ended March 31, 2004 have been derived from our audited consolidated financial statements which are included elsewhere in this prospectus. The consolidated financial data for the three months ended March 31, 2003 have been derived from unaudited financial statements included elsewhere in this prospectus. The selected consolidated balance sheet data as of December 31, 1999, 2000 and 2001 and the selected consolidated statement of operations data for the years ended December 31, 1999 and 2000 have been derived from audited consolidated financial statements not included in this prospectus. Historical results are not necessarily indicative of the results to be expected in the future. Pro forma net loss per common share reflects the conversion of all outstanding preferred stock into common stock from the beginning of the period presented or at the date of original issuance if later.

	Year ended December 31,					Three months ended March 31,	
	1999	2000	2001	2002	2003	2003	2004
	(in thousands, except per share data)						
Consolidated Statement of Operations Data:							
Revenues	$ 572	$ 5,252	$ 8,130	$ 12,206	$ 24,204	$ 3,256	$ 6,795
Cost of revenues:							
Product cost	520	3,850	5,969	6,825	10,750	1,865	3,065
Stock-based compensation	—	3	6	6	180	—	208
Total cost of revenues	520	3,853	5,975	6,831	10,930	1,865	3,273
Gross profit	52	1,399	2,155	5,375	13,274	1,391	3,522
Operating expenses:							
Research and development (excluding stock-based compensation)	1,175	1,435	2,610	4,459	5,493	1,281	1,364
Sales and marketing (excluding stock-based compensation)	37	387	976	1,443	2,181	465	999
General and administrative (excluding stock-based compensation)	101	715	832	997	1,733	350	532
Patent litigation	—	—	958	1,603	4,332	1,097	601
Stock-based compensation*	54	494	180	167	2,741	148	2,950
Total operating expenses	1,367	3,031	5,556	8,669	16,480	3,341	6,446
Loss from operations	(1,315)	(1,632)	(3,401)	(3,294)	(3,206)	(1,950)	(2,924)
Other income (expense):							
Interest and other income	40	37	111	178	170	76	26
Interest and other expense	—	(8)	(283)	(121)	—	—	(1)
Total other income (expense), net	40	29	(172)	57	170	76	25
Net loss	(1,275)	(1,603)	(3,573)	(3,237)	(3,036)	(1,874)	(2,899)
Accretion of redeemable convertible preferred stock	—	—	—	447	1,340	335	335
Net loss attributable to common stockholders	$ (1,275)	$ (1,603)	$ (3,573)	$ (3,684)	$ (4,376)	$ (2,209)	$ (3,234)
Basic and diluted net loss per common share	$ (0.27)	$ (0.33)	$ (0.63)	$ (0.63)	$ (0.71)	$ (0.37)	$ (0.50)
Shares used in basic and diluted net loss per common share	4,689	4,846	5,682	5,863	6,143	6,018	6,482
Pro forma basic and diluted net loss per common share					$ (0.20)	$ (0.10)	$ (0.15)
Shares used in pro forma basic and diluted net loss per common share					21,599	21,474	21,938
*Stock-based compensation has been excluded from the following line items:							
Research and development	$ 54	$ 32	$ 8	$ 7	$ 983	$ 18	$ 1,011
Sales and marketing	—	387	96	90	562	32	936
General and administrative	—	75	76	70	1,196	98	1,003
Total	$ 54	$ 494	$ 180	$ 167	$ 2,741	$ 148	$ 2,950

	December 31,					March 31,
	1999	2000	2001	2002	2003	2004
Consolidated Balance Sheet Data:						
Cash and cash equivalents	$ 2,359	$ 904	$ 5,264	$ 17,223	$ 12,135	$ 8,939
Short-term investments	—	—	—	—	1,007	1,003
Restricted assets	—	—	—	—	787	6,056
Working capital	2,453	796	4,621	17,568	16,743	11,277
Total assets	2,811	4,346	8,078	21,614	22,603	24,520
Redeemable convertible preferred stock	—	—	—	17,074	18,413	18,748
Convertible preferred stock	4,379	4,379	11,163	11,163	11,163	11,163
Total stockholders' equity	2,651	1,697	5,441	1,979	1,231	1,482

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with "Selected Consolidated Financial Data" and our consolidated financial statements and related notes appearing elsewhere in this prospectus. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties, and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including but not limited to, those set forth under "Risk Factors" and elsewhere in this prospectus.

Overview

We design, develop, and market proprietary, advanced analog and mixed-signal semiconductors. Our products include cold cathode fluorescent lamp (CCFL) backlight inverter ICs, direct current (DC) to DC converter ICs, light emitting diode (LED) driver ICs, and audio amplifier ICs. These products are used to perform functions such as lighting electronic displays, converting or controlling voltages within systems, and amplifying sound. Since our incorporation in 1997, we have focused on delivering products for large and high growth market opportunities, currently targeting the computing, consumer electronics, and wireless markets.

We operate in the cyclical semiconductor industry. For example, according to the Semiconductor Industry Association, overall semiconductor industry revenues grew by 37% from 1999 to 2000 and then declined by 32% from 2000 to 2001. Although the semiconductor industry has recently experienced increased demand, the industry may experience downturns in the future. While we will not be immune from future industry downturns, we have targeted product and market areas that we believe have the ability to offer above average industry growth over the long term. In addition, we currently operate as a fabless semiconductor company, working with third parties to manufacture and assemble our integrated circuits, which has enabled us to minimize our capital expenditures and fixed costs, while focusing our engineering and design resources on our core strengths.

We have derived a majority of our revenues from sales of our CCFL backlight inverter product family to the computing and consumer electronics markets. In the future, we expect to derive an increasing percentage of our revenues from sales of our other products, such as DC to DC converter ICs and LED driver ICs. Our ability to achieve revenue growth will depend in part upon our ability to enter new market segments, gain market share, diversify our customer base, and successfully secure manufacturing capacity.

The markets to which we sell our products are subject to seasonality. Our revenues generally tend to increase in the third and fourth quarters of each calendar year, when customers place orders to meet year-end holiday demand, and our revenues tend to decrease in the first quarter of each calendar year. However, our recent rapid revenue growth makes it difficult for us to assess the impact of seasonal factors on our business. This difficulty is partly attributable to a shift in our product mix from seasonally impacted markets to less seasonally impacted markets and to the impact of market share growth during what we would expect to be a seasonally down quarter. In particular, strong sales of our CCFL backlight inverter ICs and our DC to DC converter ICs resulted in increased revenues during the second quarter of 2003 compared to the fourth quarter of 2002, partially offsetting seasonal demand factors.

Our sales cycle generally takes 6 to 12 months to complete following the introduction of a product, and volume production of products that use our ICs generally takes an additional 3 to 6 months to be achieved, after initial customer orders are received. As a result of our sales cycle and our relatively long product life cycles, characteristics of an analog and mixed-signal semiconductor

company, our revenue for any given period tends to be weighted toward products which we introduced for sale in the prior one to two years. For example, in 2003, a majority of our revenues were generated by sales of products which we first introduced for sale prior to 2002. The timing and volume of orders is subject to the timing and volume of demand for our customers' products. This, combined with the fact that orders in the semiconductor industry can typically be cancelled or rescheduled without significant penalty to the customer, makes the forecasting of our orders and revenues challenging.

We sell our ICs primarily through distribution arrangements and through our direct sales and applications support organization to original design manufacturers and electronic manufacturing service providers. Our largest direct customers in 2003 (including such third parties under distribution arrangements) were CTP, Yosun, and Ambit/Unique Logistics, accounting for 30%, 16%, and 14% of our revenues, respectively. Original design manufacturers, electronic manufacturing service providers and other third parties under distribution arrangements are not end customers, but rather serve as a channel to many end users of our products, such as Dell, Hewlett-Packard, IBM, and Sony in the computing industry, LG Electronics, Panasonic, Samsung, and Sharp in the consumer electronics industry, and Motorola and Sony Ericsson in the wireless industry.

We derive a substantial majority of our revenues from direct or indirect sales to foreign customers, including 98.6% from sales into Asia for 2003, a majority of which represents revenues from parties with whom we have distribution arrangements for resale to users of our product in Taiwan. This is because most of the products that use our ICs are manufactured in Asia. As a result, we believe that a substantial majority of our revenues will continue to come from customers located in Asia, although in the future we expect sales into Taiwan to decrease as a percentage of revenues as sales into other Asian regions increase.

Our gross margins have improved steadily over the last three years on an annual basis, reaching 54.8% in the year ended December 31, 2003. As a fabless semiconductor company, we rely on third party foundries to manufacture our ICs. We also rely on third-party assemblers to assemble and package our ICs prior to final product testing and shipping. Our improvement in gross margins was primarily due to a growth in unit volumes, which resulted in a lower per unit cost, as well as a reduction in our overall manufacturing costs, which included a significant reduction in wafer costs resulting from a change of our primary external foundry during the first half of 2003. As we diversify our revenue mix, we expect to see a reduction in overall average selling prices as our DC to DC converter and LED driver ICs, which we expect will represent an increasing percentage of revenues, typically sell at lower prices. However, we expect the impact of these changes in product mix on our overall gross margins to be approximately offset by increased sales of new higher margin products and lower manufacturing costs. However, there can be no assurance that margin growth can be achieved, and margins can fluctuate due to changes in overall average selling prices, product mix, market acceptance of new products, and manufacturing efficiencies.

One of the key factors that might cause our operating results to fluctuate from quarter to quarter and from year to year is the status of our litigation with O2. As described beginning on page 6 of the risk factors, the outcome of that litigation is highly uncertain. We expect to continue to incur patent litigation expenses in future periods, and such expenses might fluctuate significantly from quarter to quarter due to developments in the litigation.

Results of Operations

The following describes certain line items in our statement of operations:

Revenues. Revenues consist of sales of our ICs, net of sales discounts, returns, and incentives. All of our sales are denominated in U.S. dollars, and we are therefore not subject to foreign exchange rate fluctuation.

Gross Profit. Gross profit consists of the difference between revenues and cost of revenues. Cost of revenues consists primarily of the costs of purchasing processed silicon wafers and also includes costs associated with assembly, test, and shipping of our ICs, cost of personnel and equipment depreciation associated with manufacturing support and quality assurance, and occupancy costs. All of our sales and product costs are denominated in U.S. dollars and are therefore not subject to foreign exchange rate fluctuation.

Research and Development. Research and development expenses consist primarily of employee, contractor, and related costs, expenses for new product development and testing, expenses for process development, evaluation, photolithographic masks and revisions to the masks, occupancy costs, and depreciation on research and development equipment. All research and development costs are expensed as incurred. We plan to continue to invest a significant amount in research and development activities to develop new products and processes. Accordingly, we expect research and development expenses to increase in absolute dollars in future periods.

Sales and Marketing. Sales and marketing expenses consist primarily of employee, contractor, and related costs, occupancy costs, sales commissions to independent sales representatives, and promotional and marketing expenses. We expect sales and marketing expense to increase in absolute dollars in future periods.

General and Administrative. General and administrative expenses consist primarily of employee, contractor and related costs, occupancy costs, insurance, and professional services. We expect general and administrative expenses will increase in absolute dollars to support our future operations as well as the additional costs of operating as a publicly traded company.

Patent Litigation. Patent litigation expenses consist of external legal fees incurred as a result of our lawsuits with O2. These expenses have been primarily for our own defense but also include legal expenses incurred by our customers that O2 has or may take action against in various international courts. We have agreed to indemnify certain of our customers in their lawsuits with O2 relating to their use of our ICs in their products. Our U.S. case against O2 is scheduled for trial in August of 2004. We expect to continue to incur patent litigation expenses in future periods, and such expenses might fluctuate significantly from quarter to quarter due to developments in the litigation.

As of March 19, 2004, we have deposited approximately $6.1 million with Taiwanese courts in connection with our two injunctions there. The deposits are held in a certificate of deposit account by the court and are accounted for as restricted assets in our balance sheet. If we lose our lawsuit with O2 in Taiwan, we could forfeit some or all of these deposits and, if we are found to be in violation of O2's injunction, we could face additional penalties.

Stock-Based Compensation. We have granted stock options to employees where the fair value of our stock determined for financial reporting purposes was greater than the fair value determined by our board of directors on the date of grant. We have recorded an aggregate of $20.2 million of deferred stock compensation related to these grants. As of March 31, 2004, $14.9 million of deferred stock compensation remained to be amortized through 2008. We determine our amortization expense following the multiple grant approach, which results in substantially higher amounts of amortization in earlier years as opposed to the single grant approach, which results in equal amortization over the vesting period of the options. Such amortization is allocated to operating expenses and cost of revenues based upon the individual employees' functions. As of March 31, 2004, amortization is expected to be $7.9 million, $4.5 million, $2.1 million, $0.4 million, and an insignificant amount in the remainder of 2004, 2005, 2006, 2007, and 2008, respectively.

We have also granted stock options to non-employee consultants. These options are valued using the fair value method and the related charge is classified in the statement of operations based on

the nature of the services received. Based on the estimated fair value of our common stock at March 31, 2004, approximately $1.3 million of future charges will be recorded over the vesting periods through 2007. Approximately $0.8 million of this amount would be charged to compensation expense in the remainder of 2004. The ultimate amount of this charge each year will vary depending on changes in the fair market value of our common stock.

Income Taxes. As of March 31, 2004, we had federal net operating loss carryforwards of $7.1 million. These net operating loss carryforwards will expire on various dates beginning in 2012. We also had research and development tax credit carryforwards of $0.7 million and $0.6 million for federal and state income tax purposes, respectively. The federal research and development tax credit carryforwards will expire on various dates beginning in 2012. The state research tax credit can be carried forward indefinitely. Valuation allowances are established when necessary to reduce deferred tax assets to amounts expected to be realized. We currently anticipate that we will implement an international tax structure pursuant to which our international sales would be conducted by an affiliate of ours outside the United States.

The following table sets forth our statements of operations data as a percentage of revenues for the periods indicated:

	Year ended December 31,			Three months ended March 31	
	2001	2002	2003	2003	2004
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues	73.5	55.9	45.2	57.3	48.2
Gross profit	26.5	44.1	54.8	42.7	51.8
Operating expenses:					
Research and development	32.1	36.5	22.7	39.3	20.1
Sales and marketing	12.0	11.8	9.0	14.3	14.7
General and administrative	10.2	8.2	7.2	10.8	7.8
Patent litigation	11.8	13.1	17.9	33.7	8.8
Stock-based compensation	2.2	1.4	11.3	4.5	43.4
Total operating expenses	68.3	71.0	68.1	102.6	94.8
Operating loss	(41.8)	(26.9)	(13.3)	(59.9)	(43.0)
Interest and other income	1.4	1.5	0.7	2.3	0.4
Interest expense	(3.5)	(1.0)	—	—	—
Net loss	(43.9)%	(26.4)%	(12.6)%	(57.6)%	(42.6)%

Comparison of Three Months Ended March 31, 2004 and March 31, 2003

Revenues. Revenues were $6.8 million in the three months ended March 31, 2004 and $3.3 million in the three months ended March 31, 2003, an increase of 108.7%. This increase was due to an increase in revenues from our CCFL backlight inverter product family and DC to DC converter product families. The increase in our CCFL backlight inverter product family was due to several new product releases and increased demand for our existing products. This resulted in higher unit volumes which were partially offset by a slight decrease in average selling prices. The increase in revenues from our DC to DC converter product family was due to several new product releases for the computer, consumer electronics, and wireless markets and increased demand for our existing products. The increase in unit volumes was partially offset by a slight decrease in average selling prices.

The following table illustrates changes in our revenues by product family (amounts in thousands):

	Three months ended March 31,				
	2003		2004		
	Amount	% of Revenue	Amount	% of Revenue	Change
CCFL Inverters	$ 2,596	79.7%	$ 3,412	50.2%	31.4%
DC to DC Converters	503	15.4	2,723	40.1	441.4
LED Drivers	64	2.0	594	8.7	828.1
Audio Amplifiers	93	2.9	66	1.0	(29.0)
Total	$ 3,256	100.0%	$ 6,795	100.0%	108.7%

Gross Profit. Gross profit as a percentage of revenues, or gross margin, was 51.8% for the three months ended March 31, 2004, compared to 42.7% for the three months ended March 31, 2003. The increase in gross margin was primarily due to unit volume increases, resulting in lower per unit costs, and a reduction in manufacturing costs from converting to a lower cost foundry, reducing assembly costs, and improving yields.

Research and Development. Research and development expenses were $1.4 million, or 20.1% of revenue, in the three months ended March 31, 2004, and $1.3 million, or 39.3% of revenue, in the three months ended March 31, 2003. This increase of $0.1 million was due to headcount increases to support additional product development activities.

Sales and Marketing. Sales and marketing expenses were $1.0 million, or 14.7% of revenues, in the three months ended March 31, 2004, and $0.5 million, or 14.3% of revenues, in the three months ended March 31, 2003. The increase was primarily due to additional headcount to support our growing revenue base and secondarily, commissions paid to our outside sales representatives due to an increase in revenues.

General and Administrative. General and administrative expenses were $0.5 million, or 7.8% of revenues, in the three months ended March 31, 2004, and $0.4 million, or 10.8% of revenues, in the three months ended March 31, 2003. The increase was primarily due to additional headcount and higher professional services costs to support our growth.

Patent Litigation. Patent litigation expenses were $0.6 million, or 8.8% of revenue, in the three months ended March 31, 2004, and $1.1 million, or 33.7% of revenue, in the three months ended March 31, 2003. The dollar decrease of 45.2% was due to the decrease in activities associated with multiple lawsuits in the U.S. and Taiwan. For a more complete description of the O2 litigation, you must read our litigation Risk Factor on page 6 in “Risk Factors” as well as “Business—Legal Proceedings” on page 48.

Stock-Based Compensation. Stock-based compensation expense was $3.0 million, or 43.4% of revenue, in the three months ended March 31, 2004, and $0.1 million, or 4.5% of revenue, in the three months ended March 31, 2003. We are amortizing deferred stock-based compensation over the vesting period of related options.

Interest and Other Income, Net. Interest and other income, net, was $25,000 in the three months ended March 31, 2004, and $0.1 million in the three months ended March 31, 2003. This decrease was due to a lower average cash balance in the three months ended March 31, 2004.

Comparison of Year Ended December 31, 2003 to Year Ended December 31, 2002

Revenues. Revenues for the year ended December 31, 2003 were $24.2 million compared to $12.2 million for the year ended December 31, 2002, an increase of 98.3%. This increase was due to

an increase in revenues from our CCFL backlight inverter and DC to DC converter product families. The increase in revenues from our CCFL backlight inverter product family was due to several new product releases and increased demand for our existing products. This resulted in higher unit volumes which were partially offset by a decline in average selling prices. The increase in revenues from our DC to DC converter product family was due to an increased number of new product offerings for the computer, consumer electronics, and wireless markets. Volume sales began in the third quarter of 2003 for our DC to DC product family. Revenues from our audio amplifier product family accounted for 1.3% and 13.9% of total revenues for the years ended December 31, 2003 and December 31, 2002, respectively. Revenues for our audio amplifier product family for the year ended December 31, 2002 were primarily driven by a non-recurring order by one customer.

The following table illustrates changes in our revenues by product family (amounts in thousands):

	Years ended December 31,				
	2002		2003		
	Amount	% of Revenue	Amount	% of Revenue	Change
CCFL Inverters	$ 9,694	79.4%	$ 16,898	69.8%	74.3%
DC to DC Converters	388	3.2	5,549	22.9	1,330.2
LED Drivers	421	3.4	1,442	6.0	242.5
Audio Amplifiers	1,703	14.0	315	1.3	(81.5)
Total	$ 12,206	100.0%	$ 24,204	100.0%	98.3%

Gross Profit. Gross margin was 54.8% for the year ended December 31, 2003, compared with 44.1% for the year ended December 31, 2002. The increase in gross margin was primarily due to lower per unit costs associated with volume efficiencies attributable to a growth in unit shipments from our CCFL backlight inverter product family and the introduction of several new products in our DC to DC converter product. In addition, we reduced our manufacturing costs by converting to a lower cost foundry in the first half of 2003, reducing our assembly costs, and improving our test yields.

Research and Development. Research and development expenses increased to $5.5 million, or 22.7% of revenues, for the year ended December 31, 2003 from $4.5 million, or 36.5% of revenues, for the year ended December 31, 2002. This dollar increase of 23.2% was primarily due to higher compensation and related costs of $0.8 million driven by increases in our engineering headcount.

Sales and Marketing. Sales and marketing expenses increased to $2.2 million, or 9.0% of revenues, for the year ended December 31, 2003 from $1.4 million, or 11.8% of revenues, for the year ended December 31, 2002. This dollar increase of 51.1% was due to higher compensation and related costs of $0.5 million driven by increases in sales and marketing personnel.

General and Administrative. General and administrative expenses increased to $1.7 million, or 7.2% of revenues, for the year ended December 31, 2003 from $1.0 million, or 8.2% of revenues, for the year ended December 31, 2002. This dollar increase of 73.8% was due to higher compensation and related costs of $0.3 million from increases in administrative personnel, higher insurance costs of $0.2 million, and higher professional services costs of $0.1 million, such as general legal expenses and audit fees.

Patent Litigation. Patent litigation expenses increased to $4.3 million or 17.9% of revenues, for the year ended December 31, 2003 from $1.6 million or 13.1% of revenues, for the year ended December 31, 2002. This dollar increase of 170.3% was due to increased activities associated with multiple lawsuits in the U.S. and Taiwan with O2.

Stock-Based Compensation. In 2002 and 2003, we recorded stock-based compensation expense for employee option grants where the fair value of our stock determined for financial reporting purposes was greater than the fair value determined by our board of directors on the date of such grants and also for non-employee option grants based on the estimated fair values of such options. In the year ended December 31, 2003, stock-based compensation expense increased $2.8 million over 2002. This increase is due to $1.9 million of amortization of deferred stock compensation related to current year employee stock option grants and to fair value charges for stock options granted to non-employees in 2003 and previous years. The non-employee options are measured using variable accounting, and the expenses accordingly fluctuate with changes in the fair market value of our common stock.

Stock-based compensation allocated to general and administrative expenses increased from $0.1 million in 2002 to $1.2 million in 2003. This increase is primarily due to grants of options to consultants and also due to current year option grants to administrative personnel and board members. In addition, stock-based compensation of $0.2 million has been recorded as an offset to revenue in 2003 for stock options granted to a non-employee in connection with a distribution arrangement.

Interest and Other Income. Interest and other income was $0.2 million for the year ended December 31, 2003, compared to $0.2 million for the year ended December 31, 2002. Interest income is earned on our cash and short-term investments.

Interest and Other Expense. For the year ended December 31, 2003, we did not have interest or other expense. For the year ended December 31, 2002, we had $0.1 million in interest and other expense as a result of our notes payable and our credit line. The notes, along with all related interest, were converted to preferred stock in 2002, and the credit line was repaid in 2002.

Comparison of Year Ended December 31, 2002 to Year Ended December 31, 2001

Revenues. Revenues were $12.2 million for the year ended December 31, 2002 compared to $8.1 million for the year ended December 31, 2001, an increase of 50.6%. This increase was due to a 19.3% increase in revenues from our CCFL backlight inverter product family and to initial shipments of our LED driver, DC to DC converter, and audio amplifier product families. The increase in revenues from the CCFL backlight inverter product family was due to the growth in the notebook computer and flat panel display markets. Revenues from our CCFL backlight inverter product family were 79.4% of total revenues for the year ended December 31, 2002, compared to 100% for the year ended 2001. Revenues from our audio product family were 13.9% for the year ended December 31, 2002, compared to 0% for the year ended 2001, which were driven by the introduction of new products and a new single non-recurring customer order.

The following table illustrates changes in our revenues by product family (amounts in thousands):

	2001		2002		
	Amount	% of Revenue	Amount	% of Revenue	Change
CCFL Inverters	$ 8,130	100.0%	$ 9,694	79.4%	19.2%
DC to DC converters	—	—	388	3.2	100.0
LED Drivers	—	—	421	3.4	100.0
Audio Amplifiers	—	—	1,703	14.0	100.0
Total	$ 8,130	100.0%	$ 12,206	100.0%	50.1%

Gross Profit. Gross margin was 44.1% for the year ended December 31, 2002 compared to 26.5% for the year ended December 31, 2001. The increase in gross margin was primarily due to sales of higher margin audio amplifier products.

Research and Development. Research and development expenses increased to $4.5 million, or 36.5% of revenues, for the year ended December 31, 2002 from $2.6 million, or 32.1% of revenues, for the year ended December 31, 2001. This dollar increase of 70.8% was primarily due to higher compensation and related costs of $1.1 million from increases in our engineering headcount, as well as increases in mask process development costs for new products of $0.3 million.

Sales and Marketing. Sales and marketing expenses increased to $1.4 million, or 11.8% of revenues, for the year ended December 31, 2002 from $1.0 million, or 12.0% of revenues, for the year ended December 31, 2001. This dollar increase of 47.9% was due to higher compensation and related costs of $0.4 million from increases in sales and marketing personnel.

General and Administrative. General and administrative expenses increased to $1.0 million, or 8.2% of revenues, for the year ended December 31, 2002 from $0.8 million, or 10.2% of revenues, for the year ended December 31, 2001. This dollar increase of 19.8% was due to higher compensation and related costs of $0.1 million.

Patent Litigation. Patent litigation expenses increased to $1.6 million or 13.1% of revenues, for the year ended December 31, 2002 from $1.0 million or 11.8% of revenues, for the year ended December 31, 2001. This dollar increase of 67.1% was due to an increase in costs related to our lawsuits in the U.S. with O2.

Stock-Based Compensation. Stock-based compensation expense remained relatively stable from 2001 to 2002 due to the continued amortization of previously incurred deferred stock compensation charges and non-employee stock compensation charges. In both 2001 and 2002, slightly more than half of stock-based compensation expense was allocated to sales and marketing expense.

Interest and Other Income. Interest and other income was $0.2 million for the year ended December 31, 2002. This compares to $0.1 million for the year ended December 31, 2001. Interest income is earned on our cash and cash equivalents.

Interest and Other Expense. Interest and other expense was $0.1 million for the year ended December 31, 2002, compared to $0.3 million for the year ended December 31, 2001. The decrease of $0.2 million was due to the reduction of debt obligations in 2002.

Selected Quarterly Financial Information

The following table sets forth our unaudited quarterly consolidated statements of operations for each of the eight quarters in the period ended December 31, 2003 and our audited quarterly consolidated statements of operations for the quarter ended March 31, 2004. You should read the following table in conjunction with the consolidated financial statements and related notes contained elsewhere in this prospectus. We have prepared the unaudited information on the same basis as our audited financial statements. This table includes all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of our financial position and operating results for the quarters presented. Operating results for any quarter are not necessarily indicative of results for any future periods.

	Three months ended								
	Mar 31, 2002	June 30, 2002	Sept 30, 2002	Dec 31, 2002	Mar 31, 2003	June 30, 2003	Sept 30, 2003	Dec 31, 2003	Mar 31, 2004
	(in thousands, except per share data)								
Revenues	$1,879	$ 2,713	$ 3,373	$4,241	$ 3,256	$ 4,675	$8,110	$ 8,163	$ 6,795
Cost of revenues	1,186	1,602	1,910	2,133	1,866	2,330	3,544	3,189	3,273
Gross profit	693	1,111	1,463	2,108	1,390	2,345	4,566	4,974	3,522
Gross profit %	36.8%	40.9%	43.4%	49.7%	42.7%	50.2%	56.3%	60.9%	51.8%
Operating expenses:									
Research and development (excluding stock-based compensation)	955	924	1,093	1,487	1,281	1,480	1,372	1,361	1,364
Sales and marketing (excluding stock-based compensation)	234	344	365	500	465	446	589	681	999
General and administrative (excluding stock-based compensation)	156	181	298	363	350	417	388	578	532
Patent litigation	266	343	622	371	1,097	1,372	1,278	585	601
Stock-based compensation	41	42	42	42	148	356	779	1,458	2,950
Total operating expenses	1,652	1,834	2,420	2,763	3,341	4,071	4,406	4,663	6,446
Income (loss) from operations	(959)	(723)	(957)	(655)	(1,951)	(1,726)	160	311	(2,924)
Other income (expense), net	11	(4)	(19)	69	76	43	6	45	25
Net Income (loss)	(948)	(727)	(976)	(586)	(1,875)	(1,683)	166	356	(2,899)
Accretion of redeemable preferred stock	—	—	112	335	335	335	335	335	335
Net income (loss) attributable to common stockholders	$ (948)	$ (727)	$(1,088)	$ (921)	$(2,210)	$(2,018)	$ (169)	$ 21	$(3,234)
Basic income (loss) per common share	$ (0.17)	$ (0.12)	$ (0.18)	$ (0.15)	$ (0.37)	$ (0.33)	$ (0.03)	$ 0.01	$ (0.50)
Diluted income (loss) per share	$ (0.17)	$ (0.12)	$ (0.18)	$ (0.15)	$ (0.37)	$ (0.33)	$ (0.03)	$ —	$ (0.50)
Shares used in basic income (loss) per common share	5,709	5,861	5,905	5,977	6,018	6,051	6,147	6,358	6,482
Shares used in diluted income (loss) per common share	5,704	5,861	5,905	5,977	6,018	6,051	6,147	20,815	6,482

Revenues. Revenues increased each quarter from the first quarter of 2002 through the fourth quarter of 2002 as a result of the introduction of new CCFL backlight inverter products as well as higher unit shipments of existing CCFL backlight inverter products. In the third and fourth quarters of 2002, revenues from our audio amplifier product family increased substantially, driven by one customer

who placed a large order during this time frame. A decline in revenues from the fourth quarter of 2002 to the first quarter of 2003 is attributable to the seasonality of demand for our CCFL backlight inverter ICs, as well as a significant decrease in revenues from our audio amplifier product family. Revenues increased quarter over quarter in 2003 as the demand for our CCFL backlight inverter ICs continually increased and also as a result of the introduction of new products in our DC to DC converter product family in the third quarter of 2003. Revenues for the three months ended March 31, 2004 decreased 16.8% from $8.2 million in the three months ended December 31, 2003, due to the seasonally lower demand in the computer and wireless markets.

Gross Profit. Gross margins increased each quarter from the first quarter of 2002 through the fourth quarter of 2002. This increase was primarily due to the introduction of new CCFL inverter products with higher average selling prices and the increase in unit shipments of our higher-margin audio product family. The decline in our gross margin in the first quarter of 2003 was primarily due to a significant decrease in unit shipments from our higher-margin audio amplifier product family and lower average selling prices of our CCFL backlight inverter products. Gross margins increased in the second and third quarters of 2003 primarily due to the introduction of new products in our DC to DC converter product family and the increase in unit shipments of our CCFL backlight inverter products resulting in lower per unit costs associated with volume efficiencies. In addition, we reduced our manufacturing costs by converting to a lower cost foundry during the first two quarters of 2003, obtaining lower per unit assembly costs, and improving yields. Gross margins increased in the fourth quarter of 2003 primarily due to improved manufacturing yields. Gross margins for the three months ended March 31, 2004 decreased 9.1% from 60.9% in the three months ended December 31, 2003. The decrease was primarily due to a decline in unit shipments, while manufacturing costs remained relatively stable.

Research and Development. Research and development expenses increased for three quarters in 2002 as we continued to invest in new product development programs and increased our research and development personnel. The significant increase in the fourth quarter of 2002 was primarily the result of expenses related to taping out new products, purchasing new photolithographic mask sets for future products, and transitioning existing products to a new foundry. Research and development expenses increased in the second quarter of 2003 due to expenses related to taping out new products and purchasing new photolithographic mask sets.

Sales and Marketing. Sales and marketing expenses increased quarter over quarter in 2002 primarily as the result of an increase in sales commissions due to an increase in revenues. Sales and marketing expenses increased in the third and fourth quarters in 2003 primarily as the result of an increase in sales and marketing personnel. The fluctuations in expenses quarter over quarter are driven largely by changes in sales commissions. The increase in the three months ended March 31, 2004, compared to the three months ended December 31, 2003 was primarily due to an increase in headcount to support our growing revenue base.

General and Administrative. General and administrative expenses increased quarter over quarter in 2002. These increases were primarily the result of increases in general and administrative personnel and an increase in professional fees such as legal, tax, and audit. General and administrative expenses also increased in the second and fourth quarters in 2003. These increases were similarly the result of increases in general and administrative personnel and an increase in professional fees, such as legal, tax, and audit.

Patent Litigation. Patent litigation expenses increased in the first three quarters of fiscal year 2002 following O2's initiation of a second lawsuit against us in late 2001, then declined in the fourth quarter as there was a lull in the legal proceedings over the year-end holidays. During 2003, litigation expenses increased again as we prepared for a hearing on cross-motions for summary judgment in November 2003. Following the hearing, activity and fees again declined. We are currently scheduled to

begin the trial in the U.S. in August 2004. We expect that if the trial proceeds as scheduled, we will again incur substantially higher litigation expenses at least through that trial.

Stock-Based Compensation. Stock-based compensation expense in 2002 relates to the amortization of deferred stock compensation incurred in 2000 and the fair value of options granted to non-employees. Expenses were relatively consistent in each quarter of 2002, as there were no significant changes in the value of our common stock, which would drive an increase in the expense of non-employee options. In 2003, stock-based compensation expense increased in each quarter. This increase is due to the granting of additional employee and non-employee stock options where the fair value of our stock determined for financial reporting purposes was greater than the fair value determined by our board of directors on the date of such grants.

Interest and Other Income. The quarter over quarter fluctuations in 2002 and 2003 were primarily the result of our cash flow and the level of funds that we held in interest bearing accounts. In the first quarter of 2003, we had $28,000 of other income that was primarily the result of a tax credit we received in connection with our Taiwan branch office.

Interest and Other Expense. Interest and other expense in 2002 was largely due to convertible notes that were converted into shares of our Series D Preferred Stock in the third quarter of 2002. Subsequent to the third quarter of 2002, we had no debt, and accordingly, minimal interest expense.

Liquidity and Capital Resources

Cash and cash equivalents as of March 31, 2004 were $8.9 million, and short-term investments were $1.0 million. As of December 31, 2003, we had $12.1 million in cash and cash equivalents and $1.0 million in short-term investments. We have financed our growth primarily with proceeds from the issuance of preferred and common stock.

Net cash used in operating activities was $3.1 million for the three months ended March 31, 2004, compared to $1.8 million for the three months ended March 31, 2003. The use of cash in operating activities in the three months ended March 31, 2004 was primarily due to our $5.3 million deposit paid to a court in Taiwan related to our patent litigation with O2, our loss of $2.9 million, and an increase in inventory due to an anticipated increase in revenues, which was partially offset by a $1.7 million decrease in accounts receivable due to a decrease in revenues and increased collections. The use of cash in operating activities for the three months ended March 31, 2003 was primarily due to our net loss of $1.9 million. We also paid $0.8 million as a deposit to a court in Taiwan relating to the O2 patent litigation, which was partially offset by a $0.5 million decrease in inventory.

Our operating activities used cash in the amount of $2.4 million, $2.4 million, and $3.0 million during the years ended December 31, 2001, 2002, and 2003, respectively. The increase in cash used in operating activities was primarily driven by our net losses and by increases in our working capital requirements. In particular, in 2003 our accounts receivable increased by $3.3 million over 2002. This increase was the result of an increase in revenues and the timing of payments from our customers. In the second half of 2003, one of our largest end customers announced that it was being acquired, which caused a delay in its normal payment process. This contributed to the increase in our accounts receivable as the delay impacted the timing of payments from a third party under a distribution arrangement. These amounts were substantially collected in February 2004, and we are now experiencing normal collection periods from this customer. In addition, we had an increase of $0.8 million in long-term restricted assets for the year ended December 31, 2003, due to our deposit paid to a court in Taiwan related to our patent litigation with O2.

In addition, we have the following litigation-related contingencies that might also affect our liquidity and capital resources: cash bonds of approximately $6.1 million posted with Taiwanese courts,

potential penalties relating to our injunctions, and/or possible future legal fees and indemnification obligations to be incurred in connection with our O2 litigation. Please refer to "Business—Legal Proceedings" on page 48 for a more complete discussion of these contingencies.

Net cash used in investing activities was $0.3 million in the three months ended March 31, 2004, and $8.3 million in the three months ended March 31, 2003. Purchases of capital equipment in both periods were $0.3 million. In the three months ended March 31, 2003, $8.0 million was used to purchase short-term investments, which are not accounted for as cash and cash equivalents.

Our investing activities used cash of $0.5 million, $1.1 million, and $2.6 million during the years ended December 31, 2001, 2002, and 2003, respectively. In 2003, the increase in cash used in investing activities was primarily due to purchases of capital equipment to support our growth and purchases of short-term investments.

Net cash provided by financing activities was $0.2 million for the three months ended March 31, 2004, and $23,000 for the three months ended March 31, 2003. These proceeds were the result of stock options exercised by employees.

Our financing activities provided $7.2 million, $15.4 million, and $0.5 million during the years ended December 31, 2001, 2002, and 2003, respectively. Financing activities in 2001 and 2002 primarily include proceeds from the issuance of convertible preferred stock and common stock. Cash provided by financing activities for the year ended December 31, 2003 was $0.5 million, primarily due to exercises of stock options by employees.

We believe our existing cash balances and short-term investments, as well as cash expected to be generated from operating activities, will be sufficient to meet our anticipated cash needs for at least the next 12 months. We have signed a preliminary agreement to establish a facility in China, initially for the testing of our ICs. Pursuant to the preliminary agreement, we have agreed to invest up to $5 million, subject to a number of contingencies, including negotiating definitive agreements. Our long-term future capital requirements will depend on many factors, including our level of revenues, the timing and extent of spending to support product development efforts, the expansion of sales and marketing activities, the timing of introductions of new products, the costs to ensure access to adequate manufacturing capacity, and the continuing market acceptance of our products. We could be required, or could elect, to seek additional funding through public or private equity or debt financing and additional funds may not be available on terms acceptable to us or at all.

Off-Balance Sheet Arrangements

As of March 31, 2004, we have no off-balance sheet arrangements as defined in Item 303(a)(4) of the Securities and Exchange Commission's Regulation S-K.

Contractual Obligations

The following table describes our commitments to settle contractual obligations in cash as of December 31, 2003 (amounts in thousands):

	Payments due by period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Operating leases	$ 2,590	$ 465	$994	$ 1,041	$ 90
Purchase obligations	1,541	1,541	—	—	—
Total commitments	$ 4,131	$ 2,006	$994	$ 1,041	$ 90

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We evaluate our estimates on an on-going basis, including those related to uncollectible accounts receivable, inventories, income taxes, warranty obligations and contingencies, and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Because these estimates can vary depending on the situation, actual results may differ from the estimates.

We believe the following critical accounting policies affect our more significant judgments used in the preparation of our consolidated financial statements.

Revenue Recognition. We recognize revenues in accordance with Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements*, as amended by SAB 101A and 101B ("SAB 101") and SAB 104, *Revenue Recognition* (collectively referred to as SAB 104). 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 and 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 our recognizing revenue upon shipment (when title passes) to most customers, but in the case of one third party, who accounted for 30% of our revenue in 2003, we have recognized revenue upon its sale of our products to its customers (sell through basis). Should changes in conditions cause management to determine these criteria are not met for certain future transactions, revenues recognized for any reporting period could be adversely impacted.

The majority of our sales are made through distribution arrangements that permit the other party limited product returns rights. We have not experienced any significant returns pursuant to these provisions. We provide a standard 90-day warranty against defects in materials and workmanship and will either repair the goods, provide replacements at no charge to the customer, or refund amounts to the customer for defective products. Estimated sales returns and warranty costs, based on historical experience by product, are recorded at the time product revenue is recognized. We formerly had one distribution arrangement with a third party with extended payment terms. These terms were the lesser of 60 days or upon receipt of end customer payment by the third party. Revenue for this arrangement was recognized on a sell-through basis, when the goods were shipped by the third party to the end customer. Under such distribution arrangement, the third party did not typically stock inventory of our products.

Inventory Valuation. We value our inventory at the lower of the actual costs of our inventory or its current estimated market value. We write down inventory for obsolescence or unmarketable inventories based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

Accounting for Stock-Based Compensation. Our stock-based employee compensation plans are described more fully in Note 7 to the consolidated financial statements. We account for these plans under the recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock issued to Employees*, and related interpretations. We amortize deferred stock-based compensation over the vesting periods of the related options, which are generally four

years, in accordance with FASB Interpretation No. 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans*, *an interpretation of APB Opinions No. 15 and 25*.

We have recorded deferred stock-based compensation representing the difference between the deemed fair market value of our common stock for accounting purposes and the option exercise price. We determined the fair market value of our common stock based upon several factors, including trends in the broad market for technology stocks and the expected valuation we would obtain in an initial public offering. Had different assumptions or criteria been used to determine the fair market value of our common stock, materially different amounts of stock-based compensation could have been reported.

Pro forma information regarding net loss attributable to common stockholders and net loss per share attributable to common stockholders is required in order to show our net loss as if we had accounted for employee stock options under the fair value method of Statement of Financial Accounting Standards ("SFAS") No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation, Transition and Disclosure*. This information is contained in Note 1 to our consolidated financial statements. The fair value of options issued pursuant to our option plan at the grant date were estimated using the Black-Scholes option-pricing model.

Recent Accounting Pronouncements

In December 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 148, *Accounting for Stock-Based Compensation, Transition and Disclosure*. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in a tabular format. Additionally, SFAS No. 148 requires disclosure of the pro forma effect in interim financial statements. We have adopted the transition and annual disclosure requirements of SFAS No. 148, which were effective for fiscal years ending after December 15, 2002 and have elected to continue to account for employee stock options under APB Opinion No. 25. The adoption of this standard did not have an effect on our financial position, results of operations, or cash flows.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS No. 150 requires that certain financial instruments that are settled in cash, including certain types of mandatorily redeemable securities, be classified as liabilities rather than as equity or temporary equity. SFAS No. 150 becomes effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period after June 15, 2003. The adoption of this standard did not have a material effect on our financial position, results of operations or cash flows.

In December 2003, the SEC issued Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition* (SAB No. 104), which codifies, revises and rescinds certain sections of SAB No. 101, *Revenue Recognition*, in order to make this interpretive guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulations. The changes noted in SAB No. 104 did not have a material effect on our results of operations, financial position or cash flows.

In November 2002, the FASB issued FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45). FIN 45 requires the guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. It also elaborates on the disclosures to

be made by a guarantor in its financial statements about its obligations under certain guarantees that it has issued and to be made in regard of product warranties. The adoption of FIN 45 did not to have a material effect on our consolidated financial statements.

In December 2002, the EITF reached a consensus on EITF Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*. This Issue addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. In some arrangements, the different revenue-generating activities (deliverables) are sufficiently separable and there exists sufficient evidence of their fair values to separately account for some or all of the deliveries (that is, there are separate units of accounting). In other arrangements, some or all of the deliveries are not independently functional, or there is not sufficient evidence of their fair values to account for them separately. This Issue addresses when, and if so, how an arrangement involving multiple deliverables should be divided into separate units of accounting. This Issue does not change otherwise applicable revenue recognition criteria. The guidance in this Issue is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The adoption of EITF 00-21 did not have a material effect on our consolidated financial statements.

The FASB issued Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities*, in January 2003, and a revised interpretation of FIN 46 (FIN 46-R) in December 2003. FIN 46 requires certain variable interest entities (VIEs) to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The provisions of FIN 46 are effective immediately for all arrangements entered into after January 31, 2003. Since January 31, 2003, we have not invested in any entities that we believe are variable interest entities for which we are the primary beneficiary. For all arrangements entered into after January 31, 2003, we are required to continue to apply FIN 46 through the end of the first quarter of fiscal 2004. We are required to adopt the provisions of FIN 46-R for those arrangements in the second quarter of fiscal 2004. For arrangements entered into prior to February 1, 2003, we are required to adopt the provisions of FIN 46-R in the second quarter of fiscal 2004. We do not expect the adoption of FIN 46-R to have an impact on our financial position, results of operations or cash flows.

Disclosure About Market Risk

We do not use derivative financial instruments in our operations or investment portfolio. We do not have material exposure to market risk associated with changes in interest rates, as we have no long-term debt obligations or long-term investments outstanding. Our investment portfolio consists of short-term corporate debt instruments and Federal government agency debt instruments that are classified as available-for-sale. The weighted average remaining maturity of our investment portfolio was less than 190 days at December 31, 2003 and less than 100 days at March 31, 2004. We held no investments in 2002. We do not expect to be subject to material interest rate risk with respect to our short-term investments. We do not believe we have any other material exposure to market risk associated with interest rates.

Although we conduct business in foreign countries, our international operations consist primarily of sales offices and, in the future, a test facility in China. Foreign currency translation gains and losses were not material to our results of operations for any period presented. Accordingly, we do not expect to be subject to material foreign currency risk with respect to future costs or cash flows from our foreign operations. To date, we have not entered into any foreign currency forward exchange contracts or other derivative financial instruments to hedge the effects of fluctuations in foreign currency rates.

BUSINESS

Monolithic Power Systems is a high performance analog and mixed-signal semiconductor company. We design, develop, and market proprietary, advanced analog and mixed-signal semiconductors for large and high growth markets. Our semiconductors, or integrated circuits (ICs), are used in a variety of electronic products, such as notebook computers, flat panel displays, cellular handsets, digital cameras, wireless local area network (LAN) access points, home entertainment systems, and personal digital assistants. Our ICs are used to perform functions such as lighting electronic displays, converting or controlling voltages within systems, and amplifying sound. We differentiate our ICs by offering solutions that are more highly-integrated, smaller in size, more energy efficient, more accurate with respect to performance specifications, and, accordingly, more cost-effective than many competing solutions. Our ability to offer these benefits to customers is enabled by our three core strengths: our deep system-level and applications knowledge, our strong analog and mixed-signal design expertise, and our proprietary process technology.

Industry Background

Industry Overview. Semiconductors comprise the basic building blocks of electronic systems and equipment. With the proliferation of electronic products and increasing semiconductor content in these products, according to the Semiconductor Industry Association (SIA), the semiconductor industry has grown from an $18 billion industry in 1983 to a $166 billion industry in 2003, representing a compound annual growth rate of 11.8%. According to the SIA, the industry is expected to continue to experience strong growth over the next three years, reaching an estimated $247 billion in 2007.

Within the semiconductor industry, components can be classified as either discrete devices, such as individual transistors, or ICs, in which a number of transistors and other elements are combined to form a more complicated electronic circuit. ICs can be further divided into three primary categories: digital, analog, and mixed-signal. Digital ICs, such as memory devices and microprocessors, can store or perform arithmetic functions on data that is represented by a series of ones and zeroes. Analog ICs, in contrast, handle real world signals such as temperature, pressure, light, sound, or speed. In addition, analog ICs also perform power management functions, such as regulating or converting voltages, for electronic devices. Mixed-signal ICs combine digital and analog functions onto a single chip and play an important role in bridging real world phenomena to digital systems.

Analog and Mixed-Signal Markets. We focus on the market for analog and mixed-signal ICs. According to the SIA, the market for analog and mixed-signal ICs was $26.8 billion in 2003 and is projected to grow to $42.7 billion in 2007. There are several key factors that distinguish the analog and mixed-signal IC market from digital IC markets. These factors include:

- ***Longer product life cycles.*** Analog ICs generally have longer product life cycles than digital ICs because original equipment manufacturers and original design manufacturers typically design the analog portions of their systems to span multiple generations of their products. This enables manufacturers to avoid changing the analog portions of their systems, as changing analog components may cause unexpected problems with their products' other components. As a result, the typical life cycle for analog and mixed-signal ICs often exceeds three years and spans over multiple product generations.
- ***Relatively stable pricing environment.*** There are a number of aspects of the analog and mixed-signal IC market that contribute to a more stable pricing environment relative to the market for digital ICs:
  - ***Market fragmentation.*** Because of their various applications and functions, analog and mixed-signal ICs have a wide range of operating specifications. Different customers have unique requirements for ICs with respect to resolution, speed, power capabilities, and signal

amplitudes. This differentiation results in a higher degree of market fragmentation and tends to limit the number of competitors within a specific product category.

- ***Difficult-to-replicate technology.*** Because each high performance analog and mixed-signal IC incorporates proprietary design and process technology, it is relatively difficult for new market entrants to duplicate the functionality and performance characteristics of a given analog or mixed-signal IC.
- ***Limited Asian competition.*** Historically, most Japanese and other Asian manufacturers have concentrated their efforts on high volume digital IC markets rather than on the high performance analog and mixed-signal market. Accordingly, these manufacturers generally do not have strong competencies in high performance analog and mixed-signal design.

- ***Relative complexity of design***. The design of an analog IC generally involves greater variety and less repetition of circuit elements than in a digital IC design. The interaction of analog circuit elements is complex, and their exact placement is critical to the accuracy and performance of an analog IC. Similarly, the process technology used plays an important role in analog IC development. For mixed-signal ICs, additional complexity is encountered, as these devices require the combination of high-speed digital circuits and sensitive analog circuits. Accordingly, we believe that more years of experience are required for a designer to develop an aptitude for analog and mixed-signal design versus digital IC design. Accordingly, engineers with these skills are in limited supply.
- ***Lower capital requirements***. Digital IC design attempts to minimize device size and maximize speed by increasing circuit densities. The process technologies required for most digital ICs necessitate expensive wafer fabrication equipment, photolithographic masks, and software development tools. In contrast, analog IC design focuses on the precise matching and placement of circuit elements and typically utilizes relatively larger feature sizes, resulting in relatively lower circuit densities. For these reasons, equipment used in the analog and mixed-signal IC manufacturing process does not need to be "leading edge;" older equipment, often previously used in digital IC production, is generally sufficient. For analog and mixed-signal IC providers, this typically translates into lower manufacturing costs relative to digital IC production. In addition, given the larger supply of non-leading edge equipment in the semiconductor industry broadly, this results in an increased availability of manufacturing capacity.
- ***Diversity of end markets***. Analog and mixed-signal ICs are used in virtually every electronic system, such as computers, consumer electronic devices, communications equipment, industrial equipment, and automotive electronics. Because of the varied uses for analog and mixed-signal ICs, analog and mixed-signal IC suppliers often experience greater diversity in their mix of end markets and customers relative to digital IC suppliers, which tends to result in a more stable business model.

Key Trends in the Analog and Mixed-Signal IC Market. There are a number of trends currently impacting the analog and mixed-signal IC markets, and, in particular, analog and mixed-signal IC companies focused on delivering products to the computing, consumer electronics, and wireless markets. These trends include:

- ***Drive toward smaller, lighter, and more power efficient electronic devices.*** As notebook computers, cellular handsets, personal digital assistants, and other electronic devices continue to proliferate, equipment manufacturers are increasingly focused on delivering products with smaller form factors. In addition, there is an increasing focus on power efficiency within electronic systems, as improved power efficiency can result in reduced power consumption and extended battery run times for portable devices. Original equipment manufacturers and original design manufacturers are looking for semiconductor products that facilitate these features, which are typically achieved through higher degrees of IC integration, enhanced power device design, and a reduction in both the number and size of additional components required for a system.

- ***Focus on enhanced audio and visual experiences.*** For electronic equipment vendors, a source of competitive differentiation lies in their ability to provide an enhanced audio and visual experience to their customers while continually making their products more affordable. Evidence of this trend can be seen in the growing adoption of color cellular handsets, liquid crystal display (LCD) monitors, flat panels in automotive applications, and higher megapixel digital cameras, as well as in the emergence of the flat panel television market. For example, according to IDC, the flat panel monitor market is expected to grow from 67 million units in 2004 to about 138 million units in 2008, representing a compound annual growth rate of almost 20%. Semiconductors that can, in a cost-effective manner, improve a product's audio and visual performance, such as by providing enhanced sound quality or by providing improved display brightness and clarity, will be well positioned to capitalize on this industry trend.
- ***Continued growth in wireless connectivity.*** With the proliferation of wireless networks, combined with an increasing demand for network connectivity, the market for portable electronic devices, such as notebook computers, personal digital assistants, cellular handsets, and global positioning systems is poised to experience strong growth. For example, according to IDC, the converged mobile device market, which includes products that combine cellular handset and handheld device functionality, is expected to grow from 21 million units in 2004 to 99 million units in 2008, representing a compound annual growth rate of 47%. With the growth in the market for portable electronic devices, electronic equipment manufacturers are faced with the challenge of delivering products that offer enhanced features and performance, while simultaneously maintaining or lengthening battery run times.

Our Core Strengths

Our core strengths enable us to offer highly integrated, efficient, accurate, and cost-effective analog and mixed-signal solutions to our customers. These strengths include:

Systems-level expertise and applications knowledge. We have a deep base of systems-level and applications knowledge, particularly in the computing, consumer electronics, and wireless markets. This knowledge is extremely important because it allows us to work very closely with our customers during their design process to develop products quickly and to enhance their time to market. Close alignment with our customers further benefits both our customers and us as we are better able to help our customers address their design challenges through new products or features and by identifying potential areas for future integration. In addition, working closely with our customers helps us to recognize areas in which to expand our design and development efforts in the future.

Analog and mixed-signal design expertise. Analog and mixed-signal IC design is a complex process. It generally takes an analog design engineer a longer period of time, relative to a digital engineer, to be considered productive, and analog design engineering talent is in limited supply. We have assembled a strong team of analog and mixed-signal design engineers who average over 15 years of experience. Our expertise includes, in particular, a strength in mixed-signal integration, through which we are able to combine onto a single IC many of the components of an entire electronic system or sub-system. Through our analog and mixed-signal design capabilities, we have developed a portfolio of intellectual property and know-how that we are able to leverage across our products and markets.

Proprietary process technology. A key deficiency of conventional analog process technologies is that they generally cannot support integration of power devices at high power levels without resulting in either unacceptably large semiconductors or in significant levels of power loss. High levels of power loss result in significant heat dissipation, which then must be managed to avoid harm to a system. To avoid these problems, many other analog semiconductor vendors design solutions comprised of multiple chips. Our process technology overcomes this limitation, allowing us to deliver smaller, single-chip solutions with strong degrees of both efficiency and accuracy. In addition, we

believe that having one process technology that is broadly applicable across a wide range of analog and mixed-signal application simplifies our design process and results in higher design productivity. Through our process technology, we are able to simplify our manufacturing process, improve our yields, and lower our manufacturing costs.

Strong Asia presence. In recent years, original equipment manufacturers have migrated toward outsourcing the manufacture, and increasingly the design, of their products to original design manufacturers and electronic manufacturing service providers in Asia, particularly in Taiwan and China. In order to address this trend, we have established a strong presence in Asia, including sales representatives, customer support personnel, and field application engineers. We view this as being extremely important to our business over the long-term in order to remain close to our customers and to their product selection processes. Over time, we expect that our presence in the Asia region will continue to expand, particularly as we seek opportunities to increase our applications and design resources in lower cost geographies.

Our Strategy

Our goal is to be a leading provider of proprietary, high performance analog and mixed-signal integrated circuits to large and high growth markets. To accomplish our goal, we intend to pursue the following strategies:

Focus on large and high growth markets. We are focused on delivering products to large and high growth markets and are currently targeting the computing, consumer electronics, and wireless markets. Within these markets, we focus our efforts on applications that align well with our core strengths. These include applications that are particularly sensitive to size, portability, energy, and efficiency issues such as notebook computers, flat panel displays, flat panel televisions, cellular handsets, digital cameras, wireless LAN access points, home entertainment systems, and personal digital assistants. We seek to increase our market share in our target markets by continuing to offer solutions that are more highly-integrated, more efficient, more accurate and, accordingly, more cost-effective than competing solutions.

Leverage our core strengths to expand our product portfolio. We intend to leverage our core strengths, including systems-level and applications knowledge, analog and mixed-signal design expertise, and our proprietary process technology, to expand our product portfolio. We are seeking to expand our product portfolio in our existing markets, as well as into new markets and applications such as industrial equipment and automotive electronics. For our existing markets, our primary focus is on increasing our semiconductor content within current applications. For new markets and applications, our focus is on adapting our current products and technologies to address the unique requirements of these industries. For example, we are currently expanding our DC to DC converter product family to offer products for the automotive, industrial, and medical device markets. These new DC to DC converter ICs are based on our core DC to DC converter design that we developed for use in our computing, consumer, and wireless markets. Through our efforts, we intend both to increase our addressable market opportunity and to further diversify our revenues.

Continue to invest in research and development to extend our technology leadership position. Continued investment in research and development is critically important to maintain and to extend our technology leadership position. Through our investment in research and development, we have developed a portfolio of intellectual property and know-how that we are able to apply to new products and markets. We are continuing to invest in research and development to further expand our product portfolio, build on our applications expertise, improve our device structures, and refine our process technologies. For example, we are currently investing in new product areas including high voltage alternating current (AC) to DC converter ICs which are used in power supplies for a wide variety of electronic devices, such as cellular handsets and LCD monitors. We expect that our investments in research and development will also result in growth in our patent and other intellectual property portfolio.

Expand our sales and applications support organization globally. We currently have sales offices in the United States, Taiwan, Korea, and China, and we intend to continue to expand our sales and applications support organization to broaden our customer reach in both new and existing regions. Given the continued globalization of our customers' supply chains, particularly with respect to design and manufacturing, having a global presence becomes increasingly important to securing new customers and design wins and to delivering our products. For example, in 2004, we plan to expand our operations in both Japan and Europe. In addition, we are focused on developing closer relationships with our current customers and seek to expand our product offerings both within their existing applications as well as within new application segments served by these customers.

Products and Applications

We currently have four standard product families that address multiple applications within the computing, consumer, and wireless markets. Our products are differentiated with respect to their high degree of integration and strong levels of accuracy and efficiency, making them cost-effective relative to many competing solutions. These product families include:

Cold Cathode Fluorescent Lamp (CCFL) Backlight Inverter ICs. CCFL backlight inverter ICs are used in systems that provide the light source for LCD panels typically found in notebooks, flat panel monitors, car navigational systems, and, more recently, LCD televisions. These ICs function by converting low voltage direct current (DC) or battery voltage to high voltage alternating current (AC). We believe our CCFL backlight inverter ICs were the first to utilize a full bridge topology that allows for high efficiency, extended lifetimes for CCFL lamps, and lower signal interference with adjacent components. The full bridge topology is now industry standard for these products. We also believe that our CCFL backlight inverter ICs are the semiconductor industry's only backlight inverter ICs with four fully-integrated power devices. This integration reduces the overall size, total solution part count, and cost for our customers.

Direct Current (DC) to DC Converter ICs. DC to DC converter ICs are used to convert and control voltages within a broad range of electronic systems, such as portable electronic devices, wireless LAN access points, home appliances, automobiles, and medical equipment. We believe that our DC to DC converters are differentiated particularly with respect to their high degree of integration and rapid switching speeds. These features are important to our customers as they result in fewer components, smaller form factors, more accurate regulation of voltages, and, ultimately, lower system costs through the elimination of discrete power devices.

Light Emitting Diode (LED) Driver ICs. LED driver ICs are used in lighting displays and can be used in small, portable devices, such as color cellular handsets, personal digital assistants, global positioning systems, and electronic gaming systems, as well as in emerging applications such as traffic lights and automobile signal lights. These ICs function by converting battery or unregulated DC voltage to regulated DC voltage that is required for powering LEDs. We were one of the first companies to offer LED driver ICs with a protection feature that limits damage to a system in the event of a poor connection. We believe that our LED driver ICs are differentiated in the market with respect to their small size, power efficiency, and cost-effectiveness.

Audio Amplifier ICs. Audio amplifier ICs are used to amplify sound produced by audio processors. We currently offer Class D audio amplifiers, which are well-suited for applications that are particularly sensitive to both size and power efficiency, such as plasma televisions, LCD televisions, and DVD players. With today's systems becoming smaller and utilizing larger amounts of power, solution sizes and the management of heat dissipation are becoming increasingly important to overall system design. The high degree of power efficiency and small form factor provided by our Class D audio amplifiers allows system vendors to significantly reduce heat dissipation, eliminating the costly and sizable fans and heat sinks traditionally required by audio amplifier ICs. These features enable our customers to achieve their objectives without sacrificing sound quality.

We currently target the computing, consumer electronics, and wireless markets. Of these three markets, the computing market represents the largest portion of our revenues, accounting for a majority of revenues in 2003. As we continue to expand our product portfolio and addressable markets, and as other end markets in which we participate continue to grow, we expect that our revenues from the computing market may decline as a percentage of our total revenues over time. The following chart illustrates the applications for our products in several major market categories. For each of these applications, we currently have either design wins or are shipping product:

	Representative End Markets			
Product Family	**Computing**	**Consumer Electronics**	**Wireless**	**Other**
CCFL Backlight Inverter ICs	☒ Notebook computers ☒ LCD monitors ☒ Web tablets	☒ LCD televisions ☒ Personal digital assistants ☒ Handheld electronic games ☒ Digital cameras		☒ Automotive GPS systems ☒ Industrial LCD displays
DC to DC Converter ICs	☒ Notebook computers ☒ Flat panel monitors	☒ LCD and plasma televisions ☒ Digital cameras ☒ DVD players ☒ Electronic game consoles ☒ Digital audio amplifiers ☒ Set top boxes ☒ Personal digital assistants	☒ Wireless LAN access points ☒ Routers ☒ Wireless LAN cards ☒ Cellular handsets ☒ Power over Ethernet	☒ Automotive entertainment systems
LED Driver ICs		☒ Digital cameras ☒ Color personal digital assistants ☒ Portable DVD players ☒ Portable GPS systems ☒ Handheld electronic games	☒ Color cellular handsets ☒ Flash lighting for camera-enabled cellular handsets	☒ Traffic lights ☒ Automotive signal lights
Audio Amplifier ICs	☒ Flat panel monitors ☒ Notebook computers ☒ Accessory speakers for flat panel monitors	☒ DVD players ☒ Digital audio amplifiers ☒ Electronic game consoles ☒ Home entertainment centers ☒ LCD and plasma televisions	☒ Cellular handsets ☒ Speaker phones	☒ Automotive entertainment systems

Customers, Sales, and Marketing

We market our products through distribution arrangements and through our direct sales and applications support organization to original equipment manufacturers, original design manufacturers, and electronic manufacturing service providers. Original design manufacturers typically design and manufacture electronic products on behalf of original equipment manufacturers, and electronic manufacturing service providers typically provide manufacturing services for original equipment manufacturers and other electronic product suppliers. Our largest direct customers in 2003 were CTP, Yosun, and Ambit/Unique Logistics, with whom we currently have or formerly had distribution arrangements, accounting for 30%, 16%, and 14% of revenues, respectively. We terminated our distribution arrangement with CTP in March 2004, and expanded distribution agreements with Asian Information Technology, or AIT, and Uppertech. Original design manufacturers, electronic manufacturing service providers and other third parties under distribution arrangements are not end customers, but rather serve as a channel to many end users of our products, such as Dell, Hewlett-Packard, IBM, and Sony in the computing industry, LG Electronics, Panasonic, Samsung, and Sharp in the consumer electronics industry, and Motorola and Sony Ericsson in the wireless industry.

We have sales offices located in the United States, Taiwan, China, and Korea. Because our products typically require a highly technical sales effort, we are planning to expand our base of sales and applications support personnel worldwide. For example, in 2004, we expect to open additional sales offices in both Japan and Europe.

Because our sales are billed and payable in United States dollars, our sales are not directly subject to fluctuating currency exchange rates. However, because 98.6% of our revenues in 2003 were attributable to direct or indirect sales to customers who manufacture their products in Asia, changes in the relative value of the dollar may create pricing pressures for our products.

We generally warrant our products for 90 days from shipment and for longer periods in certain cases. Historical warranty expense as a percentage of revenues has been 2%, 1%, and 1% in 2001, 2002, and 2003, respectively.

Our sales are made primarily pursuant to standard individual purchase orders. Because industry practice allows customers to reschedule or cancel orders on relatively short notice, we believe that backlog is not a good indicator of our future sales.

Research and Development

We have assembled a qualified team of engineers with core competencies in analog and mixed-signal design expertise. Through our research and development efforts, we have developed a collection of intellectual property and know-how that we are able to leverage across our products and markets. Examples of our intellectual property and know-how include the development of high efficiency power devices, the design of precision analog circuits, and expertise in mixed-signal integration.

Our research and development efforts are generally targeted at three areas: system architectures, circuit design and implementation, and process technology. In the area of system architectures, we are exploring new ways of solving our customers' system design challenges and are investing in the development of systems expertise in new markets and applications that align well with our core capabilities. In the area of circuit design and implementation, our initiatives include expanding our portfolio of products, developing more standard cells and libraries, improving our device structures, and adding new features to our products. For example, we are currently working to expand our product portfolio into new products areas such as AC to DC converters and operational amplifiers.

We have developed a proprietary process technology that is applicable across a wide range of analog and mixed-signal products. We intend to continue to invest in our process technology to further refine this technology with respect to overall chip size and power handling capabilities. As appropriate, in the future, we may also expand our base of process technologies, but only if these technologies are cost-effective and enable us to further expand our product offerings beyond what is currently achievable.

Through our research and development efforts, we seek to continually expand our portfolio of patents and to enhance our intellectual property position. As of March 31, 2004, we had 36 employees involved in research and development. For the year ended December 31, 2003, we incurred $5.5 million in research and development costs, excluding stock-based compensation of $1.0 million.

Manufacturing

We utilize a fabless business model, working with third parties to manufacture and assemble our integrated circuits. This fabless approach allows us to focus our engineering and design resources on our strengths and to reduce our fixed costs and capital expenditures. In contrast to many fabless semiconductor companies which utilize standard process technologies and design rules established by their foundry partners, we have developed our own proprietary process technology and collaborate with our foundry partners to install our technology in their facilities for use solely on our behalf. This close collaboration and control over the manufacturing process has historically resulted in favorable yields for our integrated circuits.

We currently contract with ASMC to manufacture our wafers in foundries located in China. Once our silicon wafers have been produced, they are shipped either to third party subcontractors or to our facilities in Los Gatos for wafer sort. Our semiconductor products are then assembled and packaged by independent subcontractors in Malaysia, China, and Thailand. The assembled ICs are then forwarded for final testing, primarily at our Los Gatos facilities, prior to shipping to our customers. We have signed a preliminary agreement to establish a facility in China, initially for the testing of our ICs. Pursuant to the preliminary agreement, we have agreed to invest up to $5 million, subject to a number of contingencies, including negotiating definitive agreements. We are currently in the process of further streamlining our manufacturing operations to both decrease our cycle times and to reduce our manufacturing costs.

Under the terms of our agreement with ASMC, we supply ASMC, on a monthly basis, with rolling 6-month forecasts and 3-month purchase orders. We cannot assure you that we will continue to work successfully with ASMC in the future, that they will continue to provide us with sufficient capacity at their foundries to meet our needs, or that they will not seek an early termination of their wafer supply agreement with us. Since we currently rely on ASMC to manufacture all of our semiconductor wafers, any disruption would harm our business.

Competition

The analog and mixed-signal semiconductor industry is highly competitive, and we expect competitive pressures to continue. Our ability to compete effectively and to expand our business will depend on our ability to continue to recruit both applications and design talent, our ability to introduce new products, and our ability to maintain the rate at which we introduce these new products. Our industry is characterized by decreasing unit selling prices over the life of a product. We compete with domestic and international semiconductor companies, many of which have substantially greater financial and other resources with which to pursue engineering, manufacturing, marketing, and distribution of their products. We are in direct and active competition, with respect to one or more of our product lines, with at least 10 manufacturers of such products, of varying size and financial strength. The number of our competitors has grown due to expansion of the market segments in which we participate. We consider our primary competitors to include Intersil Corporation, Linear Technology,

Maxim Integrated Products, Micrel Incorporated, Microsemi Corporation, National Semiconductor Corporation, O2 Micro International, Semtech Corporation, STMicroelectronics, and Texas Instruments. We expect continued competition from existing competitors as well as competition from new entrants in the semiconductor market. Our ability to compete successfully in the rapidly evolving area of integrated circuit technology depends on several factors, including:

- Our success in designing and manufacturing new products that implement new technologies;
- Our ability to recruit applications and design talent;
- Our protection of our processes, trade secrets, and know-how;
- Our ability to maintain high product quality, reliability, and customer support;
- The pricing policies of our competitors;
- The performance of competitors' products;
- Our ability to deliver in large volume on a timely basis; and
- Our manufacturing, distribution and marketing capability.

We believe that we are competitive with respect to these factors, particularly because our ICs typically are smaller in size, are highly integrated, and achieve high performance specifications at lower price points than competitive products. However, we cannot assure you that our products will continue to compete favorably or that we will be successful in the face of increasing competition from new products and enhancements introduced by existing competitors or new companies entering this market.

Employees

As of March 31, 2004, we had 104 employees located in the United States, Taiwan, China, and Korea. Of these employees, approximately 35% were involved in research and development. Our success depends on the continued service of our key technical and senior management personnel and on our ability to continue to attract, retain and motivate highly skilled analog and mixed-signal engineers.

Facilities

Our corporate headquarters, which serve as our principal administrative, sales, manufacturing, and research and development offices, are located in two buildings in Los Gatos, California. We occupy approximately 34,000 square feet in these two buildings under a lease that expires in February 2009. In addition to sales and marketing, administrative, and research and development activities, we also complete the majority of our test production at this location. We have signed a preliminary agreement to establish a facility in China, initially for the testing of our ICs. Pursuant to the preliminary agreement, we have agreed to invest up to $5 million, subject to a number of contingencies, including negotiating definitive agreements. We also lease branch offices in China and Taiwan. We believe that our existing facilities are adequate for our current operations. We believe that suitable replacement and additional space will be available in the future on commercially reasonable terms.

Intellectual Property Matters

We rely on our proprietary technologies. Our future success and competitive position depend in part upon our ability to obtain and maintain protection of certain proprietary technologies used in our products. We apply for patents on those products and technologies that we believe are patentable. We have 12 United States patents issued and 36 United States and foreign applications on file. We also

rely on a combination of nondisclosure agreements and other contractual provisions, as well as our employees' commitment to confidentiality and loyalty, to protect our technology, know-how, and processes. We also seek to register certain of our trademarks as we deem appropriate. We have not to date registered any of our copyrights and do not believe registration of copyrights is material to our business. Despite precautions that we take, it may be possible for unauthorized third parties to copy aspects of our current or future technology or products or to obtain and use information that we regard as proprietary. There can be no assurance that the steps we take will be adequate to protect our proprietary rights, that our patent applications will lead to issued patents, that others will not develop or patent similar or superior products or technologies, or that our patents will not be challenged, invalidated, or circumvented by others. Furthermore, the laws of the countries in which our products are or may be developed, manufactured or sold may not protect our products and intellectual property rights to the same extent as laws in the United States. Our failure to adequately protect our proprietary technologies could harm our business.

The semiconductor industry is characterized by frequent claims of infringement and litigation regarding patent and other intellectual property rights, such as our litigation with O2. Patent infringement is an ongoing risk, in part because other companies in our industry could have patent rights that may not be identifiable when we initiate development efforts. Litigation may be necessary to enforce our intellectual property rights, and we may have to defend ourselves against infringement claims. Any such litigation could be very costly and may divert our management's resources. Further, we have agreed to indemnify our customers in some circumstances against liability from infringement by our products. In the event any third party were to make an infringement claim against us or our customers, we could be enjoined from selling selected products or could be required to indemnify our customers or pay royalties or other damages to third parties. If any of our products is found to infringe and we are unable to obtain necessary licenses or other rights on acceptable terms, we would either have to change our product so that it does not infringe or stop making the infringing product, which could have a material adverse effect on our operating results, financial condition, and cash flows.

Legal Proceedings

O2 Micro

Overview. Since November 2000 we have been engaged in multiple legal proceedings against O2 Micro, Inc. ("O2 Micro") and its parent corporation, O2 Micro International Limited ("O2 International"). We refer to O2 Micro and O2 International together as "O2." These proceedings involve various claims and counterclaims in the United States and Taiwan by us and O2 alleging patent infringements and misappropriation of trade secrets. O2 has also sued a number of other companies in the U.S. and Taiwan for patent infringement, including purchasers and/or users of certain of our products. All of these legal proceedings are complex and pose various degrees of risk to us and our business.

Regardless of the extent to which these legal actions have been successful or not successful, the legal expenses associated with the various actions in the U.S. and Taiwan have been very high and have had a significant impact on our financial position and results of operations. Please read "Management's Discussion and Analysis of Financial Position and Results of Operations" for more detail on the financial impact these legal actions have had on us.

Patents at Issue. The various litigations arise from patents issued to O2 and us covering products that compete with each other.

Our Patents. Our patents at issue are (i) U.S. Patent No. 6,114,814, issued to us on November 5, 2000 and relating to inverter power supplies for LCD display products ("the '814 patent") and (ii) U.S.

Patent No. 6,316,881 ("the '881 patent"), a continuation of the '814 patent that issued to us on November 13, 2001.

O2's Patents. The O2 patents at issue are (i) U.S. Patent No. 6,259,615 B1 issued to O2 International on July 10, 2001 and also relating to inverter power supplies for LCD display products ("the '615 patent"), (ii) U.S. Patent No. 6,396,722 ("the '722 patent"), a continuation of the '615 patent that issued to O2 on May 28, 2002, and (iii) Taiwan Patent No. 152318 issued to O2 International on March 1, 2002, which is a counterpart to the '615 patent ("the '318 patent"). O2's original applications for its U.S. '615 patent and its Taiwan '318 patent were substantially similar, but some of O2's claims contained in the '318 patent were rejected by the U.S. Patent and Trademark Office and accordingly the U.S. patent was narrowed significantly before issuance. The Taiwan patent, however, was not similarly narrowed and was issued in the broader form originally requested.

U.S. Litigation. Various U.S. lawsuits between us and O2 have been consolidated in the U.S. District Court for the Northern District of California. O2 has (i) claimed that we interfered with O2's prospective economic advantage and disrupted O2's customer relationships by misrepresenting the scope of our '814 patent, (ii) asked the court to declare that O2 does not infringe our '814 patent and that our '814 patent is invalid, (iii) claimed that our products infringe its '615 patent, and (iv) claimed that we misappropriated its trade secrets. We have (i) claimed that O2's products infringe our '814 and '881 patents and (ii) asked the court to declare that O2's '615 patent is invalid or not enforceable or that our products do not infringe O2's '615 patent. Each party denied the allegations in the other party's complaints and sought damages and an injunction prohibiting the other party from selling its products.

In February 2004 and May 2004, the court ruled on these matters as follows: (i) granting summary judgment for us that our products do not infringe the '615 patent, (ii) dismissing O2's claim that we interfered with O2's economic advantage, (iii) denying O2's motion for summary judgment that O2's products do not infringe our '814 and '881 patents or that those patents are invalid, and (iv) denying both parties' motions for summary judgment on O2's trade secret claims. We expect O2 to eventually appeal one or more of these rulings to the U.S. Court of Appeals for the Federal Circuit. O2 could wait to file any such appeal until conclusion of the trial or could ask the trial judge to allow an earlier appeal prior to the trial.

The claims remaining after these rulings include (i) O2's trade secret claims and (ii) our infringement claims for injunctive relief only and not for damages. Trial on these matters is scheduled for August 2004. While we believe that our '814 and '881 patents are valid and that we have not misappropriated any of O2's trade secrets, a court could find differently. If the court finds that our '814 and '881 patents are invalid, our competitive position would be severely harmed. If the court finds that we have misappropriated O2's trade secrets, we could be liable for damages to O2 and/or be enjoined from further misappropriation or use of the alleged trade secrets. Any award of damages could have a material adverse effect on our financial position and operating results.

In addition, if O2 appeals the rulings in our favor, we will at a minimum continue to incur substantial legal expense contesting any such appeal. If O2 were to be successful on any such appeals, O2's claims would be remanded for trial. If the court in any such trial were to find that our products infringe the '615 patent, we could be liable to O2 for damages and could be enjoined from selling our products in the U.S. Any such injunction would have a material adverse effect on our business and results of operations, at least for several quarters and possibly for a much longer period of time, depending on the extent of any such damage award and the scope and applicability of any such injunction. If the court found that we have interfered with O2's economic advantage, we could be liable for damages to O2, which could have a material adverse effect on our financial position and operating results.

In January 2003, O2 filed a lawsuit against Sumida Corp. and Taiwan Sumida Electronics Inc. in the U.S. District Court for the Eastern District of Texas alleging infringement of the '615 and '722 patents based on Sumida's use of our products. We have agreed to assume the defense of Sumida pursuant to an indemnity agreement. That case has been set for trial for June 2005.

In May 2004, we filed a complaint against O2 in the U.S. District Court for the Northern District of California seeking a declaratory judgment that we do not infringe O2's '722 patent. That case has been assigned to the same Judge presiding over the litigation over the '615, '814, and '881 patents described above.

Taiwan Litigation.

Summary. In addition to the U.S. litigation described above, O2 has brought legal proceedings against us in Taiwan based upon its '318 patent. Unlike the U.S., where a party seeking a preliminary injunction must first file a lawsuit on the merits of the underlying claim, in Taiwan it is possible for a party to be granted a preliminary injunction without first filing a lawsuit on the merits. In January 2003, upon O2's request, the Shihlin District Court in Taiwan issued a preliminary injunction prohibiting us from manufacturing, designing, displaying, importing or selling our MP 1011A and MP 1015 products in Taiwan, either directly or through a third party acting at our request.

We believe that we have at all times conducted our business in compliance with the injunction. Nevertheless, O2 has taken various actions in an attempt to persuade the Shihlin District Court that we have violated it. We have also taken several legal actions in an attempt to have the injunction lifted and/or to have O2's '318 patent declared invalid. These actions include appealing the Shihlin District Court's injunction, initiating proceedings with the Taiwan Intellectual Property Office to invalidate O2's '318 patent and seeking counter-injunctions from the Taipei District Court. Some of those actions have produced legal outcomes in our favor and others have not, but none has yet resulted in the lifting of the injunction or the invalidation of O2's patent. We intend to continue pursuing the available legal avenues to achieve these objectives.

In June 2003, O2 filed a lawsuit against us in the Shihlin District Court for a resolution on the merits of O2's claim that our products infringe O2's '318 patent. That lawsuit was dismissed in April 2004, but O2 filed a similar lawsuit in Taipei District Court shortly thereafter. No date for the trial has yet been set.

Details. We have included below more detail on certain aspects of the Taiwan litigation.

O2's Injunction Against Us. Our Taiwan counsel, Chen and Lin, has advised us that so long as title to our products and physical possession of our goods transfer outside Taiwan to a third party not commissioned by us and not acting at our request, and we do not otherwise design, manufacture, or display the MP 1011A and MP 1015 in Taiwan, we can sell those products to any third party in the U.S. or outside Taiwan and be in compliance with the injunction. Following the issuance of the injunction, we examined our distribution channels and altered our distribution arrangements for our MP 1011A and MP 1015. Since the issuance of the injunction we have sold these products F.O.B. Los Gatos, California, to third parties with whom we have distribution arrangements. Although we do not direct the parties with whom we have distribution arrangements as to where they should resell the MP 1011A and MP 1015 products, they generally do not order these products until they have received an order from a customer, who is often located in Taiwan. We believe, based on advice from Chen and Lin, that this course of business does not violate the injunction. The abovementioned opinions of Chen and Lin are not binding on the court, which will reach its own conclusions.

Despite our belief, O2 attempted repeatedly to persuade the Shihlin District Court that we have violated the injunction. For example, O2 has on multiple occasions sought discovery in Taiwan and U.S.

courts regarding the source of MP 1011A and MP 1015 products being used in Taiwan. In May 2004, O2 further requested that the Shihlin District Court find us in violation of the injunction based on certain of our products. The court has not yet issued a ruling on O2's motion. Our products within each product family, including most of our CCFL backlight inverter products, are produced using similar mask sets and processes. As is customary in the semiconductor industry, the products within each product family are differentiated from one another principally by their electrical performance specifications, which we confirm through testing prior to labeling the products. In 2003, we shipped products F.O.B. Los Gatos, California for approximately $360,000 to parties with whom we have distribution arrangements for resale into Taiwan and China. While these products were manufactured using the same processes we use to produce our MP 1015 product, we labeled these products as MP 1010B products because they possessed the superior electrical performance specifications of our MP 1010B product. Despite their electrical performance specifications, however, O2 contends that these products are equivalent to our MP 1015 product and are therefore subject to the injunction. We believe, based on the electrical performance specifications of these products, that they are not equivalent to our MP 1015 product and are therefore not subject to the injunction. Following the manufacture of the products discussed above, in our MP 1010B product we have used and continue to use mask sets and processes that are different from those used to produce the products discussed above. Although most products in our CCFL backlight inverter family, including the MP 1010B, MP 1011A, and MP 1015 products, continue to be produced using similar mask sets and processes, we view them as distinct products based upon their distinct electrical performance specifications.

MP 1011A and MP 1015 products used in and/or shipped by our customers to Taiwan accounted for approximately $6.9 million (28.5%) of our revenue in 2003. MP 1010B products used in and/or shipped by our customers to Taiwan accounted for approximately $1.0 million (4.1%) of our revenue in 2003. We believe, based on communications with our customers, that a significant portion of these products are used by original design manufacturers and electronic manufacturing services providers in China and other Asian countries. If O2 is able to persuade a Taiwanese court that we have violated the injunction, the court could fine us up to 300,000 NT (approximately $9,000 at current exchange rates), either overall or per shipment. The court could also broadly construe the injunction to cover other products such as the MP 1010B or to prohibit us from selling the enjoined products indirectly through third parties with whom we have distribution arrangements for use in Taiwan. For any or all of these reasons, a finding of violation by the court could materially and adversely affect our results, and possibly our sales, for one or more quarters.

Our Counter-Injunctions Against O2. We have obtained two defensive counter-injunctions from the Taipei District Court, the first of which prohibits O2 from interfering with our or other parties' use of our MP 1011A and MP 1015 products. The second injunction prohibits O2 from interfering with the manufacture, sale, use or importation, by either us or a third party, of a number of our other products which are specifically enumerated in the injunction, although the MP 1010B is not specifically addressed. We posted cash bonds of approximately $6.1 million (including the $90,000 bond discussed below) with the Taipei District Court in connection with the two defensive preliminary injunctions. These bonds are currently recorded as restricted assets on our balance sheet. If we do not prevail at trial, we might have to forfeit some or all of these bonds. Any such forfeiture would be an expense in the quarter in which the outcome of the trial is probable and reasonably estimable. A forfeiture of any substantial part of the bonds would materially and adversely affect our results of operations and financial position for that quarter.

O2's Other Actions Against Us. In August 2003, November 2003, and March 2004, O2 filed for provisional seizures against us in the Shihlin District Court and Taipei District Court, which would entitle O2 to seize up to approximately $1.9 million of our assets in Taiwan, including but not limited to MP 1011A and MP 1015 parts. The court granted the provisional seizures. The execution of the first provisional seizure was exempted because we posted a bond in the amount of approximately $90,000.

We elected not to post a bond to exempt the second and third provisional seizure orders, and the court seized property from our Taiwan office. We have appealed the second and third provisional seizures to the Taiwan High Court. One of our appeals, involving the third seizure, has been denied but the other appeal regarding the second seizure is still pending. The second and third provisional seizure orders have not yet been fully executed, and accordingly O2 may continue to seize our property under these orders. O2 also filed a criminal complaint with the prosecutor's office of the Shihlin District Court against two of our Taiwan employees accusing them of interfering with the enforcement of the Shihlin District Court's preliminary injunction against us. In March 2004, the Shihlin District Court Prosecutor's Office dismissed that complaint.

O2's Lawsuits Against our Customers. In addition to lawsuits between O2 and us in Taiwan and the U.S., O2 has also initiated numerous legal proceedings in Taiwan and the U.S. against other companies, including AsusTek, Hewlett-Packard, Clevo, and others who have been purchasers and/or users of our products. Although court filings are generally not publicly available in Taiwan, we are aware that in some cases those companies have been enjoined from using MP 1011A and MP 1015 products imported into Taiwan. In at least two cases, two preliminary injunctions against AsusTek and Clevo were upheld by district courts in Taiwan. Injunctions against end-users of our products necessarily reduce the demand for our products, potentially leading to reduced sales. Such injunctions could also damage our reputation in the marketplace. We typically agree to indemnify customers upon request against patent infringement and, on that basis, are currently defending a customer against one of O2's lawsuits. Continued expenditure of our funds in defending customers against O2's lawsuits could materially and adversely affect our financial condition and operating results. We are aware that O2 has sued other large well-known original equipment manufacturers in matters unrelated to our products. Accordingly, we cannot assure you that O2 will not continue to sue more of our customers in the future.

Trial on the Merits in Taiwan. We could lose at trial on the question of whether our products infringe O2's '318 patent. Although O2 has named only our MP 1011A and MP 1015 products in its lawsuit, if the court were to conclude that those products infringe the '318 patent, the court could also conclude that many of our newer products, including the 1010B and other CCFL products that are physically similar to the MP 1011A and/or the MP 1015, infringe O2's '318 patent. We do not believe that the '318 patent is a valid patent or that any of our products infringe the '318 patent, but a court may come to a different conclusion. O2's original applications for its U.S. '615 patent and its Taiwan '318 patent were substantially similar, but some of O2's claims contained in the '318 patent were rejected by the U.S. Patent and Trademark Office. Since the claims in the '318 patent are formulated more broadly than those of the '615 patent, the summary judgment in the U.S. that our products do not infringe the '615 patent may not be as helpful to us in the '318 case as it might be if the patents were identical. Nevertheless, we believe that the summary judgment in the U.S. that our products do not infringe O2's '615 patent may help us establish in the Taiwan litigation that they do not infringe the similar, but broader, '318 patent in Taiwan.

If the court were to conclude that any of our products infringe the '318 patent (and if the '318 patent were valid), we could be liable to O2 for damages based on past sales, and could further be permanently enjoined from selling those products (directly or through distribution arrangements) for use in Taiwan. Although many system and module manufacturers who use our products have shifted, and are continuing to shift, their manufacturing from Taiwan to China, a significant portion of our expected future revenue over the next several years is expected to come from users of our CCFL backlight inverter product family in Taiwan. A final judgment awarded by a court prohibiting direct or indirect sales of our MP 1011A or MP 1015 products into Taiwan would have a material adverse effect on our business and results of operations for at least several quarters while we work to transition customers to alternative, non-infringing products. We cannot be sure that we could successfully effect such a transition. If we are permanently enjoined from selling other, newer products into Taiwan, this

would have an immediate, drastic, and adverse effect on our ability to continue in our business as presently conducted.

Additional O2 Patents. We are aware that on May 28, 2002, O2 was issued U.S. Patent No. 6,396,722 ("the '722 patent"), a continuation of O2's '615 patent. We are also aware that O2 has filed for related patents in other Asian countries. We are not aware that any foreign patents have been issued in response to these patent applications and do not know when, if ever, any such patent will issue. Nevertheless, we expect O2 may pursue claims against us in the U.S. based on the '722 patent and, if and when any additional foreign patents issue, based on those patents. Depending on the scope and severity of those claims, any injunctions that may be issued against us, or damages that may be awarded against us, could have a material and adverse effect on our business and results of operations.

Linear Technology Corporation

On May 3, 2004, Linear Technology Corporation ("Linear") filed a complaint for misappropriation of trade secrets, unfair business practices, California common law unfair competition, breach of agreement, and breach of the duty of good faith and fair dealing against us and Timothy Cox, a former Linear employee who currently works for us, in the Superior Court of the State of California, Santa Clara County. In its complaint, Linear alleges that we hired several former Linear employees who purportedly disclosed Linear's trade secrets to us, that we relied on these trade secrets to contact Linear's customers and solicit Linear's employees, and that we otherwise used this information in a manner that has harmed Linear. In its complaint, Linear has requested unspecified actual and punitive damages, injunctive relief, and attorneys' fees. No trial date has yet been set in this lawsuit, and the parties are in the initial discovery phase in the litigation. We believe that we have meritorious defenses to Linear's claims, and we intend to defend vigorously against these claims.

MANAGEMENT

Executive Officers and Directors

Set forth below is information concerning our current directors and executive officers as of March 31, 2004.

Executive Officers and Directors

Name	Age	Positions
Michael R. Hsing	44	President, Chief Executive Officer, and Director
Tim Christoffersen	62	Chief Financial Officer and Secretary
Jim C. Moyer	61	Chief Design Engineer and Director
Deming Xiao	41	Vice President of Operations
Herbert Chang (2)(3)	41	Director
Jim Jones (1)(2)(3)	37	Director
Umesh Padval (1)(2)(3)	46	Director

(1) Member of the audit committee.
(2) Member of the compensation committee.
(3) Member of the nominating committee.

Michael R. Hsing has served on our board of directors and has served as our President and Chief Executive Officer since founding Monolithic Power Systems in August 1997. Before founding our company, Mr. Hsing held senior technical positions at companies such as Supertex, Inc. and Micrel, Incorporated. Mr. Hsing is an inventor on numerous patents related to the process development of bipolar mixed-signal semiconductor manufacturing. Mr. Hsing holds a B.S.E.E. from the University of Florida.

Tim Christoffersen has served as our Chief Financial Officer since June 2004, served on our board of directors from March 2004 to July 2004, and served as head of our audit committee from March 2004 through June 2004. Since January 1999, Mr. Christoffersen has been a financial consultant to technology companies. Prior to that, Mr. Christoffersen served as Chief Financial Officer of NeoParadigm Labs, Inc. from 1998 to 1999 and as Chief Financial Officer of Chips & Technologies, Inc. from 1994 until its sale to Intel Corporation in 1998. Mr. Christoffersen serves on the board of Genesis Microchip Incorporated. Mr. Christoffersen is a Phi Beta Kappa graduate of Stanford University where he earned a B.A. in Economics, and he also holds a Masters in Divinity from Union Theological Seminary in New York City.

Jim C. Moyer has served on our board of directors since October 1998 and has served as our Chief Design Engineer since September 1997. Before joining our company, from June 1990 to September 1997, Mr. Moyer held a senior technical position at Micrel, Incorporated. Prior to that, Mr. Moyer held senior design engineering positions at Hytek Microsystems Incorporated, National Semiconductor Corporation, and Texas Instruments Incorporated. Mr. Moyer holds a B.S.E.E. from Rice University.

Deming Xiao has been our Vice President of Operations since October 2003. Mr. Xiao joined us in May 2001 and served as Foundry Manager until he was appointed Director of Operations in January 2002. Before joining us, from June 2000 to May 2001, Mr. Xiao was Engineering Account Manager at Chartered Semiconductor Manufacturing, Inc. Prior to that, Mr. Xiao spent 6 years as the Manager of Process Integration Engineering at Fairchild Imaging Sensors, a company that manufactures and sells silicon based products for the medical, scientific, professional, industrial, and military imaging applications. Mr. Xiao holds a B.S. in Semiconductor Physics from Sichuan University, Chengdu, China and a M.S.E.E. from Wayne State University.

Herbert Chang has served on our board of directors since September 1999. Since April 1996, Mr. Chang has been the president of InveStar Capital, Inc., which is the fund management company of a number of privately owned venture capital funds. Since February 1998, Mr. Chang has been a managing member of Forefront Associates, LLC, which is the general partner of a private limited partnership for venture capital investment. Since , Mr. Chang has been the CEO of C Squared Management Corp., which is the fund management company of a number of privately owned venture capital funds. Mr. Chang's venture capital investments focus on start-up companies in the semiconductor, telecommunications and networking, software, and internet industries. In addition to sitting on the boards of directors of Marvell Technology Group Ltd., Oplink Communications Incorporated, and Vialta, Inc., Mr. Chang also serves as a director for various privately held high technology companies. Mr. Chang received his B.S. in Geology from National Taiwan University and his M.B.A. from National Chiao-Tung University in Taiwan.

Jim Jones has served on our board of directors since August 2002. Since September 2000, Mr. Jones has been a Director with BA Venture Partners, a technology venture capital partnership. Prior to joining BA Venture Partners, Mr. Jones served in senior product management, product marketing, and business development positions in the Business Communications Group at 3Com Corporation from April 1994 to September 2000. Prior to 3Com, Mr. Jones spent 5 years in IC development and marketing with National Semiconductor Corporation, focusing on analog semiconductors and communications controller and transceiver solutions. Mr. Jones holds a B.S.E.E. from the University of California, Davis.

Umesh Padval has served on our board of directors since April 2003. Mr. Padval is currently Senior Vice President of the Broadband Entertainment Division at LSI Logic Corporation, a producer of communications, consumer, and storage semiconductors. Prior to this, Mr. Padval served as the President of C-Cube Microsystems' Semiconductor Division from October 1998 to May 2000 and served as Chief Executive Officer and Director of C-Cube Microsystems Incorporated from May 2000 until June 2001, when C-Cube was sold to LSI. Prior to joining C-Cube, Mr. Padval held senior management positions at VLSI Technology, Inc. and Advanced Micro Devices, Inc. Mr. Padval holds a B.S. in Engineering from the Indian Institute of Mumbai, India, and a Masters in Engineering from Stanford University.

Each officer serves at the discretion of our board of directors and holds office until his or her successor is elected and qualified or until his or her earlier resignation or removal. There are no family relationships among any of our directors or executive officers.

Board Composition

Our board of directors is currently composed of five (5) members, including three (3) directors who are not employees and who are otherwise independent for purposes of NASD Rule 4200 (Messrs. Chang, Jones, and Padval), two (2) of whom are independent for the purposes of service on the audit committee pursuant to section 10A(m)(3), of the Securities Exchange Act of 1934, as amended, and rules thereunder (Messrs. Jones and Padval). Certain of our current directors were elected pursuant to a voting agreement that we entered into with certain holders of our common stock and holders of our preferred stock. Such voting agreement will terminate upon completion of this offering.

Following this offering, the directors will be divided into three classes, each serving staggered three-year terms. Jim Jones and Umesh Padval have been designated Class I directors whose terms expire at the 2005 annual meeting of stockholders. Jim Moyer has been designated the Class II director whose term expires at the 2006 annual meeting of stockholders. Herbert Chang and Michael Hsing have been designated Class III directors whose terms expire at the 2007 annual meeting of stockholders. This classification of our board of directors may delay or prevent a change in control of our company or in our management.

Board Committees

Audit committee. The audit committee of our board of directors is composed of Jim Jones, Umesh Padval, and one vacancy. The audit committee oversees and monitors our management and independent auditors and their activities with respect to our financial reporting process and reports to and advises our board of directors on financial matters. The audit committee is responsible for the appointment, compensation, retention, and oversight of our independent auditors.

Compensation committee. The compensation committee of our board of directors is composed of Herbert Chang, Jim Jones, and Umesh Padval. The compensation committee is responsible for designing, reviewing, and recommending compensation arrangements for our directors, executive officers, and employees, and for administering various incentive compensation and benefit plans.

Nominating committee. The nominating committee of our board of directors is composed of Herbert Chang, Jim Jones, and Umesh Padval. The nominating committee identifies prospective board candidates, recommends nominees for election to our board of directors, develops and recommends board member selection criteria, considers committee member qualification, and provides oversight in the evaluation of our board of directors and each committee.

Our board of directors may establish other committees to facilitate the management of our business.

Compensation Committee Interlocks and Insider Participation

During the 2003 fiscal year, our compensation committee consisted of Herbert Chang and Jim Jones until July of 2003, at which point Mr. Chang was replaced as a committee member on the committee by Ron Verdoorn. Mr. Verdoorn was a non-employee member of our board of directors who resigned in March 2004. In February 2004, Umesh Padval and Mr. Chang were appointed to the compensation committee. Compensation for our executive officers was determined by the entire board of directors. All members of our board of directors, including Michael Hsing and Jim Moyer, who served as executive officers in fiscal year 2003, participated in deliberations concerning executive officer compensation during fiscal year 2003. No interlocking relationship exists, or has existed in the past, between our board of directors and the board of directors or compensation committee of any other company.

Director Compensation

We do not currently compensate our directors in cash for their service as members of our board of directors. During the fiscal year ended December 31, 2003, pursuant to our 1998 Stock Plan, we granted an option to purchase 86,000 shares of our common stock to Mr. Padval for his services as a director. This option has an exercise price of $1.20 per share and vests over three years. As discussed below, we granted options during this time period to certain other directors; however, such options were granted to these individuals solely in their capacity as executive officers.

Our 2004 Equity Incentive Plan will also provide for the automatic and nondiscretionary grant of options to our non-employee directors. After the completion of this offering, each new non-employee director will receive an initial option to purchase 30,000 shares upon appointment to the board, except for those directors who become non-employee directors by ceasing to be employee directors. In addition, beginning in 2005, non-employee directors who have been directors for at least six months will receive an option to purchase 15,000 shares following each annual meeting of our stockholders. All options granted under the automatic grant provisions will have a term of ten years and an exercise price equal to fair market value of our common stock on the date of grant. Each initial option becomes

exercisable as to 50% of the shares subject to the option on each anniversary of the date of grant, provided the non-employee director remains a director on such dates. Each subsequent option becomes exercisable as to 100% of the shares subject to the option on the first anniversary of the date of grant, provided the non-employee director remains a director on such date.

Executive Compensation

The following summary compensation table indicates the cash and non-cash compensation earned during the fiscal year ended December 31, 2003 by our Chief Executive Officer and the other most highly compensated executive officers whose total compensation exceeded $100,000 during the fiscal year ended December 31, 2003. These individuals are referred to elsewhere in this prospectus as the "named executive officers."

Summary Compensation Table

	Annual Compensation		Long-term Compensation
Name and Principal Position	Salary	Bonus	Securities Underlying Options
Michael R. Hsing President and Chief Executive Officer	$ 163,077	$ 30,000	60,000
Brian McDonald Former Vice President of Administration, Chief Financial Officer, and Secretary	150,000	30,000	40,000
Jim C. Moyer Chief Design Engineer	123,500	13,276	20,000
Deming Xiao Vice President of Operations	117,548	30,000	80,000

Option grants in last fiscal year

The following table sets forth information regarding options granted to our named executive officers during the fiscal year ended December 31, 2003. The percentage of total options granted is based on an aggregate of 1,647,100 options granted by us to our employees during the fiscal year ended December 31, 2003. We have never granted any stock appreciation rights.

All options were granted pursuant to the 1998 Stock Plan, as amended. These options vest as to 25% of the total granted shares 12 months after the vesting commencement date and as to 1/48 of the total granted shares at the end of each successive month of employment thereafter. Options were granted with an exercise price per share equal to the fair market value of our common stock on the date of grant, as determined by our board of directors.

The amounts shown in the table as potential realizable value represent hypothetical gains that could be achieved for the respective options if exercised at the end of the option term. The 5% and 10% assumed annual rates of compounded stock price appreciation are mandated by rules of the Securities and Exchange Commission and do not represent our estimate or projection of our future common stock prices. These amounts represent assumed rates of appreciation in the value of our common stock from the fair market value on the date of grant as determined at that time by the Company's Board of Directors. Actual gains, if any, on stock option exercises are dependent on the future performance of our common stock, overall stock market conditions, and the option holders' continued service with us.

	Individual Grants					
Name	Number of Shares of Common Stock Underlying Options Granted	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price (per share)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term 5%	10%
Michael R. Hsing	60,000	3.64%	$ 1.20	9/11/2013	$ 45,280	$ 114,749
Brian McDonald*	40,000	2.43%	1.20	—	—	—
Jim C. Moyer	20,000	1.21%	1.20	9/11/2013	15,093	38,250
Deming Xiao	80,000	4.86%	1.20	9/11/2013	60,374	152,999

* Mr. McDonald's option to purchase 40,000 shares of common stock was terminated in connection with his separation agreement and release described on page 63.

Aggregate option exercises during fiscal year 2003 and values at December 31, 2003

The following table sets forth the number and value of unexercised options held by our named executive officers at fiscal year ended December 31, 2003. The value realized reflects the fair market value of our common stock underlying the option on the date of exercise, as determined by our board of directors, minus the exercise price of the option. The value of the unexercised in-the-money options at fiscal year end is based on the difference between an assumed initial public offering price of $ per share and the exercise price payable per share.

			Number of Shares of Common Stock Underlying Unexercised Options at December 31, 2003		Value of Unexercised In-The-Money Options at December 31, 2003	
Name	Shares Acquired on Exercise	Value Realized	Exercisable	Unexercisable	Exercisable	Unexercisable
Michael R. Hsing	—	$ —	141,667	318,333		
Brian McDonald*	—	—	133,333	306,667		
Jim C. Moyer	270,000	0	—	—		
Deming Xiao	—	—	84,833	177,167		

* Pursuant to the terms of his separation agreement and release described on page 63, as of June 22, 2003, Mr. McDonald had 183,333 exercisable, and no unexercisable, shares of common stock underlying unexercised options.

Benefit Plans

1998 Stock Plan

Our 1998 Stock Plan was adopted by our board of directors and approved by our stockholders on October 2, 1998 and was most recently amended on June 22, 2004. Our 1998 Stock Plan provides for the grant of incentive stock options, within the meaning of Section 422 of the Internal Revenue Code, to our employees, and for the grant of nonstatutory stock options and stock purchase rights to our employees, directors, and consultants and our parent and subsidiary corporations' employees and consultants. As of March 31, 2004, options to purchase 6,469,934 shares of common stock were outstanding, and 1,257,308 shares were available for future grant under this plan. Our 1998 Stock Plan provides that in the event of our merger with or into another corporation or a sale of substantially all of

our assets, the successor corporation will assume or substitute each award. If the outstanding awards are not assumed or substituted, the administrator will provide notice to the optionee that he or she has the right to exercise the award as to all of the shares subject to the award, including shares that would not otherwise be exercisable, for a period of 15 days from the date of notice. Any outstanding award will terminate upon the expiration of the 15-day period. We will not grant any additional awards under our 1998 Stock Option Plan following this offering. Instead we will grant options under our 2004 Equity Incentive Plan.

2004 Equity Incentive Plan

Our board of directors adopted our 2004 Equity Incentive Plan in March 2004, subject to stockholder approval. Our 2004 Equity Incentive Plan provides for the grant of incentive stock options, within the meaning of Section 422 of the Internal Revenue Code, to our employees and our parent and subsidiary corporations' employees, and for the grant of nonstatutory stock options, restricted stock, stock appreciation rights, performance units and performance shares to our employees, directors and consultants and our parent and subsidiary corporations' employees and consultants.

Number of Shares of Common Stock Available under our 2004 Equity Incentive Plan. We have reserved a total of 800,000 shares of our common stock for issuance pursuant to the 2004 Equity Incentive Plan plus (a) any shares which have been reserved but not issued under our 1998 Stock Plan as of the effective date of this offering and (b) any shares returned to our 1998 Stock Plan on or after the effective date of this offering as a result of termination of options or the repurchase of unvested shares issued under the 1998 Stock Plan. In addition, our 2004 Equity Incentive Plan provides for annual increases in the number of shares available for issuance thereunder on the first day of each fiscal year, beginning with our fiscal year 2005, equal to the least of:

- 5% of the outstanding shares of our common stock on the first day of the fiscal year;
- 2,400,000 shares; and
- such other amount as our board of directors may determine.

In the event of certain changes in our capitalization (for instance, a stock split) and other corporate transactions affecting our securities, the administrator in its discretion may adjust the number and class of securities that may be delivered under the 2004 Equity Incentive Plan, the number, class, and price of shares covered by each outstanding award, the numerical share limits relating to the number of shares that may be added to the plan as well as the number of shares that may be subject to an award.

Administration of our 2004 Equity Incentive Plan. Our board of directors or a committee of our board administers our 2004 Equity Incentive Plan. In the case of options intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Internal Revenue Code, the committee will consist of two or more "outside directors" within the meaning of Section 162(m) of the Code. The administrator has the power to determine the terms of the awards, including, but not limited to, the exercise price, the number of shares subject to each such award, the exercisability of the awards and the form of consideration, if any, payable upon exercise of an Award. The administrator also has the authority to institute an exchange program by which outstanding awards may be surrendered in exchange for awards with different terms, including, without limitation, a lower exercise price.

Options. The administrator determines the exercise price of options granted under our 2004 Equity Incentive Plan, but with respect to nonstatutory stock options intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code and all incentive

stock options, the exercise price must at least be equal to the fair market value of our common stock on the date of grant. The term of an incentive stock option may not exceed ten years, except that with respect to any participant who owns more than 10% of the voting power of all classes of our outstanding stock, the term must not exceed five years and the exercise price must equal at least 110% of the fair market value on the grant date. The administrator determines the term of all other options.

No optionee may be granted an option to purchase more than 750,000 shares in any fiscal year. However, in connection with his or her initial service, an optionee may be granted an additional option to purchase up to 1,250,000 shares.

After termination of an employee, director or consultant, he or she may exercise his or her option for the period of time stated in the option agreement. Generally, if termination is due to death or disability, the option will remain exercisable for 12 months. In all other cases, the option will generally remain exercisable for three months. However, an option generally may not be exercised later than the expiration of its term.

Stock Appreciation Rights. Stock appreciation rights may be granted under our 2004 Equity Incentive Plan. Stock appreciation rights allow the recipient to receive the appreciation in the fair market value of our common stock between the exercise date and the date of grant. The administrator determines the terms of stock appreciation rights, including when such rights become exercisable and whether to pay the increased appreciation in cash or with shares of our common stock, or a combination thereof.

Restricted Stock. Restricted stock may be granted under our 2004 Equity Incentive Plan. Restricted stock awards are shares of our common stock, subject to terms and conditions established by the administrator. The administrator will determine the number of shares granted pursuant to an award of restricted stock and may impose whatever conditions to vesting it determines to be appropriate. For example, the administrator may set restrictions based on the achievement of specific performance goals. Shares of restricted stock that do not vest are subject to our right of repurchase or forfeiture and any such repurchased or forfeited shares will be available for future grants under the plan.

Performance Units; Performance Shares. Performance units and performance shares may be granted under our 2004 Equity Incentive Plan. Performance units and performance shares are awards that will result in a payment to a participant only if performance goals established by the administrator are achieved or the awards otherwise vest. The administrator will establish organizational or individual performance goals in its discretion, which, depending on the extent to which they are met, will determine the number and/or the value of performance units and performance shares to be paid to participants. After the grant of a performance unit or performance share, the administrator, in its sole discretion, may reduce or waive any performance objectives or other vesting provisions for such performance unit or performance share. Performance units shall have an initial dollar value established by the administrator on or before the grant date. Performance shares shall have an initial value equal to the fair market value of our common stock on the grant date.

Automatic Option Grants to Outside Directors. Our 2004 Equity Incentive Plan also provides for the automatic grant of options to our non-employee directors. Each non-employee director appointed to the board after the completion of this offering will receive an initial option to purchase 30,000 shares upon such appointment except for those directors who become non-employee directors by ceasing to be employee directors. In addition, beginning in 2005, non-employee directors who have been directors for at least six months will receive a subsequent option to purchase 15,000 shares immediately following each annual meeting of our stockholders.

All options granted under the automatic grant provisions have a term of ten years and an exercise price equal to fair market value on the date of grant. Each option to purchase 30,000 shares becomes exercisable as to 50% of the shares subject to the option on each anniversary of its date of grant, provided the non-employee director remains a director on such dates. Each option to purchase 15,000 shares becomes exercisable as to 100% of the shares subject to the option on the first anniversary of its date of grant, provided the non-employee director remains a director on such date. The administrator has the discretion to change the number of shares subject to the 30,000 and 15,000 share grant.

Transferability of Awards. Our 2004 Equity Incentive Plan generally does not allow for the transfer of awards and only the recipient of an award may exercise an award during his or her lifetime.

Adjustments upon Change in Control. Our 2004 Equity Incentive Plan provides that in the event of our "change in control," the successor corporation or its parent or subsidiary will assume or substitute an equivalent award for each outstanding award. If there is no assumption or substitution of outstanding awards, the outstanding awards will immediately vest and the administrator will provide notice to the recipient that he or she has the right to exercise the option and stock appreciation right as to all of the shares subject to such award, all restrictions on restricted stock will lapse, and all performance goals or other vesting requirements for performance shares and units will be deemed achieved. The award will terminate upon the expiration of the period of time the administrator provides in the notice. With respect to awards that are assumed or substituted for, in the event the service of an outside director is terminated on or following the date of the assumption or substitution, other than pursuant to a voluntary resignation, his or her options will fully vest and become immediately exercisable, all restrictions on restricted stock will lapse, and all performance goals or other vesting requirements for performance shares and units will be deemed achieved.

Amendment and Termination of our 2004 Equity Incentive Plan. Our 2004 Equity Incentive Plan will automatically terminate in 2014, unless we terminate it sooner. In addition, our board of directors has the authority to amend, suspend or terminate the 2004 Equity Incentive Plan provided such action does not impair the rights of any participant.

2004 Employee Stock Purchase Plan

Concurrently with this offering, we intend to establish the 2004 Employee Stock Purchase Plan.

Number of Shares of Common Stock Available under the Plan. A total of 200,000 shares of our common stock will initially be made available for sale under our 2004 Employee Stock Purchase Plan. In addition, our 2004 Employee Stock Purchase Plan provides for annual increases in the number of shares available for issuance thereunder on the first day of each fiscal year, beginning with our fiscal year 2005, equal to the least of:

- 2% of the outstanding shares of our common stock on the first day of the fiscal year;
- 1,000,000 shares; and
- such other amount as may be determined by our board of directors.

In the event of certain changes in our capitalization (for instance, a stock split) and other corporate transactions affecting our common stock, the administrator in its discretion will adjust the number and class of common stock that may be delivered under our 2004 Employee Stock Purchase Plan, the purchase price per share and the number of shares of our common stock covered by each outstanding award, as well as the numerical limits relating to the maximum number of shares that may be added to the Plan each year and the maximum number of shares a participant may purchase during an offering period.

Administration of the Plan. Our board of directors or a committee of our board administers the 2004 Employee Stock Purchase Plan. Our board of directors or its committee has full and exclusive authority to interpret the terms of our 2004 Employee Stock Purchase Plan and determine eligibility.

Eligibility to Participate. All of our employees are eligible to participate if they are customarily employed by us or any participating subsidiary for at least 20 hours per week and more than 5 months in any calendar year. However, an employee may not be granted an option to purchase stock if such employee:

- immediately after grant owns stock possessing 5% or more of the total combined voting power or value of all classes of our capital stock or the capital stock of our parent or subsidiary corporations or
- whose rights to purchase stock under all of our employee stock purchase plans accrues at a rate that exceeds $25,000 worth of stock for each calendar year in which such option is outstanding at any time.

Offering Periods and Contributions. Our 2004 Employee Stock Purchase Plan is intended to qualify under Section 423 of the Internal Revenue Code and provides for consecutive 6-month offering periods. The offering periods generally start on the first trading day on or after February 15 and August 15 of each year, except for the first such offering period which will commence on the first trading day on or after the effective date of this offering and will end on the first trading day on or after February 15, 2005. The administrator has the authority to adjust the timing and duration of future offering periods.

Our 2004 Employee Stock Purchase Plan permits participants to purchase common stock through payroll deductions of up to 15% of their eligible compensation which includes a participant's base straight time gross earnings, commissions (to the extent such commissions are an integral, recurring part of compensation), overtime, and shift premium, but exclusive of payments for incentive compensation, bonuses, and other compensation, bonuses and other compensation remuneration paid directly to the employee. A participant may purchase a maximum of 2,000 shares during an offering period. The administrator may adjust this limit prior to the commencement of subsequent offering periods.

Purchase of Shares. Amounts deducted and accumulated by the participant are used to purchase shares of our common stock at the end of each six-month offering period. The price is 85% of the lower of the fair market value of our common stock at the beginning of an offering period or end of such offering period. Participants may end their participation at any time during an offering period, and will be paid their payroll deductions to date. Participation ends automatically upon termination of employment with us.

Transferability of Rights. A participant may not transfer rights granted under our 2004 Employee Stock Purchase Plan other than by will, the laws of descent and distribution or as otherwise provided under our 2004 Employee Stock Purchase Plan.

Adjustments upon Change in Control. In the event of our "change of control," a successor corporation will assume or substitute each outstanding option. If the successor corporation refuses to assume or substitute for the outstanding options, the offering period then in progress will be shortened, and a new exercise date will be set.

Amendment and Termination of the Plan. Our 2004 Employee Stock Purchase Plan will automatically terminate in 2024, unless we terminate it sooner. Our board of directors has the authority to amend or terminate our 2004 Employee Stock Purchase Plan, except that, subject to certain

exceptions described in our 2004 Employee Stock Purchase Plan, no such action may adversely affect any outstanding rights to purchase stock under our 2004 Employee Stock Purchase Plan.

Employment and Change of Control Arrangements

Under employment agreements with Michael Hsing and Jim Moyer, dated August 23, 2002 and September 12, 2002, respectively, if either executive's employment is terminated without "cause," or if either executive leaves his employment for "good reason" (each as defined in the agreements), we are required to pay his base salary and benefits for a period of 6 months, and the vesting of the unvested shares pursuant to each executive's initial stock option grant will accelerate in an amount equal to the number of options that would have vested had the executive remained an employee for 12 months following the termination of employment. In addition, if such termination occurs within one year following a change of control, the executive will receive his base salary and benefits for a period of 12 months and 50% of the executive's unvested options pursuant to each executive's initial stock option grant will vest and become exercisable. Change of control means a merger or consolidation after which our shareholders do not hold a majority of our outstanding voting securities, any transaction involving the transfer of greater than 50% of our voting power or a sale of substantially all our assets.

Under an employment agreement entered into with Tim Christoffersen effective as of June 22, 2004, if Mr. Christoffersen's employment is terminated for reasons other than "cause," death, or disability or if he resigns from his employment for "good reason" (each as defined in his agreement), the vesting of all unvested shares subject to all outstanding to stock options and all unvested shares of restricted stock will accelerate in an amount equal to 12 months of service. In addition, upon a change of control, all of Mr. Christoffersen's outstanding stock options and all unvested shares of restricted stock will accelerate as to 100% of all unvested shares. Upon Mr. Christoffersen's termination of employment for other than cause, death or disability or his voluntary resignation for good reason, in addition to the accelerated vesting described above, Mr. Christoffersen will receive a lump-sum payment equal to 6 months of his base salary. In the event of Mr. Christoffersen's termination of employment for any reason, he will have 6 months following such termination to exercise all outstanding options. Change of control means a merger or consolidation after which our shareholders do not hold a majority of our outstanding voting securities, any transaction involving the transfer of greater than 50% of our voting power or a sale of substantially all our assets.

Under a separation agreement and release we entered into with Brian McDonald effective as of June 22, 2004, we agreed to pay Mr. McDonald an amount equal to two weeks of his base salary. We also entered into a consulting agreement with Mr. McDonald effective as of June 22, 2004, under which we retained Mr. McDonald as a paid consultant for a period of three months.

We intend to enter into a change of control agreement with Deming Xiao that provides that if his employment is terminated without cause, or if he leaves his employment for good reason within one year following a change of control, he will receive acceleration of the vesting of his stock options as to 50% of the unvested shares covered by the employment agreement. Change of control means a merger or consolidation after which our shareholders do not hold a majority of our outstanding voting securities, any transaction involving the transfer of greater than 50% of our voting power or a sale of substantially all our assets.

401(k) Plan

We sponsor a 401(k) savings and profit-sharing plan for all employees who meet certain eligibility requirements. Participants may contribute up to the amount allowable for federal income tax purposes. We are not required to contribute and did not contribute to our 401(k) plan for the years ended December 31, 2001, 2002, and 2003.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Other than compensation, employment and change in control agreements and other arrangements, which are described above in "Management," and the transactions described below, since January 1, 2001, there has not been, nor is there currently proposed, any transaction or series of similar transactions to which we were or will be a party: in which the amount involved exceeded or will exceed $60,000; and in which any director, executive officer, holder of 5% or more of any class of our voting stock, or any member of their immediate family had or will have a direct or indirect material interest.

Registration Rights Agreement

We have entered into an agreement with the holders of our preferred stock, including entities with which certain of our directors are affiliated, including BAVP, L.P. and certain funds affiliated with InveStar Capital, Inc., that provides the holders of the preferred stock certain rights relating to the registration of their shares of common stock issuable upon conversion of the preferred stock. These rights will survive this offering and will terminate as to any holder, at such time as such holder is able to sell all the securities held by such holder within a three month period pursuant to Rule 144 of the Securities Act and if such holder owns less than 1% of our outstanding capital stock, but in any event no later than the fifth anniversary of the closing of this offering. Please refer to "Description of Capital Stock" on page 69 for a more thorough description of these registration rights.

Indemnification Agreements

We expect to enter into an indemnification agreement with each of our directors and officers prior to completing this offering. The indemnification agreements and our amended and restated certificate of incorporation and bylaws that will be in effect after completion of this offering will require us to indemnify our directors and officers to the fullest extent permitted by Delaware law.

Recent Option Grants

Since January 1, 2001 we have granted stock options to the following executive officers and directors:

Name	Date of Grant	Shares Underlying Options	Exercise Price	Term of Option
Deming Xiao	6/5/01	72,000	$ 0.80	10 years
Deming Xiao	1/16/02	30,000	$ 0.80	10 years
Michael R. Hsing	7/17/02	400,000	$ 1.32	5 years
Jim C. Moyer	7/17/02	250,000	$ 1.20	10 years
Deming Xiao	10/15/02	80,000	$ 1.20	10 years
Umesh Padval	4/24/03	86,000	$ 1.20	10 years
Michael R. Hsing	9/11/03	60,000	$ 1.20	10 years
Jim C. Moyer	9/11/03	20,000	$ 1.20	10 years
Deming Xiao	9/11/03	80,000	$ 1.20	10 years
Michael Hsing	1/13/04	500,000*	$ 5.00	10 years
Leonard Kao	1/13/04	200,000	$ 5.00	10 years
Jim C. Moyer	1/13/04	350,000*	$ 5.00	10 years
Deming Xiao	1/28/04	50,000	$ 5.00	10 years
Tim Christoffersen	3/25/04	30,000	$ 10.00	10 years
Tim Christoffersen	7/6/04	250,000	$ 10.00	10 years

* Messrs. Hsing and Moyer each voluntarily and mutually agreed with us to reduce the amount of each executive's option grant to 350,000 shares and 200,000 shares, respectively.

Options for executive officers vest over four years with 25% of the total granted shares vesting one year after the vesting commencement date and 1/48 of the total granted shares vesting at the end of each successive month thereafter, subject to the optionee continuing to be a service provider on such dates.

The option granted to Umesh Padval vests over three years with 33 1/3% of the total granted shares vesting one year after the vesting commencement date and 1/36 of the total granted shares vesting at the end of each successive month thereafter, subject to him continuing to be a director on such dates.

The option granted to Tim Christoffersen on March 25, 2004 vested monthly over two years. The option vested as to 3,750 shares, and the remainder of the option was terminated in connection with the commencement of his employment with us. The option granted to Mr. Christoffersen on July 6, 2004 vested as to 70,000 shares as of June 22, 2004 with the remaining shares vesting as to 1/36 following each successive month thereafter, subject to him continuing to be a service provider on such dates.

Private Placement Financings

The following table summarizes the shares of preferred stock purchased by our directors and 5% stockholders and persons and entities associated with them in private placement transactions. Such purchases were made on the same or substantially similar terms as unrelated investors that participated in the private placement transactions. Each share of preferred stock converts into one share of common stock upon the closing of this offering. The shares of Series C preferred stock were sold on May 16, 2001 and June 20, 2001 at $2.25 per share, and the shares of Series D preferred stock were sold on August 23, 2002 at $3.291 per share.

5% Stockholders and Entities Affiliated with Directors	Series C Preferred	Series D Preferred
Funds affiliated with InveStar Capital, Inc.	1,462,488(1)	654,775
Funds affiliated with Acer Technology Ventures	444,444	304,858
BAVP, L.P.		2,798,185
C Squared Investment Corp.		30,386

(1) Assumes the exercise of warrants to purchase 120,000 shares at an exercise price of $2.25 per share.

Other Transactions

It is our policy that all transactions between us and our officers, directors, 5% stockholders, and their affiliates will be entered into only if these transactions are approved by a majority of the disinterested directors, are on terms no less favorable to us than could be obtained from unaffiliated parties, and are reasonably expected to benefit us.

PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth information regarding the beneficial ownership of our common stock as of March 31, 2004, as adjusted to reflect the sale of additional shares of our common stock in this offering and the automatic conversion of all shares of our preferred stock to shares of our common stock prior to the completion of this offering, for each of the following persons:

- all named executive officers;
- all directors;
- each person who is known by us to own beneficially five percent or more of our common stock assuming conversion of our preferred stock prior to this offering; and
- each selling stockholder.

Unless otherwise indicated below, to our knowledge, all persons named in the table have sole voting and investment power with respect to their shares of common stock, except to the extent authority is shared by spouses under community property laws. Each stockholder's percentage ownership in the following table is based upon 22,224,809 shares of common stock outstanding (on a pro forma basis, assuming the conversion of preferred stock outstanding into common stock) as of March 31, 2004 and shares of common stock outstanding immediately after this offering, in each case assuming conversion of all outstanding shares of preferred stock into common stock, but no exercise of the underwriters' over-allotment option.

Unless otherwise indicated, the address of each beneficial owner listed below is Monolithic Power Systems, Inc., 983 University Avenue, Building A, Los Gatos, CA 95032.

	Number of Shares Beneficially Owned(1)		Number of Shares Being Offered	Percentage of Shares Beneficially Owned(1)	
	Before Offering	After Offering		Before Offering	After Offering
Named Executive Officers and Directors					
Michael R. Hsing(2)	1,770,477	1,625,477	145,000	7.9%	
Brian McDonald(3)	175,000	115,000	60,000	*	*
Deming Xiao(4)	103,792	103,792		*	*
Herbert Chang(5)(6)	4,748,613	4,748,613		21.2%	
Jim Jones(7)	—	—		—	—
Jim C. Moyer(8)	1,861,068	1,861,068		8.4%	
Umesh Padval(9)	31,056	31,056		*	*
Other 5% Stockholders					
Funds affiliated with InveStar Capital, Inc.(5) 3600 Pruneridge Avenue, Suite 300 Santa Clara, CA 95051	4,638,227	4,638,227		20.8%	
BAVP, L.P.(10) 950 Tower Lane, Suite 700 Foster City, CA 94404	2,798,185	1,798,185		12.6%	
Funds affiliated with Acer Technology Ventures(11) 5201 Great America Parkway, Suite 270 Santa Clara, CA 95054	1,999,302	1,999,302		9.0%	

	Number of Shares Beneficially Owned(1)		Number of Shares Being Offered	Percentage of Shares Beneficially Owned (1)	
	Before Offering	After Offering		Before Offering	After Offering
Cheow Seng Lee Flat 10, Unit 8 8 Broadcast Drive Kowloon, Hong Kong	1,368,012	1,368,012		6.2%	
All current directors and executive officers as a group (7 persons)(12)	8,518,756	8,373,756	145,000	37.6%	
Selling Stockholders					
Yi You Chang 10450 Phar Lap Drive Cupertino, CA 95014	28,570	18,570	10,000	*	*
Digital CT Investment Ltd. 8F-2, No. 99, Fushing N. Rd. Taipei 105, Taiwan R.O.C.	779,217	629,991	149,226	3.5%	
Hsi-Yuan Hsu. 5F, No. 6, Lane 336 Nei Hu Road, Section 2 Taipei, Taiwan R.O.C.	20,000	16,170	3,830	*	*
Jaw-Sheng Kong 19903 Rodrigues Avenue Cupertino, CA 95014	71,428	57,814	13,614	*	*
Fonglu David Lin and Wang H. Lin 19737 Versailles Way Saratoga, CA 95070	142,856	120,000	22,856	*	*
Ping-Ping Lai 4F, #2 Chu Tsun 5th Road Hsin-Chu Taiwan R.O.C.	142,856	71,428	71,428	*	*
Microtek Inc. 2-7-5 Izumi, Suginami-ku Tokyo, 168-0096, Japan	80,000	40,000	40,000	*	*
John Shannon(13) 10 Glenridge Avenue Los Gatos, CA 95030	402,000	391,084	10,916	1.8%	
Hideto Takagishi	228,506	218,047	10,459	1.0%	*
Top Fortune Direct Investment Ltd. 8-F, No. 99, Fushing N. Rd. Taipei 105, Taiwan R.O.C.	133,333	107,799	25,534	*	*
Z.C. Tseng No. 6, Ally 38, Lane 492 Tu-Cheng Road Taichung County Taiwan, R.O.C.	85,714	80,714	5,000	*	*

* Represents beneficial ownership of less than 1%.

(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. In computing the number of shares beneficially owned by a person and the percentage of ownership of that person, shares of common stock subject to options held by that person that are currently exercisable or become exercisable within 60 days of March 31, 2004 are considered to be outstanding and beneficially owned by such person. Those shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other person.

(2) Includes (i) 765,000 shares held of record by Michael Hsing and Sharon Z. Hsing, husband and wife, as joint tenants, (ii) 382,500 shares held of record by Michael Hsing and Sharon Hsing, Co-Trustees of the Michael Hsing 2004 Trust, (iii) 382,500 shares held of record by Michael Hsing and Sharon Hsing, Co-Trustees of the Sharon Hsing 2004 Trust, (iv) 57,144 shares held of record by Delaware Charter Guarantee Trust Company TTEE FBO Michael Hsing IRA, and (v) 183,333 shares of our common stock issuable under options exercisable within 60 days of March 31, 2004.

(3) Includes 175,000 shares of our common stock issuable under options exercisable within 60 days of March 31, 2004.

(4) Includes 17,459 shares of our common stock issuable under options exercisable within 60 days of March 31, 2004.

(5) Includes (i) 2,520,964 shares held of record by InveStar Semiconductor Development Fund Inc., (ii) 804,489 shares and 60,000 shares issuable upon exercise of outstanding warrants held of record by InveStar Semiconductor Development Fund Inc. (II) LDC, (iii) 632,671 shares held of record by InveStar Burgeon Venture Capital Inc. and 45,000 shares issuable upon exercise of outstanding warrants, (iv) 298,193 shares held of record by InveStar Excelsus Venture Capital Inc. and 15,000 shares issuable upon exercise of outstanding warrants, (v) 130,955 shares held of record by Forefront Venture Partners, L.P., and (vi) 130,955 shares held of record by InveStar Dayspring Venture Capital, Inc. Mr. Chang disclaims beneficial ownership of these shares except to the extent of his pecuniary interest in such shares.

(6) Includes (i) 80,000 shares of our common stock issuable under options exercisable within 60 days of March 31, 2004 and (ii) 30,386 shares held of record by C Squared Investment Corp. Mr. Chang disclaims beneficial ownership of these shares except to the extent of his pecuniary interest in such shares.

(7) Excludes 2,798,185 shares beneficially owned by BAVP, L.P. The voting and disposition of these shares held by BAVP, L.P. is determined by the sole managing member of BA Venture Partners VI, LLC, the ultimate general partner of BAVP, L.P. Jim Jones is one of the members of BA Venture Partners VI, LLC and as such has a pecuniary interest in a portion of the 2,798,185 shares, but has no voting or investment power with respect to such shares. Mr. Jones disclaims beneficial ownership of these shares, except to the extent of his proportionate pecuniary interest therein.

(8) Includes (i) 520,000 shares held of record by Jim C. Moyer and Frances K. Moyer, husband and wife, as joint tenants, (ii) 250,000 shares held of record by James C. Moyer and Frances K. Moyer, Co-Trustees of the James C. Moyer 2004 Trust, (iii) 250,000 shares held of record by James C. Moyer and Frances K. Moyer, Co-Trustees of the Frances K. Moyer 2004 Trust, (iv) 143,000 shares held of record by First National Bank of Onaga FBO Frances K. Moyer, (v) 143,000 shares held of record by First National Bank of Onaga FBO Jim C. Moyer, and (vi) 165,833 shares subject to repurchase by us at original purchase price in the event of termination of Mr. Moyer's employment with us, which right lapses over time.

(9) Includes 31,056 shares of our common stock issuable under options exercisable within 60 days of March 31, 2004.

(10) Represents 2,798,185 shares beneficially owned by BAVP, L.P. The voting and disposition of these shares held by BAVP, L.P. is determined by the sole managing member of BA Venture Partners VI, LLC, the ultimate general partner of BAVP, L.P. Jim Jones is one of the members of BA Venture Partners VI, LLC and as such has a pecuniary interest in a portion of the 2,798,185

shares, but has no voting or investment power with respect to such shares. Mr. Jones disclaims beneficial ownership of these shares, except to the extent of his proportionate pecuniary interest therein.

(11) Includes (i) 1,250,000 shares held of record by Acer Technology Venture Fund LP and (ii) 749,302 shares held of record by IP Fund One, L.P.

(12) Includes (i) 431,848 shares of our common stock issuable under options exercisable within 60 days of March 31, 2004, (ii) 3,750 shares of our common stock issuable under options exercisable by Tim Christoffersen within 60 days of March 31, 2004, and (iii) warrants to purchase 120,000 shares of common stock exercisable at any time until March 30, 2006 at an exercise price of $2.25 per share. Excludes (i) 175,000 shares of our common stock issuable under options exercisable by Mr. McDonald within 60 days of March 31, 2004 and (ii) 2,798,185 shares of preferred stock beneficially owned by BAVP, L.P.

(13) 345,000 shares held of record by John R. Shannon and Sheila E. Quinlan, husband and wife, as joint tenants.

DESCRIPTION OF CAPITAL STOCK

Upon completion of this offering and assuming the filing of an amended and restated certificate of incorporation, our authorized capital stock will consist of 150,000,000 shares of common stock, $0.001 par value and 5,000,000 shares of preferred stock, $0.001 par value. As of March 31, 2004, there were 22,224,809 shares of our common stock outstanding, as adjusted to reflect the conversion of all outstanding shares of our preferred stock into common stock on the closing of this offering, that were held of record by approximately 100 stockholders, and options to purchase 6,469,934 shares of common stock were outstanding. We will have a total of shares of common stock outstanding following this offering.

The following description assumes the filing of an amended and restated certificate of incorporation upon the closing of this offering. This description is only a summary. You should also refer to our amended and restated certificate of incorporation and bylaws, both of which have been filed with the SEC as exhibits to our registration statement, of which this prospectus forms a part.

Common Stock

Subject to preferences that may apply to shares of preferred stock outstanding at the time, the holders of outstanding shares of common stock are entitled to receive dividends out of assets legally available therefor at the times and in the amounts as our board of directors may from time to time determine. All dividends are non-cumulative. In the event of the liquidation, dissolution or winding up of our company, the holders of common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to the prior distribution rights of preferred stock, if any, then outstanding. Each stockholder is entitled to one vote for each share of common stock held on all matters submitted to a vote of stockholders. Cumulative voting for the election of directors is not provided for in our amended and restated certificate of incorporation, which means that the holders of a majority of the shares voted can elect all of the directors then standing for election. Our board of directors is divided into three classes, with each director serving a three-year term and one class being elected at each year's annual meeting of stockholders. The common stock is not entitled to preemptive rights and is not subject to conversion or redemption. There are no sinking fund provisions applicable to our common stock. Each outstanding share of common stock is, and all shares of common stock to be outstanding upon completion of this offering will be, fully paid and nonassessable. There are two outstanding warrants to purchase 33,718 and 60,000 shares of our common stock at exercise prices of $1.20 per share and $0.80 per share, respectively, expiring on August 13, 2009 and December 28, 2005, respectively.

Preferred Stock

Pursuant to our amended and restated certificate of incorporation, our board of directors has the authority, without further action by the stockholders, to issue up to 5,000,000 shares of preferred stock in one or more series and to fix the designations, powers, preferences, privileges, and relative participating, optional or special rights as well as the qualifications, limitations or restrictions of the preferred stock, including dividend rights, conversion rights, voting rights, terms of redemption, and liquidation preferences, any or all of which may be greater than the rights of the common stock. Our board of directors, without stockholder approval, can issue preferred stock with voting, conversion, or other rights that could adversely affect the voting power and other rights of the holders of common stock. Preferred stock could thus be issued quickly with terms calculated to delay or prevent a change in control or make removal of management more difficult. Additionally, the issuance of preferred stock may have the effect of decreasing the market price of the common stock and may adversely affect the voting and other rights of the holders of common stock. At present, we have no plans to issue any preferred stock following this offering.

Registration Rights

Upon the closing of this offering, holders of 16,783,164 shares of our common stock are entitled to certain rights with respect to the registration of their shares under the Securities Act. Specifically, at any time six months after the earlier of the closing of this offering or December 31, 2004, the holders of at least 50% of the shares having registration rights can demand that we file a registration statement for those shares so long as the demand covers at least 33 1/3% of the registrable securities. We are required to effect the registration as requested, unless the underwriters decide to limit the number of shares that may be included in the registration due to marketing factors. We are only obligated to satisfy two demand registrations, and we may defer a registration by up to 90 days under specified circumstances once per 12-month period. Furthermore, at any time that we plan to register our securities, these holders have a right to require that we include their registrable securities in the registration at our expense, subject to specified limitations. Furthermore, to the extent that we are qualified under applicable SEC rules to register our shares for public resale on Form S-3 or a similar short form registration, if holders of at least 25% of the registrable securities request that their securities be registered, and provided that that the value of the securities requested to be registered is at least $500,000, we have agreed to use our best efforts to register such securities on Form S-3, subject to specified limitations. Generally, all fees, costs and expenses of the registrations mentioned above will be borne by us and all selling expenses, including underwriting discounts, selling commissions and stock transfer taxes, will be borne by the holders of the securities being registered. These registration rights terminate as to any holder, at such time as such holder is able to sell all the securities held by such holder within a three month period pursuant to Rule 144 of the Securities Act and if such holder owns less than 1% of the outstanding capital stock of the company, but in any event no later than the fifth anniversary of the closing of this offering. We have agreed to indemnify the selling stockholders, and the selling stockholders have agreed to indemnify us, against certain liabilities, including liabilities under the Securities Act of 1933, as amended, pursuant to the registration rights agreement.

Delaware Anti-Takeover Law and Charter and Bylaw Provisions

Delaware Statute. Upon consummation of our anticipated reincorporation into Delaware, we will be subject to the provisions of Section 203 of the Delaware General Corporation Law. In general, this statute prohibits a publicly-held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date that the person became an interested stockholder unless (with certain exceptions):

- Prior to such date, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;
- Upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the voting stock outstanding (but not the outstanding voting stock owned by the interested stockholder), those shares owned (1) by persons who are directors and also officers and (2) by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- On or after such date, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock which is not owned by the interested stockholder.

Generally, a "business combination" includes a merger, asset sale or other transaction resulting in a financial benefit to the interested stockholder, and an "interested stockholder" is a person who, together with affiliates and associates, owns (or within three years prior, did own) 15% or more of the corporation's voting stock. These provisions may have the effect of delaying, deferring or preventing a change in control of us without further action by our stockholders.

Charter Provisions. Following the completion of this offering, our amended and restated certificate of incorporation and bylaws will contain provisions that could have the effect of discouraging potential acquisition proposals or making a tender offer or delaying or preventing a change in control of our company, including changes a stockholder might consider favorable. These could have the effect of decreasing the market price of our common stock. In particular, our amended and restated certificate of incorporation and bylaws, as applicable, among other things, will:

- divide our board of directors into three separate classes serving staggered three-year terms;
- provide that special meetings of stockholders can only be called by our board of directors, chairman of the board, chief executive officer or president (in the absence of a chief executive officer). In addition, the business permitted to be conducted at any special meeting of stockholders is limited to the business specified in the notice of such meeting to the stockholders;
- provide for an advance notice procedure with regard to business to be brought before a meeting of stockholders;
- eliminate the right of stockholders to act by written consent;
- provide that directors may only be removed for cause;
- provide that vacancies on our board of directors may be filled by a majority of directors in office, although less than a quorum; and
- allow our board of directors to issue shares of preferred stock with rights senior to those of the common stock and that otherwise could adversely affect the rights and powers, including voting rights, of the holders of common stock, without any further vote or action by the stockholders.

These provisions may have the effect of discouraging a third party from acquiring us, even if doing so would be beneficial to our stockholders. These provisions are intended to enhance the likelihood of continuity and stability in the composition of our board of directors and in the policies formulated by them, and to discourage some types of transactions that may involve an actual or threatened change in control of our company. These provisions are designed to reduce our vulnerability to an unsolicited acquisition proposal and to discourage some tactics that may be used in proxy fights. We believe that the benefits of increased protection of our potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure our company outweigh the disadvantages of discouraging such proposals because, among other things, negotiation of such proposals could result in an improvement of the proposed terms. However, these provisions could have the effect of discouraging others from making tender offers for our shares that could result from actual or rumored takeover attempts. These provisions also may have the effect of preventing changes in our management.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is .

Nasdaq National Market Quotation

We have applied to have our common stock approved for quotation on the Nasdaq National Market under the symbol "MPWR."

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no market for our common stock. Future sales of substantial amounts of our common stock in the public market could adversely affect prevailing market prices.

Upon completion of this offering, we will have outstanding shares of our common stock. Of these shares, the shares sold by us and the selling stockholders in the offering (plus any shares issued upon exercise of the underwriters' over-allotment option) will be freely tradable without restriction under the Securities Act, unless purchased by our "affiliates" as that term is defined in Rule 144 under the Securities Act (generally, our officers, directors and 10% stockholders). Shares purchased by affiliates may generally only be sold pursuant to an effective registration statement under the Securities Act or in compliance with limitations of Rule 144 as described below.

The remaining 20,716,946 shares outstanding are "restricted securities" within the meaning of Rule 144 under the Securities Act. Restricted securities may be sold in the public market only if registered or if they qualify for an exemption from registration under Rules 144, 144(k), or 701 promulgated under the Securities Act, which are summarized below. All of these shares are subject to lock-up agreements pursuant to which the stockholder has agreed not to offer, sell, contract to sell, grant any option to purchase, or otherwise dispose of our common stock or any securities exercisable for or convertible into our common stock owned by them for a period of 180 days after the date of this prospectus without the prior written consent of Goldman, Sachs & Co. and/or us. As a result of these contractual restrictions, notwithstanding possible earlier eligibility for sale under the provisions of Rules 144, 144(k), and 701, shares subject to lock-up agreements may not be sold until such agreements expire or are waived by the designated underwriters' representative. Taking into account the lock-up agreements, and assuming we and Goldman, Sachs & Co. do not release stockholders from these agreements, the following shares will be eligible for sale in the public market at the following times:

- beginning on the effective date of the offering, only the shares sold in this offering will be immediately available for sale in the public market;
- an additional 20,621,113 shares will become eligible for sale pursuant to Rule 144 beginning on , 2005. Shares eligible to be sold by affiliates pursuant to Rule 144 are subject to volume restrictions as described below; and
- an additional 95,833 shares will become eligible for sale in the public market pursuant to Rule 144 at various dates in the future.

Immediately after the completion of this offering, we intend to file a registration statement on Form S-8 under the Securities Act to register all of the shares of common stock issued or reserved for future issuance under our stock option plans and our stock purchase plan. Based upon the number of shares subject to outstanding options as of March 31, 2004 and currently reserved for issuance under our stock plans, this registration statement would cover approximately 8,727,242 shares in addition to annual increases in the number of shares available under the stock option plans and stock purchase plan pursuant to the terms of such plans. Shares registered under this registration statement will generally be available for sale in the open market immediately after the 180-day lock-up agreements expire or earlier if we and Goldman, Sachs & Co. release the stockholders from the lock-up agreements.

Also beginning six months after the date of this offering, holders of 16,783,164 shares of our common stock will be entitled to rights with respect to registration of these shares for sale in the public market. For more information, see "Description of Capital Stock—Registration Rights." Registration of these shares under the Securities Act would result in these shares becoming freely tradable without restriction under the Securities Act immediately upon effectiveness of the registration.

Rule 144. In general, under Rule 144 as currently in effect, and beginning after the expiration of the lock-up agreements, a person (or persons whose shares are aggregated) who has beneficially owned restricted shares for at least one year would be entitled to sell within any three-month period a number of shares that does not exceed the greater of: one percent of the number of shares of common stock then outstanding (which will equal approximately shares immediately after the offering) or the average weekly trading volume of the common stock during the four calendar weeks preceding the sale. Sales under Rule 144 are also subject to manner of sale provisions and notice requirements and to the availability of current public information about us. Under Rule 144(k), a person who is not deemed to have been an affiliate of us at any time during the three months preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years, is entitled to sell shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144.

Rule 701. In general, beginning 90 days after the effective date, each of our directors, officers, employees, consultants, or advisors who purchased shares pursuant to a written compensatory plan or contract prior to this offering may be entitled to rely on the resale provisions of Rule 701. Rule 701 permits affiliates to sell their Rule 701 shares under Rule 144 without complying with the holding period requirements of Rule 144. Rule 701 further provides that non-affiliates may sell such shares in reliance on Rule 144 without having to comply with the holding period, public information, volume limitation or notice provisions of Rule 144.

UNDERWRITING

The company, the selling stockholders, and the underwriters named below have entered into an underwriting agreement with respect to the shares being offered. Subject to certain conditions, each underwriter has severally agreed to purchase the number of shares indicated in the following table. Goldman, Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Deutsche Bank Securities Inc. and Piper Jaffray & Co. are the representatives of the underwriters.

Underwriters	Number of Shares
Goldman, Sachs & Co.	
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Deutsche Bank Securities Inc.	
Piper Jaffray & Co.	
Total	

The underwriters are committed to take and pay for all of the shares being offered, if any are taken, other than the shares covered by the option described below unless and until this option is exercised.

If the underwriters sell more shares than the total number set forth in the table above, the underwriters have an option to buy up to an additional shares from the company to cover such sales. They may exercise that option for 30 days. If any shares are purchased pursuant to this option, the underwriters will severally purchase shares in approximately the same proportion as set forth in the table above.

The following tables show the per share and total underwriting discounts and commissions to be paid to the underwriters by the company and the selling stockholders. Such amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares.

Paid by the Company	No Exercise	Full Exercise
Per Share	$	$
Total	$	$

Paid by Selling Stockholder	No Exercise	Full Exercise
Per Share	$	$
Total	$	$

Shares sold by the underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus. Any shares sold by the underwriters to securities dealers may be sold at a discount of up to $ per share from the initial public offering price. Any such securities dealers may resell any shares purchased from the underwriters to certain other brokers or dealers at a discount of up to $ per share from the initial public offering price. If all the shares are not sold at the initial public offering price, the underwriters may change the offering price and the other selling terms.

The company, its directors, officers, and certain employees, stockholders and optionholders have agreed with the underwriters not to dispose of or hedge any of their common stock or securities convertible into or exchangeable for shares of common stock during the period from the date of this

prospectus continuing through the date 180 days after the date of this prospectus, except with the prior written consent of the underwriters. This restriction does not apply to any issuances by us under our existing employee benefit plans. See “Shares Available for Future Sale” for a discussion of certain transfer restrictions.

Prior to the offering, there has been no public market for the shares. The initial public offering price has been negotiated among the company and the underwriters. Among the factors to be considered in determining the initial public offering price of the shares, in addition to prevailing market conditions, will be the company’s historical performance, estimates of the business potential and earnings prospects of the company, an assessment of the company’s management and the consideration of the above factors in relation to market valuation of companies in related businesses.

An application has been made for quotation of the common stock on the Nasdaq National Market under the symbol “MPWR.”

In connection with the offering, the underwriters may purchase and sell shares of common stock in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Shorts sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in the offering. “Covered” short sales are sales made in an amount not greater than the underwriters’ option to purchase additional shares from the company in the offering. The underwriters may close out any covered short position by either exercising their option to purchase additional shares or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase additional shares pursuant to the option granted to them. “Naked” short sales are any sales in excess of such option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of various bids for or purchases of common stock made by the underwriters in the open market prior to the completion of the offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the underwriters have repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

Purchases to cover a short position and stabilizing transactions may have the effect of preventing or retarding a decline in the market price of the company’s stock, and together with the imposition of the penalty bid, may stabilize, maintain, or otherwise affect the market price of the common stock. As a result, the price of the common stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued at any time. These transactions may be effected on Nasdaq National Market or in the over-the-counter market or otherwise.

Each underwriter has represented, warranted and agreed that: (i) it has not offered or sold and, prior to the expiry of a period of six months from the closing date, will not offer or sell any shares to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995; (ii) it has only communicated or caused to be communicated and will only communicate or cause to be

communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 ("FSMA")) received by it in connection with the issue or sale of any shares in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the shares in, from, or otherwise involving the United Kingdom.

The shares may not be offered or sold, transferred or delivered, as part of their initial distribution or at any time thereafter, directly or indirectly, to any individual or legal entity in the Netherlands other than to individuals or legal entities who or which trade or invest in securities in the conduct of their profession or trade, which includes banks, securities intermediaries, insurance companies, pension funds, other institutional investors, and commercial enterprises which, as an ancillary activity, regularly trade or invest in securities.

The shares may not be offered or sold by means of any document other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong, and no advertisement, invitation or document relating to the Shares may be issued, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Shares which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made thereunder.

The prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each syndicate member acknowledges that the Shares may not be offered or sold, or be made the subject of an invitation for subscription or purchase, nor may the Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Shares be circulated or distributed, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor or other person specified in Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "Securities and Futures Act"), (ii) to a sophisticated investor, and in accordance with the conditions, specified in Section 275 of the Securities and Futures Act, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Each underwriter has acknowledged and agreed that the securities have not been registered under the Securities and Exchange Law of Japan and are not being offered or sold and may not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan, except (i) pursuant to an exemption from the registration requirements of the Securities and Exchange Law of Japan and (ii) in compliance with any other applicable requirements of Japanese law.

The underwriters do not expect sales to discretionary accounts to exceed five percent of the total number of shares offered.

The company and the selling stockholders estimate that their shares of the total expenses of the offering, excluding underwriting discounts and commissions, will be approximately $ and $, respectively.

The company and the selling stockholders have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

Certain of the underwriters and their respective affiliates may in the future perform various financial advisory and investment banking services for the company, for which they would receive customary fees and expenses.

VALIDITY OF SECURITIES

Wilson Sonsini Goodrich & Rosati, P.C., Palo Alto, California, will pass for us on the validity of the common stock offered hereby. Jones Day, Menlo Park, California, is acting as counsel for the underwriters in connection with selected legal matters relating to the shares of common stock offered by this prospectus. As of March 31, 2004, persons and entities affiliated with Wilson Sonsini Goodrich & Rosati, P.C. beneficially owned the right to purchase 33,718 shares of our common stock.

EXPERTS

The consolidated financial statements of Monolithic Power Systems, Inc. as of December 31, 2002 and 2003 and March 31, 2004 and for the years ended December 31, 2001, 2002 and 2003 and the three months ended March 31, 2004, included in this prospectus have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report appearing herein (which report expresses an unqualified opinion and includes an explanatory paragraph relating to lawsuits related to alleged patent infringement and alleged misappropriation of assets), and have been so included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

The statement in this prospectus set forth under the captions “Legal Proceedings—Patents at Issue—O2’s Patents” and “Legal Proceeding —Taiwan Litigation,” in the seventh and eighth sentences in the first paragraph under the caption “Risk Factors—If we are unsuccessful in our current lawsuits with O2 Micro International Limited in either the U.S. or in Taiwan, we could be enjoined from selling many of our products and/or be required to pay substantial damages or fines. Any unfavorable outcome would cause our revenues to decline significantly and severely harm our business and operating results,” and in the second sentence in the third paragraph under the same caption, have been reviewed and approved by Chen and Lin, our Taiwanese counsel, as experts on such matters, and we have included these statements in this prospectus in reliance upon such review and approval.

WHERE YOU CAN FIND MORE INFORMATION

We filed a registration statement on Form S-1 under the Securities Act with the SEC to register the shares of our common stock offered by this prospectus. This prospectus does not contain all of the information set forth in the registration statement and the exhibits to the registration statement. You should refer to the registration statement and the exhibits to the registration statement for more information about us and our common stock. Our statements in this prospectus concerning the contents of any document, though summarizing the material terms of such documents, are not necessarily complete, and in each instance, we refer you to the copy of the document filed as an exhibit to the registration statement for all of the information that may be important to you. Each statement about those documents is qualified in its entirety by this reference.

Following the offering, we will become subject to the reporting requirements of the Securities Exchange Act of 1934. In accordance with that law, we will be required to file reports and other information with the SEC. The registration statement and exhibits, as well as those reports and other information when we file them, may be inspected without charge at the public reference facilities maintained by the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities. Copies of all or any part of the registration statement may be obtained from the SEC’s offices upon payment of fees prescribed by the SEC. The SEC maintains a World Wide Web site that contains reports, proxy and information statements, and other information regarding registrants that file electronically with the SEC. The address of the site is http://www.sec.gov.

MONOLITHIC POWER SYSTEMS, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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 (the Company) as of December 31, 2002 and 2003 and March 31, 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2003 and for the three months ended March 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 at December 31, 2002 and 2003 and March 31, 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 and for the three months ended March 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11 to the consolidated financial statements, the Company is involved in lawsuits related to alleged patent infringement and alleged misappropriation of trade secrets.

/s/ Deloitte & Touche LLP

San Jose, California
July 9, 2004

MONOLITHIC POWER SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2002	December 31, 2003	March 31, 2004	Unaudited Pro Forma March 31, 2004 (Note 1)
ASSETS				
Current assets:				
Cash and cash equivalents	$ 17,223,494	$ 12,135,409	$ 8,938,591	
Short-term investments	—	1,007,190	1,002,815	
Accounts receivable, net of allowances $50,000 in 2002, $45,000 in 2003 and $28,000 in 2004	1,315,033	4,566,106	2,887,394	
Inventories	1,267,092	1,598,754	2,373,389	
Prepaid expenses and other current assets	263,858	330,013	277,043	
Total current assets	20,069,477	19,637,472	15,479,232	
Property and equipment, net	1,467,936	2,148,891	2,185,135	
Other assets	76,834	29,876	799,784	
Restricted assets	—	787,022	6,056,292	
Total assets	$ 21,614,247	$ 22,603,261	$ 24,520,443	
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	$ 1,590,906	$ 1,792,410	$ 2,154,371	
Accrued compensation and related benefits	395,351	514,635	928,015	
Accrued liabilities	515,469	587,269	1,120,201	
Total current liabilities	2,501,726	2,894,314	4,202,587	
Deferred rent	59,314	64,703	88,069	
Redeemable convertible preferred stock—no par value: 5,300,000 shares authorized in 2002, 2003 and 2004 (aggregate redemption value and aggregate liquidation value of $17,190,344 at December 31, 2002, $18,529,851 at December 31, 2003 and $18,864,728 at March 31, 2004)—Series D shares issued and outstanding: 5,087,767 in 2002, 2003 and 2004 (none pro forma)	17,073,737	18,413,244	18,748,121	$ —
Commitments and contingencies (Notes 10 and 11)				
Stockholders' equity:				
Convertible preferred stock—no par value; 10,548,260 shares authorized in 2002, 2003 and 2004 (aggregate liquidation value of $11,331,604 in 2002, 2003 and 2004):				
Series A shares issued and outstanding: 3,061,846 in 2002, 2003 and 2004 (none pro forma)	1,058,625	1,058,625	1,058,625	—
Series B shares issued and outstanding: 4,261,706 in 2002, 2003 and 2004 (none pro forma)	3,320,653	3,320,653	3,320,653	—
Series C shares issued and outstanding: 3,044,708 in 2002, 2003 and 2004 (none pro forma)	6,783,363	6,783,363	6,783,363	—
Common stock, no par value; shares authorized: 35,800,000 actual and pro forma; shares issued and outstanding: 5,879,875, 6,527,728 and 6,768,782 in 2002, 2003 and 2004, respectively, and 22,224,809 pro forma	2,092,256	13,532,922	23,946,243	53,857,005
Deferred stock compensation	(175,232)	(8,013,344)	(14,937,385)	(14,937,385)
Notes receivable from stockholders	(420,600)	(397,600)	(397,600)	(397,600)
Accumulated other comprehensive income	—	1,693	(3,504)	(3,504)
Accumulated deficit	(10,679,595)	(15,055,312)	(18,288,729)	(18,288,729)
Total stockholders' equity	1,979,470	1,231,000	1,481,666	20,229,787
Total liabilities and stockholders' equity	$ 21,614,247	$ 22,603,261	$ 24,520,443	$ 24,520,443

See notes to consolidated financial statements.

MONOLITHIC POWER SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,			Three Months Ended March 31,	
	2001	2002	2003	2003	2004
				(unaudited)	
Revenues	$ 8,130,355	$12,205,601	$24,204,331	$ 3,256,277	$ 6,795,194
Cost of revenues:					
Product cost	5,968,623	6,824,895	10,749,636	1,865,057	3,064,924
Stock-based compensation	6,175	6,175	180,299	392	207,712
Total cost of revenues	5,974,798	6,831,070	10,929,935	1,865,449	3,272,636
Gross profit	2,155,557	5,374,531	13,274,396	1,390,828	3,522,558
Operating expenses:					
Research and development (excluding stock-based compensation)	2,610,048	4,459,264	5,493,747	1,281,155	1,364,283
Sales and marketing (excluding stock-based compensation)	975,850	1,443,261	2,180,962	464,868	998,839
General and administrative (excluding stock-based compensation)	831,973	997,250	1,732,792	349,795	532,094
Patent litigation	958,540	1,602,416	4,331,861	1,096,729	600,813
Stock-based compensation*	179,921	167,019	2,741,136	148,062	2,950,433
Total operating expenses	5,556,332	8,669,210	16,480,498	3,340,609	6,446,462
Loss from operations	(3,400,775)	(3,294,679)	(3,206,102)	(1,949,781)	(2,923,904)
Other income (expense):					
Interest and other income	111,231	178,609	169,892	75,920	26,415
Interest and other expense	(283,059)	(121,458)	—	—	(1,051)
Total other income (expense), net	(171,828)	57,151	169,892	75,920	25,364
Net loss	(3,572,603)	(3,237,528)	(3,036,210)	(1,873,861)	(2,898,540)
Accretion of redeemable convertible preferred stock	—	446,502	1,339,507	334,877	334,877
Net loss attributable to common stockholders	$(3,572,603)	$ (3,684,030)	$ (4,375,717)	$ (2,208,738)	$ (3,233,417)
Basic and diluted net loss per common share	$ (0.63)	$ (0.63)	$ (0.71)	$ (0.37)	$ (0.50)
Shares used in basic and diluted net loss per common share	5,681,787	5,862,814	6,143,463	6,017,939	6,482,056
Unaudited pro forma basic and diluted net loss per common share (Note 1)			$ (0.20)	$ (0.10)	$ (0.15)
Shares used in unaudited pro forma basic and diluted net loss per common share (Note 1)			21,599,490	21,473,966	21,938,083

* Stock-based compensation has been excluded from the following line items:

Research and development	$ 8,099	$ 6,928	$ 983,356	$ 17,925	$ 1,011,490
Sales and marketing	96,355	90,061	561,839	32,142	935,599
General and administrative	75,467	70,030	1,195,941	97,995	1,003,344
Total	$ 179,921	$ 167,019	$ 2,741,136	$ 148,062	$ 2,950,433

See notes to consolidated financial statements.

MONOLITHIC POWER SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended December 31, 2001, 2002 and 2003 and Three Months Ended March 31, 2004

	Convertible Preferred Stock												
	Series A		Series B		Series C		Common Stock		Deferred Stock Compen-sation	Notes Receivable from Share-holders	Accumulated Deficit	Other Compre-hensive Income/ (Loss)	Total Stock-holder Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount					
Balances, January 1, 2001	3,061,846	$1,058,625	4,261,706	$3,320,653	—	$ —	5,662,500	$1,477,776	$(434,295)	$ (303,000)	$ (3,422,962)	$ —	$ 1,696,797
Issuance of Series C convertible preferred stock (net of issuance costs of $67,230)	—	—	—	—	2,146,664	4,762,763	—	—	—	—	—	—	4,762,763
Conversion of bridge loan to Series C convertible preferred stock	—	—	—	—	898,044	2,020,600	—	—	—	—	—	—	2,020,600
Issuance of Series C convertible preferred stock warrants for services	—	—	—	—	—	—	—	279,379	—	—	—	—	279,379
Issuance of common stock for note receivable	—	—	—	—	—	—	497,000	397,600	—	(397,600)	—	—	—
Cancellation and collection of note receivable from stockholder	—	—	—	—	—	—	(760,000)	(263,000)	—	280,000	—	—	17,000
Exercise of stock options	—	—	—	—	—	—	412,000	291,351	—	—	—	—	291,351
Repurchases of common stock	—	—	—	—	—	—	(184,000)	(147,200)	—	—	—	—	(147,200)
Amortization of deferred stock compensation, net of forfeitures	—	—	—	—	—	—	—	(42,967)	135,188	—	—	—	92,221
Compensation expense for nonemployee stock options granted	—	—	—	—	—	—	—	1,008	—	—	—	—	1,008
Net loss	—	—	—	—	—	—	—	—	—	—	(3,572,603)	—	(3,572,603)
Balances, December 31, 2001	3,061,846	1,058,625	4,261,706	3,320,653	3,044,708	6,783,363	5,627,500	1,993,947	(299,107)	(420,600)	(6,995,565)	—	5,441,316
Exercise of stock options	—	—	—	—	—	—	252,375	48,990	—	—	—	—	48,990
Amortization of deferred stock compensation, net of forfeitures	—	—	—	—	—	—	—	—	123,875	—	—	—	123,875
Compensation expense for non- employee stock options	—	—	—	—	—	—	—	49,319	—	—	—	—	49,319
Accretion of redemption value of Series D preferred stock	—	—	—	—	—	—	—	—	—	—	(446,502)	—	(446,502)
Net loss and comprehensive loss	—	—	—	—	—	—	—	—	—	—	(3,237,528)	—	(3,237,528)
Balances, December 31, 2002	3,061,846	$1,058,625	4,261,706	$3,320,653	3,044,708	$6,783,363	5,879,875	$2,092,256	$(175,232)	$ (420,600)	$ (10,679,595)	$ —	$ 1,979,470

MONOLITHIC POWER SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY—(Continued)
Years Ended December 31, 2001, 2002 and 2003 and Three Months Ended March 31, 2004

	Convertible Preferred Stock												
	Series A		Series B		Series C		Common Stock		Deferred Stock Compen-sation	Notes Receivable from Share-holders	Accumulated Deficit	Other Compre-hensive Income/ (Loss)	Total Stock-holder Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount					
Balances, December 31, 2002	3,061,846	$1,058,625	4,261,706	$3,320,653	3,044,708	$6,783,363	5,879,875	$ 2,092,256	$ (175,232)	$ (420,600)	$(10,679,595)	$ —	$ 1,979,470
Components of comprehensive loss:													
Net loss	—	—	—	—	—	—	—	—	—	—	(3,036,210)	—	(3,036,210)
Unrealized loss on investments	—	—	—	—	—	—	—	—	—	—	—	(6,090)	(6,090)
Foreign exchange gain	—	—	—	—	—	—	—	—	—	—	—	7,783	7,783
Total comprehensive loss													(3,034,517)
Exercise of stock options	—	—	—	—	—	—	647,853	481,584	—	—	—	—	481,584
Issuance of stock options to employees at less than fair market value	—	—	—	—	—	—	—	9,886,560	(9,886,560)	—	—	—	—
Amortization of deferred stock compensation, net of forfeitures	—	—	—	—	—	—	—	—	2,048,448	—	—		2,048,448
Compensation expense for non- employee stock options	—	—	—	—	—	—	—	1,072,522	—	—	—	—	1,072,522
Accretion of redemption value of Series D preferred stock	—	—	—	—	—	—	—	—	—	—	(1,339,507)	—	(1,339,507)
Repayment of stockholder note receivable	—	—	—	—	—	—	—	—	—	23,000	—	—	23,000
Balances, December 31, 2003	3,061,846	1,058,625	4,261,706	3,320,653	3,044,708	6,783,363	6,527,728	13,532,922	(8,013,344)	(397,600)	(15,055,312)	1,693	1,231,000
Components of comprehensive loss:													
Net loss	—	—	—	—	—	—	—	—	—	—	(2,898,540)	—	(2,898,540)
Unrealized loss on investments	—	—	—	—	—	—	—	—	—	—	—	(4,375)	(4,375)
Foreign exchange loss	—	—	—	—	—	—	—	—	—	—	—	(822)	(822)
Total comprehensive loss													(2,903,737)
Exercise of stock options	—	—	—	—	—	—	241,054	165,399	—	—	—	—	165,399
Issuance of stock options to employees at less than fair market value	—	—	—	—	—	—	—	9,776,265	(9,776,265)	—	—	—	—
Amortization of deferred stock compensation, net of forfeitures	—	—	—	—	—	—	—	—	2,852,224	—	—	—	2,852,224
Compensation expense for non- employee stock options	—	—	—	—	—	—	—	391,060	—	—	—	—	391,060
Accretion of redemption value of Series D preferred stock	—	—	—	—	—	—	—	—	—	—	(334,877)	—	(334,877)
Compensation expense from acceleration of option vesting	—	—	—	—	—	—	—	80,597	—	—	—	—	80,597
Balances, March 31, 2004	3,061,846	$1,058,625	4,261,706	$3,320,653	3,044,708	$6,783,363	6,768,782	$23,946,243	$(14,937,385)	$ (397,600)	$(18,288,729)	$ (3,504)	$ 1,481,666

See notes to consolidated financial statements.

MONOLITHIC POWER SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,			Three Months Ended March 31,	
	2001	2002	2003	2003	2004
				(unaudited)	
Cash flows from operating activities:					
Net loss	$ (3,572,603)	$ (3,237,528)	$ (3,036,210)	$ (1,873,861)	$ (2,898,540)
Adjustments to reconcile net loss to net cash used in operating activities:					
Depreciation	316,755	636,240	953,401	232,635	267,037
(Gain) loss on disposal of property and equipment	—	4,365	—	—	—
Amortization of deferred stock compensation and other stock based expense	186,096	172,865	3,120,970	148,454	3,323,881
Amortization of warrants for interest on borrowings	210,760	—	—	—	—
Changes in operating assets and liabilities:					
Accounts receivable	(129,002)	(242,547)	(3,251,073)	(275,887)	1,678,712
Inventories	999,990	(700,505)	(331,662)	482,736	(774,635)
Prepaid expenses and other	(36,394)	(199,669)	(19,197)	(40,340)	(716,938)
Restricted assets	—	—	(787,022)	(689,371)	(5,269,270)
Accounts payable	(577,138)	833,677	201,504	99,899	361,961
Accrued liabilities	238,078	132,836	71,800	150,133	532,932
Accrued compensation and related benefits	8,159	188,097	119,284	(22,965)	413,380
Deferred rent	—	59,314	5,389	767	23,366
Net cash used in operating activities	(2,355,299)	(2,352,855)	(2,952,816)	(1,787,800)	(3,058,114)
Cash flows from investing activities:					
Property and equipment purchases	(492,212)	(1,074,536)	(1,634,348)	(258,619)	(303,281)
Purchase of investments	—	—	(3,503,930)	(8,007,442)	—
Proceeds from sale of investments, net of realized gains	—	—	2,490,642	—	—
Net cash used in investing activities	(492,212)	(1,074,536)	(2,647,636)	(8,266,061)	(303,281)
Cash flows from financing activities:					
Proceeds from issuance of Series C preferred stock, net	4,762,763	—	—	—	—
Proceeds from issuance of Series D preferred stock, net	—	16,627,235	—	—	—
Proceeds (repayment) of notes payable, net	651,368	(651,368)	—	—	—
Proceeds from exercises of stock options	291,351	48,990	481,584	—	165,399
Repurchases of common stock	(147,200)	—	—	—	—
Proceeds from (repayment of) bank line of credit, net	(350,838)	(638,000)	—	—	—
Proceeds from issuance of bridge loan	2,000,000	—	—		—
Proceeds from stockholder notes receivable	—	—	23,000	23,000	—
Net cash provided by financing activities	7,207,444	15,386,857	504,584	23,000	165,399
Cumulative effect of change in exchange rates	—	—	7,783	8	(822)
Net change in cash and cash equivalents	4,359,933	11,959,466	(5,088,085)	(10,030,853)	(3,196,818)
Cash and cash equivalents, beginning of period	904,095	5,264,028	17,223,494	17,223,494	12,135,409
Cash and cash equivalents, end of period	$ 5,264,028	$ 17,223,494	$ 12,135,409	$ 7,192,641	$ 8,938,591
Supplemental disclosures of cash flow information:					
Cash paid for interest	$ 115,785	$ 105,139	$ —	$ —	$ —
Supplemental disclosures of noncash investing and financing activities:					
Deferred stock compensation, net of forfeitures	$ —	$ —	$ 9,886,560	$ 1,556,438	$ 9,776,265
Forgiveness of note receivable and/or interest from stockholders	$ 17,000	$ —	$ 23,458	$ —	$ —
Issuance of common stock in exchange for note receivable	$ 397,600	$ —	$ —	$ —	$ —
Repurchase of common stock and reduction of note receivable	$ 263,000	$ —	$ —	$ —	$ —
Conversion of bridge loan to Series C preferred stock	$ 2,020,600	$ —	$ —	$ —	$ —
Unrealized gain (loss) on short-term investments	$ —	$ —	$ (6,090)	$ (3,670)	$ (4,375)

See notes to consolidated financial statements.

MONOLITHIC POWER SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2001, 2002 and 2003 and Three Months Ended March 31, 2004

1. Summary of Significant Accounting Policies

Business—Monolithic Power Systems, Inc. (the Company) was incorporated in the State of California on August 22, 1997. Monolithic Power Systems is a high performance analog and mixed-signal semiconductor company. The Company designs, develops, and markets proprietary, advanced analog and mixed-signal semiconductors for large and high growth markets. Its semiconductors, or integrated circuits (ICs), are used in a variety of electronic products, such as notebook computers, flat panel displays, cellular handsets, digital cameras, wireless local area network (LAN) access points, home entertainment systems, and personal digital assistants. The Company's integrated circuits are used to perform functions such as lighting electronic displays, converting or controlling voltages within systems, and amplifying sound. The Company differentiates its integrated circuits by offering solutions that are more highly-integrated, smaller in size, more energy efficient, more accurate with respect to performance specifications, and, accordingly, more cost-effective than many competing solutions.

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.

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 revenues 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, and accounts receivable. The Company's cash and cash equivalents consist of checking and savings accounts. 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 and analyzes the allowance for uncollectible accounts.

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: ability to obtain future financing; 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 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 a competitor (see Note 11).

Cash Equivalents—The Company classifies all investments in highly liquid debt instruments with maturities at the date of purchase of three months or less as cash equivalents.

MONOLITHIC POWER SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
Years Ended December 31, 2001, 2002 and 2003 and Three Months Ended March 31, 2004

Investments—The Company has classified all of its investment portfolio as "available-for-sale securities." Investments that are classified as "available-for-sale securities" are reported at market value, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity. Net realized investment gains or losses are recognized based upon the specific identification of investments sold. Gross realized gains and (gross realized losses) on those sales were $9,350 and $(0) and $0 and $(0), respectively, for fiscal 2003 and for the three months ended March 31, 2004. The Company had no investments in 2002.

Fair Value of Financial Instruments—The Company's financial instruments include cash equivalents and short-term investments. Cash equivalents are stated at cost which approximates fair market value based on quoted market prices. Short-term investments are stated at their fair market value. (see Note 2)

Inventories—The Company values its inventory at the lower of the actual costs of its inventory (first-in, first-out method) or its current estimated market value. The Company writes down inventory for obsolescence or unmarketable inventories based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

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. Software is depreciated over one to three years, depending on the nature of the software.

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 deferred offering costs that will be reclassified to equity upon completion of the Company's initial public offering, and long-term lease deposits.

Restricted Assets—Restricted assets consist of cash placed in certificate of deposit accounts with a Court in Taiwan in conjunction with the current patent litigation (see Note 11).

Revenue Recognition—The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable and collectibility is reasonably assured. Generally, this occurs at the time of shipment when risk of loss and title has passed to the customer. The majority of the Company's sales are made through distribution arrangements with third parties that permit the third parties limited product returns rights. The Company has not experienced any significant returns pursuant to these provisions. The Company provides a standard 90-day warranty against defects in materials and workmanship and will either repair the goods, provide replacements at no charge to the customer, or refund amounts to the customer for defective goods. Estimated sales returns and warranty costs, based on historical experience by product, are recorded at the time product revenue is recognized. The Company had one third party with whom it had a distribution arrangement with extended payment terms; however, the

MONOLITHIC POWER SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
Years Ended December 31, 2001, 2002 and 2003 and Three Months Ended March 31, 2004

Company discontinued using this third party in March 2004. Revenue for this third party with whom it had a distribution arrangement was recognized on a sell-through basis, when the goods were shipped by the third party to the end customer. This third party did not typically stock an inventory of the Company's products.

Consideration Given to Customers—The Company has granted 100,000 stock options to a non-employee in connection with a distribution arrangement in 2003. The fair value of the options is being recorded as a non-cash reduction of revenue in accordance with Emerging Issues Task Force Issue No. 01-9, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)*, over the term of the four-year contract term. Contra-revenue was none, none, $200,407 and $165,087 in 2001, 2002, 2003, and the three month period ended March 31, 2004, respectively. Based on the current fair value of the Company's common stock at March 31, 2004, approximately $0.7 million of future charges will be recorded against revenues during the remainder of 2004 through 2007. The ultimate amount of this charge each year will vary depending on changes in the fair value of the Company's common stock.

Stock-Based Compensation—The Company accounts for stock-based awards to employees using the intrinsic value method in accordance with Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* and its interpretations. The Company accounts for stock-based compensation related to equity instruments issued to nonemployees in accordance with Emerging Issues Task Force No. 96-18, *Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring or in Conjunction with Selling Goods or Services* and Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*. Had the Company accounted for employee stock-based compensation in accordance with SFAS No. 123 using the fair value method, results would have been as follows:

	Years Ended December 31,			Three Months Ended March 31, 2003	Three Months Ended March 31, 2004
	2001	2002	2003		
Net loss, as reported	$(3,572,603)	$(3,237,528)	$(3,036,210)	$ (1,873,861)	$ (2,898,540)
Add stock-based compensation included in reported net loss	135,188	123,875	2,048,448	64,063	2,852,224
Less stock-based compensation expense determined under the fair value method for all awards	(178,735)	(212,251)	(2,151,551)	(124,229)	(7,641,830)
Pro forma net loss	$(3,616,150)	$(3,325,904)	$(3,139,313)	$ (1,934,027)	$ (7,688,146)
Basic and diluted loss per share:					
As reported	$ (0.63)	$ (0.63)	$ (0.71)	$ (0.37)	$ (0.50)
Pro forma	$ (0.63)	$ (0.64)	$ (0.73)	$ (0.38)	$ (1.24)

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

MONOLITHIC POWER SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
Years Ended December 31, 2001, 2002 and 2003 and Three Months Ended March 31, 2004

Income Taxes—The Company accounts for income taxes under an asset and liability approach. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and operating loss and tax credit carryforwards measured by applying currently enacted tax laws. Valuation allowances are provided when necessary to reduce net deferred tax assets to an amount that is more likely than not to be realized.

Patent Costs—Costs incurred in registering and defending the Company's patents and other proprietary rights are charged to operations as incurred.

Foreign Currency—The functional currency of the Company's foreign subsidiaries is the U.S. dollar. Transaction and remeasurement gains and losses were not significant for any of the periods presented.

Loss per Common Share—Basic loss per common share excludes dilution and is computed by dividing loss attributable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted loss per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Common share equivalents are excluded from the computation in loss periods as their effect would be antidilutive.

Unaudited Pro Forma Information—The pro forma balance sheet information assumes the conversion upon the closing of an initial public offering of each share of preferred stock to one share of common stock had actually occurred at March 31, 2004. Estimated proceeds from the common shares to be issued as a result of such initial public offering are excluded.

Pro Forma Net Loss per Common Share—Pro forma basic and diluted loss per common share is computed by dividing loss attributable to common stockholders by the weighted average number of shares outstanding for the period and the weighted average number of common shares resulting from the assumed conversion of outstanding shares of convertible preferred stock at the beginning of 2003.

Comprehensive Loss—SFAS No. 130, *Reporting Comprehensive Income*, requires an enterprise to report, by major components and as a single total, the change in its net assets during the period from nonowner sources. Comprehensive loss includes unrealized losses on investments and foreign exchange gains (losses) for the year ended December 31, 2003 and the three months ended March 31, 2004. Comprehensive loss was the same as net loss for the years ended December 31, 2001 and 2002.

New Accounting Standards—In November 2002, the FASB issued FASB Interpretation No. 45 Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN 45). FIN 45 requires the guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. It also elaborates on the disclosures to be made by a guarantor in its financial statements about its obligations under certain guarantees that it has issued and to be made in regard of product warranties. The adoption of FIN 45 did not to have a material effect on the Company's consolidated financial statements (see Note 10).

MONOLITHIC POWER SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
Years Ended December 31, 2001, 2002 and 2003 and Three Months Ended March 31, 2004

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure*. This statement amends SFAS No. 123, *Accounting for Stock-Based Compensation*, to provide alternative methods of transition to SFAS No. 123's fair value method of accounting for stock-based employee compensation. This statement also amends the disclosure provision of SFAS No. 123 and APB No. 28, *Interim Financial Reporting*, to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. The Company has elected to continue accounting for employee stock option plans according to APB No. 25 and has adopted the disclosure requirements under SFAS No. 148 commencing on December 31, 2002.

In December 2002, the EITF reached a consensus on EITF Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*. This Issue addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. In some arrangements, the different revenue-generating activities (deliverables) are sufficiently separable and there exists sufficient evidence of their fair values to separately account for some or all of the deliveries (that is, there are separate units of accounting). In other arrangements, some or all of the deliveries are not independently functional, or there is not sufficient evidence of their fair values to account for them separately. This Issue addresses when, and if so, how an arrangement involving multiple deliverables should be divided into separate units of accounting. This Issue does not change otherwise applicable revenue recognition criteria. The guidance in this Issue is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The adoption of EITF 00-21 did not have a material effect on the Company's consolidated financial statements.

The Financial Accounting Standards Board (FASB) issued Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities*, in January 2003, and a revised interpretation of FIN 46 (FIN 46-R) in December 2003. FIN 46 requires certain variable interest entities (VIEs) to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The provisions of FIN 46 are effective immediately for all arrangements entered into after January 31, 2003. Since January 31, 2003, the Company has not invested in any entities it believes are variable interest entities for which the Company is the primary beneficiary. For all arrangements entered into after January 31, 2003, the Company is required to continue to apply FIN 46 through the end of the first quarter of fiscal 2004. The Company is required to adopt the provisions of FIN 46-R for those arrangements in the second quarter of fiscal 2004. For arrangements entered into prior to February 1, 2003, the Company is required to adopt the provisions of FIN 46-R in the second quarter of fiscal 2004. The Company does not expect the adoption of FIN 46-R to have an impact on the financial position, results of operations or cash flows of the Company.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. SFAS 150 is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of the statement and still existing at

MONOLITHIC POWER SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
Years Ended December 31, 2001, 2002 and 2003 and Three Months Ended March 31, 2004

the beginning of the interim period of adoption. The adoption of SFAS 150 did not have a material effect on the Company's consolidated financial statements.

In December 2003, the SEC issued Staff Accounting Bulletin No. 104 (SAB 104), *Revenue Recognition*. SAB 104 updates portions of existing interpretative guidance in order to make this guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulations. The adoption of SAB 104 did not have a material effect on the Company's consolidated financial statements.

2. Investments

Investments, carried in the accompanying balance sheets at estimated market value, consist of the following:

	December 31, 2003			
	Cost or Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Market Value
U.S. government and agency obligations	$ 1,013,280	$ 315	$ (6,405)	$ 1,007,190
Total debt securities	1,013,280	315	(6,405)	1,007,190
Equity securities	—	—	—	—
Total investments	$ 1,013,280	$ 315	$ (6,405)	$ 1,007,190

	March 31, 2004			
	Cost or Amortized cost	Unrealized Gains	Unrealized Losses	Estimated Market Value
U.S. government and agency obligations	$ 1,013,280	$ 625	$ (11,090)	$ 1,002,815
Total debt securities	1,013,280	625	(11,090)	1,002,815
Equity securities	—	—	—	—
Total investments	$ 1,013,280	$ 625	$ (11,090)	$ 1,002,815

The amortized cost and estimated market value of investments, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities.

	December 31, 2003		March 31, 2004	
	Amortized Cost	Estimated Market Value	Amortized Cost	Estimated Market Value
Due in 1 year or less	$ 1,013,280	$ 1,007,190	$ 1,013,280	$ 1,002,815
Total	$ 1,013,280	$ 1,007,190	$ 1,013,280	$ 1,002,815

Gross realized gains and (losses) on sales of fixed maturity securities in 2003 were $9,350 and $(0), respectively. There were no realized gains or losses in the three months ended March 31, 2004. The Company held no short-term investments at December 31, 2002.

MONOLITHIC POWER SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
Years Ended December 31, 2001, 2002 and 2003 and Three Months Ended March 31, 2004

At December 31, 2003 and March 31, 2004, a short-term investment in a corporate bond is temporarily impaired by $6,405 and $11,090, respectively. The impairment was caused by fluctuations in the market price of the instrument. The Company held the bond until its maturity in May 2004, at which time it was redeemed at its par value.

3. Inventories

Inventories consist of the following:

	December 31,		March 31,
	2002	2003	2004
Raw materials	$ 70,417	$ —	$ —
Work in progress	1,011,164	1,025,947	1,146,552
Finished goods	185,511	572,807	1,226,837
Total inventories	$ 1,267,092	$ 1,598,754	$ 2,373,389

4. Property and Equipment

Property and equipment consist of the following:

	December 31,		March 31,
	2002	2003	2004
Computers, software and equipment	$ 2,547,867	$ 4,240,362	$ 4,504,446
Furniture and fixtures	81,069	98,475	138,876
Total	2,628,936	4,338,837	4,643,322
Less accumulated depreciation	(1,161,000)	(2,189,946)	(2,458,187)
Property and equipment, net	$ 1,467,936	$ 2,148,891	$ 2,185,135

5. Accrued Liabilities

Accrued liabilities consist of the following:

	December 31,		March 31,
	2002	2003	2004
Warranty reserves (see Note 10)	$ 176,275	$ 120,000	$ 120,000
Legal fees	162,891	161,027	554,273
Other	176,303	306,242	445,928
Total accrued liabilities	$ 515,469	$ 587,269	$ 1,120,201

6. Redeemable Convertible Preferred Stock

In August 2002, the Company issued 5,087,767 shares of Series D redeemable convertible preferred stock for cash proceeds of $16,627,235, net of issuance costs of $116,606.

MONOLITHIC POWER SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
Years Ended December 31, 2001, 2002 and 2003 and Three Months Ended March 31, 2004

Significant terms of the Series D preferred stock are:

- In the event of liquidation, dissolution or winding up of the Company, the holders of Series D preferred stock shall be entitled to receive prior and in preference to any distributions to holders of Series A, B, or C preferred stock and common stock, $3.291 per share, plus $0.26328 per share, divided by twelve months, multiplied by the number of months elapsed since the original issue date, plus any declared but unpaid dividends. The liquidation preference is subject to adjustment depending on the aggregate amount of a liquidation event. Following distribution of stated liquidation preference to the holders of Series A, B, and C convertible preferred stock, any remaining distributable assets of the Company would be distributed among the holders of Series A, B, C, and D convertible preferred and common stockholders on a pro rata basis.
- Commencing five years from the date of original issuance, upon written request by a majority of the holders of the then outstanding Series D shares, Series D preferred stock shall be redeemed in accordance with certain provisions over a period not to exceed 26 months. The redemption value of Series D preferred stock is equal to $3.291 per share, plus $0.26328 per share, divided by 12 months, multiplied by the number of months elapsed since original issuance, plus any declared and unpaid dividends. Redemption value is being accreted over the redemption period.
- The holders of the redeemable convertible preferred stock have voting rights equivalent to the number of shares of common stock into which they are convertible. The holders of redeemable convertible preferred stock are entitled to receive in preference to any distribution of dividends to the common stockholders, dividends only upon declaration by the Company's Board of Directors at the rate of $0.263 per annum per share. As of March 31, 2004, no dividends on preferred or common stock have been declared by the Board of Directors.
- Each share of redeemable convertible preferred stock is convertible at any time into one share of common stock at the option of the holder, subject to adjustment to protect against dilution. The Company can be required to convert the redeemable convertible preferred stock into common stock at the consent of at least 75% of the outstanding convertible preferred stockholders, voting together as a single class. Each share of convertible preferred stock automatically converts into common stock upon the closing of the sale of the Company's common stock in a public offering with an aggregate offering price of not less than $25,000,000.

Changes in Series D preferred stock are as follows:

	Series D
Issuance of Series D in 2002	$ 16,627,235
Accretion of redemption value	446,502
Balance, December 31, 2002	17,073,737
Accretion of redemption value	1,339,507
Balance, December 31, 2003	18,413,244
Accretion of redemption value	334,877
Balance, March 31, 2004	$ 18,748,121

MONOLITHIC POWER SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
Years Ended December 31, 2001, 2002 and 2003 and Three Months Ended March 31, 2004

7. Stockholders' Equity

Convertible Preferred Stock

During 1997, the Company issued 2,225,702 shares of Series A convertible preferred stock for $765,975, net of issuance costs of $13,021. In December 1998, 836,144 warrants to purchase Series A convertible preferred stock at $0.35 per share for $292,650 were exercised.

During 1999, the Company issued 4,261,706 shares of Series B convertible preferred stock for $3,320,653, net of issuance costs of $32,682. In August 2000, the Company issued warrants in connection with obtaining a revolving line of credit to purchase 60,000 shares of Series B convertible preferred stock at $0.80 per share. The warrant expires on August 2, 2005. The fair value of the warrant at the date of issuance was estimated using the Black-Scholes option pricing model with the following assumptions: risk free rate of return 4.9%; contractual life of five years; and expected volatility of 75%. The value was deemed to be $31,000 and was amortized to interest expense over the term of the revolving line of credit. The warrants are outstanding as of March 31, 2004.

In March 2001, in connection with a bridge loan, the Company issued warrants to purchase 120,000 shares of the Company's Series C convertible preferred stock for $2.25 per share for a five year term. The fair value of the warrants of $172,077 was determined using the Black-Scholes option pricing model over the contractual term of the warrants using the following assumptions: stock volatility, 75%; risk free interest rate, 4.0% and no dividends during the contractual term. The fair value of the warrants was amortized to income over the term of the bridge loan. The bridge loan and associated accrued interest were converted on May 16, 2001 into 898,044 shares of Series C convertible preferred stock at a price of $2.25 per share for an aggregate purchase price of $2,000,000 and $20,600 representing principal and interest, respectively.

In May 2001, the Company issued 2,146,664 shares of Series C convertible preferred stock for $4,762,763, net of issuance costs of $67,230.

In December 2001, the Company authorized a warrant to purchase 33,718 shares of Series C convertible preferred stock at $2.25 per share in connection with legal services. The fair value of the warrant at the date of issuance was $107,302, determined based on the fair value of the services received, and has been amortized to expense over the agreement period. In August 2002, the Company issued warrants to purchase 33,718 shares of common stock at $1.20 per share that effectively replace the warrant authorized by the Board of Directors in 2001. The Company has determined that the original value recorded in 2001 represents the fair value of consideration received and no additional expense was recorded in 2002. The warrants were fully vested upon issuance, expire in 2009 and are outstanding as of March 31, 2004.

At March 31, 2004, the rights, preferences and privileges of the holders of convertible preferred stock are as follows:

- The holders of the convertible preferred stock have voting rights equivalent to the number of shares of common stock into which they are convertible. The holders of convertible preferred stock are entitled to receive in preference to any distribution of dividends to the common stockholders, dividends only upon declaration by the Company's Board of Directors at the rate of $0.03, $0.08, $0.225 and $0.263 per annum per share for Series A, B, C, and D convertible preferred stock, respectively. As of March 31, 2004, no dividends on preferred or common stock have been declared by the Board of Directors.

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- Each share of convertible preferred stock is convertible at any time into one share of common stock at the option of the holder, subject to adjustment to protect against dilution. The Company can be required to convert the convertible preferred stock into common stock at the consent of at least 75% of the outstanding convertible preferred stockholders, voting together as a single class. Each share of convertible preferred stock automatically converts into common stock upon the closing of the sale of the Company's common stock in a public offering with an aggregate offering price of not less than $25,000,000.
- Upon completion of distributions to holders of Series D preferred stock, the holders of Series A, B and C convertible preferred stock are entitled to receive $0.35, $0.80 and $2.25 per share, respectively, as well as any declared but unpaid dividends on each share, prior to distribution to the holders of common stock. Any remaining distributable assets of the Company would be distributed among the holders of Series A, B, C and D convertible preferred and common stockholders on a pro rata basis.

Common 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 termination of the employees, the Company has the right to repurchase the common stock at the original issuance price. The repurchase right expires over a 48 month period. At December 31, 2002, 2003 and March 31, 2004, there were 203,292, 243,083 and 209,833 shares, respectively, subject to repurchase.

In 2000 and 2001, the Company sold shares of common stock to certain employees and investors and accepted as payment a note receivable from the individuals due in four years from the date of issuance. The notes are guaranteed by the individuals, bear interest at 5.9% per year compounded annually, and are classified as stockholder notes receivable in the stockholders' equity section of the balance sheets. During 2001, certain of these shares were repurchased by the Company and the related receivable was cancelled. In addition, during 2001 the Company forgave the note receivable from one of its investors and recorded the cancellation of the note as stock-based compensation in the amount of $17,000. The remaining note of $397,600 as of March 31, 2004 is due March 14, 2006.

Stock Option Plan

Under the Company's 1998 Stock Option Plan (the Plan), the Company may grant options to purchase up to 9,807,024 shares of common stock to employees, directors and consultants. The Plan provides for the granting of incentive stock options at a per share price of not less than 100% of the fair market value of the underlying stock at the grant date. Nonstatutory stock options may be granted at a per share price of not less than 85% of the fair market value of the underlying stock at the date of grant. However, if incentive stock options or nonstatutory stock options are granted to an employee, director or consultant who, at the time of grant, owns stock representing more than 10% of the voting power of all classes of stock, the exercise price per share shall be no less than 110% of the fair market value of the underlying stock on the date of grant.

Options granted to employees generally vest over one to four years and expire ten years after the grant date, subject to the employee's continuous employment status. Options may be exercised at any time as to shares which have not yet vested, with unvested shares subject to repurchase rights by the Company.

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A summary of activity under the Plan is as follows:

	Outstanding Options	
	Number of Shares	Weighted Average Exercise Price
Balances, January 1, 2001 (173,124 shares vested at $0.40 per share)	1,816,000	$ 0.40
Granted (weighted average fair value of $0.10 per share)	1,226,500	0.80
Canceled	(308,000)	0.80
Exercised	(909,000)	0.80
Balances, December 31, 2001 (594,163 shares vested at $0.29 per share)	1,825,500	0.43
Granted (weighted average fair value of $0.15 per share)	2,615,500	1.13
Canceled	(117,000)	0.93
Exercised	(252,375)	0.19
Balances, December 31, 2002 (882,964 shares vested at $0.45 per share)	4,071,625	0.88
Granted (weighted average fair value of $5.81 per share)	1,988,100	1.20
Canceled	(346,022)	0.98
Exercised	(647,853)	0.74
Balances, December 31, 2003 (1,666,369 shares vested at $0.73 per share)	5,065,850	1.01
Granted (weighted average fair value of $7.57 per share)	1,828,000	5.64
Canceled	(182,862)	0.66
Exercised	(241,054)	0.69
Balances, March 31, 2004	6,469,934	$ 2.34

At March 31, 2004, 1,257,308 shares were available for future grant.

The following table summarizes information as of March 31, 2004 concerning outstanding and vested options:

Options Outstanding				Options Vested	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Vested	Weighted Average Exercise Price
$0.05	25,000	5.12	$ 0.05	25,000	$ 0.05
0.08	347,084	6.19	0.08	347,084	0.08
0.80	899,583	7.31	0.80	330,355	0.80
1.20	2,970,267	8.62	1.20	461,596	1.20
1.32	400,000	8.30	1.32	166,666	1.32
5.00	1,595,500	9.81	5.00	550,000	5.00
10.00	232,500	9.95	10.00	—	10.00
$0.05-$10.00	6,469,934	8.61	$ 2.34	1,880,701	$ 2.03

Additional Stock Plan Information

As discussed in Note 1, the Company accounts for its stock-based awards using the intrinsic value method in accordance with APB Opinion No. 25, *Accounting for Stock Issued to Employees* and its related interpretations.

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SFAS No. 123, *Accounting for Stock-Based Compensation*, requires the disclosure of pro forma net loss had the Company adopted the fair value method. Under SFAS 123, the fair value of stock-based awards to employees is calculated through the use of option pricing models, even though such models were developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differ from the Company's stock option awards. These models also require subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values.

The Company's fair value calculations on stock-based awards under the 1998 Stock Plan were made using the Black-Scholes option pricing model with the following weighted average assumptions: expected life, four years from date of grant in 2001, 2002, 2003 and 2004; stock volatility 0% in 2001, 2002, 2003 and 2004; average risk free interest rate of 3.5% in 2001 and 3.5% in 2002 and 2.6% in 2003 and 4.4% in 2004; and no dividends during the expected term. The Company's calculations are based on a multiple award option valuation approach and forfeitures are recognized as they occur (see Note 1).

At March 31, 2004, the Company had reserved shares of common stock for issuance as follows:

Conversion of outstanding preferred stock	15,456,027
Issuance under stock option plan	7,727,242
Exercise of warrants	213,718
Total	23,396,987

In February 2004, the Board of Directors approved, subject to stockholder approval, the reincorporation of the Company in the State of Delaware and the following:

- Adoption of the Company's 2004 Equity Incentive Plan (the 2004 Plan) and 2004 Employee Stock Purchase Plan (the ESPP)
- Modification of the Company's Articles of Incorporation to authorize 5,000,000 and 150,000,000 shares of preferred and common stock, respectively, for issuance.

These events will become effective in connection with the Company's initial public offering.

Future options and other equity awards will be granted under the 2004 Plan and no further awards will be granted under the 1998 Stock Plan. A total of 800,000 shares have been reserved for issuance under the 2004 Plan, in addition to shares reserved but not issued under the 1998 Plan as of the effective date of the initial public offering and any shares returned to the 1998 Plan after the effective date of the offering as the result of termination of options or the repurchase of unvested shares issued thereunder. The 2004 Plan also 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 ESPP becomes effective upon the closing of the Company's initial public offering. Under the ESPP, 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

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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 are reserved for issuance under the ESPP plus 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 determined by the Board of Directors.

Deferred Stock Compensation

As discussed in Note 1, the Company accounts for its stock-based awards to employees using the intrinsic value method in accordance with APB No. 25. Accordingly, the Company records deferred stock compensation equal to the difference between the grant price and deemed fair value of the Company's common stock on the date of grant. The deferred stock compensation is reduced by forfeitures of unvested common stock options. Such net deferred stock compensation was none, none, $9,886,560 and $9,776,265 in 2001, 2002, 2003 and 2004, respectively, and is being amortized to expense over the vesting period of the options, generally four years, using the multiple option award method. Amortization of deferred stock compensation is presented net of forfeitures of unvested previously amortized stock compensation. Amortization of deferred stock compensation, net of forfeitures was $135,188, $123,875, $2,048,448 and $2,852,224 in 2001, 2002, 2003 and 2004, respectively.

During 2001, 2002, 2003 and the three months ended March 31, 2004, the Company issued nonstatutory options to nonemployees for the purchase of 6,000, 90,000, 169,000 and 32,000 shares of common stock at weighted average exercise prices of $0.80, $1.07, $1.20 and $5.00 per share, respectively. Such options were issued for services provided by nonemployees and have vesting terms ranging from 4 months to 4 years. Accordingly, the Company recorded $1,008, $49,319, $1,072,522 and $391,060 respectively, as stock-based compensation for the fair values of the awards (using the Black-Scholes option pricing model with the following weighted average assumptions: expected life, ten years from date of grant; stock volatility 75%, 100%, 65% and 65% in 2001, 2002, 2003 and 2004, respectively; risk free interest rate, 5.2% in 2001, 5.3% in 2002, 4.4% in 2003 and 4.5% in 2004; and no dividends during the term).

8. Net Loss Per Share

For the years ended December 31, 2001, and 2002 and 2003 and the three months ended March 31, 2004, the Company had securities outstanding which could potentially dilute basic earnings per share in the future, but were excluded in the computation of diluted net loss per share in the periods presented, as their effect would have been antidilutive. Such outstanding securities consist of the following:

	December 31,			March 31,
	2001	2002	2003	2004
Convertible preferred stock	10,368,260	10,368,260	10,368,260	10,368,260
Redeemable convertible preferred stock	—	5,087,767	5,087,767	5,087,767
Stock options	1,825,500	4,071,625	5,065,850	6,469,934
Warrants	213,718	213,718	213,718	213,718
Total	12,407,478	19,741,370	20,735,595	22,139,679

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9. Income Taxes

Income tax expense for the years ended December 31, 2001, 2002 and 2003 and the three months ended March 31, 2004 consisted solely of minimum state income or franchise taxes.

The components of deferred income taxes are as follows:

	December 31,		March 31,
	2002	2003	2004
Net operating loss carryforwards	$ 2,972,000	$ 2,703,000	$ 2,525,000
Research and business tax credits	674,000	1,093,000	1,270,000
Other costs not currently deductible	546,000	998,000	1,052,000
	4,192,000	4,794,000	4,847,000
Valuation allowance	(4,192,000)	(4,794,000)	(4,847,000)
Net deferred tax assets	$ —	$ —	$ —

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

	December 31,			March 31,
	2001	2002	2003	2004
U.S. statutory federal tax rate	(35.0)%	(35.0)%	(35.0)%	(35.0)%
State taxes, net of federal benefit	(9.5)	(0.2)	(1.4)	(0.8)
Research and development credits	(2.2)	(6.3)	(5.4)	(1.4)
Deferred compensation	—	—	23.7	35.4
Other	(0.3)	11.2	(1.7)	—
Change in valuation allowance	47	30.3	19.8	1.8
Effective tax rate	0 %	0 %	0 %	0 %

The net change in the total allowance for the year ended December 31, 2003 and for the three months ended March 31, 2004 was $602,000 and $53,000, respectively. The increase in the valuation allowance was primarily a result of increased tax credit carryforwards generated in 2003 and 2004 against which the Company provided a full valuation allowance based on the Company's evaluation that the realization of future tax benefits resulting from the deferred tax assets was not reasonably assured.

As of March 31,2004, the Company had available for carryforward net operating losses for federal and state income tax purposes of approximately $7.1 million and $0.9 million, respectively. Federal net operating loss carryforwards will begin expiring if not utilized by 2012. State net operating loss carryforwards begin expiring if not utilized by 2005.

As of March 31,2004, the Company had available for carryforward research and business tax credits for federal and state income tax purposes of approximately $720,000 and $600,000, respectively. Federal research and experimentation tax credit carryforwards begin expiring if not utilized by 2012. The Company also had $80,000 in California manufacturer's investment credits which begin expiring if not utilized by 2010.

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Current federal and California tax laws include substantial restrictions on the utilization of net operating losses and tax credits in the event of an "ownership change" of a corporation. Accordingly, the Company's ability to utilize net operating loss and tax credit carryforwards may be limited as a result of such "ownership change" as defined. Such a limitation could result in the expiration of carryforwards before they are utilized.

10. Commitments

Lease Obligations

The Company leases its headquarters and sales offices under noncancelable operating leases which expire at various dates through 2009. Certain of the Company's facility leases provide for periodic rent increases. In October 2003, the Company amended its existing facility lease to move to an adjacent facility and extend the lease term from 2007 to 2009. The Company moved to the new facility in February 2004 with lease payments under the new terms beginning in March 2004. Total obligations under the revised lease are included below. Rent expense for the years ended December 31, 2001, 2002 and 2003 and for the three months ended March 31, 2004 was $217,127, $370,515, $432,216 and $154,061, respectively. Subsequent to March 31, 2004, the Company entered into a second lease amendment to increase the space available under its facility lease. Payments under the new agreement are included in the table below.

The following is a schedule by year and in the aggregate of future minimum lease payments under noncancelable operating leases having initial or remaining terms in excess of one year at March 31, 2004:

Remainder of 2004	$ 452,879
2005	674,408
2006	574,905
2007	608,354
2008	640,660
Thereafter	107,674
Total	$ 3,058,880

Warranty

The Company provides a standard 90-day 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.

The changes in warranty reserves during 2002, 2003 and the three months ended March 31, 2004 are as follows:

	2002	2003	March 31, 2004
Balance at beginning of year	$ 165,254	$ 176,275	$ 120,000
Warranty payments made	(116,398)	(312,249)	—
Product warranty issued for new sales	127,419	255,974	—
Balance at end of year	$ 176,275	$ 120,000	$ 120,000

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Purchase Commitment

The Company has outsourced the production of wafers to a third party foundry. The agreement with the foundry provides for three-month production forecasts. The Company is committed to purchase any wafers under a three-month production forecast, once production has begun. As of December 31, 2003 and March 31, 2004 these purchase commitments were $1,541,189 and $957,310, respectively.

Indemnification

The Company has standard indemnification provisions which it commonly provides to its vendors, customers, parties with whom it has distribution arrangements and contractors. The indemnification provision provides that the Company's products and technologies do not infringe on any third parties' intellectual property rights. The Company agrees to reimburse these related 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 costs are charged to operations as incurred (also see Note 11). The Company also provides for indemnification of its directors and officers.

11. Litigation

Legal Proceedings

O2 Micro

Overview. Since November 2000 the Company has been engaged in multiple legal proceedings against O2 Micro, Inc. ("O2 Micro") and its parent corporation, O2 Micro International Limited ("O2 International"). O2 Micro and O2 International are referred to together as "O2." These proceedings involve various claims and counterclaims in the United States and Taiwan by the Company and O2 alleging patent infringements and misappropriation of trade secrets. O2 has also sued a number of other companies in the U.S. and Taiwan for patent infringement, including purchasers and/or users of certain of the Company's products. All of these legal proceedings are complex and pose various degrees of risk to the Company and its business.

Regardless of the extent to which these legal actions have been successful or not successful, the legal expenses associated with the various actions in the U.S. and Taiwan have been very high and have had a significant impact on the Company's financial position and results of operations. Please read "Management's Discussion and Analysis of Financial Position and Results of Operations" for more detail on the financial impact these legal actions have had on the Company.

Patents at Issue. The various litigations arise from patents issued to O2 and the Company covering products that compete with each other.

The Company's Patents. The Company's patents at issue are (i) U.S. Patent No. 6,114,814, issued to the Company on November 5, 2000 and relating to inverter power supplies for LCD display products ("the '814 patent") and (ii) U.S. Patent No. 6,316,881 ("the '881 patent"), a continuation of the '814 patent that issued to the Company on November 13, 2001.

O2's Patents. The O2 patents at issue are (i) U.S. Patent No. 6,259,615 B1 issued to O2 International on July 10, 2001 and also relating to inverter power supplies for LCD display products

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("the '615 patent"), (ii) U.S. Patent No. 6,396,722 ("the '722 patent"), a continuation of the '615 patent that issued to O2 on May 28, 2002, and (iii) Taiwan Patent No. 152318 issued to O2 International on March 1, 2002, which is a counterpart to the '615 patent ("the '318 patent"). O2's original applications for its U.S. '615 patent and its Taiwan '318 patent were substantially similar, but some of 02's claims contained in the '318 patent were rejected by the U.S. Patent and Trademark Office and accordingly the U.S. patent was narrowed significantly before issuance. The Taiwan patent, however, was not similarly narrowed and was issued in the broader form originally requested.

U.S. Litigation. Various U.S. lawsuits between the Company and O2 have been consolidated in the U.S. District Court for the Northern District of California. O2 has (i) claimed that the Company interfered with O2's prospective economic advantage and disrupted O2's customer relationships by misrepresenting the scope of the Company's '814 patent, (ii) asked the court to declare that O2 does not infringe the Company's '814 patent and that the Company's '814 patent is invalid, (iii) claimed that the Company's products infringe its '615 patent, and (iv) claimed that the Company misappropriated its trade secrets. The Company has (i) claimed that O2's products infringe the Company's '814 and '881 patents and (ii) asked the court to declare that O2's '615 patent is invalid or not enforceable or that the Company's products do not infringe O2's '615 patent. Each party denied the allegations in the other party's complaints and sought damages and an injunction prohibiting the other party from selling its products.

In February 2004 and May 2004, the court ruled on these matters as follows: (i) granting summary judgment for the Company that its products do not infringe the '615 patent, (ii) dismissing O2's claim that the Company interfered with O2's economic advantage, (iii) denying O2's motion for summary judgment that O2's products do not infringe the Company's '814 and '881 patents or that those patents are invalid, and (iv) denying both parties' motions for summary judgment on O2's trade secret claims. The Company expects O2 to eventually appeal one or more of these rulings to the U.S. Court of Appeals for the Federal Circuit. O2 could wait to file any such appeal until conclusion of the trial or could ask the trial judge to allow an earlier appeal prior to the trial.

The claims remaining after these rulings include (i) O2's trade secret claims and (ii) the Company's infringement claims for injunctive relief only and not for damages. Trial on these matters is scheduled for August 2004. While the Company believes that its '814 and '881 patents are valid and that it has not misappropriated any of O2's trade secrets, a court could find differently. If the court finds that the Company's '814 and '881 patents are invalid, the Company's competitive position would be severely harmed. If the court finds that the Company has misappropriated O2's trade secrets, it could be liable for damages to O2 and/or be enjoined from further misappropriation or use of the alleged trade secrets. Any award of damages could have a material adverse effect on the Company's financial position and operating results.

In addition, if O2 appeals the rulings in the Company's favor, the Company will at a minimum continue to incur substantial legal expense contesting any such appeal. If O2 were to be successful on any such appeals, O2's claims would be remanded for trial. If the court in any such trial were to find that the Company's products infringe the '615 patent, the Company could be liable to O2 for damages and could be enjoined from selling its products in the U.S. Any such injunction would have a material adverse effect on the Company's business and results of operations, at least for several quarters and possibly for a much longer period of time, depending on the extent of any such damage award and the scope and applicability of any such injunction. If the court found that the Company has interfered with

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O2's economic advantage, the Company could be liable for damages to O2, which could have a material adverse effect on the Company's financial position and operating results.

In January 2003, O2 filed a lawsuit against Sumida Corp. and Taiwan Sumida Electronics Inc. in the U.S. District Court for the Eastern District of Texas alleging infringement of the '615 and '722 patents based on Sumida's use of the Company's products. The Company has agreed to assume the defense of Sumida pursuant to an indemnity agreement. That case has been set for trial for June 2005.

In May 2004, the Company filed a complaint against O2 in the U.S. District Court for the Northern District of California seeking a declaratory judgment that the Company does not infringe O2's '722 patent. That case has been assigned to the same Judge presiding over the litigation over the '615, '814, and '881 patents described above.

Taiwan Litigation.

Summary. In addition to the U.S. litigation described above, O2 has brought legal proceedings against the Company in Taiwan based upon its '318 patent. Unlike the U.S., where a party seeking a preliminary injunction must first file a lawsuit on the merits of the underlying claim, in Taiwan it is possible for a party to be granted a preliminary injunction without first filing a lawsuit on the merits. In January 2003, upon O2's request, the Shihlin District Court in Taiwan issued a preliminary injunction prohibiting the Company from manufacturing, designing, displaying, importing or selling the Company's MP 1011A and MP 1015 products in Taiwan, either directly or through a third party acting at the Company's request.

The Company believes that it has at all times conducted its business in compliance with the injunction. Nevertheless, O2 has taken various actions in an attempt to persuade the Shihlin District Court that the Company has violated it. The Company has also taken several legal actions in an attempt to have the injunction lifted and/or to have O2's '318 patent declared invalid. These actions include appealing the Shihlin District Court's injunction, initiating proceedings with the Taiwan Intellectual Property Office to invalidate O2's '318 patent and seeking counter-injunctions from the Taipei District Court. Some of those actions have produced legal outcomes in the Company's favor and others have not, but none has yet resulted in the lifting of the injunction or the invalidation of O2's patent. The Company intends to continue pursuing the available legal avenues to achieve these objectives.

In June 2003, O2 filed a lawsuit against the Company in the Shihlin District Court for a resolution on the merits of O2's claim that the Company's products infringe O2's '318 patent. That lawsuit was dismissed in April 2004, but O2 filed a similar lawsuit in Taipei District Court shortly thereafter. No date for the trial has yet been set.

Details. Included below are more details on certain aspects of the Taiwan litigation.

O2's Injunction Against the Company. The Company's Taiwan counsel, Chen and Lin, has advised the Company that so long as title to the Company's products and physical possession of the Company's goods transfer outside Taiwan to a third party not commissioned by the Company and not acting at the Company's request, and the Company does not otherwise design, manufacture, or

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Years Ended December 31, 2001, 2002 and 2003 and Three Months Ended March 31, 2004

display the MP 1011A and MP 1015 in Taiwan, the Company can sell those products to any third party in the U.S. or outside Taiwan and be in compliance with the injunction. Following the issuance of the injunction, the Company examined the Company's distribution channels and altered the Company's distribution arrangements for the Company's MP 1011A and MP 1015. Since the issuance of the injunction the Company has sold these products F.O.B. Los Gatos, California, to third parties with whom the Company has distribution arrangements. Although the Company does not direct the parties with whom it has distribution arrangements as to where they should resell the MP 1011A and MP 1015 products, they generally do not order these products until they have received an order from a customer, who is often located in Taiwan. The Company believes, based on advice from Chen and Lin, that this course of business does not violate the injunction. The abovementioned opinions of Chen and Lin are not binding on the court, which will reach its own conclusions.

Despite the Company's belief, O2 attempted repeatedly to persuade the Shihlin District Court that the Company has violated the injunction. For example, O2 has on multiple occasions sought discovery in Taiwan and U.S. courts regarding the source of MP 1011A and MP 1015 products being used in Taiwan. In May 2004, O2 further requested that the Shihlin District Court find the Company in violation of the injunction based on certain of the Company's products. The court has not yet issued a ruling on O2's motion. The Company's products within each product family, including most of the Company's CCFL backlight inverter products, are produced using similar mask sets and processes. As is customary in the semiconductor industry, the products within each product family are differentiated from one another principally by their electrical performance specifications, which the Company confirms through testing prior to labeling the products. In 2003, the Company shipped products F.O.B. Los Gatos, California for approximately $360,000 to parties with whom the Company has distribution arrangements for resale into Taiwan and China. While these products were manufactured using the same processes the Company uses to produce the Company's MP 1015 product, the Company labeled these products as MP 1010B products because they possessed the superior electrical performance specifications of the Company's MP 1010B product. Despite their electrical performance specifications, however, O2 contends that these products are equivalent to the Company's MP 1015 product and are therefore subject to the injunction. The Company believes, based on the electrical performance specifications of these products, that they are not equivalent to the Company's MP 1015 product and are therefore not subject to the injunction. Following the manufacture of the products discussed above, in the Company's MP 1010B product the Company has used and continues to use mask sets and processes that are different from those used to produce the products discussed above. Although most products in the Company's CCFL backlight inverter family, including the MP 1010B, MP 1011A, and MP 1015 products, continue to be produced using similar mask sets and processes, the Company views them as distinct products based upon their distinct electrical performance specifications.

If O2 is able to persuade a Taiwanese court that the Company has violated the injunction, the court could fine the Company up to 300,000 NT (approximately $9,000 at current exchange rates), either overall or per shipment. The court could also broadly construe the injunction to cover other products such as the MP 1010B or to prohibit the Company from selling the enjoined products indirectly through third parties with whom the Company has distribution arrangements for use in Taiwan. For any or all of these reasons, a finding of violation by the court could materially and adversely affect the Company's results, and possibly the Company's sales, for one or more quarters.

MONOLITHIC POWER SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
Years Ended December 31, 2001, 2002 and 2003 and Three Months Ended March 31, 2004

The Company's Counter-Injunctions Against O2. The Company has obtained two defensive counter-injunctions from the Taipei District Court, the first of which prohibits O2 from interfering with the Company's or other parties' use of the Company's MP 1011A and MP 1015 products. The second injunction prohibits O2 from interfering with the manufacture, sale, use or importation, by either the Company or a third party, of a number of the Company's other products which are specifically enumerated in the injunction, although the MP 1010B is not specifically addressed. The Company posted cash bonds of approximately $6.1 million (including the $90,000 bond discussed below) with the Taipei District Court in connection with the two defensive preliminary injunctions. These bonds are currently recorded as restricted assets on the Company's balance sheet. If the Company does not prevail at trial, it might have to forfeit some or all of these bonds. Any such forfeiture would be an expense in the quarter in which the outcome of the trial is probable and reasonably estimable. A forfeiture of any substantial part of the bonds would materially and adversely affect the Company's results of operations and financial position for that quarter.

O2's Other Actions Against the Company. In August 2003, November 2003, and March 2004, O2 filed for provisional seizures against the Company in the Shihlin District Court and Taipei District Court, which would entitle O2 to seize up to approximately $1.9 million of the Company's assets in Taiwan, including but not limited to MP 1011A and MP 1015 parts. The court granted the provisional seizures. The execution of the first provisional seizure was exempted because the Company posted a bond in the amount of approximately $90,000. The Company elected not to post a bond to exempt the second and third provisional seizure orders, and the court seized property from the Company's Taiwan office. The Company has appealed the second and third provisional seizures to the Taiwan High Court. One of the Company's appeals, involving the third seizure, has been denied but the other appeal regarding the second seizure is still pending. The second and third provisional seizure orders have not yet been fully executed, and accordingly O2 may continue to seize the Company's property under these orders. O2 also filed a criminal complaint with the prosecutor's office of the Shihlin District Court against two of the Company's Taiwan employees accusing them of interfering with the enforcement of the Shihlin District Court's preliminary injunction against the Company. In March 2004, the Shihlin District Court Prosecutor's Office dismissed that complaint.

O2's Lawsuits Against the Company's Customers. In addition to lawsuits between O2 and the Company in Taiwan and the U.S., O2 has also initiated numerous legal proceedings in Taiwan and the U.S. against other companies, including AsusTek, Hewlett-Packard, Clevo, and others who have been purchasers and/or users of the Company's products. Although court filings are generally not publicly available in Taiwan, the Company is aware that in some cases those companies have been enjoined from using MP 1011A and MP 1015 products imported into Taiwan. In at least two cases, two preliminary injunctions against AsusTek and Clevo were upheld by district courts in Taiwan. Injunctions against end-users of the Company's products necessarily reduce the demand for the Company's products, potentially leading to reduced sales. Such injunctions could also damage the Company's reputation in the marketplace. The Company typically agrees to indemnify customers upon request against patent infringement and, on that basis, is currently defending a customer against one of O2's lawsuits. Continued expenditure of the Company's funds in defending customers against O2's lawsuits could materially and adversely affect the Company's financial condition and operating results.

MONOLITHIC POWER SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
Years Ended December 31, 2001, 2002 and 2003 and Three Months Ended March 31, 2004

Trial on the Merits in Taiwan. The Company could lose at trial on the question of whether the Company's products infringe O2's '318 patent. Although O2 has named only the Company's MP 1011A and MP 1015 products in its lawsuit, if the court were to conclude that those products infringe the '318 patent, the court could also conclude that many of the Company's newer products, including the 1010B and other CCFL products that are physically similar to the MP 1011A and/or the MP 1015, infringe O2's '318 patent. The Company does not believe that the '318 patent is a valid patent or that any of the Company's products infringe the '318 patent, but a court may come to a different conclusion. O2's original applications for its U.S. '615 patent and its Taiwan '318 patent were substantially similar, but some of O2's claims contained in the '318 patent were rejected by the U.S. Patent and Trademark Office. Since the claims in the '318 patent are formulated more broadly than those of the '615 patent, the summary judgment in the U.S. that the Company's products do not infringe the '615 patent may not be as helpful to the Company in the '318 case as it might be if the patents were identical. Nevertheless, the Company believes that the summary judgment in the U.S. that the Company's products do not infringe O2's '615 patent may help the Company establish in the Taiwan litigation that they do not infringe the similar, but broader, '318 patent in Taiwan.

If the court were to conclude that any of the Company's products infringe the '318 patent (and the '318 patent were valid), the Company could be liable to O2 for damages based on past sales, and could further be permanently enjoined from selling those products (directly or through distribution arrangements) for use in Taiwan. Although many system and module manufacturers who use the Company's products have shifted, and are continuing to shift, their manufacturing from Taiwan to China, a significant portion of the Company's expected future revenue over the next several years is expected to come from users of the Company's CCFL backlight inverter product family in Taiwan. A final judgment awarded by a court prohibiting direct or indirect sales of the Company's MP 1011A or MP 1015 products into Taiwan would have a material adverse effect on the Company's business and results of operations for at least several quarters while the Company works to transition customers to alternative, non-infringing products. The Company cannot be sure that it could successfully effect such a transition. If the Company is permanently enjoined from selling other, newer products into Taiwan, this would have an immediate, drastic, and adverse effect on the Company's ability to continue in its business as presently conducted.

Additional O2 Patents. The Company is aware that on May 28, 2002, O2 was issued U.S. Patent No. 6,396,722 ("the '722 patent"), a continuation of O2's '615 patent. The Company is also aware that O2 has filed for related patents in other Asian countries. The Company is not aware that any foreign patents have been issued in response to these patent applications and do not know when, if ever, any such patent will issue. Nevertheless, the Company expects O2 may pursue claims against us in the U.S. based on the '722 patent and, if and when any additional foreign patents issue, based on those patents. Depending on the scope and severity of those claims, any injunctions that may be issued against the Company, or damages that may be awarded against the Company, could have a material and adverse effect on our business and results of operations.

In connection with these cases in 2003 the Company has placed approximately $6.1 million in a certificate of deposit account with the Court in Taiwan as security against future possible damages related to the lawsuit. The deposits are classified as restricted assets in the accompanying balance sheet. Additionally, approximately $9,000 of the Company's lab equipment in Taiwan has been bonded by the Court. It is not possible to predict the likely outcome of the litigation and accordingly, no amounts have been accrued as loss contingencies as of December 31, 2003 or March 31, 2004.

MONOLITHIC POWER SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
Years Ended December 31, 2001, 2002 and 2003 and Three Months Ended March 31, 2004

Linear Technology Corporation

On May 3, 2004, Linear Technology Corporation ("Linear") filed a complaint for misappropriation of trade secrets, unfair business practices, California common law unfair competition, breach of agreement, and breach of the duty of good faith and fair dealing against the Company and a former Linear employee who currently works for the Company in the Superior Court of the State of California, Santa Clara County. In its complaint, Linear alleges that the Company hired several former Linear employees who purportedly disclosed Linear's trade secrets, that the Company relied on these trade secrets to contact Linear's customers and solicit Linear's employees, and that the Company otherwise used this information in a manner that has harmed Linear. In its complaint, Linear has requested unspecified actual and punitive damages, injunctive relief, and attorneys' fees. No trial date has yet been set in this lawsuit, and the parties are in the initial discovery phase in the litigation. The Company believes that it has meritorious defenses to Linear's claims, and it intends to defend vigorously against these claims.

It is not possible to predict the likely outcome of the litigation and accordingly, no amounts have been accrued as loss contingencies to date.

12. Employee Benefit Plan

The Company sponsors a 401(k) savings and profit-sharing plan (the Plan) for all employees 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, 2001, 2002 and 2003 and the three months ended March 31, 2004.

13. Major Customers

The following table summarizes net revenue and accounts receivable for customers which accounted for 10% or more of accounts receivable or net revenue:

	Accounts Receivable December 31,			Net Revenue Year Ended December 31,			
Customers	2002	2003	Accounts Receivable March 31, 2004	2001	2002	2003	Net Revenue Period Ended March 31, 2004
A	—	—	—	11%	13%	—	—
B	21%	27%	2%	54%	22%	14%	8%
C	—	37%	7%	—	—	30%	16%
D	23%	—	—	—	13%	—	—
E	—	—	10%	—	11%	7%	10%
F	—	9%	10%	—	4%	16%	9%
G	—	—	17%	—	—	—	—

MONOLITHIC POWER SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
Years Ended December 31, 2001, 2002 and 2003 and Three Months Ended March 31, 2004

14. 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 personal computing and telecommunications markets. The Company's chief operating decision maker is its chief executive officer. The Company derived substantially all of its sales from international sales during 2001 and 2002. In 2003, the Company had significant sales to a third party with whom it had a distribution arrangement in the United States who resells primarily to customers in Asia. In March 2004, the Company discontinued using this particular third party and is using other distributors in Asia for sales to customers in that region.

The following is a summary of revenues by geographic region based on customer location:

	Years Ended December 31,			Three Months Ended March 31,
Country	2001	2002	2003	2004
United States	$ —	$ 121,925	$ 7,674,553	$ 1,386,186
Taiwan	7,237,258	10,033,798	10,006,563	2,134,416
Japan	—	1,863,118	2,617,923	653,942
China	—	—	1,411,026	1,304,948
Other	893,097	186,760	2,494,266	1,315,702
Total	$ 8,130,355	$ 12,205,601	$ 24,204,331	$ 6,795,194

Although 32% and 20% of direct sales are to customers in the United States in 2003 and the three months ended March 31, 2004, respectively, 99% and 86%, respectively, of direct and indirect sales are to customers in Asia.

The following is a summary of revenue by product type:

	Years Ended December 31,			Three Months Ended March 31,
	2001	2002	2003	2004
Cold Cathode Fluorescent Lamp Inverters	$ 8,130,355	$ 9,693,959	$ 16,898,243	$ 3,412,279
Direct Current (DC) to DC Converters	—	388,131	5,549,264	2,722,905
LED Drivers	—	420,565	1,441,755	593,788
Audio Amplifiers	—	1,702,946	315,069	66,222
Total	$ 8,130,355	$ 12,205,601	$ 24,204,331	$ 6,795,194

MONOLITHIC POWER SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
Years Ended December 31, 2001, 2002 and 2003 and Three Months Ended March 31, 2004

The following is a summary of long-lived assets by geographic region:

Country	Years Ended December 31, 2002	Years Ended December 31, 2003	Three Months Ended March 31, 2004
United States	$ 1,497,534	$ 2,110,572	$ 2,868,552
Taiwan	47,236	840,389	6,155,190
China	—	14,831	17,469
Total	$ 1,544,770	$ 2,965,792	$ 9,041,211

15. Valuation and Qualifying Accounts

The Company had the following activity for sales returns and bad debt reserves:

	Years Ended December 31,		
	Sales Returns	Bad Debt	Total
Balance, December 31, 2000	$ —	$ —	$ —
Charged to costs and expenses	126,830	—	126,830
Deductions	(126,830)	—	(126,830)
Balance, December 31, 2001	—	—	—
Charged to costs and expenses	—	50,000	50,000
Deductions	—	—	—
Balance, December 31, 2002	—	50,000	50,000
Charged to costs and expenses	90,482	—	90,482
Deductions	(81,373)	(14,176)	(95,549)
Balance, December 31, 2003	9,109	35,824	44,933
Charged to costs and expenses	—	—	—
Deductions	(9,109)	(8,120)	(17,229)
Balance, March 31, 2004	$ —	$ 27,704	$ 27,704

16. Subsequent Events

In June 2004, the Board of Directors and stockholders approved an increase of 2 million shares of common stock available for grant under the Company's 1998 stock option plan.

On July 9, 2004, the Company entered into a preliminary agreement to establish a subsidiary in China to initially engage in the testing of its integrated circuits. Under the terms of the preliminary agreement, the Company has agreed to invest up to $5 million, subject to a number of contingencies, including negotiating definitive agreements.

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

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Through and including , 2004 (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to a dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to an unsold allotment or subscription.

Shares

Monolithic Power Systems, Inc.

Common Stock

Goldman, Sachs & Co.

Merrill Lynch & Co.

Deutsche Bank Securities

Piper Jaffray

Representatives of the Underwriters

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Unless otherwise defined, all capitalized terms contained in this Part II shall have the meanings ascribed to them in the prospectus which forms a part of this registration statement. Monolithic Power Systems, Inc. is sometimes referred to in this Part II as the "Registrant."

Item 13. Other expenses of issuance and distribution.

The following table sets forth the costs and expenses, other than underwriting discounts and commissions, payable by the Registrant in connection with the sale of common stock being registered hereby, including the shares offered for sale by the selling stockholders. All amounts are estimates except the SEC registration fee, the NASD filing fee and the Nasdaq National Market listing fee. None of these expenses will be borne by the selling stockholders.

Securities and Exchange Commission registration fees	$ 12,670
NASD filing fee	10,500
Printing and engraving expenses	
Legal fees and costs	
Accounting fees and costs	
Nasdaq National Market listing fees	
Transfer agent and registrar fees and expenses	
Miscellaneous expenses	
Total	$

Item 14. Indemnification of directors and officers.

Section 145 of the Delaware General Corporation Law provides for the indemnification of officers, directors, and other corporate agents in terms sufficiently broad to indemnify such persons under certain circumstances for liabilities (including reimbursement for expenses incurred) arising under the Securities Act of 1933, as amended (the "Securities Act"). Article IX of the Registrant's proposed Amended and Restated Certificate of Incorporation (Exhibit 3.2 hereto) and Article IX of the Registrant's proposed Amended and Restated Bylaws (Exhibit 3.4 hereto), both of which will become effective upon the consummation of the Registrant's anticipated reincorporation into Delaware, provide for indemnification of the Registrant's directors, officers, employees, and other agents to the extent and under the circumstances permitted by the Delaware General Corporation Law. The Registrant intends to purchase directors' and officers' insurance and to enter into agreements with its directors and officers that will require the Registrant, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as director or officers to the fullest extent not prohibited by law. The Underwriting Agreement (Exhibit 1.1 hereto) provides for indemnification by the Underwriters of the Registrant, its directors and officers, and by the Registrant of the Underwriters, for certain liabilities, including liabilities arising under the Securities Act and affords certain rights of contribution with respect thereto. The version of our Bylaws in effect prior to our anticipated reincorporation requires us to indemnify our directors and officers to the fullest extent permitted under California law, which could apply to actions taken by our directors and officers during the time that our state of incorporation is California.

Item 15. Recent sales of unregistered securities.

Since July 9, 2001, we have sold and issued the following unregistered securities:

(1) From July 9, 2001 to July 9, 2004, we granted stock options to purchase an aggregate of 7,563,400 shares of common stock at exercise prices ranging from $0.80 to $10.00 per share to employees, consultants, directors, and other service providers pursuant to our 1998 Stock Plan.

(2) On August 23, 2002, we issued an aggregate of 5,087,767 shares of Series D Preferred Stock to 18 accredited investors for an aggregate consideration of $16,743,841.22.

The sales and issuances of securities described in paragraph (1) above were exempt from registration under the Securities Act by virtue of Section 4(2) of the Securities Act or by virtue of Rule 701 promulgated under the Securities Act in that they were offered and sold either pursuant to a written compensatory benefit plan or pursuant to a written contract relating to compensation, as provided by Rule 701. The sale and issuance of securities described in paragraph (2) above were exempt from registration under the Securities Act by virtue of Section 4(2) of the Securities Act or by virtue of Regulation D promulgated thereunder.

Item 16. Exhibits and Financial Statements Schedules.

(a) **Exhibits.**

Exhibit Number	Description
1.1*	Form of Underwriting Agreement.
3.1	Amended and Restated Certificate of Incorporation, to be effective upon the reincorporation.
3.2	Amended and Restated Certificate of Incorporation, to be effective upon consummation of this offering.
3.3	Bylaws, to be effective upon the reincorporation.
3.4*	Amended and Restated Bylaws, to be effective upon consummation of this offering.
4.1	Registration Rights Agreement, dated August 23, 2002, as amended, by and among the Registrant and the parties who are signatories thereto.
5.1*	Opinion of Wilson Sonsini Goodrich & Rosati.
10.1	Registrant's 1998 Stock Plan and form of option agreement.
10.2	Registrant's 2004 Equity Incentive Plan and form of option agreement.
10.3	Registrant's 2004 Employee Stock Purchase Plan and form of subscription agreement.
10.4*	Form of Directors and Officers' Indemnification Agreement.
10.5†	Foundry Agreement between the Registrant and Advanced Semiconductor Manufacturing Corp. of Shanghai, dated August 14, 2001.
10.6	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	Employment Agreement with Michael Hsing.
10.8	Employment Agreement with Tim Christoffersen.
10.9	Employment Agreement with Jim Moyer.
10.10†	Separation Agreement and Release and Consulting Agreement with Brian McDonald.
21.1	Subsidiaries of the Registrant.
23.1	Consent of Independent Registered Public Accounting Firm.
23.2*	Consent of Wilson Sonsini Goodrich & Rosati (included in Exhibit 5.1).
23.3	Consent of Chen & Lin.
24.1	Power of Attorney. Reference is made to Page II-4.

* To be filed by amendment

† Confidential treatment requested for portions of this agreement, which portions have been omitted and filed separately with the Securities and Exchange Commission

(b) **Financial Statement Schedules**.

Item 17. Undertakings.

The undersigned Registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1), or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Los Gatos, State of California, on July 13, 2004.

MONOLITHIC POWER SYSTEMS, INC.

By: /s/ MICHAEL R. HSING

Michael R. Hsing
President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Michael Hsing and Tim Christoffersen, or either of them, his or her true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments, including post-effective amendments, to this Registration Statement, and any registration statement relating to the offering covered by this Registration Statement and filed pursuant to Rule 462(b) under the Securities Act of 1933 and to file the same, with 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, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that each of said attorneys-in-fact and agents or their substitute or substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act, this Registration Statement has been signed by the following persons on July 13, 2004 in the capacities indicated.

Signature	Title
/s/ MICHAEL R. HSING Michael R. Hsing	President, Chief Executive Officer, and Director (Principal Executive Officer)
/s/ TIM CHRISTOFFERSEN Tim Christoffersen	Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)
/s/ HERBERT CHANG Herbert Chang	Director
/s/ JIM JONES Jim Jones	Director
/s/ JIM C. MOYER Jim C. Moyer	Director
/s/ UMESH PADVAL Umesh Padval	Director

EXHIBIT INDEX

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24.1	Power of Attorney. Reference is made to Page II-4.

* To be filed by amendment

† Confidential treatment requested for portions of this agreement, which portions have been omitted and filed separately with the Securities and Exchange Commission

Exhibit 3.1

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION
OF
MONOLITHIC POWER SYSTEMS, INC.

Monolithic Power Systems, Inc., a corporation organized and existing under the laws of the State of Delaware, hereby certifies that:

1. The name of the corporation is Monolithic Power Systems, Inc. The corporation's original Certificate of Incorporation was filed with the Secretary of State of the State of Delaware on February 26, 2004.

2. This Amended and Restated Certificate of Incorporation was duly adopted by vote of stockholders in accordance with Section 242 and 245 of the General Corporation Law of the State of Delaware, and restates, integrates and further amends the provisions of the corporation's Certificate of Incorporation.

The text of the Certificate of Incorporation is amended and restated to read in its entirety as follows:

I

The name of this corporation is Monolithic Power Systems, Inc.

II

The address of the corporation's registered office in the State of Delaware is 1209 Orange Street, Wilmington, Delaware 19801, County of New Castle. The name of its registered agent at such address is The Corporation Trust Company.

III

The purpose of the corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

IV

The Corporation is authorized to issue two classes of stock to be designated, respectively, common stock (the "**Common**") and preferred stock (the "**Preferred**"). The total number of shares of stock the Corporation is authorized to issue is 51,648,260 shares. The number of shares of Preferred authorized to be issued is 15,848,260 shares, $0.001 par value, of which 3,061,846 shares shall be designated as Series A Preferred Stock (the "**Series A Preferred**"), 4,321,706 shares shall be designated as Series B Preferred Stock (the "**Series B Preferred**"), 3,164,708 shares shall be designated as Series C Preferred Stock (the "**Series C Preferred**"), and 5,300,000 shares shall be designated as Series D Preferred Stock (the "**Series D Preferred**"). The number of shares of Common authorized to be issued is 35,800,000 shares, $0.001 par value.

The relative rights, preferences, privileges and restrictions granted to or imposed upon the respective classes of the shares of capital stock or the holders thereof are as set forth below.

Section 1. Dividends.

(a) The holders of the Preferred shall be entitled to receive, on a pari passu basis and prior and in preference to any distribution of dividends to the holders of the Common, when and as declared by the Board of Directors, out of any funds legally available therefor, dividends at the rate of $0.03 per annum per share on each outstanding share of Series A Preferred, at the rate of $0.08 per annum per share on each outstanding share of Series B Preferred, at the rate of $0.225 per annum per share on each outstanding share of Series C Preferred and at the rate of $0.26328 per annum per share on each outstanding share of Series D Preferred, each as adjusted for any combinations, consolidations, or stock distributions or stock dividends with respect to such shares of Series A Preferred, Series B Preferred, Series C Preferred and Series D Preferred. Such dividends shall not be cumulative and no right to such dividends shall accrue to holders of Series A Preferred, Series B Preferred, Series C Preferred or Series D Preferred unless declared by the Board of Directors.

(b) No dividends (other than those payable solely in Common) shall be paid on any share of Common during any fiscal year of this Corporation unless and until dividends in the total respective amounts set forth above on the Preferred shall have been paid or declared and set apart during that fiscal year, and no dividends shall be paid on any share of Common unless a dividend (including, for this purpose the amount of any dividends paid pursuant to the above provisions of this Section 1) is paid with respect to all outstanding shares of Preferred in an amount for each such share of Preferred equal to or greater than the aggregate amount of such dividends for all shares of Common into which each such share of Preferred could then be converted.

Section 2. Liquidation Preference. In the event of any liquidation, dissolution or winding up of the Corporation, either voluntary or involuntary, distributions to the shareholders of the Corporation shall be made in the following manner:

(a) The holders of the Series D Preferred shall be entitled to receive, prior and in preference to any distribution of any assets or property of the Corporation to the holders of the Series A Preferred, Series B Preferred, Series C Preferred and Common, by reason of their ownership thereof, the Series D Liquidation Preference (as defined below). If the assets and property thus distributed among the holders of the Series D Preferred shall be insufficient to permit the payment to such holders of the full Series D Liquidation Preference, then the entire assets and property of the Corporation legally available for distribution shall be distributed ratably among the holders of the Series D Preferred in proportion to the number of shares of Series D Preferred that each such holder then holds. For purposes hereof, "**Series D Liquidation Preference**" shall mean:

(i) with respect to distributions made to the shareholders in connection with any liquidation, dissolution or winding up of the Corporation that is not a Liquidation Event (as defined below), an amount of $3.291 per share, plus an amount per share that equals $0.26328 divided by twelve (12) and multiplied by the number of months that has elapsed between the original

issue date of such Series D Preferred and the date of such liquidation, dissolution or winding up of the Corporation;

(ii) with respect to distributions made to the shareholders in connection with a Liquidation Event for which (1) the aggregate amount of such distributions or (2) the consideration received by the Corporation or its shareholders is less than $50,000,000, an amount of $3.291 per share;

(iii) with respect to distributions made to the shareholders in connection with a Liquidation Event for which (1) the aggregate amount of such distributions or (2) the consideration received by the Corporation or its shareholders is equal to or more than $50,000,000 but less than $70,000,000, an amount of $4.114 per share; or

(iv) with respect to distributions made to the shareholders in connection with a Liquidation Event for which (1) the aggregate amount of such distributions or (2) the consideration received by the Corporation or its shareholders is equal to or more than $70,000,000, an amount of $4.937 per share;

as the case may be and each as adjusted for any combinations, consolidations, or stock distributions or stock dividends with respect to such Series D Preferred, plus an amount equal to all declared but unpaid dividends.

(b) Upon the completion of the distribution required by above Section 2(a), the remaining assets of the Corporation available for distribution to shareholders shall be distributed among the holders of the Series A Preferred, Series B Preferred and Series C Preferred, on a pari passu basis and prior and in preference to any distribution of any assets or property of the Corporation to the holders of the Common by reason of their ownership thereof, the amount of $0.35 per share, $0.80 per share and $2.25 per share, respectively, for each share of Series A Preferred, Series B Preferred and Series C Preferred then held by them, as adjusted for any combinations, consolidations, or stock distributions or stock dividends with respect to such shares and, in addition, an amount equal to all declared but unpaid dividends, if any, on the Series A Preferred, Series B Preferred and Series C Preferred, respectively. If the assets and property thus distributed among the holders of the Series A Preferred, Series B Preferred and Series C Preferred shall be insufficient to permit the payment to such holders of the full preferential amount set forth above, then the entire assets and property of the Corporation legally available for distribution shall be distributed ratably among such holders in proportion to the respective liquidation preference that each such holder is otherwise entitled to receive with respect to the Series A Preferred, Series B Preferred and Series C Preferred held by such holders.

(c) Upon the completion of the distribution required by Sections 2(a) and 2(b) above, the remaining assets of the Corporation available for distribution to shareholders shall be distributed among the holders of Series A Preferred, Series B Preferred, Series C Preferred, Series D Preferred and Common pro rata based on the number of shares of Common held by each (assuming conversion of all Preferred into Common pursuant to Section 4 hereof).

(i) For purposes of this Section 2, a merger or consolidation of the Corporation with or into any other corporation or corporations, or the merger of any other corporation or corporations with or into the Corporation, unless the shareholders of this Corporation hold at least a majority of the outstanding voting equity securities of the surviving corporation, or any transaction or Series of related transactions to which the Corporation is a party in which in excess of fifty percent (50%) of the Corporation's voting power is transferred by the then shareholders of the Corporation to third parties, excluding any consolidation or merger effected exclusively to change the domicile of the Corporation, or a sale of all or substantially all of the assets of the Corporation (each, a "**Liquidation Event**"), shall be treated as a liquidation, dissolution or winding up of the Corporation; provided that nothing contained in this Section 2(c) shall limit the right of a holder of Preferred to convert such shares into Common prior to the effective date of any such transaction.

(ii) In any Liquidation Event, if the consideration received by the Corporation is other than cash, its value will be deemed its fair market value. Any securities shall be valued as follows:

(1) Securities not subject to investment letter or other similar restrictions on free marketability covered by (2) below:

(A) If traded on a securities exchange or through Nasdaq National Market System, the value shall be deemed to be the average of the closing prices of the securities on such exchange or system over the thirty day period ending three (3) days prior to the closing;

(B) If actively traded over-the-counter, the value shall be deemed to be the average of the closing bid or sale prices (whichever is applicable) over the thirty day period ending three (3) days prior to the closing; and

(C) If there is no active public market, the value shall be the fair market value thereof, as mutually determined by the Board of Directors of this Corporation and the holders of at least a majority of the voting power of all then outstanding shares of Preferred.

(2) The method of valuation of securities subject to investment letter or other restrictions on free marketability (other than restrictions arising solely by virtue of a shareholder's status as an affiliate or former affiliate) shall be to make an appropriate discount from the market value determined as above in (1) (A), (B) or (C) to reflect the approximate fair market value thereof, as mutually determined by the Board of Directors of this Corporation and the holders of at least a majority of the voting power of all then outstanding shares of Preferred.

(iii) In the event the requirements of this Section 2 are not complied with, this Corporation shall forthwith either:

(1) cause such closing to be postponed until such time as the requirements of this Section 2 have been complied with; or

(2) cancel such transaction, in which event the rights, preferences and privileges of the holders of Preferred shall revert to and be the same as such rights, preferences and privileges existing immediately prior to the date of the first notice referred to in Section 2(c)(iv) hereof.

(iv) The Corporation shall give each holder of record of Preferred written notice of such impending transaction not later than twenty (20) days prior to the shareholders' meeting called to approve such transaction, or twenty (20) days prior to the closing of such transaction, whichever is earlier, and shall also notify such holders in writing of the final approval of such transaction. The first of such notices shall describe the material terms and conditions of the impending transaction and the provisions of this Section 2, and the Corporation shall thereafter give such holders prompt written notice of any material changes. The transaction shall in no event take place sooner than twenty (20) days after the Corporation has given the first notice provided for herein or sooner than ten (10) days after the Corporation has given notice of any material changes provided for herein; provided, however, that such periods may be shortened upon the written consent of the holders of Preferred that are entitled to such notice rights or similar notice rights and that represent at least a majority of the voting power of all then outstanding shares of Preferred.

Section 3. Redemption.

(a) The shares of Series A Preferred, Series B Preferred and Series C Preferred shall not be redeemable.

(b) Commencing at any time on or after five (5) years from the Original Issue Date (as defined below), upon receipt by the Corporation of the written request by the holders of a majority of the then outstanding shares of Series D Preferred, voting as a separate class, that all (and no less than all) the then outstanding Series D Preferred shall be redeemed, the Corporation shall redeem such then outstanding Series D Preferred on a pro rata basis in accordance with the following provisions:

(i) one-third (1/3) of the shares of Series D Preferred shall be redeemed as soon as practicable and in no event later than sixty (60) days after receipt of said request (the "**First Redemption Date**");

(ii) one-half (1/2) of the shares of Series D Preferred remaining after the First Redemption Date shall be redeemed upon the first anniversary of the First Redemption Date (the "**Second Redemption Date**"); and

(iii) all of the then remaining shares of Series D Preferred shall be redeemed upon the second anniversary of the First Redemption Date (the "**Third Redemption Date**") (each of the First, Second and Third Redemption Date hereinafter referred to as a "**Redemption Date**").

(c) The Corporation shall redeem the Series D Preferred by paying to the holders thereof in cash on or before the First Redemption Date, Second Redemption Date and Third Redemption Date, a price per share (the "**Redemption Price**") equal to $3.291, plus an amount per

share that equals $0.26328 divided by twelve (12) and multiplied by the number of months that has elapsed between the original issue date of such Series D Preferred and the date of the applicable Redemption Date, each as adjusted for any combinations, consolidations, or stock distributions or stock dividends with respect to Series D Preferred, plus an amount equal to all declared but unpaid dividends.

(d) At least thirty (30) days prior to each Redemption Date, written notice shall be mailed, first class postage prepaid, to each holder of record (at the close of business on the business day next preceding the day on which notice is given) of the Series D Preferred, at the address last shown on the records of the Corporation for such holder, specifying the number of shares to be redeemed from each holder, the applicable Redemption Date, the Redemption Price, the place at which payment may be obtained and calling upon such holder to surrender to the Corporation, in the manner and at the price designated, its certificate or certificates representing such holder's shares to be redeemed (the "**Redemption Notice**"). Except as provided herein, on or after the applicable Redemption Date, such holder of Series D Preferred to be redeemed at such time shall surrender to the Corporation the certificate or certificates representing such shares, in the manner designated in the Redemption Notice, and thereupon the Redemption Price of such shares shall be payable to the order of the person whose name appears on such certificate or certificates as the owner thereof and each surrendered certificate shall be canceled. In the event fewer than all of the shares represented by any such certificate are redeemed, a new certificate shall be issued representing the unredeemed shares.

(e) From and after the applicable Redemption Date, unless there shall have been a default in payment of the Redemption Price, all rights of the holders of shares of Series D Preferred designated for redemption in the Redemption Notice (except the right to receive the Redemption Price without interest upon surrender of their certificate or certificates) shall cease with respect to such shares at such time, and such shares shall not thereafter be transferred on the books of the Corporation or be deemed to be outstanding for any purpose whatsoever. If the funds of the Corporation legally available for redemption of shares of Series D Preferred on the applicable Redemption Date are insufficient to redeem the total number of shares of Series D Preferred to be redeemed on each such date, those funds that are legally available will be used to redeem the maximum possible number of such shares ratably among the holders of such shares to be redeemed based upon their holdings of Series D Preferred. The shares of Series D Preferred not redeemed shall remain outstanding and entitled to all the rights and preferences provided herein. At any time thereafter when additional funds of the Corporation are legally available for the redemption of shares of Series D Preferred, such funds will immediately be used to redeem the balance of the shares that the Corporation has become obligated to redeem on the applicable Redemption Date.

Section 4. Conversion. The holders of the Preferred shall have conversion rights as follows (the "**Conversion Rights**"):

(a) Right to Convert. Each share of Series A Preferred, Series B Preferred, Series C Preferred and Series D Preferred shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such share, at the office of the Corporation or any transfer agent for the Preferred, into such number of fully paid and nonassessable shares of Common, as is determined: (i) in the case of Series A Preferred, by dividing $0.35 by the Conversion Price

applicable to such share, determined as hereinafter provided, in effect at the time of conversion, (ii) in the case of Series B Preferred, by dividing $0.80 by the Conversion Price applicable to such share, determined as hereinafter provided, in effect at the time of conversion, (iii) in the case of Series C Preferred, by dividing $2.25 by the Conversion Price applicable to such share, determined as hereinafter provided, in effect at the time of conversion and (iv) in the case of Series D Preferred, by dividing $3.291 by the Conversion Price applicable to such share, determined as hereinafter provided, in effect at the time of conversion. The price at which shares of Common shall be deliverable upon conversion of the Preferred (the "**Conversion Price**") shall initially be, in the case of Series A Preferred, $0.35 per share, in the case of Series B Preferred, $0.80 per share, in the case of Series C Preferred, $2.25 per share and in the case of Series D Preferred, $3.291 per share. Each such initial Conversion Price shall be adjusted as hereinafter provided.

(b) Automatic Conversion. Each share of Preferred shall automatically be converted into shares of Common at the then effective Conversion Price for such Series of Preferred upon (i) the closing of a firm commitment underwritten public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended (the "**Act**"), covering the offer and sale of Common for the account of the Corporation to the public at an aggregate offering price of not less than $25,000,000, or (ii) the date specified by written agreements by the holders of (A) seventy-five percent (75%) of all Series A Preferred, Series B Preferred and Series C Preferred outstanding, voting together as a single class, on an as-converted basis, as to the conversion of such shares or (B) a majority of all Series D Preferred outstanding voting as a single class, as to the conversion of such shares.

(c) Mechanics of Conversion. No fractional shares of Common shall be issued upon conversion of Preferred. In lieu of any fractional shares to which the holder would otherwise be entitled, the Corporation shall pay cash equal to such fraction multiplied by the then fair market value per share of Common, as determined by the Board of Directors of this Corporation. Before any holder of Preferred shall be entitled to convert the same into full shares of Common, he shall surrender the certificate or certificates therefor, duly endorsed, at the office of the Corporation or of any transfer agent for the Preferred, and shall give written notice to the Corporation at such office that he elects to convert the same. The Corporation shall, as soon as practicable thereafter, issue and deliver at such office to such holder of Preferred, a certificate or certificates for the number of shares of Common to which he shall be entitled as aforesaid and a check payable to the holder in the amount of any cash amounts payable as the result of a conversion into fractional shares of Common. Except as set forth herein, such conversion shall be deemed to have been made immediately prior to the close of business on the date of such surrender of the shares of Preferred to be converted, and the person or persons entitled to receive the shares of Common issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common on such date. If the conversion is in connection with an underwritten offer of securities registered pursuant to the Act, the conversion may, at the option of any holder tendering Preferred for conversion, be conditioned upon the closing with the underwriter of the sale of securities pursuant to such offering, in which event the person(s) entitled to receive the Common issuable upon such conversion of the Preferred shall not be deemed to have converted such Preferred until immediately prior to the closing of such sale of securities.

(d) Adjustments to Conversion Price.

(i) Special Definitions. For purposes of this Section 4(d), the following definitions shall apply:

(1) "**Option**" shall mean rights, options or warrants to subscribe for, purchase or otherwise acquire either Common or Convertible Securities.

(2) "**Original Issue Date**" shall mean the date on which the first share of Series D Preferred was issued.

(3) "**Convertible Securities**" shall mean any evidences of indebtedness, shares or other securities convertible into or exchangeable for Common.

(4) "**Additional Shares of Common**" shall mean all shares of Common issued (or, pursuant to Section 4(d)(iii), deemed to be issued) by this Corporation after the Original Issue Date, other than shares of Common issued or issuable:

(A) upon conversion of shares of Preferred;

(B) as a dividend or distribution on Preferred or any event for which adjustment is made pursuant to Section 4(d)(vi) hereof;

(C) to banks, commercial lenders, lessors and other financial institutions in connection with the borrowing of money or the leasing of equipment by the Corporation or vendors of the Corporation, in each case for other than primarily equity financing purposes, pursuant to arrangement already in effect upon the effectiveness this Amended and Restated Certificate of Incorporation, or as approved (or subsequently ratified) by the Board of Directors of the Corporation and by a majority of the then outstanding Series D Preferred, voting as a separate class;

(D) to directors and employees of, and consultants and service providers to, the Corporation pursuant to the Corporation's stock equity plan or other arrangement already in effect upon the effectiveness this Amended and Restated Certificate of Incorporation, or as approved (or subsequently ratified) by the Board of Directors of the Corporation and by a majority of the then outstanding Series D Preferred, voting as a separate class;

(E) in connection with bona fide acquisitions, mergers or similar transactions by the Corporation, or strategic licensing transactions, the terms of which are approved (or subsequently ratified) by the Board of Directors of the Corporation and by a majority of the then outstanding Series D Preferred, voting as a separate class;

(F) to the extent such issuance would affect the Conversion Price of any particular Series of Preferred, with the approval of the holders of at least two-thirds (2/3) of the outstanding shares of such Series of Preferred, voting as a separate series, which approval explicitly states that such shares shall not be "Additional Shares of Common" pursuant to this Section 4(d); or

(G) pursuant to Section 4(d)(ix).

(ii) No Adjustment of Conversion Price. No adjustment in the number of shares of Common into which a Series of Preferred is convertible shall be made, by adjustment in the Conversion Price for such Series of Preferred in respect of the issuance of Additional Shares of Common or otherwise, unless (A) the consideration per share for an Additional Share of Common issued or deemed to be issued by this Corporation is less than the Conversion Price for such Series of Preferred in effect on the date of, and immediately prior to, the issue of such Additional Share of Common or (B) the Conversion Price for the Series D Preferred is adjusted pursuant to Section 4(d)(ix).

(iii) Deemed Issuances of Additional Shares of Common.

(1) Options and Convertible Securities. In the event the Corporation at any time or from time to time after the Original Issue Date shall issue any Options or Convertible Securities or shall fix a record date for the determination of holders of any class of securities entitled to receive any such Options or Convertible Securities, then the maximum number of shares (as set forth in the instrument relating thereto without regard to any provisions contained therein for a subsequent adjustment of such number) of Common issuable upon the exercise of such Options or, in the case of Convertible Securities and Options therefor, the exercise of such option if applicable or conversion or exchange of such Convertible Securities or Options for Convertible Securities, shall be deemed to be Additional Shares of Common issued as of the time of such issue or, in the case such a record date shall have been fixed, as of the close of business on such record date, provided that Additional Shares of Common shall not be deemed to have been issued with respect to an adjustment of the Conversion Price for such Series of Preferred unless the consideration per share (determined pursuant to Section 4(d)(v) hereof) of such Additional Shares of Common would be less than the Conversion Price for such Series of Preferred in effect on the date of and immediately prior to such issue, or such record date, as the case may be, and provided further that in any such case in which Additional Shares of Common are deemed to be issued:

(A) no further adjustment in the Conversion Price for such Series of Preferred shall be made upon the subsequent issue of Convertible Securities or shares of Common upon the exercise of such Options or conversion or exchange of such Convertible Securities;

(B) if such Options or Convertible Securities by their terms provide, with the passage of time or otherwise, for any increase or decrease in the consideration payable to the Corporation, or decrease or increase in the number of shares of Common issuable, upon the exercise, conversion or exchange thereof, the Conversion Price for such Series of Preferred computed upon the original issue thereof (or upon the occurrence of a record date with respect thereto), and any subsequent adjustments based thereon, shall, upon any such increase or decrease becoming effective, be recomputed to reflect such increase or decrease insofar as it affects such Options or the rights of conversion or exchange under such Convertible Securities;

(C) upon the expiration of any such Options or any rights of conversion or exchange under such Convertible Securities which shall not have been exercised, the

Conversion Price for such Series of Preferred computed upon the original issue thereof (or upon the occurrence of a record date with respect thereto) and any subsequent adjustments based thereon shall, upon such expiration, be recomputed as if:

1. in the case of Convertible Securities or Options for Common, only the Additional Shares of Common issued were the shares of Common, if any, actually issued upon the exercise of such Options or the conversion or exchange of such Convertible Securities and the consideration received therefor was the consideration actually received by the Corporation for the issue of such exercised Options plus the consideration actually received by the Corporation upon such exercise or for the issue of all such Convertible Securities which were actually converted or exchanged, plus the additional consideration, if any, actually received by the Corporation upon such conversion or exchange, and

2. in the case of Options for Convertible Securities, only the Convertible Securities, if any, actually issued upon the exercise thereof were issued at the time of issue of such Options, and the consideration received by the Corporation for the Additional Shares of Common deemed to have been then issued was the consideration actually received by the Corporation for the issue of such exercised Options, plus the consideration deemed to have been received by the Corporation (determined pursuant to Section 4(d)(v)) upon the issue of the Convertible Securities with respect to which such Options were actually exercised;

(D) no readjustment pursuant to clause (B) or (C) above shall have the effect of increasing the Conversion Price for such Series of Preferred to an amount which exceeds the lower of (i) the Conversion Price for such Series of Preferred on the original adjustment date, or (ii) the Conversion Price for such Series of Preferred that would have resulted from any issuance of Additional Shares of Common between the original adjustment date and such readjustment date;

(E) in the case of any Options which expire by their terms not more than 30 days after the date of issue thereof, no adjustment of the Conversion Price for such Series of Preferred shall be made until the expiration or exercise of all such Options issued on the same date, whereupon such adjustment shall be made in the same manner provided in clause (C) above; and

(F) if such record date shall have been fixed and such Options or Convertible Securities are not issued on the date fixed therefor, the adjustment previously made in the Conversion Price for such Series of Preferred which became effective on such record date shall be canceled as of the close of business on such record date, and thereafter the Conversion Price for such Series of Preferred shall be adjusted pursuant to this Section 4(d) as of the actual date of their issuance.

(2) Stock Dividends, Stock Distributions and Subdivisions. In the event the Corporation at any time or from time to time after the Original Issue Date shall declare or pay any dividend or make any other distribution on the Common payable in Common, or effect a subdivision of the outstanding shares of Common (by reclassification or otherwise than by payment

of a dividend in Common), then and in any such event, Additional Shares of Common shall be deemed to have been issued:

(A) in the case of any such dividend or distribution, immediately after the close of business on the record date for the determination of holders of any class of securities entitled to receive such dividend or distribution, or

(B) in the case of any such subdivision, at the close of business on the date immediately prior to the date upon which such corporate action becomes effective.

If such record date shall have been fixed and such dividend shall not have been paid on the date fixed therefor, the adjustment previously made in the Conversion Price for such Series of Preferred which became effective on such record date shall be canceled as of the close of business on such record date, and thereafter the Conversion Price for such Series of Preferred shall be adjusted pursuant to this Section 4(d) as of the time of actual payment of such dividend.

(iv) Adjustment of Conversion Price Upon Issuance of Additional Shares of Common. In the event the Corporation shall issue Additional Shares of Common (including Additional Shares of Common deemed to be issued pursuant to Section 4(d)(iii), but excluding Additional Shares of Common issued pursuant to Section 4(d)(iii)(2), which event is dealt with in Section 4(d)(vi) hereof), without consideration or for a consideration per share less than the Conversion Price for the applicable Series of Preferred in effect on the date of and immediately prior to such issue, then and in such event, the Conversion Price for such Series of Preferred shall be reduced, concurrently with such issue, to a price (calculated to the nearest cent) determined by multiplying each such Conversion Price for such Series of Preferred by a fraction (x) the numerator of which shall be (1) the number of shares of Common outstanding immediately prior to such issue plus (2) the number of shares of Common which the aggregate consideration received by the corporation for the total number of Additional Shares of Common so issued would purchase at that Conversion Price for such Series of Preferred, and (y) the denominator of which shall be (1) the number of shares of Common outstanding immediately prior to such issue plus (2) the number of such Additional Shares of Common so issued, provided that for the purposes of this Section 4(d)(iv), all shares of Common issuable upon exercise, conversion and/or exchange of outstanding Options or Convertible Securities, as the case may be, shall be deemed to be outstanding, and immediately after any Additional Shares of Common are deemed issued pursuant to Section 4(d)(iii) above, such Additional Shares of Common shall be deemed to be outstanding, and provided further that the Conversion Price for such Series of Preferred shall not be so reduced at such time if the amount of such reduction would be an amount less than $0.01, but any such amount shall be carried forward and reduction with respect thereto made at the time of and together with any subsequent reduction which, together with such amount and any other amount or amounts so carried forward, shall aggregate $0.01 or more.

(v) Determination of Consideration. For purposes of this Section 4(d), the consideration received by the Corporation for the issue of any Additional Shares of Common shall be computed as follows:

(1) Cash and Property. Such consideration shall:

(A) insofar as it consists of cash, be computed at the aggregate amount of cash received by the Corporation excluding amounts paid or payable for accrued interest or accrued dividends;

(B) insofar as it consists of property other than cash, be computed at the fair value thereof at the time of such issue, as determined in good faith by the Board of Directors; and

(C) in the event Additional Shares of Common are issued together with other shares or securities or other assets of the Corporation for consideration which covers both, be the proportion of such consideration so received, computed as provided in clauses (A) and (B) above, as determined in good faith by the Board of Directors.

(2) Options and Convertible Securities. The consideration per share received by the Corporation for Additional Shares of Common deemed to have been issued pursuant to Section 4(d)(iii)(1), relating to Options and Convertible Securities, shall be determined by dividing:

(A) the total amount, if any, received or receivable by the Corporation as consideration for the issue of such Options or Convertible Securities, plus the minimum aggregate amount of additional consideration (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such consideration) payable to the Corporation upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities, by

(B) the maximum number of shares of Common (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities.

(vi) Adjustments for Subdivisions, Combinations or Consolidation of Common. In the event the outstanding shares of Common shall be subdivided (by stock split, stock dividend or otherwise), into a greater number of shares of Common, the Conversion Price for the applicable Series of Preferred then in effect shall, concurrently with the effectiveness of such subdivision, be proportionately decreased. In the event the outstanding shares of Common shall be combined or consolidated, by reclassification or otherwise, into a lesser number of shares of Common, the Conversion Price for the applicable Series of Preferred then in effect shall, concurrently with the effectiveness of such combination or consolidation, be proportionately increased.

(vii) Adjustments for Other Distributions. In the event the Corporation at any time or from time to time makes, or fixes a record date for the determination of holders of Common entitled to receive any distribution payable in securities of the Corporation other than shares of Common and other than as otherwise adjusted in this Section 4(d), then and in each such event provision shall be made so that the holders of Preferred shall receive upon conversion thereof, in addition to the number of shares of Common receivable thereupon, the amount of securities of the Corporation which they would have received had their Preferred been converted into Common on the date of such event and had they thereafter, during the period from the date of such event to and including the date of conversion, retained such securities receivable by them as aforesaid during such period, subject to all other adjustments called for during such period under this Section 4 with respect to the rights of the holders of the Preferred.

(viii) Adjustments for Reorganization, Reclassification, Exchange and Substitution. If the Common issuable upon conversion of the Preferred shall be changed into the same or a different number of shares of any other class or classes of stock or other securities or property, whether by reorganization (unless such reorganization is deemed a liquidation under Section 2(b) hereof), reclassification or otherwise (other than a subdivision or combination of shares provided for above), the Conversion Price for the applicable Series of Preferred then in effect shall, concurrently with the effectiveness of such reorganization or reclassification, be proportionately adjusted such that the Preferred shall be convertible into, in lieu of the number of shares of Common which the holders would otherwise have been entitled to receive, a number of shares of such other class or classes of stock or other securities or property equivalent to the number of shares of Common that would have been subject to receipt by the holders upon conversion of the Preferred immediately before such event; and, in any such case, appropriate adjustment shall be made in the application of the provisions herein set forth with respect to the rights and interest thereafter of the holders of the Preferred, to the end that the provisions set forth herein (including provisions with respect to changes in and other adjustments of the Conversion Price for such Series of Preferred) shall thereafter be applicable, as nearly as reasonably may be, in relation to any shares of stock or other property thereafter deliverable upon the conversion of the Preferred.

(ix) Adjustment of Conversion Price of Series D Preferred upon Initial Public Offering. In the event shares of Series D Preferred are converted into Common in connection with the closing of a firm commitment underwritten public offering pursuant to an effective registration statement under the Act covering the offer and sale of Common for the account of the Corporation to the public at a price per share (the "**IPO Price**") of less than two and one-half (2.5) times the then effective Conversion Price for Series D Preferred, then such Conversion Price shall be reduced to an amount per share that equals the IPO Price divided by two and one-half (2.5).

(e) No Impairment. The Corporation will not, by amendment of its Certificate of Incorporation or its bylaws or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action (except as approved by the requisite vote as set forth in Section 6), avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Corporation but will at all times in good faith assist in the carrying out of all the provisions of this Section 4 and in the taking of all such action as may be necessary or appropriate in order to protect the Conversion Rights of the holders of the Preferred against impairment.

(f) Certificate as to Adjustments. Upon the occurrence of each adjustment or readjustment of the Conversion Price for a Series of Preferred pursuant to this Section 4, the Corporation at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and furnish to each holder of Preferred a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Corporation shall furnish or cause to be furnished to such holder a like certificate setting forth (i) such adjustments and readjustments, (ii) the Conversion Price for such Series of Preferred at the time in effect, and (iii) the number of shares of Common and the amount, if any, of other property which at the time would be received upon the conversion of Preferred.

(g) Notices of Record Date. In the event that this Corporation shall propose at any time:

(i) to declare any dividend or distribution upon its Common shares, whether in cash, property, stock or other securities, whether or not a regular cash dividend and whether or not out of earnings or earned surplus;

(ii) to offer for subscription pro rata to the holders of any class or Series of its stock any additional shares of stock of any class or Series or other rights;

(iii) to effect any reclassification or recapitalization of its Common shares outstanding involving a change in the Common shares; or

(iv) to merge or consolidate with or into any other Corporation, or sell, lease or convey all or substantially all its property or business, or to liquidate, dissolve or wind up; then, in connection with each such event, this Corporation shall send to the holders of the Preferred shares:

(1) at least 20 days' prior written notice of the date on which a record shall be taken for such dividend, distribution or subscription rights (and specifying the date on which the holders of Common shares shall be entitled thereto) or for determining rights to vote in respect of the matters referred to in (iii) and (iv) above; and

(2) in the case of the matters referred to in (iii) and (iv) above, at least 20 days' prior written notice of the date when the same shall take place (and specifying the date on which the holders of Common shares shall be entitled to exchange their Common shares for securities or other property deliverable upon the occurrence of such event).

Each such written notice shall be delivered personally or given by first class mail, postage prepaid, addressed to the holders of Preferred shares at the address for each such holder as shown on the books of this Corporation.

Section 5. Voting Rights; Election of Directors.

(a) Except as otherwise required by law, each share of Common issued and outstanding shall have one vote and each share of Preferred issued and outstanding shall have the number of votes equal to the number of Common shares into which such share of Preferred is

convertible as adjusted from time of time pursuant to Section 4 hereof and shall have voting rights and powers equal to the voting rights and powers of the Common, voting as a single class. Fractional votes shall not, however, be permitted and any fractional voting rights resulting from the above formula (after aggregating all shares into which shares of Preferred held by each holder could be converted) shall be rounded to a nearest whole number (with one-half being rounded upward).

(b) The Board of Directors shall consist of six (6) members. So long as at least 5,000,000 shares, in the aggregate, of Series A Preferred, Series B Preferred and Series C Preferred (as adjusted for any combinations, consolidations, or stock distributions or stock dividends with respect to such shares) remain outstanding, the holders of the Series A Preferred, Series B Preferred and Series C Preferred, all voting together as a single class, shall be entitled to elect one (1) member of the Corporation's Board of Directors. So long as at least 1,500,000 shares, in the aggregate, of Series D Preferred (as adjusted for any combinations, consolidations, or stock distributions or stock dividends with respect to such shares) remain outstanding, the holders of such Series of Preferred, all voting together as a single class, shall be entitled to elect one (1) member of the Corporation's Board of Directors. The holders of the Common, voting as a separate class, shall be entitled to elect two (2) members of the Corporation's Board of Directors. The remaining two (2) members of the Corporation's Board of Directors shall be elected by the holders of the Common and Preferred, all voting together as a single class.

(c) So long as Section 2115 of the California General Corporation Law purports to make Section 708 subdivisions (a), (b) and (c) of the California General Corporation Law applicable to the Corporation, the Corporation's stockholders shall have the right to cumulate their votes in connection with the election of directors as provided by Section 708 subdivisions (a), (b) and (c) of the California General Corporation Law.

Section 6. Protective Provisions. In addition to any other rights provided by law:

(a) For so long as 7,000,000 shares (as adjusted for any combinations, consolidations, or stock distributions or stock dividends with respect to such shares) or more of Preferred shall be outstanding, this Corporation shall not, without first obtaining the affirmative vote or written consent of the holders of not less than a majority of all outstanding shares of Preferred voting as a single class on an as-converted basis:

(i) amend or repeal any provision of, or add any provision to, this Corporation's certificate of incorporation or bylaws which would alter or change the preferences, rights, privileges or powers of, or the restrictions provided for the benefit of, the Preferred;

(ii) create, authorize or issue, or obligate itself to issue, shares of any class of stock, or any other securities convertible into equity securities of the Corporation, having any rights, preferences or privileges which are superior to, or on parity with the Preferred;

(iii) reclassify or recapitalize any shares of the capital stock of this Corporation;

(iv) increase or decrease (other than by conversion) the total number of authorized shares of Preferred or Common;

(v) sell, convey, or otherwise dispose of or encumber all or substantially all of its property or assets or merge or consolidate with or into any other corporation or corporations or effect any transaction or Series of related transactions in which more than 50% of the voting power of the Corporation is transferred;

(vi) change the authorized size of the Board of Directors; or

(vii) redeem, repurchase or declare a dividend on any of the Corporation's capital stock (other than a repurchase of Common pursuant to equity incentive agreements with officers, directors, employees or consultants giving the Corporation the right to repurchase shares of Common at cost upon the termination of services);

(b) For so long as shares of Preferred shall be outstanding, this Corporation shall not, without first obtaining the affirmative vote or written consent of the holders of not less than a majority of all outstanding shares of the affected Series of Preferred voting as a separate class on an as-converted basis:

(i) create, authorize or issue, or obligate itself to issue, shares of any class of stock or any other securities convertible into equity securities of the Corporation having any rights, preferences or privileges superior to or on a parity with such Series of Preferred; or

(ii) amend or repeal any provision of, or add any provision to, this Corporation's certificate of incorporation or bylaws (including pursuant to any articles or certificate of merger or in connection with any merger, acquisition, reorganization consolidation or other similar transaction) if such action would adversely alter or change the preferences, rights, privileges or powers of, or the restrictions provided for the benefit of, such Series of Preferred

(c) For so long as 1,500,000 shares (as adjusted for any combinations, consolidations, or stock distributions or stock dividends with respect to such shares) of Series D Preferred shall be outstanding, this Corporation shall not, without first obtaining the affirmative vote or written consent of the holders of not less than a majority of all outstanding shares of the Series D Preferred voting as a separate class:

(i) redeem, repurchase or declare a dividend on any of the Corporation's capital stock (other than a repurchase of Common pursuant to equity incentive agreements with officers, directors, employees or consultants giving the Corporation the right to repurchase shares of Common at cost upon the termination of services); or

(ii) increase or decrease (other than by conversion) the total number of authorized shares of Preferred or Common.

Section 7. Status of Converted Stock. In the event any shares of Preferred shall be converted pursuant to Section 4 hereof, the shares so redeemed or converted shall be cancelled and shall not be issuable by this Corporation. The Certificate of Incorporation of this Corporation shall

be appropriately amended to effect the corresponding reduction in this Corporation's authorized capital stock.

Section 8. Residual Rights. All rights accruing to the outstanding shares of this Corporation not expressly provided for to the contrary herein shall be vested in the Common.

V

Except as set forth herein, the number of directors that constitutes the entire Board of Directors of the corporation shall be determined in the manner set forth in the Bylaws of the corporation.

VI

In furtherance and not in limitation of the powers conferred by statute, the Board of Directors of the corporation is expressly authorized to adopt, amend or repeal the Bylaws of the corporation.

VII

The election of directors need not be by written ballot unless the Bylaws of the corporation shall so provide.

VIII

(a) Limitation of Director's Liability. To the fullest extent permitted by the General Corporation Law of Delaware as the same exists or may hereafter be amended, a director of the corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director.

(b) Indemnification of Directors and Officers. To the fullest extent permitted by applicable law, the corporation is authorized to provide indemnification of, and advancement of expenses to, directors, officers, employees, other agents of the corporation and any other persons to which the General Corporation Law of Delaware permits the corporation to provide indemnification.

(c) Repeal or Modification. Any repeal or modification of this Article VIII, by amendment of such section or by operation of law, shall not adversely affect any right or protection of a director, officer, employee or other agent of the corporation existing at the time of, or increase the liability of any such person with respect to any acts or omissions in their capacity as a director, officer, employee, or other agent of the corporation occurring prior to such repeal or modification.

IX

The corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed herein or by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

IN WITNESS WHEREOF, Monolithic Power Systems, Inc. has caused this Restated Certificate of Incorporation to be signed by the President and Chief Executive Officer of the corporation on this _____ day of __, 2004.

Michael Hsing
President and Chief Executive Officer

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION

EXHIBIT 3.2

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION

MONOLITHIC POWER SYSTEMS, INC.

Monolithic Power Systems, Inc. a corporation organized and existing under the laws of the State of Delaware, hereby certifies as follows:

A. The corporation was originally incorporated under the name of Monolithic Power Systems, Inc. and the original Certificate of Incorporation of the corporation was filed with the Secretary of State of the State of Delaware on February 26, 2004.

B. Pursuant to Sections 242 and 245 of the General Corporation Law of the State of Delaware (the "**DGCL**"), this Amended and Restated Certificate of Incorporation restates and amends the provisions of the Amended and Restated Certificate of Incorporation of the corporation.

C. This Amended and Restated Certificate of Incorporation has been duly approved by the Board of Directors of the corporation in accordance with Sections 242 and 245 of the DGCL.

D. This Amended and Restated Certificate of Incorporation has been duly approved by the written consent of the stockholders of the corporation in accordance with Sections 228, 242 and 245 of the DGCL.

E. The Certificate of Incorporation of the corporation is hereby amended and restated in its entirety to read as follows:

ARTICLE I

The name of the corporation is Monolithic Power Systems, Inc.

ARTICLE II

The address of the corporation's registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle County, Delaware 19801. The name of its registered agent at such address is The Corporation Trust Company.

ARTICLE III

The purpose of the corporation is to engage in any lawful act or activity for which corporations may be organized under the DGCL.

ARTICLE IV

The corporation shall have authority to issue shares as follows:

150,000,000 shares of Common Stock, par value $0.001 per share. Each share of Common Stock shall entitle the holder thereof to one (1) vote on each matter submitted to a vote at a meeting of stockholders.

5,000,000 shares of Preferred Stock, par value $0.001 per share, which may be issued from time to time in one or more series pursuant to a resolution or resolutions providing for such issue duly adopted by the Board of Directors (authority to do so being hereby expressly vested in the Board of Directors). The Board of Directors is further authorized, subject to limitations prescribed by law, to fix by resolution or resolutions the designations, powers, preferences and rights, and the qualifications, limitations or restrictions thereof, of any wholly unissued series of Preferred Stock, including without limitation authority to fix by resolution or resolutions the dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions), redemption price or prices, and liquidation preferences of any such series, and the number of shares constituting any such series and the designation thereof, or any of the foregoing.

The Board of Directors is further authorized to increase (but not above the total number of authorized shares of the class) or decrease (but not below the number of shares of any such series then outstanding) the number of shares of any series, the number of which was fixed by it, subsequent to the issuance of shares of such series then outstanding, subject to the powers, preferences and rights, and the qualifications, limitations and restrictions thereof stated in the Certificate of Incorporation or the resolution of the Board of Directors originally fixing the number of shares of such series. If the number of shares of any series is so decreased, then the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series.

ARTICLE V

The number of directors that constitutes the entire Board of Directors of the corporation shall be determined in the manner set forth in the Bylaws of the corporation. At each annual meeting of stockholders, directors of the corporation shall be elected to hold office until the expiration of the term for which they are elected and until their successors have been duly elected and qualified; except that if any such election shall not be so held, such election shall take place at a stockholders' meeting called and held in accordance with the DGCL.

The directors of the corporation shall be divided into three classes as nearly equal in size as is practicable, hereby designated Class I, Class II and Class III. The term of office of the initial Class I directors shall expire at the first annual meeting of the stockholders following the effective date of this corporation's initial public offering (the "**Effective Date**"), the term of office of the initial Class II directors shall expire at the second annual meeting of the stockholders following the Effective Date and the term of office of the initial Class III directors shall expire at the third annual meeting of the stockholders following the Effective Date. At each annual meeting of stockholders, commencing with the first annual meeting of stockholders following the Effective Date, each of the successors elected to replace the directors of a Class whose term shall have expired at such annual meeting shall be elected to hold office until the third annual meeting next succeeding his or her election and until his or her respective successor shall have been duly elected and qualified.

Notwithstanding the foregoing provisions of this Article, each director shall serve until his or her successor is duly elected and qualified or until his or her death, resignation, or removal. If the number of directors is hereafter changed, any newly created directorships or decrease in directorships shall be so apportioned among the classes as to make all classes as nearly equal in number as is practicable, provided that no decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

Any director may be removed from office by the stockholders of the corporation only for cause. Vacancies occurring on the Board of Directors for any reason and newly created directorships resulting from an increase in the authorized number of directors may be filled by vote of a majority of the remaining members of the Board of Directors, although less than a quorum, or by a sole remaining director. A person so elected by the Board of Directors to fill a vacancy or newly created directorship shall hold office until the next election of the Class for which such director shall have been chosen and until his or her successor shall have been duly elected and qualified.

ARTICLE VI

In furtherance and not in limitation of the powers conferred by statute, the Board of Directors of the corporation is expressly authorized to adopt, amend or repeal the Bylaws of the corporation.

ARTICLE VII

The election of directors need not be by written ballot unless the Bylaws of the corporation shall so provide.

ARTICLE VIII

No action shall be taken by the stockholders of the corporation except at an annual or special meeting of the stockholders called in accordance with the Bylaws, and no action shall be taken by the stockholders by written consent.

ARTICLE IX

To the fullest extent permitted by the General Corporation Law of Delaware or any other applicable law as the same exists or may hereafter be amended, a director of the corporation shall not be personally liable to the corporation or its stockholders and shall otherwise be indemnified by the corporation for monetary damages for any action taken, or any failure to take any action, as a director.

The corporation shall indemnify to the fullest extent permitted by law any person made or threatened to be made a party to an action or proceeding, whether criminal, civil, administrative or investigative, by reason of the fact that he or she or his or her testator or intestate is or was a director or officer of the corporation or any predecessor of the corporation or serves or served at any other enterprise as a director, officer, employee or agent at the request of the corporation or any predecessor to the corporation. To the fullest extent permitted by applicable law, the corporation is authorized to provide indemnification of, and advancement of expenses to, directors, officers,

employees, other agents of the corporation and any other persons to which the General Corporation Law of Delaware permits the corporation to provide indemnification.

Neither any amendment nor repeal of this Article IX, nor the adoption of any provision of this corporation's Certificate of Incorporation inconsistent with this Article IX, shall eliminate or reduce the effect of this Article IX in respect of any matter occurring, or any cause of action, suit or claim accruing or arising or that, but for this Article IX, would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision.

ARTICLE X

Except as provided in Article IX above, the corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

IN WITNESS WHEREOF, Monolithic Power Systems, Inc. has caused this Amended and Restated Certificate of Incorporation to be signed by the President and Chief Executive Officer of the corporation on this day of , 2004.

By: _____

Michael Hsing
President and Chief Executive Officer

Exhibit 3.3

BYLAWS OF

MONOLITHIC POWER SYSTEMS, INC.

(initially adopted on February 26, 2004)

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BYLAWS OF MONOLITHIC POWER SYSTEMS, INC.

ARTICLE I - CORPORATE OFFICES

1.1 REGISTERED OFFICE.

The registered office of Monolithic Power Systems, Inc. shall be fixed in the corporation's certificate of incorporation, as the same may be amended from time to time.

1.2 OTHER OFFICES.

The corporation's Board of Directors (the "**Board**") may at any time establish other offices at any place or places where the corporation is qualified to do business.

ARTICLE II - MEETINGS OF STOCKHOLDERS

2.1 PLACE OF MEETINGS.

Meetings of stockholders shall be held at any place, within or outside the State of Delaware, designated by the Board. The Board may, in its sole discretion, determine that a meeting of stockholders shall not be held at any place, but may instead be held solely by means of remote communication as authorized by Section 211(a)(2) of the Delaware General Corporation Law (the "**DGCL**"). In the absence of any such designation or determination, stockholders' meetings shall be held at the corporation's principal executive office.

2.2 ANNUAL MEETING.

The annual meeting of stockholders shall be held each year. The Board shall designate the date and time of the annual meeting. At the annual meeting, directors shall be elected and any other proper business may be transacted.

2.3 SPECIAL MEETING.

A special meeting of the stockholders may be called at any time by the Board, chairperson of the Board, chief executive officer or president (in the absence of a chief executive officer) or by one or more stockholders holding shares in the aggregate entitled to cast not less than 10% of the votes at that meeting.

If any person(s) other than the Board calls a special meeting, the request shall:

(i) be in writing;

(ii) specify the time of such meeting and the general nature of the business proposed to be transacted; and

(iii) be delivered personally or sent by registered mail or by facsimile transmission to the chairperson of the Board, the chief executive officer, the president (in the absence of a chief executive officer) or the secretary of the corporation.

The officer(s) receiving the request shall cause notice to be promptly given to the stockholders entitled to vote at such meeting, in accordance with the provisions of Sections 2.4 and 2.5 of these bylaws, that a meeting will be held at the time requested by the person or persons calling the meeting. No business may be transacted at such special meeting other than the business specified in such notice to stockholders. Nothing contained in this paragraph of this Section 2.3 shall be construed as limiting, fixing, or affecting the time when a meeting of stockholders called by action of the Board may be held.

2.4 NOTICE OF STOCKHOLDERS' MEETINGS.

All notices of meetings of stockholders shall be sent or otherwise given in accordance with either Section 2.5 or Section 8.1 of these bylaws not less than 10 nor more than 60 days before the date of the meeting to each stockholder entitled to vote at such meeting. The notice shall specify the place, if any, date and hour of the meeting, the means of remote communication, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called.

2.5 MANNER OF GIVING NOTICE; AFFIDAVIT OF NOTICE.

Notice of any meeting of stockholders shall be given:

(i) if mailed, when deposited in the United States mail, postage prepaid, directed to the stockholder at his or her address as it appears on the corporation's records; or

(ii) if electronically transmitted as provided in Section 8.1 of these bylaws.

An affidavit of the secretary or an assistant secretary of the corporation or of the transfer agent or any other agent of the corporation that the notice has been given by mail or by a form of electronic transmission, as applicable, shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

2.6 QUORUM.

The holders of a majority of the stock issued and outstanding and entitled to vote, present in person or represented by proxy, shall constitute a quorum for the transaction of business at all meetings of the stockholders. If, however, such quorum is not present or represented at any meeting of the stockholders, then either: (i) the chairperson of the meeting; or (ii) the stockholders entitled to vote at the meeting, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present or represented. At such adjourned meeting at which a quorum is present or represented, any business may be transacted that might have been transacted at the meeting as originally noticed.

2.7 ADJOURNED MEETING; NOTICE.

When a meeting is adjourned to another time or place, unless these bylaws otherwise require, notice need not be given of the adjourned meeting if the time, place if any thereof, and the means of remote communications if any by which stockholders and proxy holders may be deemed to be present in person and vote at such adjourned meeting are announced at the meeting at which the adjournment is taken. At the continuation of the adjourned meeting, the corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

2.8 CONDUCT OF BUSINESS.

The chairperson of any meeting of stockholders shall determine the order of business and the procedure at the meeting, including such regulation of the manner of voting and the conduct of business.

2.9 VOTING.

The stockholders entitled to vote at any meeting of stockholders shall be determined in accordance with the provisions of Section 2.11 of these bylaws, subject to Section 217 (relating to voting rights of fiduciaries, pledgors and joint owners of stock) and Section 218 (relating to voting trusts and other voting agreements) of the DGCL.

Except as may be otherwise provided in the certificate of incorporation or these bylaws, each stockholder shall be entitled to one vote for each share of capital stock held by such stockholder.

2.10 STOCKHOLDER ACTION BY WRITTEN CONSENT WITHOUT A MEETING.

Unless otherwise provided in the certificate of incorporation, any action required by the DGCL to be taken at any annual or special meeting of stockholders of a corporation, or any action which may be taken at any annual or special meeting of such stockholders, may be taken without a meeting, without prior notice, and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted.

Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing and who, if the action had been taken at a meeting, would have been entitled to notice of the meeting if the record date for such meeting had been the date that written consents signed by a sufficient number of holders to take the action were delivered to the corporation as provided in Section 228 of the DGCL. In the event that the action which is consented to is such as would have required the filing of a certificate under any provision of the DGCL, if such action had been voted on by stockholders at a meeting thereof, the certificate filed under such provision shall state, in lieu of any statement required by such provision concerning any vote of stockholders, that written consent has been given in accordance with Section 228 of the DGCL.

2.11 RECORD DATE FOR STOCKHOLDER NOTICE; VOTING; GIVING CONSENTS.

In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board may fix, in advance, a record date, which record date shall not precede the date on which the resolution fixing the record date is adopted and which shall not be more than 60 nor less than 10 days before the date of such meeting, nor more than 60 days prior to any other such action.

If the Board does not so fix a record date:

(i) the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held.

(ii) the record date for determining stockholders entitled to express consent to corporate action in writing without a meeting, when no prior action by the Board is necessary, shall be the day on which the first written consent is expressed.

(iii) the record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board adopts the resolution relating thereto.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board may fix a new record date for the adjourned meeting.

2.12 PROXIES.

Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for such stockholder by proxy authorized by an instrument in writing or by a transmission permitted by law filed in accordance with the procedure established for the meeting, but no such proxy shall be voted or acted upon after 3 years from its date, unless the proxy provides for a longer period. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Section 212 of the DGCL.

2.13 LIST OF STOCKHOLDERS ENTITLED TO VOTE.

The officer who has charge of the stock ledger of the corporation shall prepare and make, at least 10 days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. The corporation shall not be required to include electronic mail addresses or other electronic contact information on such list. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting for a period of at least 10 days prior to the meeting: (i) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting; or (ii) during ordinary business hours, at the corporation's principal executive office. In the event that the corporation determines to make the list available on an electronic network, the corporation may

take reasonable steps to ensure that such information is available only to stockholders of the corporation. If the meeting is to be held at a place, then the list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. If the meeting is to be held solely by means of remote communication, then the list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting. Such list shall presumptively determine the identity of the stockholders entitled to vote at the meeting and the number of shares held by each of them.

ARTICLE III - DIRECTORS

3.1 POWERS.

Subject to the provisions of the DGCL and any limitations in the certificate of incorporation or these bylaws relating to action required to be approved by the stockholders or by the outstanding shares, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the Board.

3.2 NUMBER OF DIRECTORS.

The authorized number of directors shall be determined from time to time by resolution of the Board, provided the Board shall consist of at least 1 member. No reduction of the authorized number of directors shall have the effect of removing any director before that director's term of office expires.

3.3 ELECTION, QUALIFICATION AND TERM OF OFFICE OF DIRECTORS.

Except as provided in Section 3.4 of these bylaws, directors shall be elected at each annual meeting of stockholders to hold office until the next annual meeting. Directors need not be stockholders unless so required by the certificate of incorporation or these bylaws. The certificate of incorporation or these bylaws may prescribe other qualifications for directors. Each director, including a director elected to fill a vacancy, shall hold office until such director's successor is elected and qualified or until such director's earlier death, resignation or removal.

All elections of directors shall be by written ballot unless otherwise provided in the certificate of incorporation; if authorized by the Board, such requirement of a written ballot shall be satisfied by a ballot submitted by electronic transmission, provided that any such electronic transmission must be either set forth or be submitted with information from which it can be determined that the electronic transmission was authorized by the stockholder or proxy holder.

3.4 RESIGNATION AND VACANCIES.

Any director may resign at any time upon notice given in writing or by electronic transmission to the corporation. When one or more directors so resigns and the resignation is effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each director so chosen shall hold office as provided in this section in the filling of other vacancies.

Unless otherwise provided in the certificate of incorporation or these bylaws:

(i) vacancies and newly created directorships resulting from any increase in the authorized number of directors elected by all of the stockholders having the right to vote as a single class may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director.

(ii) whenever the holders of any class or classes of stock or series thereof are entitled to elect one or more directors by the provisions of the certificate of incorporation, vacancies and newly created directorships of such class or classes or series may be filled by a majority of the directors elected by such class or classes or series thereof then in office, or by a sole remaining director so elected.

If at any time, by reason of death or resignation or other cause, the corporation should have no directors in office, then any officer or any stockholder or an executor, administrator, trustee or guardian of a stockholder, or other fiduciary entrusted with like responsibility for the person or estate of a stockholder, may call a special meeting of stockholders in accordance with the provisions of the certificate of incorporation or these bylaws, or may apply to the Court of Chancery for a decree summarily ordering an election as provided in Section 211 of the DGCL.

If, at the time of filling any vacancy or any newly created directorship, the directors then in office constitute less than a majority of the whole Board (as constituted immediately prior to any such increase), then the Court of Chancery may, upon application of any stockholder or stockholders holding at least 10% of the total number of the shares at the time outstanding having the right to vote for such directors, summarily order an election to be held to fill any such vacancies or newly created directorships, or to replace the directors chosen by the directors then in office as aforesaid, which election shall be governed by the provisions of Section 211 of the DGCL as far as applicable.

3.5 PLACE OF MEETINGS; MEETINGS BY TELEPHONE.

The Board may hold meetings, both regular and special, either within or outside the State of Delaware.

Unless otherwise restricted by the certificate of incorporation or these bylaws, members of the Board, or any committee designated by the Board, may participate in a meeting of the Board, or any committee, by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

3.6 REGULAR MEETINGS.

Regular meetings of the Board may be held without notice at such time and at such place as shall from time to time be determined by the Board.

3.7 SPECIAL MEETINGS; NOTICE.

Special meetings of the Board for any purpose or purposes may be called at any time by the chairperson of the Board, the chief executive officer, the president, the secretary or any two directors.

Notice of the time and place of special meetings shall be:

(i) delivered personally by hand, by courier or by telephone;

(ii) sent by United States first-class mail, postage prepaid;

(iii) sent by facsimile; or

(iv) sent by electronic mail,

directed to each director at that director's address, telephone number, facsimile number or electronic mail address, as the case may be, as shown on the corporation's records.

If the notice is: (i) delivered personally by hand, by courier or by telephone; (ii) sent by facsimile; or (iii) sent by electronic mail, it shall be delivered or sent at least 24 hours before the time of the holding of the meeting. If the notice is sent by United States mail, it shall be deposited in the United States mail at least 4 days before the time of the holding of the meeting. Any oral notice may be communicated to the director. The notice need not specify the place of the meeting (if the meeting is to be held at the corporation's principal executive office) nor the purpose of the meeting.

3.8 QUORUM.

At all meetings of the Board, a majority of the authorized number of directors shall constitute a quorum for the transaction of business. The vote of a majority of the directors present at any meeting at which a quorum is present shall be the act of the Board, except as may be otherwise specifically provided by statute, the certificate of incorporation or these bylaws. If a quorum is not present at any meeting of the Board, then the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present.

A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for that meeting.

3.9 BOARD ACTION BY WRITTEN CONSENT WITHOUT A MEETING.

Unless otherwise restricted by the certificate of incorporation or these bylaws, any action required or permitted to be taken at any meeting of the Board, or of any committee thereof, may be taken without a meeting if all members of the Board or committee, as the case may be, consent thereto in writing or by electronic transmission and the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the Board or committee. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

3.10 FEES AND COMPENSATION OF DIRECTORS.

Unless otherwise restricted by the certificate of incorporation or these bylaws, the Board shall have the authority to fix the compensation of directors.

3.11 REMOVAL OF DIRECTORS.

Unless otherwise restricted by statute, the certificate of incorporation or these bylaws, any director or the entire Board may be removed, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors.

No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of such director's term of office.

ARTICLE IV - COMMITTEES

4.1 COMMITTEES OF DIRECTORS.

The Board may designate one or more committees, each committee to consist of one or more of the directors of the corporation. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the Board to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the Board or in these bylaws, shall have and may exercise all the powers and authority of the Board in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers that may require it; but no such committee shall have the power or authority to: (i) approve or adopt, or recommend to the stockholders, any action or matter expressly required by the DGCL to be submitted to stockholders for approval; or (ii) adopt, amend or repeal any bylaw of the corporation.

4.2 COMMITTEE MINUTES.

Each committee shall keep regular minutes of its meetings and report the same to the Board when required.

4.3 MEETINGS AND ACTION OF COMMITTEES.

Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of:

(i) Section 3.5 (place of meetings and meetings by telephone);

(ii) Section 3.6 (regular meetings);

(iii) Section 3.7 (special meetings and notice);

(iv) Section 3.8 (quorum);

(v) Section 7.13 (waiver of notice); and

(vi) Section 3.9 (action without a meeting)

with such changes in the context of those bylaws as are necessary to substitute the committee and its members for the Board and its members. However:

(i) the time of regular meetings of committees may be determined either by resolution of the Board or by resolution of the committee;

(ii) special meetings of committees may also be called by resolution of the Board; and

(iii) notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The Board may adopt rules for the government of any committee not inconsistent with the provisions of these bylaws.

ARTICLE V - OFFICERS

5.1 OFFICERS.

The officers of the corporation shall be a president and a secretary. The corporation may also have, at the discretion of the Board, a chairperson of the Board, a vice chairperson of the Board, a chief executive officer, a chief financial officer or treasurer, one or more vice presidents, one or more assistant vice presidents, one or more assistant treasurers, one or more assistant secretaries, and any such other officers as may be appointed in accordance with the provisions of these bylaws. Any number of offices may be held by the same person.

5.2 APPOINTMENT OF OFFICERS.

The Board shall appoint the officers of the corporation, except such officers as may be appointed in accordance with the provisions of Sections 5.3 and 5.5 of these bylaws, subject to the rights, if any, of an officer under any contract of employment.

5.3 SUBORDINATE OFFICERS.

The Board may appoint, or empower the chief executive officer or, in the absence of a chief executive officer, the president, to appoint, such other officers and agents as the business of the corporation may require. Each of such officers and agents shall hold office for such period, have such authority, and perform such duties as are provided in these bylaws or as the Board may from time to time determine.

5.4 REMOVAL AND RESIGNATION OF OFFICERS.

Subject to the rights, if any, of an officer under any contract of employment, any officer may be removed, either with or without cause, by an affirmative vote of the majority of the Board at any regular or special meeting of the Board or, except in the case of an officer chosen by the Board, by any officer upon whom such power of removal may be conferred by the Board.

Any officer may resign at any time by giving written notice to the corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice. Unless otherwise specified in the notice of resignation, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party.

5.5 VACANCIES IN OFFICES.

Any vacancy occurring in any office of the corporation shall be filled by the Board or as provided in Section 5.2.

5.6 CHAIRPERSON OF THE BOARD.

The chairperson of the Board, if such an officer be elected, shall, if present, preside at meetings of the Board and exercise and perform such other powers and duties as may from time to time be assigned to him by the Board or as may be prescribed by these bylaws. If there is no chief executive officer or president, then the chairperson of the Board shall also be the chief executive officer of the corporation and shall have the powers and duties prescribed in Section 5.7 of these bylaws.

5.7 CHIEF EXECUTIVE OFFICER.

Subject to such supervisory powers, if any, as the Board may give to the chairperson of the Board, the chief executive officer, if any, shall, subject to the control of the Board, have general supervision, direction, and control of the business and affairs of the corporation and shall report directly to the Board. All other officers, officials, employees and agents shall report directly or indirectly to the chief executive officer. The chief executive officer shall see that all orders and resolutions of the Board are carried into effect. The chief executive officer shall serve as chairperson of and preside at all meetings of the stockholders. In the absence of a chairperson of the Board, the chief executive officer shall preside at all meetings of the Board.

5.8 PRESIDENT.

In the absence or disability of the chief executive officer, the president shall perform all the duties of the chief executive officer. When acting as the chief executive officer, the president shall have all the powers of, and be subject to all the restrictions upon, the chief executive officer. The president shall have such other powers and perform such other duties as from time to time may be prescribed for him by the Board, these bylaws, the chief executive officer or the chairperson of the Board.

5.9 VICE PRESIDENTS.

In the absence or disability of the president, the vice presidents, if any, in order of their rank as fixed by the Board or, if not ranked, a vice president designated by the Board, shall perform all the duties of the president. When acting as the president, the appropriate vice president shall have all the powers of, and be subject to all the restrictions upon, the president. The vice presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the Board, these bylaws, the chairperson of the Board, the chief executive officer or, in the absence of a chief executive officer, the president.

5.10 SECRETARY.

The secretary shall keep or cause to be kept, at the principal executive office of the corporation or such other place as the Board may direct, a book of minutes of all meetings and actions of directors, committees of directors, and stockholders. The minutes shall show:

(i) the time and place of each meeting;

(ii) whether regular or special (and, if special, how authorized and the notice given);

(iii) the names of those present at directors' meetings or committee meetings;

(iv) the number of shares present or represented at stockholders' meetings;

(v) and the proceedings thereof.

The secretary shall keep, or cause to be kept, at the principal executive office of the corporation or at the office of the corporation's transfer agent or registrar, as determined by resolution of the Board, a share register, or a duplicate share register showing:

(i) the names of all stockholders and their addresses;

(ii) the number and classes of shares held by each;

(iii) the number and date of certificates evidencing such shares; and

(iv) the number and date of cancellation of every certificate surrendered for cancellation.

The secretary shall give, or cause to be given, notice of all meetings of the stockholders and of the Board required to be given by law or by these bylaws. The secretary shall keep the seal of the corporation, if one be adopted, in safe custody and shall have such other powers and perform such other duties as may be prescribed by the Board or by these bylaws.

5.11 CHIEF FINANCIAL OFFICER.

The chief financial officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital retained earnings, and shares. The books of account shall at all reasonable times be open to inspection by any director.

The chief financial officer shall deposit all moneys and other valuables in the name and to the credit of the corporation with such depositories as the Board may designate. The chief financial officer shall disburse the funds of the corporation as may be ordered by the Board, shall render to the chief executive officer or, in the absence of a chief executive officer, the president and directors, whenever they request it, an account of all his or her transactions as chief financial officer and of the financial condition of the corporation, and shall have other powers and perform such other duties as may be prescribed by the Board or these bylaws.

The chief financial officer shall be the treasurer of the corporation.

5.12 ASSISTANT SECRETARY.

The assistant secretary, or, if there is more than one, the assistant secretaries in the order determined by the stockholders or Board (or if there be no such determination, then in the order of their election) shall, in the absence of the secretary or in the event of the secretary's inability or refusal to act, perform the duties and exercise the powers of the secretary and shall perform such other duties and have such other powers as may be prescribed by the Board or these bylaws.

5.13 ASSISTANT TREASURER.

The assistant treasurer, or, if there is more than one, the assistant treasurers, in the order determined by the stockholders or Board (or if there be no such determination, then in the order of their election), shall, in the absence of the chief financial officer or in the event of the chief financial officer's inability or refusal to act, perform the duties and exercise the powers of the chief financial officer and shall perform such other duties and have such other powers as may be prescribed by the Board or these bylaws.

5.14 REPRESENTATION OF SHARES OF OTHER CORPORATIONS.

The chairperson of the Board, the president, any vice president, the treasurer, the secretary or assistant secretary of this corporation, or any other person authorized by the Board or the president or a vice president, is authorized to vote, represent, and exercise on behalf of this corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of this corporation. The authority granted herein may be exercised either by such person directly or by any other person authorized to do so by proxy or power of attorney duly executed by such person having the authority.

5.15 AUTHORITY AND DUTIES OF OFFICERS.

In addition to the foregoing authority and duties, all officers of the corporation shall respectively have such authority and perform such duties in the management of the business of the corporation as may be designated from time to time by the Board or the stockholders.

ARTICLE VI - RECORDS AND REPORTS

6.1 MAINTENANCE AND INSPECTION OF RECORDS.

The corporation shall, either at its principal executive office or at such place or places as designated by the Board, keep a record of its stockholders listing their names and addresses and the number and class of shares held by each stockholder, a copy of these bylaws as amended to date, accounting books, and other records.

Any stockholder of record, in person or by attorney or other agent, shall, upon written demand under oath stating the purpose thereof, have the right during the usual hours for business to inspect for any proper purpose the corporation's stock ledger, a list of its stockholders, and its other books and records and to make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to such person's interest as a stockholder.

In every instance where an attorney or other agent is the person who seeks the right to inspection, the demand under oath shall be accompanied by a power of attorney or such other writing that authorizes the attorney or other agent so to act on behalf of the stockholder. The demand under oath shall be directed to the corporation at its registered office in Delaware or at its principal executive office.

6.2 INSPECTION BY DIRECTORS.

Any director shall have the right to examine the corporation's stock ledger, a list of its stockholders, and its other books and records for a purpose reasonably related to his or her position as a director. The Court of Chancery is hereby vested with the exclusive jurisdiction to determine whether a director is entitled to the inspection sought. The Court may summarily order the corporation to permit the director to inspect any and all books and records, the stock ledger, and the stock list and to make copies or extracts therefrom. The Court may, in its discretion, prescribe any limitations or conditions with reference to the inspection, or award such other and further relief as the Court may deem just and proper.

ARTICLE VII - GENERAL MATTERS

7.1 CHECKS.

From time to time, the Board shall determine by resolution which person or persons may sign or endorse all checks, drafts, other orders for payment of money, notes or other evidences of indebtedness that are issued in the name of or payable to the corporation, and only the persons so authorized shall sign or endorse those instruments.

7.2 EXECUTION OF CORPORATE CONTRACTS AND INSTRUMENTS.

The Board, except as otherwise provided in these bylaws, may authorize any officer or officers, or agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation; such authority may be general or confined to specific instances. Unless so authorized or ratified by the Board or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

7.3 STOCK CERTIFICATES; PARTLY PAID SHARES.

The shares of the corporation shall be represented by certificates, provided that the Board may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the corporation. Notwithstanding the adoption of such a resolution by the Board, every holder of stock represented by certificates and upon request every holder of uncertificated shares shall be entitled to have a certificate signed by, or in the name of the corporation by the chairperson or vice-chairperson of the Board, or the president or vice-president, and by the treasurer or an assistant treasurer, or the secretary or an assistant secretary of such corporation representing the number of shares registered in certificate form. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate has ceased to be such officer, transfer agent or registrar before such

certificate is issued, it may be issued by the corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

The corporation may issue the whole or any part of its shares as partly paid and subject to call for the remainder of the consideration to be paid therefor. Upon the face or back of each stock certificate issued to represent any such partly paid shares, upon the books and records of the corporation in the case of uncertificated partly paid shares, the total amount of the consideration to be paid therefor and the amount paid thereon shall be stated. Upon the declaration of any dividend on fully paid shares, the corporation shall declare a dividend upon partly paid shares of the same class, but only upon the basis of the percentage of the consideration actually paid thereon.

7.4 SPECIAL DESIGNATION ON CERTIFICATES.

If the corporation is authorized to issue more than one class of stock or more than one series of any class, then the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate that the corporation shall issue to represent such class or series of stock; provided, however, that, except as otherwise provided in Section 202 of the DGCL, in lieu of the foregoing requirements there may be set forth on the face or back of the certificate that the corporation shall issue to represent such class or series of stock a statement that the corporation will furnish without charge to each stockholder who so requests the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

7.5 LOST CERTIFICATES.

Except as provided in this Section 7.5, no new certificates for shares shall be issued to replace a previously issued certificate unless the latter is surrendered to the corporation and cancelled at the same time. The corporation may issue a new certificate of stock or uncertificated shares in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the corporation may require the owner of the lost, stolen or destroyed certificate, or such owner's legal representative, to give the corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate or uncertificated shares.

7.6 CONSTRUCTION; DEFINITIONS.

Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the DGCL shall govern the construction of these bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term "person" includes both a corporation and a natural person.

7.7 DIVIDENDS.

The Board, subject to any restrictions contained in either: (i) the DGCL; or (ii) the certificate of incorporation, may declare and pay dividends upon the shares of its capital stock. Dividends may be paid in cash, in property, or in shares of the corporation's capital stock.

The Board may set apart out of any of the funds of the corporation available for dividends a reserve or reserves for any proper purpose and may abolish any such reserve. Such purposes shall include but not be limited to equalizing dividends, repairing or maintaining any property of the corporation, and meeting contingencies.

7.8 FISCAL YEAR.

The fiscal year of the corporation shall be fixed by resolution of the Board and may be changed by the Board.

7.9 SEAL.

The corporation may adopt a corporate seal, which shall be adopted and which may be altered by the Board. The corporation may use the corporate seal by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

7.10 TRANSFER OF STOCK.

Upon surrender to the corporation or the transfer agent of the corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer, it shall be the duty of the corporation to issue a new certificate to the person entitled thereto, cancel the old certificate, and record the transaction in its books.

7.11 STOCK TRANSFER AGREEMENTS.

The corporation shall have the power to enter into and perform any agreement with any number of stockholders of any one or more classes of stock of the corporation to restrict the transfer of shares of stock of the corporation of any one or more classes owned by such stockholders in any manner not prohibited by the DGCL.

7.12 REGISTERED STOCKHOLDERS.

The corporation:

(i) shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends and to vote as such owner;

(ii) shall be entitled to hold liable for calls and assessments the person registered on its books as the owner of shares; and

(iii) shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of another person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

7.13 WAIVER OF NOTICE.

Whenever notice is required to be given under any provision of the DGCL, the certificate of incorporation or these bylaws, a written waiver, signed by the person entitled to notice, or a waiver by electronic transmission

by the person entitled to notice, whether before or after the time of the event for which notice is to be given, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders need be specified in any written waiver of notice or any waiver by electronic transmission unless so required by the certificate of incorporation or these bylaws.

ARTICLE VIII - NOTICE BY ELECTRONIC TRANSMISSION

8.1 NOTICE BY ELECTRONIC TRANSMISSION.

Without limiting the manner by which notice otherwise may be given effectively to stockholders pursuant to the DGCL, the certificate of incorporation or these bylaws, any notice to stockholders given by the corporation under any provision of the DGCL, the certificate of incorporation or these bylaws shall be effective if given by a form of electronic transmission consented to by the stockholder to whom the notice is given. Any such consent shall be revocable by the stockholder by written notice to the corporation. Any such consent shall be deemed revoked if:

(i) the corporation is unable to deliver by electronic transmission two consecutive notices given by the corporation in accordance with such consent; and

(ii) such inability becomes known to the secretary or an assistant secretary of the corporation or to the transfer agent, or other person responsible for the giving of notice.

However, the inadvertent failure to treat such inability as a revocation shall not invalidate any meeting or other action.

Any notice given pursuant to the preceding paragraph shall be deemed given:

(i) if by facsimile telecommunication, when directed to a number at which the stockholder has consented to receive notice;

(ii) if by electronic mail, when directed to an electronic mail address at which the stockholder has consented to receive notice;

(iii) if by a posting on an electronic network together with separate notice to the stockholder of such specific posting, upon the later of (A) such posting and (B) the giving of such separate notice; and

(iv) if by any other form of electronic transmission, when directed to the stockholder.

An affidavit of the secretary or an assistant secretary or of the transfer agent or other agent of the corporation that the notice has been given by a form of electronic transmission shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

8.2 DEFINITION OF ELECTRONIC TRANSMISSION.

An "electronic transmission" means any form of communication, not directly involving the physical transmission of paper, that creates a record that may be retained, retrieved, and reviewed by a recipient thereof, and that may be directly reproduced in paper form by such a recipient through an automated process.

8.3 INAPPLICABILITY.

Notice by a form of electronic transmission shall not apply to Sections 164, 296, 311, 312 or 324 of the DGCL.

ARTICLE IX - INDEMNIFICATION

9.1 INDEMNIFICATION OF DIRECTORS AND OFFICERS.

The corporation shall indemnify and hold harmless, to the fullest extent permitted by DGCL as it presently exists or may hereafter be amended, any director or officer of the corporation who was or is made or is threatened to be made a party or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "**Proceeding**") by reason of the fact that he or she, or a person for whom he or she is the legal representative, is or was a director, officer, employee or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust, enterprise or non-profit entity, including service with respect to employee benefit plans, against all liability and loss suffered and expenses reasonably incurred by such person in connection with any such action, suit, or proceeding. The corporation shall be required to indemnify a person in connection with a proceeding initiated by such person only if the proceeding was authorized by the Board.

9.2 INDEMNIFICATION OF OTHERS.

The corporation shall have the power to indemnify and hold harmless, to the extent permitted by applicable law as it presently exists or may hereafter be amended, any employee or agent of the corporation who was or is made or is threatened to be made a party or is otherwise involved in any action, suit or proceeding by reason of the fact that he or she, or a person for whom he or she is the legal representative, is or was an employee or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust, enterprise or non-profit entity, including service with respect to employee benefit plans, against all liability and loss suffered and expenses reasonably incurred by such person in connection with any such action, suit, or proceeding.

9.3 PREPAYMENT OF EXPENSES.

The corporation shall pay the expenses incurred by any officer or director of the corporation, and may pay the expenses incurred by any employee or agent of the corporation, in defending any proceeding in advance of its final disposition; *provided, however*, that the payment of expenses incurred by a person in advance of the final disposition of the proceeding shall be made only upon receipt of an undertaking by the person to repay all amounts advanced if it should be ultimately determined that the person is not entitled to be indemnified under this Article 9 or otherwise.

9.4 DETERMINATION; CLAIM.

If a claim for indemnification or payment of expenses under this Article 9 is not paid in full within 60 days after a written claim therefor has been received by the corporation, the claimant may file suit to recover the unpaid amount of such claim and, if successful in whole or in part, shall be entitled to be paid the expense of prosecuting such claim. In any such action the corporation shall have the burden of proving that the claimant was not entitled to the requested indemnification or payment of expenses under applicable law.

9.5 NON-EXCLUSIVITY OF RIGHTS.

The rights conferred on any person by this Article 9 shall not be exclusive of any other rights which such person may have or hereafter acquire under any statute, provision of the certificate of incorporation, these bylaws, agreement, vote of stockholders or disinterested directors or otherwise.

9.6 INSURANCE.

The corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him or her and incurred by him or her in any such capacity, or arising out of his or her status as such, whether or not the corporation would have the power to indemnify him or her against such liability under the provisions of the DGCL.

9.7 OTHER INDEMNIFICATION.

The corporation's obligation, if any, to indemnify any person who was or is serving at its request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, enterprise or non-profit entity shall be reduced by any amount such person may collect as indemnification from such other corporation, partnership, joint venture, trust, enterprise or non-profit enterprise.

9.8 AMENDMENT OR REPEAL.

Any repeal or modification of the foregoing provisions of this Article 9 shall not adversely affect any right or protection hereunder of any person in respect of any act or omission occurring prior to the time of such repeal or modification."

ARTICLE X - AMENDMENTS

These bylaws may be adopted, amended or repealed by the stockholders entitled to vote. However, the corporation may, in its certificate of incorporation, confer the power to adopt, amend or repeal bylaws upon the directors. The fact that such power has been so conferred upon the directors shall not divest the stockholders of the power, nor limit their power to adopt, amend or repeal bylaws.

Exhibit 4.1

MONOLITHIC POWER SYSTEMS, INC.

AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT

This Amended and Restated Registration Rights Agreement (the "**Agreement**") is made as of August 23, 2002 by and among Monolithic Power Systems, Inc., a California corporation (the "Company"), and each of the persons and entities who have purchased shares of the Company's capital stock and are listed on the Schedule of Purchasers hereto (individually, a "**Purchaser**," and collectively, the "**Purchasers**").

WHEREAS, the Company and the purchasers of the Company's Series B Preferred Stock have previously entered into a Registration Rights Agreement dated as of August 31, 1999 (the "**Prior Agreement**"), and purchasers of the Company's Series C Preferred Stock have become parties to the Prior Agreement by executing joinders thereto;

WHEREAS, certain of the Purchasers are purchasing the Company's Series D Preferred Stock pursuant to a Series D Preferred Stock Purchase Agreement of even date herewith (said agreement, the "**Purchase Agreement**" and said transaction, the "**Series D Financing**");

WHEREAS, the Series D Financing requires as a condition to closing that the parties hereto enter into this Agreement;

WHEREAS, each of the parties hereto desire that the Series D Financing be consummated;

WHEREAS, the Prior Agreement provides that it may be amended upon the written consent of the Company and holders of 66-2/3% of the outstanding shares of Registrable Securities (as defined in the Prior Agreement) (such holders, the "**Requisite Holders**");

NOW THEREFORE, the parties hereto agree, and the Company and the Requisite Holders hereby amend and restate the Prior Agreement in its entirety, as follows:

1. Certain Definitions. As used in this Agreement, the following terms shall have the following respective meanings:

"**Commission**" shall mean the Securities and Exchange Commission or any successor agency.

"**Exchange Act**" shall mean the Securities Exchange Act of 1934, as amended, or any successor law thereto.

"**Holder**" shall mean each Purchaser, and any transferee of Registrable Securities who pursuant to Section 15 below is entitled to registration rights hereunder.

"**Preferred**" shall mean shares of any series of Preferred Stock of the Company.

"**Purchaser**" shall mean each person or entity who has acquired shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock or Series D Preferred Stock and who is a signatory to this Agreement or who holds Registrable Securities and may become a signatory pursuant to Section 20(b) hereof.

"**Registrable Securities**" shall mean, to the extent held by a Holder hereof, (i) shares of the Company's Common Stock, except that such Common Stock shall not be included in the definition of Registrable Securities for purposes of Sections 5, 7, 15 and 20; (ii) any Common Stock of the Company issued or issuable upon the conversion of the Preferred; (iii) shares of the Company's Common Stock issued or issuable upon any conversion of the Preferred upon any stock split, stock dividend, recapitalization, or similar event; and (iv) any shares of the Company's Common Stock issued or issuable upon conversion or exercise of any convertible security for which subsequent registration rights are granted in accordance with Section 20; provided, however, that Registrable Securities shall not include shares of Common Stock that have been sold to or though a broker or dealer or underwriter in a public distribution or public securities transaction, sold in a transaction exempt from the registration and prospectus delivery requirements of the Securities Act under Section 4(1) thereof so that all transfer restrictions and restrictive legends with respect thereto, if any, are removed upon the consummation of such sale, or Registrable Securities sold by a person in a transaction in which rights under this Agreement are not assigned.

The terms "**register**," "**registered**" and "**registration**" refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act, and the declaration or ordering of the effectiveness of such registration statement.

"**Registration Expenses**" shall mean all expenses incurred by the Company in complying with Sections 5, 6, and 7 hereof, including, without limitation, all registration, qualification and filing fees, printing expenses, escrow fees, fees and disbursements of counsel for the Company, fees and disbursements of one special counsel to the Holders, blue sky fees and expenses, and the expense of any special audits incident to or required by any such registration but excluding all Selling Expenses.

"**Restricted Securities**" shall mean the securities of the Company required to bear the legend set forth in Section 3 hereof (or any similar legend).

"**Securities Act**" shall mean the Securities Act of 1933, as amended, or any successor law thereto.

"**Selling Expenses**" shall mean all underwriting discounts, selling commissions, and stock transfer taxes applicable to the securities registered by the Holders and any legal fees of the Holders not covered under "Registration Expenses".

2. Restrictions on Transferability. The Restricted Securities shall not be transferable except upon the conditions specified in this Agreement, which conditions are intended to ensure

compliance with the provisions of the Securities Act. Until the Company's initial public offering pursuant to a registration statement filed with and declared effective by the Commission under the Securities Act, the Restricted Securities shall not, without the prior written consent of the Company, be transferred to any entity (or any affiliate thereof) which is engaged in the development, marketing or sale of products that are, in the judgement of the Company's board of directors, the same or similar to those of the Company, and any such attempted transfer shall be void *ab initio*. Each holder of Restricted Securities will cause any proposed transferee of the Restricted Securities held by such holder to agree to take and hold such Restricted Securities subject to the provisions and upon the conditions specified in this Agreement.

3. Restrictive Legend. Each certificate representing (i) the Preferred, (ii) shares of the Company's Common Stock issued upon conversion of the Preferred, and (iii) any other securities issued in respect of the Preferred (or Common Stock issued upon conversion of the Preferred) upon any stock split, stock dividend, recapitalization, merger, consolidation or similar event, shall (unless otherwise permitted by the provisions of Section 4 below) be stamped or otherwise imprinted with a legend in substantially the following form (in addition to any legend required under applicable state securities laws):

> THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE BEEN ACQUIRED FOR INVESTMENT AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). THESE SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR TRANSFERRED UNLESS (I) A REGISTRATION STATEMENT UNDER THE SECURITIES ACT IS EFFECTIVE COVERING SUCH TRANSFER OR (II) THERE IS AN OPINION OF COUNSEL, SATISFACTORY TO THE COMPANY, THAT AN EXEMPTION THEREROM IS AVAILABLE. COPIES OF THE AGREEMENT COVERING THE PURCHASE OF THESE SECURITIES AND RESTRICTING THEIR TRANSFER MAY BE OBTAINED AT NO COST BY WRITTEN REQUEST MADE BY THE HOLDER OF RECORD OF THIS CERTIFICATE TO THE SECRETARY OF THE COMPANY AT ITS PRINCIPAL EXECUTIVE OFFICES.

Each holder of a certificate representing Restricted Securities consents to the Company's making a notation on its records and giving instructions to any transfer agent of the Preferred or the Common Stock in order to implement the restrictions on transfer established in this Section.

4. Notice of Proposed Transfers. The holder of each certificate representing Restricted Securities by acceptance thereof agrees to comply in all respects with the provisions of this Section 4. Prior to any proposed transfer of any Restricted Securities, unless there is in effect a registration statement under the Securities Act covering the proposed transfer, the holder thereof shall give written notice to the Company of such Holder's intention to effect such transfer. Each such notice shall describe the manner and circumstances of the proposed transfer in sufficient detail, and may be accompanied, if reasonably requested by the Company, by either (i) a written opinion of legal counsel, who shall be reasonably satisfactory to the Company, addressed to the Company and reasonably satisfactory in form and substance to the Company's counsel, to the effect that the proposed transfer of the Restricted Securities may be effected without registration under the Securities Act or (ii) a "No Action" letter from the Commission to the effect that the transfer of such

securities without registration will not result in a recommendation by the staff of the Commission that action be taken with respect thereto, whereupon the holder of such Restricted Securities shall be entitled to transfer such Restricted Securities in accordance with the terms of the notice delivered by the holder to the Company. Each certificate evidencing the Restricted Securities transferred as above provided shall bear the appropriate restrictive legends described above, except that such certificate shall not bear any such restrictive legend if in the opinion of counsel for the Company such legend is not required.

5. Requested Registration.

(a) Request for Registration. If, at any time after the earlier of (i) December 31, 2004 or (ii) the expiration of six (6) months following the closing of the first public offering of the Common Stock of the Company to the general public which is effected pursuant to a registration statement filed under the Securities Act, the Company shall receive from any Holder or group of Holders of Registrable Securities, representing not less than 50% of the Registrable Securities then outstanding (assuming conversion of all shares of the Preferred), a written request that the Company effect any registration, qualification or compliance with respect to Registrable Securities representing at least 33-1/3% of the Registrable Securities then outstanding, the Company will:

(x) promptly give written notice of the proposed registration, qualification, or compliance to all other Holders; and

(y) use its best efforts to effect as soon as reasonably practicable but in any event within 120 days of the receipt of such request such registration, qualification or compliance (including, without limitation, the execution of an undertaking to file post-effective amendments, appropriate qualification under applicable blue sky or other state securities laws and appropriate compliance with applicable regulations issued under the Securities Act and any other governmental requirements or regulations) as may be so requested and as would permit or facilitate the sale and distribution of all or such portion of such Registrable Securities as are specified in such request, together with all or such portion of the Registrable Securities of any Holder or Holders joining in such request as are specified in a written request received by the Company within 15 days after receipt of such written notice from the Company; provided, however, that the Company shall not be obligated to take any action to effect any such registration, qualification or compliance pursuant to this Section:

(A) in any particular jurisdiction in which the Company would be required to execute a general consent to service of process in effecting such registration, qualification or compliance unless the Company is already subject to service in such jurisdiction and except as may be required by the Securities Act;

(B) prior to ninety (90) days immediately following the effective date of any registration statement pertaining to securities of the Company (other than a registration of securities in a Rule 145 transaction or with respect to an employee benefit plan); or

(C) after the Company has effected two (2) such registrations pursuant to this Section 5 and such registration has been declared or ordered effective.

Subject to the foregoing clauses, the Company shall file a registration statement covering the Registrable Securities so requested to be registered as soon as practicable after receipt of the request or requests of any Holder or Holders. If, however, the Company shall furnish to the Holder or Holders requesting a registration statement pursuant to this Section 5 a certificate signed by the President of the Company stating that, in the good faith judgment of the Board of Directors of the Company, it would be seriously detrimental to the Company and its shareholders for such registration statement to be filed and it is therefore essential to defer the filing of such registration statement, the Company shall have the right to defer such filing for a period of not more than ninety (90) days after receipt of the request of the Holder or Holders requesting such registration; provided, however, that the Company may not utilize this right more than once in any 12-month period.

(b) Underwriting. If the Holders intend to distribute the Registrable Securities covered by their request by means of an underwriting, they shall so advise the Company as a part of their request and the Company shall include such information in its written notice to the other Holders. The right of any Holder to registration pursuant to this Section shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting to the extent provided herein.

The Company shall (together with all Holders proposing to distribute their securities through such underwriting) enter into an underwriting agreement in customary form with the managing underwriter selected for such underwriting by the Holders of a majority of the Registrable Securities proposed by such Holders to be distributed through such underwriting. Notwithstanding any other provision of this Section, if the managing underwriter advises the Holders in writing that marketing factors require a limitation of the number of shares to be underwritten, then, subject to the provisions of Section 5(a), the Company shall so advise all Holders and the number of shares of Registrable Securities that may be included in the registration and underwriting shall be allocated among all Holders requesting inclusion in the registration in proportion, as nearly as practicable, to the respective amounts of Registrable Securities originally requested by such Holders to be included in the registration statement; provided, however, that the number of shares of Registratable Securities to be included in such underwriting and registration shall not be reduced unless all other securities of the Company are first entirely excluded from the underwriting and registration. No Registrable Securities excluded from the underwriting by reason of the managing underwriter's marketing limitation shall be included in such registration.

If the managing underwriter has not limited the number of Registrable Securities to be underwritten, the Company may include securities for its own account or for the account of others in such registration if the underwriter so agrees and if the number of Registrable Securities which would otherwise have been included in such registration and underwriting will not thereby be limited, and provided that the Company or the other selling shareholders shall bear an equitable share of the Registration Expenses in connection with such registration and underwriting.

If any Holder of Registrable Securities disapproves of the terms of the underwriting, such person may elect to withdraw therefrom by written notice to the Company, the managing underwriter and the other Holders. The Registrable Securities and/or other securities so withdrawn shall also be withdrawn from registration; provided, however, that if, by the withdrawal of such Registrable Securities, a greater number of Registrable Securities held by other Holders may be included in such registration (up to the maximum of any limitation imposed by the underwriters), then the Company shall offer to all Holders who have included Registrable Securities in the registration the right to include additional Registrable Securities in the same proportion used in determining the underwriter limitation in this Section. If the registration does not become effective due to the withdrawal of Registrable Securities, then either (1) the Holders requesting registration shall reimburse the Company for expenses incurred in complying with the request or (2) the aborted registration shall be treated as effected for purposes of Section 5(a)(C).

6. Company Registration.

(a) Notice of Registration. If the Company shall determine to register any of its securities, either for its own account or the account of a security holder or holders exercising their respective demand registration rights, other than: (i) a registration relating solely to employee benefit plans or (ii) a registration relating solely to a transaction pursuant to Rule 145 promulgated under the Securities Act, the Company will:

(x) promptly give to each Holder written notice thereof; and

(y) include in such registration (and any related qualification under blue sky laws or other compliance), and in any underwriting involved therein, all the Registrable Securities specified in a written request or requests, made within thirty (30) days after receipt of such written notice from the Company, by any Holder or Holders.

(b) Cut-back and Allocation. Notwithstanding any other provision of this Section 6, if the managing underwriter determines that marketing factors require a limitation of the number of shares to be underwritten, the managing underwriter may limit the number of Registrable Securities to be included in the registration and underwriting, provided that, except in the case of the Company's initial public offering, the managing underwriter shall include in such offering at a minimum such amount of Registrable Securities that equals 30% of all shares to be sold in the offering, and provided, further, that in no case shall the number of Registrable Securities to be included in the registration be reduced or limited unless all securities to be included by other holders of registration rights (other than the Company) are first excluded. In the event the managing underwriter limits the number of Registrable Securities to be included in the registration and underwriting, the Company shall so advise all Holders of Registrable Securities which would otherwise be registered and underwritten pursuant hereto, and the number of shares of Registrable Securities that may be included in the registration and underwriting shall be allocated among the Holders in proportion, as nearly as practicable, to the respective amounts of Registrable Securities held by such Holders. If any Holder disapproves of the terms of any such underwriting, such Holder

may elect to withdraw therefrom by written notice to the Company. Any Registrable Securities excluded or withdrawn from such underwriting shall be withdrawn from such registration.

(c) Right to Terminate Registration. The Company shall have the right to terminate or withdraw any registration initiated by it under this Section 6 prior to the effectiveness of such registration whether or not any Holder has elected to include securities in such registration. All Registration Expenses of such withdrawn Registration shall be borne by the Company.

7. Registration on Form S–3. The Company shall use its best efforts to qualify for registration on Form S–3, and to that end, the Company shall comply with the reporting requirements of the Exchange Act. After the Company has qualified for the use of Form S–3, Holders of 25% of the Registrable Securities then outstanding shall have the right to request registrations on Form S-3 (such requests shall be in writing and shall state the number of shares of Registrable Securities to be disposed of and the intended method of disposition of such shares by each such Holder), subject to the following limitations:

(i) the Company shall not be obligated to cause a registration on Form S–3 to become effective prior to 90 days following the effective date of a Company-initiated registration (other than a registration effected solely to qualify an employee benefit plan or to effect a business combination pursuant to Rule 145);

(ii) the Company shall not be obligated to cause a registration on Form S–3 to become effective prior to expiration of 90 days following the effective date of the most recent registration pursuant to a request under Section 5 of this Agreement or pursuant to a request by a holder of registration rights under any other agreement of the Company granting Form S–3 demand registration rights;

(iii) the Company shall not be required to effect a registration on Form S–3 unless the Holder or Holders requesting registration propose to dispose of shares of Registrable Securities having an aggregate disposition price (before deduction of underwriting discounts and expenses of sale) of at least $500,000;

(iv) the Company shall not be required to maintain and keep any such registration on Form S–3 effective for a period greater than the period that equals to the shorter of (x) ninety (90) days or (y) that time that is reasonably necessary to permit the disposition of the Registration Securities subject to such registration. The Company shall give notice to all Holders of the receipt of a request for registration pursuant to this Section and shall provide a reasonable opportunity for all such other Holders, to participate in the registration. Subject to the foregoing, the Company will use its best efforts to effect promptly the registration of all shares of Registrable Securities on Form S–3 to the extent requested by the Holder or Holders thereof for purposes of disposition; and

(v) the Company shall not be required to effect a registration on Form S-3 if it has already caused a registration on Form S-3 within the previous twelve (12) month period or if it has already caused two (2) registrations on Form S-3 in the aggregate pursuant to this Section 7.

8. Expenses of Registration. All Registration Expenses incurred in connection with any registration, qualification or compliance pursuant to Section 5, Section 6, or Section 7 shall be borne by the Company. All Selling Expenses relating to securities registered by the Holders pursuant to either Section 5, Section 6, or Section 7 shall be borne by the Holders of such securities pro rata on the basis of the number of shares so registered. Notwithstanding the foregoing, the Company shall not be required to pay for Registration Expenses pursuant to Section 5 if the registration request is subsequently withdrawn at the request of the Holders of a majority of the Registrable Securities to be registered (which Holders shall bear such expenses), unless the Holders of a majority of the Registrable Securities agree to forfeit their right to demand registration pursuant to Section 5; provided, however, that if at the time of such withdrawal, the Holders have learned of a material adverse change in the condition, business or prospects of the Company from that known to the Holders at the time of their request, then the Holders shall not be required to pay any of such Registration Expenses and shall retain their rights pursuant to Section 5.

9. Registration Procedures.

(a) In the case of each registration, qualification or compliance effected by the Company pursuant to this Agreement, the Company will keep each Holder advised in writing as to the initiation of each registration, qualification and compliance and as to the completion thereof. At its expense the Company will furnish such number of prospectuses and other documents incident thereto as a Holder from time to time may reasonably request.

(b) Whenever required to effect the registration of any Registrable Securities, the Company shall, as expeditiously as reasonably possible:

(i) Prepare and file with the SEC a registration statement with respect to such Registrable Securities and use all reasonable efforts to cause such registration statement to become effective, and, upon the request of the Holders of a majority of the Registrable Securities registered thereunder, keep such registration statement effective for up to thirty (30) days or, if earlier, until the Holder or Holders have completed the distribution related thereto; provided, however, that at any time, upon written notice to the participating Holders and for a period not to exceed sixty (30) days thereafter (the "**Suspension Period**"), the Company may delay the filing or effectiveness of any registration statement or suspend the use or effectiveness of any registration statement (and the Holders hereby agree not to offer or sell any Registrable Securities pursuant to such registration statement during the Suspension Period) if the Company reasonably believes that the Company may, in the absence of such delay or suspension hereunder, be required under state or federal securities laws to disclose any corporate development the disclosure of which could reasonably be expected to have a material adverse effect upon the Company, its shareholders, a potentially significant transaction or event involving the Company, or any negotiations, discussions,

or proposals directly relating thereto or that the absence of such delay or suspension would otherwise be seriously detrimental to the Company and its shareholders; provided, however, that the Company may not utilize this right more than once in any 12-month period. In the event that the Company shall exercise its right to delay or suspend the filing or effectiveness of a registration hereunder, the applicable time period during which the registration statement is to remain effective shall be extended, if applicable, such that the registration statement shall be effective for up to an aggregate of thirty (30) days or, if earlier, until the Holder or Holders have completed the distribution related thereto. The Company may extend the Suspension Period for an additional consecutive sixty (60) days with the consent of the holders of 66-2/3% percent of the Registrable Securities registered under the applicable registration statement, which consent shall not be unreasonably withheld. If so directed by the Company, all Holders registering shares under such registration statement shall deliver to the Company (at the Company's expense) all copies, other than permanent file copies then in such Holders' possession, of the prospectus relating to such Registrable Securities current at the time of receipt of such notice.

(ii) Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement for the period set forth in subsection (i) above.

(iii) Furnish to the Holders such number of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents as they may reasonably request in order to facilitate the disposition of Registrable Securities owned by them.

(iv) Use its reasonable efforts to register and qualify the securities covered by such registration statement under such other securities or Blue Sky laws of such jurisdictions as shall be reasonably requested by the Holders; provided, however, that the Company shall not be obligated to take any action in any particular jurisdiction in which the Company would be required to execute a general consent to service of process in effecting such registration or qualification unless the Company is already subject to service in such jurisdiction and except as may be required by the Securities Act.

(v) In the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the managing underwriter(s) of such offering. Each Holder participating in such underwriting shall also enter into and perform its obligations under such an agreement.

(vi) Notify each Holder of Registrable Securities covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the Securities Act of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not

misleading in the light of the circumstances then existing. The Company will use reasonable efforts to amend or supplement such prospectus in order to cause such prospectus not to include any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing.

(vii) Use its reasonable efforts to furnish, on the date that such Registrable Securities are delivered to the underwriters for sale, if such securities are being sold through underwriters, if requested by the underwriters (X) an opinion, dated as of such date, of the counsel representing the Company for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering, addressed to the underwriters, if any, and (Y) a letter, dated as of such date, from the independent certified public accountants of the Company, in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering addressed to the underwriters.

10. Termination of Registration Rights. The registration rights granted pursuant to this Agreement shall terminate as to any Holder, at such time as such Holder is able to dispose all the Registrable Securities held by such Holder within a three (3) month period pursuant to Rule 144 of the Securities Act and if such Holder owns less than 1% of the outstanding capital stock of the Company; provided, however, that in any event the registration rights granted pursuant to this Agreement shall terminate upon the fifth anniversary of the date of the closing of the first public offering of the Common Stock of the Company to the general public which is effected pursuant to a registration statement filed under the Securities Act.

11. Lock-up Agreement. In consideration for the Company agreeing to its obligations under this Agreement, each Holder of Registrable Securities and each transferee pursuant to Section 15 hereof agrees, in connection with the closing of the first public offering of the Common Stock of the Company to the general public which is effected pursuant to a registration statement filed under the Securities Act, upon request of the underwriters managing any underwritten offering of the Company's securities, not to sell, make any short sale of, loan, grant any option for the purchase of or otherwise dispose of any securities of the Company (other than those included in the registration) without the prior written consent of the Company or such underwriters, as the case may be, for such period of time as the Company or the underwriters may specify, but not to exceed one hundred eighty (180) days from the effective date of such registration; provided however, that each officer and director of the Company shall be similarly bound. Each Holder agrees that the Company may instruct its transfer agent to place stop-transfer notations in its records to enforce the provisions of this Section. This Section 11 shall supersede any conflicting provision of Section 5 or Section 7 above. Notwithstanding any other provision of this Agreement, the Company may assign each Holder's obligations under this Section 11 to any underwriter of the Company's initial public offering of securities.

12. Indemnification.

(a) The Company will indemnify each Holder, each of its officers, directors and partners, and each person controlling such Holder within the meaning of Section 15 of the Securities Act, with respect to which registration, qualification or compliance has been effected pursuant to this Agreement, and each underwriter, if any, and each person who controls any underwriter within the meaning of Section 15 of the Securities Act, against all expenses, claims, losses, damages and liabilities (or actions in respect thereof), including any of the foregoing incurred in settlement of any litigation, commenced or threatened, arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any registration statement, prospectus, offering circular or other document, or any amendment or supplement thereto, incident to any such registration, qualification or compliance, or based on any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading, or any violation by the Company of the Securities Act or the Exchange Act or securities act of any state or any rule or regulation thereunder, and relating to action or inaction required of the Company in connection with any such registration, qualification or compliance, and will reimburse each such Holder, each of its officers, directors and partners, and each person controlling such Holder, each such underwriter and each person who controls any such underwriter, for any legal and any other expenses reasonably incurred in connection with investigating, preparing or defending any such claim, loss, damage, liability or action, provided that the Company will not be liable in any such case to the extent that any such claim, loss, damage, liability or expense arises out of or is based on any untrue statement or omission or alleged untrue statement or omission, made in reliance upon and in conformity with written information furnished to the Company by an instrument duly executed by such Holder or underwriter and stated to be specifically for use therein; and provided, further, that the Company will not be liable to any such person or entity with respect to any such untrue statement or omission or alleged untrue statement or omission made in any preliminary prospectus that is corrected in the final prospectus filed with the Commission pursuant to Rule 424(b) promulgated under the Securities Act (or any amendment or supplement to such prospectus) if the person asserting any such loss, claim, damage or liability purchased securities but was not sent or given a copy of the prospectus (as amended or supplemented) at or prior to the written confirmation of the sale of such securities to such person in any case where such delivery of the prospectus (as amended or supplemented) is required by the Securities Act, unless such failure to deliver the prospectus (as amended or supplemented) was a result of the Company's failure to provide such prospectus (as amended or supplemented).

(b) Each Holder will, severally and not jointly, if Registrable Securities held by such Holder are included in the securities as to which such registration, qualification or compliance is being effected, indemnify the Company, each of its directors and officers, each underwriter, if any, of the Company's securities covered by such a registration statement, each person who controls the Company or such underwriter within the meaning of Section 15 of the Securities Act, and each other such Holder, each of its officers, directors and partners and each person controlling such Holder within the meaning of Section 15 of the Securities Act, against all claims, losses, damages and liabilities (or actions in respect thereof) arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any such registration statement, prospectus, offering circular or other document, or any omission (or alleged omission) to state therein a material fact

required to be stated therein or necessary to make the statements therein not misleading, and will reimburse the Company, such Holders, such directors, officers, underwriters or control persons for any legal or any other expenses reasonably incurred in connection with investigating or defending any such claim, loss, damage, liability or action, in each case to the extent, but only to the extent, that such untrue statement (or alleged untrue statement) or omission (or alleged omission) is made in such registration statement, prospectus, offering circular or other document in reliance upon and in conformity with written information furnished to the Company by an instrument duly executed by such Holder and stated to be specifically for use therein; provided, however, that the obligations of such Holders hereunder shall be limited to an amount equal to the proceeds, net of underwriting discounts, commissions and expenses, to each such Holder of Registrable Securities sold as contemplated herein.

(c) Each party entitled to indemnification under this Section (the "Indemnified Party") shall give notice to the party required to provide indemnification (the "Indemnifying Party") promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought, and shall permit the Indemnifying Party to assume the defense of any such claim or any litigation resulting therefrom, provided that counsel for the Indemnifying Party, who shall conduct the defense of such claim or litigation, shall be approved by the Indemnified Party (whose approval shall not be unreasonably withheld), and the Indemnified Party may participate in such defense at such party's expense, and provided further that the failure of any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its obligations under this Agreement, except to the extent, but only to the extent, that the Indemnifying Party's ability to defend against such claim or litigation is impaired as a result of such failure to give notice. No Indemnifying Party, in the defense of any such claim or litigation, shall, except with the consent of each Indemnified Party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect to such claim or litigation.

(d) If the indemnification provided for in this Section 12 is held by a court of competent jurisdiction to be unavailable to an indemnified party with respect to any loss, liability, claim, damage, or expense referred to therein, then the indemnifying party, in lieu of indemnifying such indemnified party hereunder, shall contribute to the amount paid or payable by such indemnified party as a result of such loss, liability, claim, damage, or expense in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and of the indemnified party on the other in connection with the statements or omissions that resulted in such loss, liability, claim, damage, or expense as well as any other relevant equitable considerations. The relative fault of the indemnifying party and of the indemnified party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information, and opportunity to correct or prevent such statement or omission. In no event shall any contribution by a Holder under this Section 12(d) exceed the proceeds, net of underwriting discounts and commissions but not expenses, from the offering received by such Holder.

13. Information by Holder. The Holder or Holders of Registrable Securities included in any registration shall furnish to the Company such information regarding such Holder or Holders and the distribution proposed by such Holder or Holders as the Company may request in writing and as shall be required in connection with any registration, qualification or compliance referred to in this Agreement.

14. Rule 144 Reporting. With a view to making available the benefits of certain rules and regulations of the Commission which may at any time permit the sale of the Restricted Securities to the public without registration, after such time as a public market exists for the Common Stock of the Company, the Company agrees to use its best efforts to:

(a) make and keep public information available, as those terms are understood and defined in Rule 144 promulgated under the Securities Act, at all times after the effective date of the first registration under the Securities Act filed by the Company for an offering of its securities to the general public;

(b) file with the Commission in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements); and

(c) furnish to Holders upon request a written statement as to its compliance with the reporting requirements of Rule 144 (at any time after 90 days after the effective date of the first registration statement filed by the Company for an offering of its securities to the general public), and of the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements), a copy of the most recent annual or quarterly report of the Company, and such other reports and documents of the Company as a Holder may reasonably request in availing itself of any rule or regulation of the Commission allowing such Holder to sell any such securities without registration.

15. Transfer of Rights. Provided that the Company is given prior written notice of such assignment, the rights granted hereunder to cause the Company to register securities may be assigned to (a) transferee or assignee who acquires at least 500,000 shares of Registrable Securities (appropriately adjusted for stock splits, recapitalizations and like after the date hereof) or (b) any affiliate or constituent partner, including limited partner, of a Purchaser; provided, however, that such assignee shall agree to be bound by this Agreement to the same extent as the assignor prior to the applicable assignment of rights.

16. Governing Law. This Agreement shall be governed by and interpreted in accordance with the laws of the State of California as applied to agreements among California residents entered and to be performed entirely within California. The parties hereto agree to submit to the jurisdiction of the federal and state courts of the State of California with respect to the breach or interpretation of this Agreement or the enforcement of any and all rights, duties, liabilities, obligations, powers and other relations between the parties arising under this Agreement.

17. Entire Agreement. This Agreement constitutes the full and entire understanding among the parties regarding the subject matter herein. Each Purchaser expressly agrees that this Agreement supersedes in its entirety any prior agreements, written or oral, with regard to the subject matter herein, including, without limitation, that certain Preferred Stock Purchase Agreement dated as of January 23, 1998. Except as otherwise expressly provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors and administrators of the parties hereto.

18. Notices, etc. All notices and other communications required or permitted hereunder shall be in writing and shall be deemed effectively given upon delivery to the party to be notified in person or by courier service or five (5) days after deposit with the United States mail, by registered or certified mail, postage prepaid, addressed (a) if to a holder of any Registrable Securities, to such address as such holder shall have furnished the Company in writing, or, until any such holder so furnishes an address to the Company, then to and at the address of the last holder of such securities who has so furnished an address to the Company, or (b) if to the Company, to its address set forth on the first page of this Agreement and addressed to the attention of the Chief Financial Officer, or at such other address as the Company shall have furnished to the Holders in writing.

19. Amendment. Any provision of this Agreement may be amended, waived or modified upon the written consent of (i) the Company and (ii) holders of 66-2/3% of the outstanding shares of Registrable Securities. Any Holder may waive any of his or her rights or the Company's obligations hereunder without obtaining the consent of any other person.

20. Limitations on Subsequent Registration Rights. From and after the date of this Agreement, the Company shall not enter into any agreement granting any holder or prospective holder of any securities of the Company registration rights with respect to such securities without the prior written consent of 66-2/3% of the Registrable Securities then outstanding unless such new registration rights, including standoff obligations, are subordinate to the registration rights granted the Holders hereunder.

21. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original and all of which together shall constitute one instrument.

22. Enforceability/Severability. The parties hereto agree that each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable law. If any provision of this Agreement shall nonetheless be held to be prohibited by or invalid or unenforceable under applicable law, such provision shall be effective only to the extent of such prohibition or invalidity or lack of enforceability, without invalidating the remainder of such provision or the remaining provisions of this Agreement, and such provision shall be reformed and construed so that it will be legal, valid, and enforceable to the maximum extent permitted by law.

23. Prior Agreement; Other Agreements. The Prior Agreement is amended, restated and superceded in its entirety by this Agreement and shall be of no further force or effect. Each Purchaser also agrees that all other agreements, documents, arrangements or understanding, if any, that provided such Purchaser with registration rights with respect to securities of the Company are hereby terminated and shall be of no further force or effect. Without limiting the generality of the foregoing, each Purchaser that acquired Series A Preferred Stock of the Company pursuant to a Preferred Stock Purchase Agreement dated as of or around December 1997 agrees that all registration rights that the Purchaser may have under said Preferred Stock Purchase Agreement are hereby terminated and shall be of no further force or effect.

(Remainder of page intentionally left blank)

IN WITNESS WHEREOF, the undersigned have executed this Amended and Restated Registration Rights Agreement as of the date set forth above.

"Company"

MONOLITHIC POWER SYSTEMS, INC.

By: /s/ Michael Hsing

Name: Michael Hsing

Title: President/CEO

SCHEDULE OF PURCHASERS

Common Stock Holders

Michael Hsing

James C. Moyer

Series A Preferred Stock Holders

Brother Investment Corporation

Yi You Chang

Jessie Jin-Chu Chen & Connie W. Chuang

Eugene Cheng

Delaware Charter Guarantee Trust Company ttee fbo: Michael Hsing Ira

Delaware Charter Guarantee Trust Company ttee fbo: Paul Ueunten Ira

First National Bank of Onaga, for the Benefit of Francis K. Moyer

First National Bank of Onaga, for the Benefit of James C. Moyer

Chen Tzu-Hsin

Hsi-Yuan Hsu

Wen Ku Huang Family Trust

Jaw-Sheng Kong

Cheow Seng Lee

Han-Fui Lee

Zhenshi Li

Fonglu David Lin & Wang H. Lin

Fu-Yuan Lin

Optoma Corporation

Hsiao-Chen Peng

Lai Ping-Ping

John R. Shannon

Li Chung Shih

Z.C. Tseng

Chih-Chiang Yeh

Series B Preferred Stock Holders

InveStar Semiconductor Development Fund Inc. (II), LDC

Acer Technology Venture Fund LP

James C. Moyer

Cheow Seng Lee

Lawrence R. Sample and Donna Sample, As Trustees of the Sample Family Trust

Hideto Takagishi

Series C Preferred Stock Holders

InveStar Semiconductor Development Fund Inc. (II), LDC

InveStar Burgeon Venture Capital, Inc.

InveStar Excelsus Venture Capital (Int'l) Inc., LDC

Digital CT Investment Ltd.

Top Fortune Direct Investment Ltd.

IP Fund One, L.P.

Trio Investment, Inc.

AIM Investment, Inc.

REI Investment, Inc.

Paradise Bay Investments, Ltd.

Microtek, Inc.

Kwang Sun Kim

Series D Preferred Stock Holders

InveStar Burgeon Venture Capital, Inc.

InveStar Dayspring Venture Capital, Inc.

InveStar Excelsus Venture Capital, Inc.

InveStar Semiconductor Development Fund, Inc. (II), LDC

Forefront Venture Partners, L.P.

IP Fund One, L.P.

Paradise Bay Investments Ltd.

AIM Investment Inc.

Trio Investment, Inc.

REI Investment Inc.

Digital CT Investment Ltd.

Grand Pacific Investment & Development Co., Ltd

Mintong International Ltd

Mustek Systems Inc.

Yi-Ling Lin

C Squared Investment Corp.

Hantech International Venture Capital Corporation

BAVP, L.P.

Exhibit 10.1

MONOLITHIC POWER SYSTEMS, INC.

1998 STOCK PLAN

(Amended as of June 22, 2004)

1. Purposes of the Plan. The purposes of this Stock Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to Employees, Directors and Consultants and to promote the success of the Company's business. Options granted under the Plan may be Incentive Stock Options or Nonstatutory Stock Options, as determined by the Administrator at the time of grant. Stock Purchase Rights may also be granted under the Plan.

2. Definitions. As used herein, the following definitions shall apply:

(a) "Administrator" means the Board or any of its Committees as shall be administering the Plan in accordance with Section 4 hereof.

(b) "Applicable Laws" means the requirements relating to the administration of stock option plans under U.S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any other country or jurisdiction where Options or Stock Purchase Rights are granted under the Plan.

(c) "Board" means the Board of Directors of the Company.

(d) "Code" means the Internal Revenue Code of 1986, as amended.

(e) "Committee" means a committee of Directors appointed by the Board in accordance with Section 4 hereof.

(f) "Common Stock" means the Common Stock of the Company.

(g) "Company" means Monolithic Power Systems, Inc., a California corporation.

(h) "Consultant" means any person who is engaged by the Company or any Parent or Subsidiary to render consulting or advisory services to such entity.

(i) "Director" means a member of the Board of Directors of the Company.

(j) "Disability" means total and permanent disability as defined in Section 22(e)(3) of the Code.

(k) "Employee" means any person, including Officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. A Service Provider shall not cease to be an Employee in the case of (i) any leave of absence approved by the Company or (ii) transfers

between locations of the Company or between the Company, its Parent, any Subsidiary, or any successor. For purposes of Incentive Stock Options, no such leave may exceed ninety days, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, on the 181st day of such leave any Incentive Stock Option held by the Optionee shall cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Nonstatutory Stock Option. Neither service as a Director nor payment of a director's fee by the Company shall be sufficient to constitute "employment" by the Company.

(l) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(m) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq National Market or The Nasdaq SmallCap Market of The Nasdaq Stock Market, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system for the last market trading day prior to the time of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean between the high bid and low asked prices for the Common Stock on the last market trading day prior to the day of determination; or

(iii) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Administrator.

(n) "Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

(o) "Nonstatutory Stock Option" means an Option not intended to qualify as an Incentive Stock Option.

(p) "Officer" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(q) "Option" means a stock option granted pursuant to the Plan.

(r) "Option Agreement" means a written or electronic agreement between the Company and an Optionee evidencing the terms and conditions of an individual Option grant. The Option Agreement is subject to the terms and conditions of the Plan.

(s) "Option Exchange Program" means a program whereby outstanding Options are exchanged for Options with a lower exercise price.

(t) "Optioned Stock" means the Common Stock subject to an Option or a Stock Purchase Right.

(u) "Optionee" means the holder of an outstanding Option or Stock Purchase Right granted under the Plan.

(v) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(w) "Plan" means this 1998 Stock Plan.

(x) "Restricted Stock" means shares of Common Stock acquired pursuant to a grant of a Stock Purchase Right under Section 11 below.

(y) "Service Provider" means an Employee, Director or Consultant.

(z) "Share" means a share of the Common Stock, as adjusted in accordance with Section 12 below.

(aa) "Stock Purchase Right" means a right to purchase Common Stock pursuant to Section 11 below.

(bb) "Subsidiary" means a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. Stock Subject to the Plan. Subject to the provisions of Section 12 of the Plan, the maximum aggregate number of Shares which may be subject to option and sold under the Plan is 11,807,024 Shares. The Shares may be authorized but unissued, or reacquired Common Stock.

If an Option or Stock Purchase Right expires or becomes unexercisable without having been exercised in full, or is surrendered pursuant to an Option Exchange Program, the unpurchased Shares which were subject thereto shall become available for future grant or sale under the Plan (unless the Plan has terminated). However, Shares that have actually been issued under the Plan, upon exercise of either an Option or Stock Purchase Right, shall not be returned to the Plan and shall not become available for future distribution under the Plan, except that if Shares of Restricted Stock are repurchased by the Company at their original purchase price, such Shares shall become available for future grant under the Plan.

4. Administration of the Plan.

(a) Administrator. The Plan shall be administered by the Board or a Committee appointed by the Board, which Committee shall be constituted to comply with Applicable Laws.

(b) Powers of the Administrator. Subject to the provisions of the Plan and, in the case of a Committee, the specific duties delegated by the Board to such Committee, and subject to the approval of any relevant authorities, the Administrator shall have the authority in its discretion:

(i) to determine the Fair Market Value;

(ii) to select the Service Providers to whom Options and Stock Purchase Rights may from time to time be granted hereunder;

(iii) to determine the number of Shares to be covered by each such award granted hereunder;

(iv) to approve forms of agreement for use under the Plan;

(v) to determine the terms and conditions, of any Option or Stock Purchase Right granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Options or Stock Purchase Rights may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Option or Stock Purchase Right or the Common Stock relating thereto, based in each case on such factors as the Administrator, in its sole discretion, shall determine;

(vi) to determine whether and under what circumstances an Option may be settled in cash under subsection 9(e) instead of Common Stock;

(vii) to reduce the exercise price of any Option to the then current Fair Market Value if the Fair Market Value of the Common Stock covered by such Option has declined since the date the Option was granted;

(viii) to initiate an Option Exchange Program;

(ix) to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of qualifying for preferred tax treatment under foreign tax laws;

(x) to allow Optionees to satisfy withholding tax obligations by electing to have the Company withhold from the Shares to be issued upon exercise of an Option or Stock Purchase Right that number of Shares having a Fair Market Value equal to the amount required to be withheld. The Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined. All elections by Optionees to have Shares withheld for this purpose shall be made in such form and under such conditions as the Administrator may deem necessary or advisable; and

(xi) to construe and interpret the terms of the Plan and awards granted pursuant to the Plan.

(c) Effect of Administrator's Decision. All decisions, determinations and interpretations of the Administrator shall be final and binding on all Optionees.

5. Eligibility.

(a) Nonstatutory Stock Options and Stock Purchase Rights may be granted to Service Providers. Incentive Stock Options may be granted only to Employees.

(b) Each Option shall be designated in the Option Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designation, to the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Optionee during any calendar year (under all plans of the Company and any Parent or Subsidiary) exceeds $100,000, such Options shall be treated as Nonstatutory Stock Options. For purposes of this Section 5(b), Incentive Stock Options shall be taken into account in the order in which they were granted. The Fair Market Value of the Shares shall be determined as of the time the Option with respect to such Shares is granted.

(c) Neither the Plan nor any Option or Stock Purchase Right shall confer upon any Optionee any right with respect to continuing the Optionee's relationship as a Service Provider with the Company, nor shall it interfere in any way with his or her right or the Company's right to terminate such relationship at any time, with or without cause.

6. Term of Plan. The Plan shall become effective upon its adoption by the Board. It shall continue in effect for a term of ten (10) years unless sooner terminated under Section 14 of the Plan.

7. Term of Option. The term of each Option shall be stated in the Option Agreement; provided, however, that the term shall be no more than ten (10) years from the date of grant thereof. In the case of an Incentive Stock Option granted to an Optionee who, at the time the Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Option shall be five (5) years from the date of grant or such shorter term as may be provided in the Option Agreement.

8. Option Exercise Price and Consideration.

(a) The per share exercise price for the Shares to be issued upon exercise of an Option shall be such price as is determined by the Administrator, but shall be subject to the following:

(i) In the case of an Incentive Stock Option

(A) granted to an Employee who, at the time of grant of such Option, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the exercise price shall be no less than 110% of the Fair Market Value per Share on the date of grant.

(B) granted to any other Employee, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(ii) In the case of a Nonstatutory Stock Option

(A) granted to a Service Provider who, at the time of grant of such Option, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the exercise price shall be no less than 110% of the Fair Market Value per Share on the date of grant.

(B) granted to any other Service Provider, the per Share exercise price shall be no less than 85% of the Fair Market Value per Share on the date of grant.

(iii) Notwithstanding the foregoing, Options may be granted with a per Share exercise price other than as required above pursuant to a merger or other corporate transaction.

(b) The consideration to be paid for the Shares to be issued upon exercise of an Option, including the method of payment, shall be determined by the Administrator (and, in the case of an Incentive Stock Option, shall be determined at the time of grant). Such consideration may consist of (1) cash, (2) check, (3) promissory note, (4) other Shares which (x) in the case of Shares acquired upon exercise of an Option, have been owned by the Optionee for more than six months on the date of surrender, and (y) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which such Option shall be exercised, (5) consideration received by the Company under a cashless exercise program implemented by the Company in connection with the Plan, or (6) any combination of the foregoing methods of payment. In making its determination as to the type of consideration to accept, the Administrator shall consider if acceptance of such consideration may be reasonably expected to benefit the Company.

9. Exercise of Option.

(a) Procedure for Exercise; Rights as a Shareholder. Any Option granted hereunder shall be exercisable according to the terms hereof at such times and under such conditions as determined by the Administrator and set forth in the Option Agreement. Except in the case of Options granted to Officers, Directors and Consultants, Options shall become exercisable at a rate of no less than 20% per year over five (5) years from the date the Options are granted. Unless the Administrator provides otherwise, vesting of Options granted hereunder to Officers and Directors shall be tolled during any unpaid leave of absence. An Option may not be exercised for a fraction of a Share.

An Option shall be deemed exercised when the Company receives: (i) written or electronic notice of exercise (in accordance with the Option Agreement) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised. Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Option Agreement and the Plan. Shares issued upon exercise of an Option shall be issued in the name of the Optionee or, if requested by the Optionee, in the name of the Optionee and his or her spouse. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Shares, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment will be made for a dividend or other

right for which the record date is prior to the date the Shares are issued, except as provided in Section 12 of the Plan.

Exercise of an Option in any manner shall result in a decrease in the number of Shares thereafter available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) Termination of Relationship as a Service Provider. If an Optionee ceases to be a Service Provider, such Optionee may exercise his or her Option within such period of time as is specified in the Option Agreement (of at least thirty (30) days) to the extent that the Option is vested on the date of termination (but in no event later than the expiration of the term of the Option as set forth in the Option Agreement). In the absence of a specified time in the Option Agreement, the Option shall remain exercisable for three (3) months following the Optionee's termination. If, on the date of termination, the Optionee is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall revert to the Plan. If, after termination, the Optionee does not exercise his or her Option within the time specified by the Administrator, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(c) Disability of Optionee. If an Optionee ceases to be a Service Provider as a result of the Optionee's Disability, the Optionee may exercise his or her Option within such period of time as is specified in the Option Agreement (of at least six (6) months) to the extent the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Option Agreement). In the absence of a specified time in the Option Agreement, the Option shall remain exercisable for twelve (12) months following the Optionee's termination. If, on the date of termination, the Optionee is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall revert to the Plan. If, after termination, the Optionee does not exercise his or her Option within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(d) Death of Optionee. If an Optionee dies while a Service Provider, the Option may be exercised within such period of time as is specified in the Option Agreement (of at least six (6) months) to the extent that the Option is vested on the date of death (but in no event later than the expiration of the term of such Option as set forth in the Option Agreement) by the Optionee's estate or by a person who acquires the right to exercise the Option by bequest or inheritance. In the absence of a specified time in the Option Agreement, the Option shall remain exercisable for twelve (12) months following the Optionee's termination. If, at the time of death, the Optionee is not vested as to the entire Option, the Shares covered by the unvested portion of the Option shall immediately revert to the Plan. If the Option is not so exercised within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(e) Buyout Provisions. The Administrator may at any time offer to buy out for a payment in cash or Shares, an Option previously granted, based on such terms and conditions as the Administrator shall establish and communicate to the Optionee at the time that such offer is made.

10. Non-Transferability of Options and Stock Purchase Rights. The Options and Stock Purchase Rights may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Optionee, only by the Optionee.

11. Stock Purchase Rights.

(a) Rights to Purchase. Stock Purchase Rights may be issued either alone, in addition to, or in tandem with other awards granted under the Plan and/or cash awards made outside of the Plan. After the Administrator determines that it will offer Stock Purchase Rights under the Plan, it shall advise the offeree in writing or electronically of the terms, conditions and restrictions related to the offer, including the number of Shares that such person shall be entitled to purchase, the price to be paid, and the time within which such person must accept such offer. The terms of the offer shall comply in all respects with Section 260.140.42 of Title 10 of the California Code of Regulations. The offer shall be accepted by execution of a Restricted Stock purchase agreement in the form determined by the Administrator.

(b) Repurchase Option. Unless the Administrator determines otherwise, the Restricted Stock purchase agreement shall grant the Company a repurchase option exercisable upon the voluntary or involuntary termination of the purchaser's service with the Company for any reason (including death or disability). The purchase price for Shares repurchased pursuant to the Restricted Stock purchase agreement shall be the original price paid by the purchaser and may be paid by cancellation of any indebtedness of the purchaser to the Company. The repurchase option shall lapse at such rate as the Administrator may determine. Except with respect to Shares purchased by Officers, Directors and Consultants, the repurchase option shall in no case lapse at a rate of less than 20% per year over five (5) years from the date of purchase.

(c) Other Provisions. The Restricted Stock purchase agreement shall contain such other terms, provisions and conditions not inconsistent with the Plan as may be determined by the Administrator in its sole discretion.

(d) Rights as a Shareholder. Once the Stock Purchase Right is exercised, the purchaser shall have rights equivalent to those of a shareholder and shall be a shareholder when his or her purchase is entered upon the records of the duly authorized transfer agent of the Company. No adjustment shall be made for a dividend or other right for which the record date is prior to the date the Stock Purchase Right is exercised, except as provided in Section 12 of the Plan.

12. Adjustments Upon Changes in Capitalization, Merger or Asset Sale.

(a) Changes in Capitalization. Subject to any required action by the shareholders of the Company, the number of shares of Common Stock covered by each outstanding Option or Stock Purchase Right, and the number of shares of Common Stock which have been authorized for issuance under the Plan but as to which no Options or Stock Purchase Rights have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option or Stock Purchase Right, as well as the price per share of Common Stock covered by each such outstanding Option or Stock Purchase Right, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company. The conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Option or Stock Purchase Right.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator shall notify each Optionee as soon as practicable prior to the effective date of such proposed transaction. The Administrator in its discretion may provide for an Optionee to have the right to exercise his or her Option or Stock Purchase Right until fifteen (15) days prior to such transaction as to all of the Optioned Stock covered thereby, including Shares as to which the Option or Stock Purchase Right would not otherwise be exercisable. In addition, the Administrator may provide that any Company repurchase option applicable to any Shares purchased upon exercise of an Option or Stock Purchase Right shall lapse as to all such Shares, provided the proposed dissolution or liquidation takes place at the time and in the manner contemplated. To the extent it has not been previously exercised, an Option or Stock Purchase Right will terminate immediately prior to the consummation of such proposed action.

(c) Merger or Asset Sale. In the event of a merger of the Company with or into another corporation, or the sale of substantially all of the assets of the Company, each outstanding Option and Stock Purchase Right shall be assumed or an equivalent option or right substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the Option or Stock Purchase Right, the Optionee shall fully vest in and have the right to exercise the Option or Stock Purchase Right as to all of the Optioned Stock, including Shares as to which it would not otherwise be vested or exercisable. If an Option or Stock Purchase Right becomes fully vested and exercisable in lieu of assumption or substitution in the event of a merger or sale of assets, the Administrator shall notify the Optionee in writing or electronically that the Option or Stock Purchase Right shall be fully exercisable for a period of fifteen (15) days from the date of such notice, and the Option or Stock Purchase Right shall terminate upon the expiration of such period. For the purposes of this paragraph, the Option or Stock Purchase Right shall be considered assumed if, following the merger

or sale of assets, the option or right confers the right to purchase or receive, for each Share of Optioned Stock subject to the Option or Stock Purchase Right immediately prior to the merger or sale of assets, the consideration (whether stock, cash, or other securities or property) received in the merger or sale of assets by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the merger or sale of assets is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option or Stock Purchase Right, for each Share of Optioned Stock subject to the Option or Stock Purchase Right, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the merger or sale of assets.

13. Time of Granting Options and Stock Purchase Rights. The date of grant of an Option or Stock Purchase Right shall, for all purposes, be the date on which the Administrator makes the determination granting such Option or Stock Purchase Right, or such other date as is determined by the Administrator. Notice of the determination shall be given to each Service Provider to whom an Option or Stock Purchase Right is so granted within a reasonable time after the date of such grant.

14. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Board may at any time amend, alter, suspend or terminate the Plan.

(b) Shareholder Approval. The Board shall obtain shareholder approval of any Plan amendment to the extent necessary and desirable to comply with Applicable Laws.

(c) Effect of Amendment or Termination. No amendment, alteration, suspension or termination of the Plan shall impair the rights of any Optionee, unless mutually agreed otherwise between the Optionee and the Administrator, which agreement must be in writing and signed by the Optionee and the Company. Termination of the Plan shall not affect the Administrator's ability to exercise the powers granted to it hereunder with respect to Options granted under the Plan prior to the date of such termination.

15. Conditions Upon Issuance of Shares.

(a) Legal Compliance. Shares shall not be issued pursuant to the exercise of an Option unless the exercise of such Option and the issuance and delivery of such Shares shall comply with Applicable Laws and shall be further subject to the approval of counsel for the Company with respect to such compliance.

(b) Investment Representations. As a condition to the exercise of an Option, the Administrator may require the person exercising such Option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present

intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

16. Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

17. Reservation of Shares. The Company, during the term of this Plan, shall at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

18. Shareholder Approval. The Plan shall be subject to approval by the shareholders of the Company within twelve (12) months after the date the Plan is adopted. Such shareholder approval shall be obtained in the degree and manner required under Applicable Laws.

19. Information to Optionees and Purchasers. The Company shall provide to each Optionee and to each individual who acquires Shares pursuant to the Plan, not less frequently than annually during the period such Optionee or purchaser has one or more Options or Stock Purchase Rights outstanding, and, in the case of an individual who acquires Shares pursuant to the Plan, during the period such individual owns such Shares, copies of annual financial statements. The Company shall not be required to provide such statements to key employees whose duties in connection with the Company assure their access to equivalent information.

MONOLITHIC POWER SYSTEMS, INC.

1998 STOCK PLAN

STOCK OPTION AGREEMENT

Unless otherwise defined herein, the terms defined in the 1998 Stock Plan shall have the same defined meanings in this Stock Option Agreement.

I. NOTICE OF STOCK OPTION GRANT

Optionee Name

Optionee Address

The undersigned Optionee has been granted an Option to purchase Common Stock of the Company, subject to the terms and conditions of the Plan and this Option Agreement, as follows:

Date of Grant	_____
Vesting Commencement Date	_____
Exercise Price per Share	$_____
Total Number of Shares Granted	_____
Total Exercise Price	$_____
Type of Option:	___ Incentive Stock Option
	___ Nonstatutory Stock Option
Term/Expiration Date:	_____

Vesting Schedule:

This Option shall be exercisable, in whole or in part, according to the following vesting schedule:

[Twenty five percent (25%) of the Shares subject to the Option shall vest twelve (12) months after the Vesting Commencement Date, and 1/48th of the Shares subject to the Option shall vest each month thereafter, subject to Optionee's continuing to be a Service Provider on such dates.]

Termination Period:

This Option shall be exercisable for thirty (30) days after Optionee ceases to be a Service Provider. Upon Optionee's death or Disability, this Option may be exercised for one year after Optionee ceases to be a Service Provider. In no event may Optionee exercise this Option after the Term/Expiration Date as provided above.

II. AGREEMENT

1. Grant of Option. The Plan Administrator of the Company hereby grants to the Optionee named in the Notice of Grant (the "Optionee"), an option (the "Option") to purchase the number of Shares set forth in the Notice of Grant, at the exercise price per Share set forth in the Notice of Grant (the "Exercise Price"), and subject to the terms and conditions of the Plan, which is incorporated herein by reference. Subject to Section 14(c) of the Plan, in the event of a conflict between the terms and conditions of the Plan and this Option Agreement, the terms and conditions of the Plan shall prevail.

If designated in the Notice of Grant as an Incentive Stock Option ("ISO"), this Option is intended to qualify as an Incentive Stock Option as defined in Section 422 of the Code. Nevertheless, to the extent that it exceeds the $100,000 rule of Code Section 422(d), this Option shall be treated as a Nonstatutory Stock Option ("NSO").

2. Exercise of Option.

(a) Right to Exercise. This Option shall be exercisable during its term in accordance with the Vesting Schedule set out in the Notice of Grant and with the applicable provisions of the Plan and this Option Agreement.

(b) Method of Exercise. This Option shall be exercisable by delivery of an exercise notice in the form attached as Exhibit A (the "Exercise Notice") which shall state the election to exercise the Option, the number of Shares with respect to which the Option is being exercised, and such other representations and agreements as may be required by the Company. The Exercise Notice shall be accompanied by payment of the aggregate Exercise Price as to all Exercised Shares. This Option shall be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by the aggregate Exercise Price.

No Shares shall be issued pursuant to the exercise of an Option unless such issuance and such exercise complies with Applicable Laws. Assuming such compliance, for income tax purposes the Shares shall be considered transferred to the Optionee on the date on which the Option is exercised with respect to such Shares.

3. Optionee's Representations. In the event the Shares have not been registered under the Securities Act of 1933, as amended, at the time this Option is exercised, the Optionee shall, if required by the Company, concurrently with the exercise of all or any portion of this Option, deliver

to the Company his or her Investment Representation Statement in the form attached hereto as Exhibit B.

4. Lock-Up Period. Optionee hereby agrees that, if so requested by the Company or any representative of the underwriters (the "Managing Underwriter") in connection with any registration of the offering of any securities of the Company under the Securities Act, Optionee shall not sell or otherwise transfer any Shares or other securities of the Company during the 180-day period (or such other period as may be requested in writing by the Managing Underwriter and agreed to in writing by the Company) (the "Market Standoff Period") following the effective date of a registration statement of the Company filed under the Securities Act. Such restriction shall apply only to the first registration statement of the Company to become effective under the Securities Act that includes securities to be sold on behalf of the Company to the public in an underwritten public offering under the Securities Act. The Company may impose stop-transfer instructions with respect to securities subject to the foregoing restrictions until the end of such Market Standoff Period.

5. Method of Payment. Payment of the aggregate Exercise Price shall be by any of the following, or a combination thereof, at the election of the Optionee:

(a) cash or check;

(b) consideration received by the Company under a formal cashless exercise program adopted by the Company in connection with the Plan; or

(c) surrender of other Shares which, (i) in the case of Shares acquired upon exercise of an option, have been owned by the Optionee for more than six (6) months on the date of surrender, and (ii) have a Fair Market Value on the date of surrender equal to the aggregate Exercise Price of the Exercised Shares.

6. Restrictions on Exercise. This Option may not be exercised until such time as the Plan has been approved by the shareholders of the Company, or if the issuance of such Shares upon such exercise or the method of payment of consideration for such shares would constitute a violation of any Applicable Law.

7. Non-Transferability of Option. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Optionee only by Optionee. The terms of the Plan and this Option Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

8. Term of Option. This Option may be exercised only within the term set out in the Notice of Grant, and may be exercised during such term only in accordance with the Plan and the terms of this Option.

9. Tax Consequences. Set forth below is a brief summary as of the date of this Option of some of the federal tax consequences of exercise of this Option and disposition of the Shares.

THIS SUMMARY IS NECESSARILY INCOMPLETE, AND THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. THE OPTIONEE SHOULD CONSULT A TAX ADVISER BEFORE EXERCISING THIS OPTION OR DISPOSING OF THE SHARES.

(a) Exercise of NSO. There may be a regular federal income tax liability upon the exercise of an NSO. The Optionee will be treated as having received compensation income (taxable at ordinary income tax rates) equal to the excess, if any, of the Fair Market Value of the Shares on the date of exercise over the Exercise Price. If Optionee is an Employee or a former Employee, the Company will be required to withhold from Optionee's compensation or collect from Optionee and pay to the applicable taxing authorities an amount in cash equal to a percentage of this compensation income at the time of exercise, and may refuse to honor the exercise and refuse to deliver Shares if such withholding amounts are not delivered at the time of exercise.

(b) Exercise of ISO. If this Option qualifies as an ISO, there will be no regular federal income tax liability upon the exercise of the Option, although the excess, if any, of the Fair Market Value of the Shares on the date of exercise over the Exercise Price will be treated as an adjustment to the alternative minimum tax for federal tax purposes and may subject the Optionee to the alternative minimum tax in the year of exercise.

(c) Disposition of Shares. In the case of an NSO, if Shares are held for at least one year, any gain realized on disposition of the Shares will be treated as long-term capital gain for federal income tax purposes. In the case of an ISO, if Shares transferred pursuant to the Option are held for at least one year after exercise and of at least two years after the Date of Grant, any gain realized on disposition of the Shares will also be treated as long-term capital gain for federal income tax purposes. If Shares purchased under an ISO are disposed of within one year after exercise or two years after the Date of Grant, any gain realized on such disposition will be treated as compensation income (taxable at ordinary income rates) to the extent of the difference between the Exercise Price and the lesser of (1) the Fair Market Value of the Shares on the date of exercise, or (2) the sale price of the Shares. Any additional gain will be taxed as capital gain, short-term or long-term depending on the period that the ISO Shares were held.

(d) Notice of Disqualifying Disposition of ISO Shares. If the Option granted to Optionee herein is an ISO, and if Optionee sells or otherwise disposes of any of the Shares acquired pursuant to the ISO on or before the later of (1) the date two years after the Date of Grant, or (2) the date one year after the date of exercise, the Optionee shall immediately notify the Company in writing of such disposition. Optionee agrees that Optionee may be subject to income tax withholding by the Company on the compensation income recognized by the Optionee.

10. Entire Agreement; Governing Law. The Plan is incorporated herein by reference. The Plan and this Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the subject matter hereof, and may not be modified adversely to the Optionee's interest except by means of a writing signed by the Company and Optionee. This agreement is governed by the internal substantive laws but not the choice of law rules of California.

11. No Guarantee of Continued Service. OPTIONEE ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS OPTION OR ACQUIRING SHARES HEREUNDER). OPTIONEE FURTHER ACKNOWLEDGES AND AGREES THAT THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND SHALL NOT INTERFERE IN ANY WAY WITH OPTIONEE'S RIGHT OR THE COMPANY'S RIGHT TO TERMINATE OPTIONEE'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

Optionee acknowledges receipt of a copy of the Plan and represents that he or she is familiar with the terms and provisions thereof, and hereby accepts this Option subject to all of the terms and provisions thereof. Optionee has reviewed the Plan and this Option in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option and fully understands all provisions of the Option. Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan or this Option. Optionee further agrees to notify the Company upon any change in the residence address indicated below.

OPTIONEE	MONOLITHIC POWER SYSTEMS, INC.
_____	
Signature	By _____
_____	
Print Name	Title
Residence Address	

EXHIBIT A

1998 STOCK PLAN

EXERCISE NOTICE

Monolithic Power Systems, Inc.
3777 Stevens Creek Boulevard, Suite 400
Santa Clara, CA 95051-7364

Attention: Chief Financial Officer

1. Exercise of Option. Effective as of today, _____, _____, the undersigned ("Optionee") hereby elects to exercise Optionee's option to purchase _____ shares of the Common Stock (the "Shares") of Monolithic Power Systems, Inc. (the "Company") under and pursuant to the 1998 Stock Plan (the "Plan") and the Stock Option Agreement dated _____, _____ (the "Option Agreement").

2. Delivery of Payment. Purchaser herewith delivers to the Company the full purchase price of the Shares, as set forth in the Option Agreement.

3. Representations of Optionee. Optionee acknowledges that Optionee has received, read and understood the Plan and the Option Agreement and agrees to abide by and be bound by their terms and conditions.

4. Rights as Shareholder. Until the issuance of the Shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Shares shall be issued to the Optionee as soon as practicable after the Option is exercised. No adjustment shall be made for a dividend or other right for which the record date is prior to the date of issuance except as provided in Section 12 of the Plan.

5. Company's Right of First Refusal. Before any Shares held by Optionee or any transferee (either being sometimes referred to herein as the "Holder") may be sold or otherwise transferred (including transfer by gift or operation of law), the Company or its assignee(s) shall have a right of first refusal to purchase the Shares on the terms and conditions set forth in this Section (the "Right of First Refusal").

(a) Notice of Proposed Transfer. The Holder of the Shares shall deliver to the Company a written notice (the "Notice") stating: (i) the Holder's bona fide intention to sell or otherwise transfer such Shares; (ii) the name of each proposed purchaser or other transferee ("Proposed Transferee"); (iii) the number of Shares to be transferred to each Proposed Transferee; and (iv) the bona fide cash price or other consideration for which the Holder proposes to transfer the

Shares (the "Offered Price"), and the Holder shall offer the Shares at the Offered Price to the Company or its assignee(s).

(b) Exercise of Right of First Refusal. At any time within thirty (30) days after receipt of the Notice, the Company and/or its assignee(s) may, by giving written notice to the Holder, elect to purchase all, but not less than all, of the Shares proposed to be transferred to any one or more of the Proposed Transferees, at the purchase price determined in accordance with subsection (c) below.

(c) Purchase Price. The purchase price ("Purchase Price") for the Shares purchased by the Company or its assignee(s) under this Section shall be the Offered Price. If the Offered Price includes consideration other than cash, the cash equivalent value of the non-cash consideration shall be determined by the Board of Directors of the Company in good faith.

(d) Payment. Payment of the Purchase Price shall be made, at the option of the Company or its assignee(s), in cash (by check), by cancellation of all or a portion of any outstanding indebtedness of the Holder to the Company (or, in the case of repurchase by an assignee, to the assignee), or by any combination thereof within 30 days after receipt of the Notice or in the manner and at the times set forth in the Notice.

(e) Holder's Right to Transfer. If all of the Shares proposed in the Notice to be transferred to a given Proposed Transferee are not purchased by the Company and/or its assignee(s) as provided in this Section, then the Holder may sell or otherwise transfer such Shares to that Proposed Transferee at the Offered Price or at a higher price, provided that such sale or other transfer is consummated within 120 days after the date of the Notice, that any such sale or other transfer is effected in accordance with any applicable securities laws and that the Proposed Transferee agrees in writing that the provisions of this Section shall continue to apply to the Shares in the hands of such Proposed Transferee. If the Shares described in the Notice are not transferred to the Proposed Transferee within such period, a new Notice shall be given to the Company, and the Company and/or its assignees shall again be offered the Right of First Refusal before any Shares held by the Holder may be sold or otherwise transferred.

(f) Exception for Certain Family Transfers. Anything to the contrary contained in this Section notwithstanding, the transfer of any or all of the Shares during the Optionee's lifetime or on the Optionee's death by will or intestacy to the Optionee's immediate family or a trust for the benefit of the Optionee's immediate family shall be exempt from the provisions of this Section. "Immediate Family" as used herein shall mean spouse, lineal descendant or antecedent, father, mother, brother or sister. In such case, the transferee or other recipient shall receive and hold the Shares so transferred subject to the provisions of this Section, and there shall be no further transfer of such Shares except in accordance with the terms of this Section.

(g) Termination of Right of First Refusal. The Right of First Refusal shall terminate as to any Shares upon the first sale of Common Stock of the Company to the general public pursuant to a registration statement filed with and declared effective by the Securities and Exchange Commission under the Securities Act of 1933, as amended.

6. Tax Consultation. Optionee understands that Optionee may suffer adverse tax consequences as a result of Optionee's purchase or disposition of the Shares. Optionee represents that Optionee has consulted with any tax consultants Optionee deems advisable in connection with the purchase or disposition of the Shares and that Optionee is not relying on the Company for any tax advice.

7. Restrictive Legends and Stop-Transfer Orders.

(a) Legends. Optionee understands and agrees that the Company shall cause the legends set forth below or legends substantially equivalent thereto, to be placed upon any certificate(s) evidencing ownership of the Shares together with any other legends that may be required by the Company or by state or federal securities laws:

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE "ACT") AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, PLEDGED OR HYPOTHECATED UNLESS AND UNTIL REGISTERED UNDER THE ACT OR, IN THE OPINION OF COMPANY COUNSEL SATISFACTORY TO THE ISSUER OF THESE SECURITIES, SUCH OFFER, SALE OR TRANSFER, PLEDGE OR HYPOTHECATION IS IN COMPLIANCE THEREWITH.

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS ON TRANSFER AND A RIGHT OF FIRST REFUSAL HELD BY THE ISSUER OR ITS ASSIGNEE(S) AS SET FORTH IN THE EXERCISE NOTICE BETWEEN THE ISSUER AND THE ORIGINAL HOLDER OF THESE SHARES, A COPY OF WHICH MAY BE OBTAINED AT THE PRINCIPAL OFFICE OF THE ISSUER. SUCH TRANSFER RESTRICTIONS AND RIGHT OF FIRST REFUSAL ARE BINDING ON TRANSFEREES OF THESE SHARES.

(b) Stop-Transfer Notices. Optionee agrees that, in order to ensure compliance with the restrictions referred to herein, the Company may issue appropriate "stop transfer" instructions to its transfer agent, if any, and that, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.

(c) Refusal to Transfer. The Company shall not be required (i) to transfer on its books any Shares that have been sold or otherwise transferred in violation of any of the provisions of this Exercise Notice or (ii) to treat as owner of such Shares or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such Shares shall have been so transferred.

8. Successors and Assigns. The Company may assign any of its rights under this Exercise Notice to single or multiple assignees, and this Exercise Notice shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Exercise Notice shall be binding upon Optionee and his or her heirs, executors, administrators, successors and assigns.

9. Interpretation. Any dispute regarding the interpretation of this Exercise Notice shall be submitted by Optionee or by the Company forthwith to the Administrator which shall review such dispute at its next regular meeting. The resolution of such a dispute by the Administrator shall be final and binding on all parties.

10. Governing Law; Severability. This Exercise Notice is governed by the internal substantive laws but not the choice of law rules, of California.

11. Entire Agreement. The Plan and Option Agreement are incorporated herein by reference. This Exercise Notice, the Plan, the Option Agreement and the Investment Representation Statement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the subject matter hereof, and may not be modified adversely to the Optionee's interest except by means of a writing signed by the Company and Optionee.

Submitted by:	Accepted by
OPTIONEE	MONOLITHIC POWER SYSTEMS, INC.
_____	
Signature	By _____
_____	
Print Name	Title
Address:	Address:
_____	
_____	
	Date Received

EXHIBIT B

INVESTMENT REPRESENTATION STATEMENT

OPTIONEE:

COMPANY: MONOLITHIC POWER SYSTEMS, INC.

SECURITY: COMMON STOCK

AMOUNT:

DATE:

In connection with the purchase of the above-listed Securities, the undersigned Optionee represents to the Company the following:

(a) Optionee is aware of the Company's business affairs and financial condition and has acquired sufficient information about the Company to reach an informed and knowledgeable decision to acquire the Securities. Optionee is acquiring these Securities for investment for Optionee's own account only and not with a view to, or for resale in connection with, any "distribution" thereof within the meaning of the Securities Act of 1933, as amended (the "Securities Act").

(b) Optionee acknowledges and understands that the Securities constitute "restricted securities" under the Securities Act and have not been registered under the Securities Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of Optionee's investment intent as expressed herein. In this connection, Optionee understands that, in the view of the Securities and Exchange Commission, the statutory basis for such exemption may be unavailable if Optionee's representation was predicated solely upon a present intention to hold these Securities for the minimum capital gains period specified under tax statutes, for a deferred sale, for or until an increase or decrease in the market price of the Securities, or for a period of one year or any other fixed period in the future. Optionee further understands that the Securities must be held indefinitely unless they are subsequently registered under the Securities Act or an exemption from such registration is available. Optionee further acknowledges and understands that the Company is under no obligation to register the Securities. Optionee understands that the certificate evidencing the Securities will be imprinted with a legend which prohibits the transfer of the Securities unless they are registered or such registration is not required in the opinion of counsel satisfactory to the Company, and any other legend required under applicable state securities laws.

(c) Optionee is familiar with the provisions of Rule 701 and Rule 144, each promulgated under the Securities Act, which, in substance, permit limited public resale of "restricted securities" acquired, directly or indirectly from the issuer thereof, in a non-public offering subject to the satisfaction of certain conditions. Rule 701 provides that if the issuer qualifies under Rule 701 at the time of the grant of the Option to the Optionee, the exercise will be exempt from registration under the Securities Act. In the event the Company becomes subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, ninety (90) days thereafter (or such longer period as any market stand-off agreement may require) the Securities exempt under Rule 701 may be resold, subject to the satisfaction of certain of the conditions specified by Rule 144, including: (1) the resale being made through a broker in an unsolicited "broker's transaction" or in transactions directly with a market maker (as said term is defined under the Securities Exchange Act of 1934); and, in the case of an affiliate, (2) the availability of certain public information about the Company, (3) the amount of Securities being sold during any three month period not exceeding the limitations specified in Rule 144(e), and (4) the timely filing of a Form 144, if applicable.

In the event that the Company does not qualify under Rule 701 at the time of grant of the Option, then the Securities may be resold in certain limited circumstances subject to the provisions of Rule 144, which requires the resale to occur not less than one year after the later of the date the Securities were sold by the Company or the date the Securities were sold by an affiliate of the Company, within the meaning of Rule 144; and, in the case of acquisition of the Securities by an affiliate, or by a non-affiliate who subsequently holds the Securities less than two years, the satisfaction of the conditions set forth in sections (1), (2), (3) and (4) of the paragraph immediately above.

(d) Optionee further understands that in the event all of the applicable requirements of Rule 701 or 144 are not satisfied, registration under the Securities Act, compliance with Regulation A, or some other registration exemption will be required; and that, notwithstanding the fact that Rules 144 and 701 are not exclusive, the Staff of the Securities and Exchange Commission has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rules 144 or 701 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk. Optionee understands that no assurances can be given that any such other registration exemption will be available in such event.

Signature of Optionee:

Date: _____, 20

Exhibit 10.2

MONLITHIC POWER SYSTEMS, INC.

2004 EQUITY INCENTIVE PLAN

1. Purposes of the Plan. The purposes of this Plan are:

- to attract and retain the best available personnel for positions of substantial responsibility,
- to provide additional incentive to Employees, Directors and Consultants, and
- to promote the success of the Company's business.

The Plan permits the grant of Incentive Stock Options, Nonstatutory Stock Options, Restricted Stock, Stock Appreciation Rights, Performance Units and Performance Shares.

2. Definitions. As used herein, the following definitions will apply:

(a) "Administrator" means the Board or any of its Committees as will be administering the Plan, in accordance with Section 4 of the Plan.

(b) "Affiliated SAR" means an SAR that is granted in connection with a related Option, and which automatically will be deemed to be exercised at the same time that the related Option is exercised.

(c) "Applicable Laws" means the requirements relating to the administration of equity-based awards under U.S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any foreign country or jurisdiction where Awards are, or will be, granted under the Plan.

(d) "Award" means, individually or collectively, a grant under the Plan of Options, SARs, Restricted Stock, Performance Units or Performance Shares.

(e) "Award Agreement" means the written or electronic agreement setting forth the terms and provisions applicable to each Award granted under the Plan. The Award Agreement is subject to the terms and conditions of the Plan.

(f) "Board" means the Board of Directors of the Company.

(g) "Change in Control" means the occurrence of any of the following events:

(i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becomes the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities; or

(ii) The consummation of the sale or disposition by the Company of all or substantially all of the Company's assets;

(iii) A change in the composition of the Board occurring within a two-year period, as a result of which fewer than a majority of the directors are Incumbent Directors. "Incumbent Directors" means directors who either (A) are Directors as of the effective date of the Plan, or (B) are elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but will not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Company); or

(iv) The consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.

(h) "Code" means the Internal Revenue Code of 1986, as amended. Any reference to a section of the Code herein will be a reference to any successor or amended section of the Code.

(i) "Committee" means a committee of Directors appointed by the Board in accordance with Section 4 of the Plan.

(j) "Common Stock" means the common stock of the Company.

(k) "Company" means Monolithic Power Systems, Inc., a Delaware corporation, or any successor thereto.

(l) "Consultant" means any person, including an advisor, engaged by the Company or a Parent or Subsidiary to render services to such entity.

(m) "Director" means a member of the Board.

(n) "Disability" means total and permanent disability as defined in Section 22(e)(3) of the Code, provided that in the case of Awards other than Incentive Stock Options, the Administrator in its discretion may determine whether a permanent and total disability exists in accordance with uniform and non-discriminatory standards adopted by the Administrator from time to time.

(o) "Employee" means any person, including Officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. Neither service as a Director nor payment of a director's fee by the Company will be sufficient to constitute "employment" by the Company.

(p) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(q) "Exchange Program" means a program under which (i) outstanding Awards are surrendered or cancelled in exchange for Awards of the same type (which may have lower exercise prices and different terms), Awards of a different type, and/or cash, and/or (ii) the exercise price of an outstanding Award is reduced. The Administrator will determine the terms and conditions of any Exchange Program in its sole discretion.

(r) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq National Market or The Nasdaq SmallCap Market of The Nasdaq Stock Market, its Fair Market Value will be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system on the day of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share of Common Stock will be the mean between the high bid and low asked prices for the Common Stock on the day of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;

(iii) For purposes of any Awards granted on the Registration Date, the Fair Market Value will be the initial price to the public as set forth in the final prospectus included within the registration statement in Form S-1 filed with the Securities and Exchange Commission for the initial public offering of the Company's Common Stock; or

(iv) In the absence of an established market for the Common Stock, the Fair Market Value will be determined in good faith by the Administrator.

(s) "Fiscal Year" means the fiscal year of the Company.

(t) "Freestanding SAR" means a SAR that is granted independently of any Option.

(u) "Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

(v) "Inside Director" means a Director who is an Employee.

(w) "Nonstatutory Stock Option" means an Option that by its terms does not qualify or is not intended to qualify as an Incentive Stock Option.

(x) "Officer" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(y) "Option" means a stock option granted pursuant to the Plan.

(z) "Optioned Stock" means the Common Stock subject to an Award.

(aa) "Outside Director" means a Director who is not an Employee.

(bb) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(cc) "Participant" means the holder of an outstanding Award.

(dd) "Performance Share" means an Award granted to a Participant pursuant to Section 9.

(ee) "Performance Unit" means an Award granted to a Participant pursuant to Section 9.

(ff) "Period of Restriction" means the period during which the transfer of Shares of Restricted Stock are subject to restrictions and therefore, the Shares are subject to a substantial risk of forfeiture. Such restrictions may be based on the passage of time, the achievement of target levels of performance, or the occurrence of other events as determined by the Administrator.

(gg) "Plan" means this 2004 Equity Incentive Plan.

(hh) "Registration Date" means the effective date of the first registration statement that is filed by the Company and declared effective pursuant to Section 12(g) of the Exchange Act, with respect to any class of the Company's securities.

(ii) "Restricted Stock" means shares of Common Stock issued pursuant to a Restricted Stock award under Section 7 of the Plan, or issued pursuant to the early exercise of an Option.

(jj) "Rule 16b-3" means Rule 16b-3 of the Exchange Act or any successor to Rule 16b-3, as in effect when discretion is being exercised with respect to the Plan.

(kk) "Section 16(b) " means Section 16(b) of the Exchange Act.

(ll) "Service Provider" means an Employee, Director or Consultant.

(mm) "Share" means a share of the Common Stock, as adjusted in accordance with Section 13 of the Plan.

(nn) "Stock Appreciation Right" or "SAR" means an Award, granted alone or in connection with an Option, that pursuant to Section 8 is designated as a SAR.

(oo) "Subsidiary" means a "subsidiary corporation", whether now or hereafter existing, as defined in Section 424(f) of the Code.

(pp) "Tandem SAR" means a SAR that is granted in connection with a related Option, the exercise of which will require forfeiture of the right to purchase an equal number of

Shares under the related Option (and when a Share is purchased under the Option, the SAR will be canceled to the same extent).

(qq) "Unvested Awards" will mean Options or Restricted Stock that (i) were granted to an individual in connection with such individual's position as an Employee and (ii) are still subject to vesting or lapsing of Company repurchase rights or similar restrictions.

3. Stock Subject to the Plan.

(a) Stock Subject to the Plan. Subject to the provisions of Section 13 of the Plan, the maximum aggregate number of Shares that may be optioned and sold under the Plan is the sun of 800,000 Shares plus (i) the number of Shares which have been reserved but not issued under the Company's 1998 Stock Plan (the "1998 Plan") as of the Registration Date, (ii) any Shares returned to the 1998 Plan as a result of termination of options or repurchase of Shares issued under such plan, and (iii) an annual increase to be added on the first day of each fiscal year of the Company beginning in fiscal year 2005, equal to the lesser of (A) 2,400,000 Shares, (B) 5% of the outstanding Shares on such date (for purposes of which calculation only shares actually outstanding shall be counted and not shares issuable upon conversion or exercise of other securities) or (C) an amount determined by the Board. The Shares may be authorized, but unissued, or reacquired Common Stock. Shares will not be deemed to have been issued pursuant to the Plan with respect to any portion of an Award that is settled in cash. Upon payment in Shares pursuant to the exercise of an SAR, the number of Shares available for issuance under the Plan will be reduced only by the number of Shares actually issued in such payment. If the exercise price of an Option is paid by tender to the Company, or attestation to the ownership, of Shares owned by the Participant, the number of Shares available for issuance under the Plan will be reduced by the gross number of Shares for which the Option is exercised.

(b) Lapsed Awards. If an Award expires or becomes unexercisable without having been exercised in full, or is surrendered pursuant to an Exchange Program, the unpurchased Shares which were subject thereto will become available for future grant or sale under the Plan (unless the Plan has terminated); provided, however, that Shares that have actually been issued under the Plan, whether upon exercise of an Award, will not be returned to the Plan and will not become available for future distribution under the Plan, except that if unvested Shares are forfeited or repurchased by the Company, such Shares will become available for future grant under the Plan.

(c) Share Reserve. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as will be sufficient to satisfy the requirements of the Plan.

4. Administration of the Plan.

(a) Procedure.

(i) Multiple Administrative Bodies. Different Committees with respect to different groups of Service Providers may administer the Plan.

(ii) Section 162(m). To the extent that the Administrator determines it to be desirable to qualify Options granted hereunder as "performance-based compensation" within the meaning of Section 162(m) of the Code, the Plan will be administered by a Committee of two or more "outside directors" within the meaning of Section 162(m) of the Code.

(iii) Rule 16b-3. To the extent desirable to qualify transactions hereunder as exempt under Rule 16b-3, the transactions contemplated hereunder will be structured to satisfy the requirements for exemption under Rule 16b-3.

(iv) Other Administration. Other than as provided above, the Plan will be administered by (A) the Board or (B) a Committee, which committee will be constituted to satisfy Applicable Laws.

(b) Powers of the Administrator. Subject to the provisions of the Plan, and in the case of a Committee, subject to the specific duties delegated by the Board to such Committee, the Administrator will have the authority, in its discretion:

(i) to determine the Fair Market Value;

(ii) to select the Service Providers to whom Awards may be granted hereunder;

(iii) to determine the number of Shares to be covered by each Award granted hereunder;

(iv) to approve forms of agreement for use under the Plan;

(v) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any Award granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Awards may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Award or the Shares relating thereto, based in each case on such factors as the Administrator will determine;

(vi) to institute an Exchange Program;

(vii) to construe and interpret the terms of the Plan and Awards granted pursuant to the Plan;

(viii) to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of satisfying applicable foreign laws;

(ix) to modify or amend each Award (subject to Section 17(c) of the Plan), including the discretionary authority to extend the post-termination exercisability period of Awards longer than is otherwise provided for in the Plan;

(x) to allow Participants to satisfy withholding tax obligations by electing to have the Company withhold from the Shares to be issued upon exercise of an Award that number of Shares having a Fair Market Value equal to the minimum amount required to be withheld (the Fair Market Value of the Shares to be withheld will be determined on the date that the amount of tax to be withheld is to be determined and all elections by a Participant to have Shares withheld for this

purpose will be made in such form and under such conditions as the Administrator may deem necessary or advisable);

(xi) to authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Award previously granted by the Administrator;

(xii) to allow a Participant to defer the receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant under an Award

(xiii) to make all other determinations deemed necessary or advisable for administering the Plan.

(c) Effect of Administrator's Decision. The Administrator's decisions, determinations and interpretations will be final and binding on all Participants and any other holders of Awards.

5. Eligibility. Nonstatutory Stock Options, Restricted Stock, Stock Appreciation Rights, Performance Units and Performance Shares may be granted to Service Providers. Incentive Stock Options may be granted only to Employees.

6. Stock Options.

(a) Limitations.

(i) Each Option will be designated in the Award Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designation, to the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Participant during any calendar year (under all plans of the Company and any Parent or Subsidiary) exceeds $100,000, such Options will be treated as Nonstatutory Stock Options. For purposes of this Section 6(a), Incentive Stock Options will be taken into account in the order in which they were granted. The Fair Market Value of the Shares will be determined as of the time the Option with respect to such Shares is granted.

(ii) The following limitations will apply to grants of Options and Stock Appreciation Rights:

(1) No Service Provider will be granted, in any Fiscal Year, Options to purchase more than 750,000 Shares.

(2) In connection with his or her initial service, a Service Provider may be granted Options to purchase up to an additional 1,250,000 Shares, which will not count against the limit set forth in Section 6(a)(2)(ii)(1) above.

(3) The foregoing limitations will be adjusted proportionately in connection with any change in the Company's capitalization as described in Section 13.

(4) If an Option is cancelled in the same Fiscal Year in which it was granted (other than in connection with a transaction described in Section 13), the cancelled

Option will be counted against the limits set forth in subsections (1) and (2) above. For this purpose, if the exercise price of an Option is reduced, the transaction will be treated as a cancellation of the Option and the grant of a new Option.

(b) Term of Option. The term of each Option will be stated in the Award Agreement. In the case of an Incentive Stock Option, the term will be ten (10) years from the date of grant or such shorter term as may be provided in the Award Agreement. Moreover, in the case of an Incentive Stock Option granted to a Participant who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Incentive Stock Option will be five (5) years from the date of grant or such shorter term as may be provided in the Award Agreement.

(c) Option Exercise Price and Consideration.

(i) Exercise Price. The per share exercise price for the Shares to be issued pursuant to exercise of an Option will be determined by the Administrator, subject to the following:

(1) In the case of an Incentive Stock Option

a) granted to an Employee who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price will be no less than 110% of the Fair Market Value per Share on the date of grant.

b) granted to any Employee other than an Employee described in paragraph (A) immediately above, the per Share exercise price will be no less than 100% of the Fair Market Value per Share on the date of grant.

c) Notwithstanding the foregoing, Incentive Stock Options may be granted with a per Share exercise price of less than 100% of the Fair Market Value per Share on the date of grant pursuant to a transaction described in, and in a manner consistent with, Section 424(a) of the Code.

(2) In the case of a Nonstatutory Stock Option, the per Share exercise price will be determined by the Administrator. In the case of a Nonstatutory Stock Option intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code, the per Share exercise price will be no less than 100% of the Fair Market Value per Share on the date of grant.

(ii) Waiting Period and Exercise Dates. At the time an Option is granted, the Administrator will fix the period within which the Option may be exercised and will determine any conditions that must be satisfied before the Option may be exercised.

(iii) Form of Consideration. The Administrator will determine the acceptable form of consideration for exercising an Option, including the method of payment. In the case of an Incentive Stock Option, the Administrator will determine the acceptable form of consideration at the time of grant. Such consideration may consist entirely of: (1) cash; (2) check;

(3) promissory note; (4) other Shares, provided Shares acquired directly or indirectly from the Company, (A) have been owned by the Participant and not subject to substantial risk of forfeiture for more than six months on the date of surrender, and (B) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option will be exercised; (5) consideration received by the Company under a cashless exercise program implemented by the Company in connection with the Plan; (6) a reduction in the amount of any Company liability to the Participant, including any liability attributable to the Participant's participation in any Company-sponsored deferred compensation program or arrangement; (7) any combination of the foregoing methods of payment; or (8) such other consideration and method of payment for the issuance of Shares to the extent permitted by Applicable Laws.

(d) Exercise of Option.

(i) Procedure for Exercise; Rights as a Stockholder. Any Option granted hereunder will be exercisable according to the terms of the Plan and at such times and under such conditions as determined by the Administrator and set forth in the Award Agreement. An Option may not be exercised for a fraction of a Share.

An Option will be deemed exercised when the Company receives: (i) notice of exercise (in such form as the Administrator specify from time to time) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised (together with an applicable withholding taxes). Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Award Agreement and the Plan. Shares issued upon exercise of an Option will be issued in the name of the Participant or, if requested by the Participant, in the name of the Participant and his or her spouse. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder will exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Company will issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 13 of the Plan.

Exercising an Option in any manner will decrease the number of Shares thereafter available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(ii) Termination of Relationship as a Service Provider. If a Participant ceases to be a Service Provider, other than upon the Participant's death or Disability, the Participant may exercise his or her Option within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option will remain exercisable for three (3) months following the Participant's termination. Unless otherwise provided by the Administrator, if on the date of termination the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the Plan. If after termination the Participant does not exercise his or her Option within the time specified by the Administrator, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

(iii) Disability of Participant. If a Participant ceases to be a Service Provider as a result of the Participant's Disability, the Participant may exercise his or her Option within such period of time as is specified in the Award Agreement to the extent the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option will remain exercisable for twelve (12) months following the Participant's termination. Unless otherwise provided by the Administrator, if on the date of termination the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the Plan. If after termination the Participant does not exercise his or her Option within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

(iv) Death of Participant. If a Participant dies while a Service Provider, the Option may be exercised following the Participant's death within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of death (but in no event may the option be exercised later than the expiration of the term of such Option as set forth in the Award Agreement), by the Participant's designated beneficiary, provided such beneficiary has been designated prior to Participant's death in a form acceptable to the Administrator. If no such beneficiary has been designated by the Participant, then such Option may be exercised by the personal representative of the Participant's estate or by the person(s) to whom the Option is transferred pursuant to the Participant's will or in accordance with the laws of descent and distribution. In the absence of a specified time in the Award Agreement, the Option will remain exercisable for twelve (12) months following Participant's death. Unless otherwise provided by the Administrator, if at the time of death Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will immediately revert to the Plan. If the Option is not so exercised within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

7. Restricted Stock.

(a) Grant of Restricted Stock. Subject to the terms and provisions of the Plan, the Administrator, at any time and from time to time, may grant Shares of Restricted Stock to Service Providers in such amounts as the Administrator, in its sole discretion, will determine.

(b) Restricted Stock Agreement. Each Award of Restricted Stock will be evidenced by an Award Agreement that will specify the Period of Restriction, the number of Shares granted, and such other terms and conditions as the Administrator, in its sole discretion, will determine. Unless the Administrator determines otherwise, Shares of Restricted Stock will be held by the Company as escrow agent until the restrictions on such Shares have lapsed.

(c) Transferability. Except as provided in this Section 7, Shares of Restricted Stock may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable Period of Restriction.

(d) Other Restrictions. The Administrator, in its sole discretion, may impose such other restrictions on Shares of Restricted Stock as it may deem advisable or appropriate.

(e) Removal of Restrictions. Except as otherwise provided in this Section 7, Shares of Restricted Stock covered by each Restricted Stock grant made under the Plan will be released from escrow as soon as practicable after the last day of the Period of Restriction. The Administrator, in its discretion, may accelerate the time at which any restrictions will lapse or be removed.

(f) Voting Rights. During the Period of Restriction, Service Providers holding Shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those Shares, unless the Administrator determines otherwise.

(g) Dividends and Other Distributions. During the Period of Restriction, Service Providers holding Shares of Restricted Stock will be entitled to receive all dividends and other distributions paid with respect to such Shares unless otherwise provided in the Award Agreement. If any such dividends or distributions are paid in Shares, the Shares will be subject to the same restrictions on transferability and forfeitability as the Shares of Restricted Stock with respect to which they were paid.

(h) Return of Restricted Stock to Company. On the date set forth in the Award Agreement, the Restricted Stock for which restrictions have not lapsed will revert to the Company and again will become available for grant under the Plan.

8. Stock Appreciation Rights.

(a) Grant of SARs. Subject to the terms and conditions of the Plan, a SAR may be granted to Service Providers at any time and from time to time as will be determined by the Administrator, in its sole discretion. The Administrator may grant Affiliated SARs, Freestanding SARs, Tandem SARs, or any combination thereof.

(b) Number of Shares. The Administrator will have complete discretion to determine the number of SARs granted to any Service Provider.

(c) Exercise Price and Other Terms. The Administrator, subject to the provisions of the Plan, will have complete discretion to determine the terms and conditions of SARs granted under the Plan. However, the exercise price of Tandem or Affiliated SARs will equal the exercise price of the related Option.

(d) Exercise of Tandem SARs. Tandem SARs may be exercised for all or part of the Shares subject to the related Option upon the surrender of the right to exercise the equivalent portion of the related Option. A Tandem SAR may be exercised only with respect to the Shares for which its related Option is then exercisable. With respect to a Tandem SAR granted in connection with an Incentive Stock Option: (a) the Tandem SAR will expire no later than the expiration of the underlying Incentive Stock Option; (b) the value of the payout with respect to the Tandem SAR will be for no more than one hundred percent (100%) of the difference between the exercise price of the underlying Incentive Stock Option and the Fair Market Value of the Shares subject to the underlying Incentive Stock Option at the time the Tandem SAR is exercised; and (c) the Tandem SAR will be exercisable only when the Fair Market Value of the Shares subject to the Incentive Stock Option exceeds the Exercise Price of the Incentive Stock Option.

(e) Exercise of Affiliated SARs. An Affiliated SAR will be deemed to be exercised upon the exercise of the related Option. The deemed exercise of an Affiliated SAR will not necessitate a reduction in the number of Shares subject to the related Option.

(f) Exercise of Freestanding SARs. Freestanding SARs will be exercisable on such terms and conditions as the Administrator, in its sole discretion, will determine.

(g) SAR Agreement. Each SAR grant will be evidenced by an Award Agreement that will specify the exercise price, the term of the SAR, the conditions of exercise, and such other terms and conditions as the Administrator, in its sole discretion, will determine.

(h) Expiration of SARs. An SAR granted under the Plan will expire upon the date determined by the Administrator, in its sole discretion, and set forth in the Award Agreement. Notwithstanding the foregoing, the rules of Section 6(d) also will apply to SARs.

(i) Payment of SAR Amount. Upon exercise of an SAR, a Participant will be entitled to receive payment from the Company in an amount determined by multiplying:

(i) The difference between the Fair Market Value of a Share on the date of exercise over the exercise price; times

(ii) The number of Shares with respect to which the SAR is exercised.

At the discretion of the Administrator, the payment upon SAR exercise may be in cash, in Shares of equivalent value, or in some combination thereof.

9. Performance Units and Performance Shares.

(a) Grant of Performance Units/Shares. Performance Units and Performance Shares may be granted to Service Providers at any time and from time to time, as will be determined by the Administrator, in its sole discretion. The Administrator will have complete discretion in determining the number of Performance Units and Performance Shares granted to each Participant.

(b) Value of Performance Units/Shares. Each Performance Unit will have an initial value that is established by the Administrator on or before the date of grant. Each Performance Share will have an initial value equal to the Fair Market Value of a Share on the date of grant.

(c) Performance Objectives and Other Terms. The Administrator will set performance objectives or other vesting provisions (including, without limitation, continued status as a Service Provider) in its discretion which, depending on the extent to which they are met, will determine the number or value of Performance Units/Shares that will be paid out to the Service Providers. The time period during which the performance objectives or other vesting provisions must be met will be called the "Performance Period." Each Award of Performance Units/Shares will be evidenced by an Award Agreement that will specify the Performance Period, and such other terms and conditions as the Administrator, in its sole discretion, will determine. The Administrator may set performance objectives based upon the achievement of Company-wide, divisional, or

individual goals, applicable federal or state securities laws, or any other basis determined by the Administrator in its discretion.

(d) Earning of Performance Units/Shares. After the applicable Performance Period has ended, the holder of Performance Units/Shares will be entitled to receive a payout of the number of Performance Units/Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance objectives or other vesting provisions have been achieved. After the grant of a Performance Unit/Share, the Administrator, in its sole discretion, may reduce or waive any performance objectives or other vesting provisions for such Performance Unit/Share.

(e) Form and Timing of Payment of Performance Units/Shares. Payment of earned Performance Units/Shares will be made as soon as practicable after the expiration of the applicable Performance Period. The Administrator, in its sole discretion, may pay earned Performance Units/Shares in the form of cash, in Shares (which have an aggregate Fair Market Value equal to the value of the earned Performance Units/Shares at the close of the applicable Performance Period) or in a combination thereof.

(f) Cancellation of Performance Units/Shares. On the date set forth in the Award Agreement, all unearned or unvested Performance Units/Shares will be forfeited to the Company, and again will be available for grant under the Plan.

10. Formula Option Grants to Outside Directors.

All grants of Options to Outside Directors pursuant to this Section will be automatic and nondiscretionary, except as otherwise provided herein, and will be made in accordance with the following provisions:

(a) Type of Option. All Options granted pursuant to this Section will be Nonstatutory Stock Options and, except as otherwise provided herein, will be subject to the other terms and conditions of the Plan.

(b) No Discretion. No person will have any discretion to select which Outside Directors will be granted Options under this Section or to determine the number of Shares to be covered by such Options (except as provided in Sections 10(f) and 13).

(c) First Option. Each person who first becomes an Outside Director following the Registration Date will be automatically granted an Option to purchase 30,000 Shares (the "First Option") on or about the date on which such person first becomes an Outside Director, whether through election by the stockholders of the Company or appointment by the Board to fill a vacancy; provided, however, that an Inside Director who ceases to be an Inside Director, but who remains a Director, will not receive a First Option.

(d) Subsequent Option. Each Outside Director will be automatically granted an Option to purchase 15,000 Shares (a "Subsequent Option") on each date of the annual meeting of the stockholders of the Company beginning in 2005, if as of such date, he or she will have served on the Board for at least the preceding six (6) months.

(e) Terms. The terms of each Option granted pursuant to this Section will be as follows:

(i) The term of the Option will be ten (10) years.

(ii) The exercise price per Share will be 100% of the Fair Market Value per Share on the date of grant of the Option.

(iii) Subject to Section 14, the First Option will vest and become exercisable as to 50% of the Shares subject to the First Option on each anniversary of its date of grant, provided that the Participant continues to serve as a Director through each such date.

(iv) Subject to Section 14, the Subsequent Option will vest and become exercisable as to 100% of the Shares subject to the Subsequent Option on the first anniversary of its date of grant, provided that the Participant continues to serve as a Director through such date.

(f) Amendment. The Administrator in its discretion may change the number of Shares subject to the First Options and Subsequent Options.

11. Leaves of Absence. Unless the Administrator provides otherwise, vesting of Awards granted hereunder will be suspended during any unpaid leave of absence. A Service Provider will not cease to be an Employee in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or between the Company, its Parent, or any Subsidiary. For purposes of Incentive Stock Options, no such leave may exceed ninety (90) days, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, then three months following the 91st day of such leave any Incentive Stock Option held by the Participant will cease to be treated as an Incentive Stock Option and will be treated for tax purposes as a Nonstatutory Stock Option.

12. Transferability of Awards. Unless determined otherwise by the Administrator, an Award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Participant, only by the Participant. If the Administrator makes an Award transferable, such Award will contain such additional terms and conditions as the Administrator deems appropriate.

13. Adjustments; Dissolution or Liquidation; Merger or Change in Control.

(a) Adjustments. In the event that any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, or other change in the corporate structure of the Company affecting the Shares occurs, the Administrator, in order to prevent diminution or enlargement of the benefits or potential benefits intended to be made available under the Plan, may (in its sole discretion) adjust the number and class of Shares that may be delivered under the Plan and/or the number, class, and price of Shares covered by each outstanding Award, the numerical

Share limits in Sections 3 and 6 of the Plan and the number of Shares issuable pursuant to Options to be granted under Section 10.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator will notify each Participant as soon as practicable prior to the effective date of such proposed transaction. To the extent it has not been previously exercised, an Award will terminate immediately prior to the consummation of such proposed action.

(c) Change in Control. In the event of a Change in Control, each outstanding Award will be assumed or an equivalent option or right substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the Award, the Participant will fully vest in and have the right to exercise all of his or her outstanding Options and Stock Appreciation Rights, including Shares as to which such Awards would not otherwise be vested or exercisable, all restrictions on Restricted Stock will lapse, and, with respect to Performance Shares and Performance Units, all performance goals or other vesting criteria will be deemed achieved at target levels and all other terms and conditions met. In addition, if an Option or Stock Appreciation Right becomes fully vested and exercisable in lieu of assumption or substitution in the event of a Change in Control, the Administrator will notify the Participant in writing or electronically that the Option or Stock Appreciation Right will be fully vested and exercisable for a period of time determined by the Administrator in its sole discretion, and the Option or Stock Appreciation Right will terminate upon the expiration of such period.

With respect to Awards granted to an Outside Director that are assumed or substituted for, if on the date of or following such assumption or substitution the Participant's status as a Director or a director of the successor corporation, as applicable, is terminated other than upon a voluntary resignation by the Participant, then the Participant will fully vest in and have the right to exercise Options and/or Stock Appreciation Rights as to all of the Optioned Stock, including Shares as to which such Awards would not otherwise be vested or exercisable, all restrictions on Restricted Stock will lapse, and, with respect to Performance Shares and Performance Units, all performance goals or other vesting criteria will be deemed achieved at target levels and all other terms and conditions met.

For the purposes of this subsection (c), an Award will be considered assumed if, following the Change in Control, the Award confers the right to purchase or receive, for each Share subject to the Award immediately prior to the Change in Control, the consideration (whether stock, cash, or other securities or property) or, in the case of a Stock Appreciation Right upon the exercise of which the Administrator determines to pay cash or a Performance Share or Performance Unit which the Administrator can determine to pay in cash, the fair market value of the consideration received in the merger or Change in Control by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the Change in Control is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of an Option or Stock Appreciation Right or upon the payout of a Performance Share or Performance Unit, for each Share subject to such Award (or in the case of Performance Units, the number of implied shares determined by dividing the value of the Performance Units by the per share consideration received by holders of

Common Stock in the Change in Control), to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the Change in Control.

Notwithstanding anything in this Section 13(c) to the contrary, an Award that vests, is earned or paid-out upon the satisfaction of one or more performance goals will not be considered assumed if the Company or its successor modifies any of such performance goals without the Participant's consent; provided, however, a modification to such performance goals only to reflect the successor corporation's post-Change in Control corporate structure will not be deemed to invalidate an otherwise valid Award assumption.

14. No Effect on Employment or Service. Neither the Plan nor any Award will confer upon a Participant any right with respect to continuing the Participant's relationship as a Service Provider with the Company, nor will they interfere in any way with the Participant's right or the Company's right to terminate such relationship at any time, with or without cause, to the extent permitted by Applicable Laws.

15. Date of Grant. The date of grant of an Award will be, for all purposes, the date on which the Administrator makes the determination granting such Award, or such other later date as is determined by the Administrator. Notice of the determination will be provided to each Participant within a reasonable time after the date of such grant.

16. Term of Plan. Subject to Section 20 of the Plan, the Plan will become effective upon its adoption by the Board. It will continue in effect for a term of ten (10) years unless terminated earlier under Section 17 of the Plan.

17. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Board may at any time amend, alter, suspend or terminate the Plan.

(b) Stockholder Approval. The Company will obtain stockholder approval of any Plan amendment to the extent necessary and desirable to comply with Applicable Laws.

(c) Effect of Amendment or Termination. No amendment, alteration, suspension or termination of the Plan will impair the rights of any Participant, unless mutually agreed otherwise between the Participant and the Administrator, which agreement must be in writing and signed by the Participant and the Company. Termination of the Plan will not affect the Administrator's ability to exercise the powers granted to it hereunder with respect to Awards granted under the Plan prior to the date of such termination.

18. Conditions Upon Issuance of Shares.

(a) Legal Compliance. Shares will not be issued pursuant to the exercise of an Award unless the exercise of such Award and the issuance and delivery of such Shares will comply with Applicable Laws and will be further subject to the approval of counsel for the Company with respect to such compliance.

(b) Investment Representations. As a condition to the exercise of an Award, the Company may require the person exercising such Award to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

19. Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, will relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority will not have been obtained.

20. Stockholder Approval. The Plan will be subject to approval by the stockholders of the Company within twelve (12) months after the date the Plan is adopted. Such stockholder approval will be obtained in the manner and to the degree required under Applicable Laws.

MONLITHIC POWER SYSTEMS, INC.

2004 EQUITY INCENTIVE PLAN

STOCK OPTION AGREEMENT

Unless otherwise defined herein, the terms defined in the 2004 Equity Incentive Plan shall have the same defined meanings in this Option Agreement.

I. NOTICE OF STOCK OPTION GRANT

Name:

Address:

You have been granted an option to purchase Common Stock of the Company, subject to the terms and conditions of the Plan and this Option Agreement, as follows:

Grant Number	_____
Date of Grant	_____
Vesting Commencement Date	_____
Exercise Price per Share	$_____
Total Number of Shares Granted	_____
Total Exercise Price	$_____
Type of Option:	_____ Incentive Stock Option
	_____ Nonstatutory Stock Option
Term/Expiration Date:	_____

Vesting Schedule:

This Option may be exercised, in whole or in part, in accordance with the following schedule:

[Twenty-five percent (25%) of the Shares subject to the Option shall vest twelve (12) months after the Vesting Commencement Date, and 1/48 of the Shares subject to the Option shall vest each month thereafter on the same day of the month as the Vesting Commencement Date, subject to the Optionee continuing to be a Service Provider on such dates].

Termination Period:

This Option may be exercised for **[three (3) months]** after Optionee ceases to be a Service Provider. Upon the death or Disability of Optionee, this Option may be exercised for **[twelve (12) months]** after Optionee ceases to be a Service Provider. In no event shall this Option be exercised later than the Term/Expiration Date as provided above.

II. AGREEMENT

A. Grant of Option.

The Plan Administrator of the Company hereby grants to the Optionee named in the Notice of Grant attached as Part I of this Option Agreement (the "Optionee") an option (the "Option") to purchase the number of Shares, as set forth in the Notice of Grant, at the exercise price per Share set forth in the Notice of Grant (the "Exercise Price"), subject to the terms and conditions of the Plan, which is incorporated herein by reference. Subject to Section 17(c) of the Plan, in the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Option Agreement, the terms and conditions of the Plan shall prevail.

If designated in the Notice of Grant as an Incentive Stock Option ("ISO"), this Option is intended to qualify as an Incentive Stock Option under Section 422 of the Code. However, if this Option is intended to be an Incentive Stock Option, to the extent that it exceeds the $100,000 rule of Code Section 422(d) it shall be treated as a Nonstatutory Stock Option ("NSO").

B. Exercise of Option.

(a) Right to Exercise. This Option is exercisable during its term in accordance with the Vesting Schedule set out in the Notice of Grant and the applicable provisions of the Plan and this Option Agreement.

(b) Method of Exercise. This Option is exercisable by delivery of an exercise notice, in the form attached as Exhibit A (the "Exercise Notice"), which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised (the "Exercised Shares"), and such other representations and agreements as may be required by the Company pursuant to the provisions of the Plan. The Exercise Notice shall be completed by the Optionee and delivered to the Company. The Exercise Notice shall be accompanied by payment of the aggregate Exercise Price as to all Exercised Shares. This Option shall be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by such aggregate Exercise Price.

No Shares shall be issued pursuant to the exercise of this Option unless such issuance and exercise complies with Applicable Laws. Assuming such compliance, for income tax purposes the Exercised Shares shall be considered transferred to the Optionee on the date the Option is exercised with respect to such Exercised Shares.

C. Method of Payment.

Payment of the aggregate Exercise Price shall be by any of the following, or a combination thereof, at the election of the Optionee:

1. cash;

2. check;

3. consideration received by the Company under a cashless exercise program implemented by the Company in connection with the Plan; or

4. surrender of other Shares, which in the case of Shares acquired from the Company, (i) have been owned by the Optionee for more than six (6) months on the date of surrender, and (ii) have a Fair Market Value on the date of surrender equal to the aggregate Exercise Price of the Exercised Shares.

D. Non-Transferability of Option.

This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Optionee only by the Optionee. The terms of the Plan and this Option Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

E. Term of Option.

This Option may be exercised only within the term set out in the Notice of Grant, and may be exercised during such term only in accordance with the Plan and the terms of this Option Agreement.

F. Tax Obligations.

1. Withholding Taxes. Optionee agrees to make appropriate arrangements with the Company (or the Parent or Subsidiary employing or retaining Optionee) for the satisfaction of all Federal, state, and local income and employment tax withholding requirements applicable to the Option exercise. Optionee acknowledges and agrees that the Company may refuse to honor the exercise and refuse to deliver Shares if such withholding amounts are not delivered at the time of exercise.

2. Notice of Disqualifying Disposition of ISO Shares. If the Option granted to Optionee herein is an ISO, and if Optionee sells or otherwise disposes of any of the Shares acquired pursuant to the ISO on or before the later of (a) the date two (2) years after the Date of Grant, or (b) the date one (1) year after the date of exercise, the Optionee shall immediately notify the Company in writing of such disposition. Optionee agrees that Optionee may be subject to income tax withholding by the Company on the compensation income recognized by the Optionee.

G. Entire Agreement; Governing Law.

The Plan is incorporated herein by reference. The Plan and this Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the subject matter hereof, and may not be modified adversely to the Optionee's interest except by means of a writing signed by the Company and Optionee. This agreement is governed by the internal substantive laws, but not the choice of law rules, of California.

H. NO GUARANTEE OF CONTINUED SERVICE.

OPTIONEE ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED AN OPTION OR PURCHASING SHARES HEREUNDER). OPTIONEE FURTHER ACKNOWLEDGES AND AGREES THAT THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND SHALL NOT INTERFERE WITH OPTIONEE'S RIGHT OR THE COMPANY'S RIGHT TO TERMINATE OPTIONEE'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

By your signature and the signature of the Company's representative below, you and the Company agree that this Option is granted under and governed by the terms and conditions of the Plan and this Option Agreement. Optionee has reviewed the Plan and this Option Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option Agreement and fully understands all provisions of the Plan and Option Agreement. Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Option Agreement. Optionee further agrees to notify the Company upon any change in the residence address indicated below.

OPTIONEE:	MONLITHIC POWER SYSTEMS, INC.
_____	_____
Signature	By
_____	_____
Print Name	Title
_____	
Residence Address	

EXHIBIT A

MONLITHIC POWER SYSTEMS, INC.

2004 EQUITY INCENTIVE PLAN

EXERCISE NOTICE

Monolithic Power Systems, Inc.
983 University Ave. Building A
Los Gatos, CA 95032

Attention: Chief Financial Officer

1. Exercise of Option. Effective as of today, _____, _____, the undersigned ("Purchaser") hereby elects to purchase _____ shares (the "Shares") of the Common Stock of Monolithic Power Systems, Inc. (the "Company") under and pursuant to the 2004 Equity Incentive Plan (the "Plan") and the Stock Option Agreement dated, _____ (the "Option Agreement"). The purchase price for the Shares shall be $_____, as required by the Option Agreement.

2. Delivery of Payment. Purchaser herewith delivers to the Company the full purchase price for the Shares and any required withholding taxes to be paid in connection with the exercise of the Option.

3. Representations of Purchaser. Purchaser acknowledges that Purchaser has received, read and understood the Plan and the Option Agreement and agrees to abide by and be bound by their terms and conditions.

4. Rights as Shareholder. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the Shares, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Shares so acquired shall be issued to the Optionee as soon as practicable after exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date of issuance, except as provided in Section 13 of the Plan.

5. Tax Consultation. Purchaser understands that Purchaser may suffer adverse tax consequences as a result of Purchaser's purchase or disposition of the Shares. Purchaser represents that Purchaser has consulted with any tax consultants Purchaser deems advisable in connection with the purchase or disposition of the Shares and that Purchaser is not relying on the Company for any tax advice.

6. Entire Agreement; Governing Law. The Plan and Option Agreement are incorporated herein by reference. This Agreement, the Plan and the Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all

prior undertakings and agreements of the Company and Purchaser with respect to the subject matter hereof, and may not be modified adversely to the Purchaser's interest except by means of a writing signed by the Company and Purchaser. This agreement is governed by the internal substantive laws, but not the choice of law rules, of California.

Submitted by:	Accepted by:
PURCHASER:	MONLITHIC POWER SYSTEMS, INC.
_____	_____
Signature	By
_____	_____
Print Name	Its
Address:	Address:
_____	983 University Ave. Building A
_____	Los Gatos, CA 95032
	_____
	Date Received

Exhibit 10.3

MONOLITHIC POWER SYSTEMS, INC.

2004 EMPLOYEE STOCK PURCHASE PLAN

The following constitutes the provisions of the 2004 Employee Stock Purchase Plan of Monolithic Power Systems, Inc.

1. Purpose. The purpose of the Plan is to provide Employees with an opportunity to purchase Common Stock through accumulated payroll deductions. It is the intention of the Company to have the Plan qualify as an "employee stock purchase plan" under Section 423 of the Code. The provisions of the Plan, accordingly, will be construed so as to extend and limit Plan participation in a manner that is consistent with the requirements of that section of the Code.

2. Definitions.

(a) "Administrator" means the Board or any committee thereof designated by the Board in accordance with Section 14.

(b) "Board" means the Board of Directors of the Company.

(c) "Change of Control" means the occurrence of any of the following events:

(i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becomes the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities; or

(ii) The consummation of the sale or disposition by the Company of all or substantially all of the Company's assets; or

(iii) The consummation of a merger or consolidation of the Company, with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company, or such surviving entity or its parent outstanding immediately after such merger or consolidation.

(iv) A change in the composition of the Board, as a result of which fewer than a majority of the Directors are Incumbent Directors. "Incumbent Directors" means Directors who either (A) are Directors as of the effective date of the Plan (pursuant to Section 23), or (B) are elected, or nominated for election, to the Board with the affirmative votes of at least a majority of those Directors whose election or nomination was not in connection with any transaction described in subsections (i), (ii) or (iii) or in connection with an actual or threatened proxy contest relating to the election of Directors of the Company.

(d) "Code" means the Internal Revenue Code of 1986, as amended. Any reference to a section of the Code herein will be a reference to any successor or amended section of the Code.

(e) "Common Stock" means the common stock of the Company.

(f) "Company" means Monolithic Power Systems, Inc., a Delaware corporation.

(g) "Compensation" means an Employee's base straight time gross earnings, commissions (to the extent such commissions are an integral, recurring part of compensation), overtime and shift premium, but exclusive of payments for incentive compensation, bonuses and other compensation.

(h) "Designated Subsidiary" means any Subsidiary that has been designated by the Administrator from time to time in its sole discretion as eligible to participate in the Plan.

(i) "Director" means a member of the Board.

(j) "Employee" means any individual who is a common law employee of an Employer and is customarily employed for at least twenty (20) hours per week and more than five (5) months in any calendar year by the Employer. For purposes of the Plan, the employment relationship will be treated as continuing intact while the individual is on sick leave or other leave of absence approved by the Employer. Where the period of leave exceeds ninety (90) days and the individual's right to reemployment is not guaranteed either by statute or by contract, the employment relationship will be deemed to have terminated on the 91st day of such leave. The Administrator, in its discretion, from time to time may, prior to an Enrollment Date for all options to be granted on such Enrollment Date, determine (on a uniform and nondiscriminatory basis) that the definition of Employee will or will not include an individual if he or she: (1) has not completed at least two years of service since his or her last hire date (or such lesser period of time as may be determined by the Administrator in its discretion), (2) customarily works not more than 20 hours per week (or such lesser period of time as may be determined by the Administrator in its discretion), (3) customarily works not more than 5 months per calendar year (or such lesser period of time as may be determined by the Administrator in its discretion), (4) is an officer or other manager, or (5) is a highly compensated employee under Section 414(q) of the Code.

(k) "Employer" means any one or all of the Company and its Designated Subsidiaries.

(l) "Enrollment Date" means the first Trading Day of each Offering Period.

(m) "Exchange Act" means the Securities Exchange Act of 1934, as amended, including the rules and regulations promulgated thereunder.

(n) "Exercise Date" means the last day of each Offering Period. The first Exercise Date under the Plan shall be February 15, 2005.

(o) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq National Market or The Nasdaq SmallCap Market of The Nasdaq Stock Market, its Fair Market Value will be the closing sales price for the Common Stock (or the closing bid, if no sales were reported) as quoted on such exchange or system on the date of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable, or;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value will be the mean of the closing bid and asked prices for the Common Stock on the date of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable, or;

(iii) In the absence of an established market for the Common Stock, its Fair Market Value will be determined in good faith by the Administrator, or;

(iv) For purposes of the Enrollment Date of the first Offering Period under the Plan, the Fair Market Value will be the initial price to the public as set forth in the final prospectus deemed to be included within the registration statement on Form S-1 filed with the Securities and Exchange Commission for the initial public offering of the Common Stock (the "Registration Statement").

(p) "Offering Periods" means the periods of approximately six (6) months during which an option granted pursuant to the Plan may be exercised, (i) commencing on the first Trading Day on or after February 15 of each year and terminating on the first Trading Day on or following August 15, approximately six (6) months later, and (ii) commencing on the first Trading Day on or after August 15 of each year and terminating on the first Trading Day on or following February 15, approximately six (6) months later; provided, however, that the first Offering Period under the Plan shall commence with the first Trading Day on or after the date on which the Securities and Exchange Commission declares the Company's Registration Statement effective and ending on the first Trading Day on or after February 15, 2005; and provided, further, that the second Offering Period under the Plan shall commence on the first Trading Day on or after August 15, 2004. The duration and timing of Offering Periods may be changed pursuant to Section 4 of this Plan.

(q) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(r) "Plan" means this 2004 Employee Stock Purchase Plan.

(s) "Purchase Price" means an amount equal to eighty-five percent (85%) of the Fair Market Value of a share of Common Stock on the Enrollment Date or on the Exercise Date, whichever is lower; provided however, that the Purchase Price may be adjusted by the Administrator pursuant to Section 20.

(t) "Subsidiary" means a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code.

(u) "Trading Day" means a day on which the U.S. national stock exchanges and the Nasdaq System are open for trading.

3. Eligibility.

(a) First Offering Period. Any individual who is an Employee immediately prior to the first Offering Period under the Plan will be automatically enrolled in the first Offering Period.

(b) Subsequent Offering Periods. Any individual who is an Employee as of the Enrollment Date of any future Offering Period will be eligible to participate in such Offering Period, subject to the requirements of Section 5.

(c) Limitations. Any provisions of the Plan to the contrary notwithstanding, no Employee will be granted an option under the Plan (i) to the extent that, immediately after the grant, such Employee (or any other person whose stock would be attributed to such Employee pursuant to Section 424(d) of the Code) would own capital stock of the Company or any Parent or Subsidiary of the Company and/or hold outstanding options to purchase such stock possessing five percent (5%) or more of the total combined voting power or value of all classes of the capital stock of the Company or of any Parent or Subsidiary of the Company, or (ii) to the extent that his or her rights to purchase stock under all employee stock purchase plans (as defined in Section 423 of the Code) of the Company or any Parent or Subsidiary of the Company accrues at a rate which exceeds twenty-five thousand dollars ($25,000) worth of stock (determined at the Fair Market Value of the stock at the time such option is granted) for each calendar year in which such option is outstanding at any time.

4. Offering Periods. The Plan shall be implemented by consecutive Offering Periods with a new Offering Period commencing on the first Trading Day on or after February 15 and August 15 of each year, or on such other date as the Administrator shall determine, and continuing thereafter until terminated in accordance with Section 20; provided, however, that the first Offering Period under the Plan shall commence with the first Trading Day on or after the date on which the Securities and Exchange Commission declares the Company's Registration Statement effective and ending on the first Trading Day on or after February 15, 2005; and provided, further, that the second Offering Period under the Plan shall commence on the first Trading Day on or after August 15, 2004. The Administrator shall have the power to change the duration of Offering Periods (including the commencement dates thereof) with respect to future offerings without stockholder approval if such change is announced prior to the scheduled beginning of the first Offering Period to be affected thereafter.

5. Participation.

(a) First Offering Period. An Employee who has become a participant in the first Offering Period under the Plan pursuant to Section 3(a) will be entitled to continue his or her participation in such Offering Period only if he or she submits to the Company's payroll office (or its designee) a properly completed subscription agreement authorizing payroll deductions in the form provided by the Administrator for such purpose (i) no earlier than the effective date of the filing of the Company's Registration Statement on Form S-8 with respect to the shares of Common Stock issuable under the Plan (the "Effective Date") and (ii) no later than five (5) business days from the Effective Date or such other period of time as the Administrator may determine (the "Enrollment Window"). A participant's failure to submit the subscription agreement during the Enrollment Window pursuant to this Section 5(a) will result in the automatic termination of his or her participation in the first Offering Period under the Plan.

(b) Subsequent Offering Periods. An Employee who is eligible to participate in the Plan pursuant to Section 3(b) may become a participant by (i) submitting to the Company's payroll office (or its designee), on or before a date prescribed by the Administrator prior to an applicable Enrollment Date, a properly completed subscription agreement authorizing payroll deductions in the form provided by the Administrator for such purpose, or (ii) following an electronic or other enrollment procedure prescribed by the Administrator.

6. Payroll Deductions.

(a) At the time a participant enrolls in the Plan pursuant to Section 5, he or she will elect to have payroll deductions made on each payday during the Offering Period in an amount not exceeding 15% of the Compensation which he or she receives on each such payday.

(b) Payroll deductions authorized by a participant will commence on the first payday following the Enrollment Date and will end on the last payday in the Offering Period to which such authorization is applicable, unless sooner terminated by the participant as provided in Section 10; provided, however, that for the first Offering Period under the Plan, payroll deductions will commence on the first payday on or following the end of the Enrollment Window.

(c) All payroll deductions made for a participant will be credited to his or her account under the Plan and will be withheld in whole percentages only. A participant may not make any additional payments into such account.

(d) A participant may discontinue his or her participation in the Plan as provided in Section 10, or may change the rate of his or her payroll deductions during the Offering Period by (i) properly completing and submitting to the Company's payroll office (or its designee), on or before a date prescribed by the Administrator prior to an applicable Exercise Date, a new subscription agreement authorizing the change in payroll deduction rate in the form provided by the Administrator for such purpose, or (ii) following an electronic or other procedure prescribed by the Administrator; provided, however, that a participant may only make one payroll deduction change during each Offering Period. If a participant has not followed such procedures to change the rate of payroll deductions, the rate of his or her payroll deductions will continue at the originally elected rate throughout the Offering Period and future Offering Periods (unless terminated as provided in Section 10). The Administrator may, in its sole discretion, limit the nature and/or number of payroll deduction rate changes that may be made by participants during any Offering Period. Any change in payroll deduction rate made pursuant to this Section 6(d) will be effective as of the first full payroll period following five (5) business days after the date on which the change is made by the participant (unless the Administrator, in its sole discretion, elects to process a given change in payroll deduction rate more quickly).

(e) Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 3(c), a participant's payroll deductions may be decreased to zero percent (0%) at any time during a Offering Period. Subject to Section 423(b)(8) of the Code and Section 3(c) hereof, payroll deductions will recommence at the rate originally elected by the participant effective as of the beginning of the first Offering Period which is scheduled to end in the following calendar year, unless terminated by the participant as provided in Section 10.

(f) At the time the option is exercised, in whole or in part, or at the time some or all of the Company's Common Stock issued under the Plan is disposed of, the participant must make adequate provision for the Company's federal, state, or other tax withholding obligations, if any, which arise upon the exercise of the option or the disposition of the Common Stock. At any time, the Company may, but will not be obligated to, withhold from the participant's compensation the amount necessary for the Company to meet applicable withholding obligations, including any withholding required to make available to the Company any tax deductions or benefits attributable to the sale or early disposition of Common Stock by the Employee.

7. Grant of Option. On the Enrollment Date of each Offering Period, each Employee participating in such Offering Period will be granted an option to purchase on each Exercise Date during such Offering Period (at the applicable Purchase Price) up to a number of shares of Common Stock determined by dividing such participant's payroll deductions accumulated prior to such Exercise Date and retained in the participant's account as of the Exercise Date by the applicable Purchase Price; provided that in no event will a participant be permitted to purchase during each Offering Period more than 2,000 shares of Common Stock (subject to any adjustment pursuant to Section 19), and provided further that such purchase will be subject to the limitations set forth in Sections 3(c) and 13. The Employee may accept the grant of such option (i) with respect to the first Offering Period under the Plan, by submitting a properly completed subscription agreement in accordance with the requirements of Section 5(a) on or before the last day of the Enrollment Window, and (ii) with respect to any future Offering Period under the Plan, by electing to participate in the Plan in accordance with the requirements of Section 5(b). The Administrator may, for future Offering Periods, increase or decrease, in its absolute discretion, the maximum number of shares of Common Stock that a participant may purchase during each Offering Period. Exercise of the option will occur as provided in Section 8, unless the participant has withdrawn pursuant to Section 10. The option will expire on the last day of the Offering Period.

8. Exercise of Option.

(a) Unless a participant withdraws from the Plan as provided in Section 10, his or her option for the purchase of shares of Common Stock will be exercised automatically on the Exercise Date, and the maximum number of full shares subject to option will be purchased for such participant at the applicable Purchase Price with the accumulated payroll deductions in his or her account. No fractional shares of Common Stock will be purchased; any payroll deductions accumulated in a participant's account which are not sufficient to purchase a full share will be retained in the participant's account for the subsequent Offering Period, subject to earlier withdrawal by the participant as provided in Section 10. Any other monies left over in a participant's account after the Exercise Date will be returned to the participant. During a participant's lifetime, a participant's option to purchase shares hereunder is exercisable only by him or her.

(b) Notwithstanding any contrary Plan provision, if the Administrator determines that, on a given Exercise Date, the number of shares of Common Stock with respect to which options are to be exercised may exceed (i) the number of shares of Common Stock that were available for sale under the Plan on the Enrollment Date of the applicable Offering Period, or (ii) the number of shares of Common Stock available for sale under the Plan on such Exercise Date, the Administrator may in its sole discretion (x) provide that the Company will make a pro rata allocation of the shares of Common Stock available for purchase on such Enrollment Date or Exercise Date, as applicable,

in as uniform a manner as will be practicable and as it will determine in its sole discretion to be equitable among all participants exercising options to purchase Common Stock on such Exercise Date, and continue all Offering Periods then in effect, or (y) provide that the Company will make a pro rata allocation of the shares of Common Stock available for purchase on such Enrollment Date or Exercise Date, as applicable, in as uniform a manner as will be practicable and as it will determine in its sole discretion to be equitable among all participants exercising options to purchase Common Stock on such Exercise Date, and terminate any or all Offering Periods then in effect pursuant to Section 20. The Company may make pro rata allocation of the shares of Common Stock available on the Enrollment Date of any applicable Offering Period pursuant to the preceding sentence, notwithstanding any authorization of additional shares of Common Stock for issuance under the Plan by the Company's shareholders subsequent to such Enrollment Date.

9. Delivery. As soon as administratively practicable after each Exercise Date on which a purchase of shares of Common Stock occurs, the Company will arrange the delivery to each participant, as appropriate, the shares purchased upon exercise of his or her option in a form determined by the Administrator (in its sole discretion) and pursuant to rules established by the Administrator. No participant will have any voting, dividend, or other shareholder rights with respect to shares of Common Stock subject to any option granted under the Plan until such shares have been purchased and delivered to the participant as provided in this Section 9.

10. Withdrawal.

(a) Under procedures established by the Administrator, a participant may withdraw all but not less than all the payroll deductions credited to his or her account and not yet used to exercise his or her option under the Plan at any time by (i) submitting to the Company's payroll office (or its designee) a written notice of withdrawal in the form prescribed by the Administrator for such purpose, or (ii) following an electronic or other withdrawal procedure prescribed by the Administrator. All of the participant's payroll deductions credited to his or her account will be paid to such participant as promptly as practicable after the effective date of his or her withdrawal and such participant's option for the Offering Period will be automatically terminated, and no further payroll deductions for the purchase of shares will be made for such Offering Period. If a participant withdraws from an Offering Period, payroll deductions will not resume at the beginning of the succeeding Offering Period unless the participant re-enrolls in the Plan in accordance with the provisions of Section 5.

(b) A participant's withdrawal from an Offering Period will not have any effect upon his or her eligibility to participate in any similar plan which may hereafter be adopted by the Company or in succeeding Offering Periods which commence after the termination of the Offering Period from which the participant withdraws.

11. Termination of Employment. Upon a participant's ceasing to be an Employee, for any reason, he or she will be deemed to have elected to withdraw from the Plan and the payroll deductions credited to such participant's account during the Offering Period but not yet used to purchase shares of Common Stock under the Plan will be returned to such participant or, in the case of his or her death, to the person or persons entitled thereto under Section 15, and such participant's option will be automatically terminated. The preceding sentence notwithstanding, a participant who receives payment in lieu of notice of termination of employment will be treated as continuing to be

an Employee for the participant's customary number of hours per week of employment during the period in which the participant is subject to such payment in lieu of notice.

12. Interest. No interest will accrue on the payroll deductions of a participant in the Plan.

13. Stock.

(a) Subject to adjustment upon changes in capitalization of the Company as provided in Section 19, the maximum number of shares of Common Stock which will be made available for sale under the Plan will be the sum of 200,000 shares of Common Stock plus an annual increase to be added on the first day of each fiscal year of the Company beginning in fiscal year 2005, equal to the lesser of (i) 1,000,000 shares of Common Stock, (ii) 2% of the outstanding shares of Common Stock on such date (for purposes of which calculation only shares actually outstanding shall be counted and not shares issuable upon conversion or exercise of other securities) or (iii) an amount determined by the Board.

(b) Shares of Common Stock to be delivered to a participant under the Plan will be registered in the name of the participant or in the name of the participant and his or her spouse.

14. Administration. The Board or a committee of members of the Board who will be appointed from time to time by, and will serve at the pleasure of, the Board, will administer the Plan. The Administrator will have full and exclusive discretionary authority to construe, interpret and apply the terms of the Plan, to determine eligibility, to adjudicate all disputed claims filed under the Plan and to establish such procedures that it deems necessary for administration of the Plan (including, without limitation, to adopt such procedures and sub-plans as are necessary or appropriate to permit the participation in the Plan by employees who are foreign nationals or employed outside the United States). The Administrator, in its sole discretion and on such terms and conditions as it may provide, may delegate to one or more individuals all or any part of its authority and powers under the Plan. Every finding, decision and determination made by the Administrator (or its designee) will, to the full extent permitted by law, be final and binding upon all parties.

15. Designation of Beneficiary.

(a) A participant may designate a beneficiary who is to receive any shares of Common Stock and cash, if any, from the participant's account under the Plan in the event of such participant's death subsequent to an Exercise Date on which the option is exercised but prior to delivery to such participant of such shares and cash. In addition, a participant may designate a beneficiary who is to receive any cash from the participant's account under the Plan in the event of such participant's death prior to exercise of the option. If a participant is married and the designated beneficiary is not the spouse, spousal consent will be required for such designation to be effective.

(b) Such designation of beneficiary may be changed by the participant at any time. In the event of the death of a participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such participant's death, the Company will deliver such shares and/or cash to the executor or administrator of the estate of the participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such shares and/or cash to the spouse or to any one or more dependents or relatives of the participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

(c) All beneficiary designations under this Section 15 will be made in such form and manner as the Administrator may prescribe from time to time.

16. Transferability. Neither payroll deductions credited to a participant's account nor any rights with regard to the exercise of an option or to receive shares of Common Stock under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution or as provided in Section 15) by the participant. Any such attempt at assignment, transfer, pledge or other disposition will be without effect, except that the Company may treat such act as an election to withdraw from an Offering Period in accordance with Section 10.

17. Use of Funds. All payroll deductions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company will not be obligated to segregate such payroll deductions. Until shares of Common Stock are issued under the Plan (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), a participant will only have the rights of an unsecured creditor with respect to such shares.

18. Reports. Individual accounts will be maintained for each participant in the Plan. Statements of account will be given to participating Employees at least annually, which statements will set forth the amounts of payroll deductions, the Purchase Price, the number of shares of Common Stock purchased and the remaining cash balance, if any.

19. Adjustments, Dissolution, Liquidation or Change of Control.

(a) Adjustments. In the event that any dividend or other distribution (whether in the form of cash, Common Stock, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Common Stock or other securities of the Company, or other change in the corporate structure of the Company affecting the Common Stock such that an adjustment is determined by the Administrator (in its sole discretion) to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Administrator will, in such manner as it may deem equitable, adjust the number and class of Common Stock which may be delivered under the Plan, the Purchase Price per share and the number of shares of Common Stock covered by each option under the Plan which has not yet been exercised, and the numerical limits of Sections 7 and 13.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Offering Period then in progress will be shortened by setting a new Exercise Date (the "New Exercise Date"), and will terminate immediately prior to the consummation of such proposed dissolution or liquidation, unless provided otherwise by the Board. The New Exercise Date will be before the date of the Company's proposed dissolution or liquidation. The Board will notify each participant in writing, at least ten (10) business days prior to the New Exercise Date, that the Exercise Date for the participant's option has been changed to the New Exercise Date and that the participant's option will be exercised automatically on the New Exercise Date, unless prior to such date the participant has withdrawn from the Offering Period as provided in Section 10.

(c) Change of Control. In the event of a Change of Control, each outstanding option will be assumed or an equivalent option substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the option, any Offering Period then in progress will be shortened by setting a new Exercise Date (the "New Exercise Date") and such Offering Period will end on the New Exercise Date. The New Exercise Date will be before the date of the Company's proposed Change of Control. The Board will notify each participant in writing, at least ten (10) business days prior to the New Exercise Date, that the Exercise Date for the participant's option has been changed to the New Exercise Date and that the participant's option will be exercised automatically on the New Exercise Date, unless prior to such date the participant has withdrawn from the Offering Period as provided in Section 10.

20. Amendment or Termination.

(a) The Administrator may at any time and for any reason terminate or amend the Plan. Except as provided in Section 19, no such termination can affect options previously granted under the Plan, provided that an Offering Period may be terminated by the Administrator on any Exercise Date if the Administrator determines that the termination or suspension of the Plan is in the best interests of the Company and its stockholders. Except as provided in Section 19 and this Section 20, no amendment may make any change in any option theretofore granted which adversely affects the rights of any participant. To the extent necessary to comply with Section 423 of the Code (or any successor rule or provision or any other applicable law, regulation or stock exchange rule), the Company will obtain stockholder approval in such a manner and to such a degree as required.

(b) Without stockholder consent and without regard to whether any participant rights may be considered to have been "adversely affected," the Administrator will be entitled to change the Offering Periods, limit the frequency and/or number of changes in the amount withheld during an Offering Period, establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, permit payroll withholding in excess of the amount designated by a participant in order to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Common Stock for each participant properly correspond with amounts withheld from the participant's Compensation, and establish such other limitations or procedures as the Administrator determines in its sole discretion advisable which are consistent with the Plan.

(c) In the event the Administrator determines that the ongoing operation of the Plan may result in unfavorable financial accounting consequences, the Board may, in its discretion and, to the extent necessary or desirable, modify or amend the Plan to reduce or eliminate such accounting consequence including, but not limited to:

(i) altering the Purchase Price for any Offering Period including an Offering Period underway at the time of the change in Purchase Price;

(ii) shortening any Offering Period so that Offering Period ends on a new Exercise Date, including an Offering Period underway at the time of the Board action; and

(iii) allocating shares.

Such modifications or amendments will not require stockholder approval or the consent of any Plan participants.

21. Notices. All notices or other communications by a participant to the Company under or in connection with the Plan will be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

22. Conditions Upon Issuance of Shares. Shares of Common Stock will not be issued with respect to an option under the Plan unless the exercise of such option and the issuance and delivery of such shares pursuant thereto will comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, including the rules and regulations promulgated thereunder, the Exchange Act and the requirements of any stock exchange upon which the shares may then be listed, and will be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an option, the Company may require the person exercising such option to represent and warrant at the time of any such exercise that the shares are being purchased only for investment and without any present intention to sell or distribute such shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned applicable provisions of law.

23. Term of Plan. The Plan will become effective upon the earlier to occur of its adoption by the Board or its approval by the stockholders of the Company. It will continue in effect for a term of twenty (20) years, unless sooner terminated under Section 20.

SAMPLE SUBSCRIPTION AGREEMENT

MONOLITHIC POWER SYSTEMS, INC.

2004 EMPLOYEE STOCK PURCHASE PLAN

SUBSCRIPTION AGREEMENT

_____ Original Application
_____ Change in Payroll Deduction Rate
_____ Change of Beneficiary(ies)

Offering Date:_____

1. _____ hereby elects to participate in the Monolithic Power Systems, Inc. 2004 Employee Stock Purchase Plan (the "Plan") and subscribes to purchase shares of the Company's Common Stock in accordance with this Subscription Agreement and the Plan.

2. I hereby authorize payroll deductions from each paycheck in the amount of _____% of my Compensation on each payday (from 0 to 15%) during the Offering Period in accordance with the Plan. (Please note that no fractional percentages are permitted.)

3. I understand that said payroll deductions will be accumulated for the purchase of shares of Common Stock at the applicable Purchase Price determined in accordance with the Plan. I understand that if I do not withdraw from an Offering Period, any accumulated payroll deductions will be used to automatically exercise my option.

4. I have received a copy of the complete Plan. I understand that my participation in the Plan is in all respects subject to the terms of the Plan. I understand that my ability to exercise the option under this Subscription Agreement is subject to shareholder approval of the Plan.

5. Shares of Common Stock purchased for me under the Plan should be issued in the name(s) of Employee or Employee and Spouse only.

6. I understand that if I dispose of any shares received by me pursuant to the Plan within 2 years after the Offering Date (the first day of the Offering Period during which I purchased such shares) or one year after the Exercise Date, I will be treated for federal income tax purposes as having received ordinary income at the time of such disposition in an amount equal to the excess of the fair market value of the shares at the time such shares were purchased by me over the price which I paid for the shares. I hereby agree to notify the Company in writing within 30 days after the date of any disposition of my shares and I will make adequate provision for Federal, state or other tax withholding obligations, if any, which arise upon the disposition of the Common Stock. The Company may, but will not be obligated to, withhold from my compensation the amount necessary to meet any applicable withholding obligation including any withholding necessary to make available to the Company any tax deductions or

benefits attributable to sale or early disposition of Common Stock by me. If I dispose of such shares at any time after the expiration of the 2-year and 1-year holding periods, I understand that I will be treated for federal income tax purposes as having received income only at the time of such disposition, and that such income will be taxed as ordinary income only to the extent of an amount equal to the lesser of (1) the excess of the fair market value of the shares at the time of such disposition over the purchase price which I paid for the shares, or (2) 15% of the fair market value of the shares on the first day of the Offering Period. The remainder of the gain, if any, recognized on such disposition will be taxed as capital gain.

7. I hereby agree to be bound by the terms of the Plan. The effectiveness of this Subscription Agreement is dependent upon my eligibility to participate in the Plan.

8. In the event of my death, I hereby designate the following as my beneficiary(ies) to receive all payments and/or shares due me under the Plan:

NAME: (Please print) _____

(First) (Middle) (Last)

_____ _____

Relationship

_____ _____

Percentage Benefit (Address)

NAME: (please print) _____

(First) (Middle) (Last)

_____ _____

Relationship

_____ _____

Percentage of Benefit (Address)

Employee's Social Security Number: _____

Employee's Address: _____

_____

_____

I UNDERSTAND THAT THIS SUBSCRIPTION AGREEMENT WILL REMAIN IN EFFECT THROUGHOUT SUCCESSIVE OFFERING PERIODS UNLESS TERMINATED BY ME.

Dated: _____

_____

Signature of Employee

_____

Spouse's Signature (If beneficiary other than spouse)

SAMPLE WITHDRAWAL NOTICE

MONOLITHIC POWER SYSTEMS, INC.

2004 EMPLOYEE STOCK PURCHASE PLAN

NOTICE OF WITHDRAWAL

The undersigned participant in the Offering Period of the Monolithic Power Systems, Inc. 2004 Employee Stock Purchase Plan which began on _____, _____ (the "Offering Date") hereby notifies the Company that he or she hereby withdraws from the Offering Period. He or she hereby directs the Company to pay to the undersigned as promptly as practicable all the payroll deductions credited to his or her account with respect to such Offering Period. The undersigned understands and agrees that his or her option for such Offering Period will be automatically terminated. The undersigned understands further that no further payroll deductions will be made for the purchase of shares in the current Offering Period and the undersigned will be eligible to participate in succeeding Offering Periods only by delivering to the Company a new Subscription Agreement.

Name and Address of Participant:

_____

_____

_____

Signature:

_____

Date: _____

Exhibit 10.5

MONOLITHIC POWER SYSTEMS, INC HAS REQUESTED THAT PORTIONS OF THIS DOCUMENT BE ACCORDED CONFIDENTIAL TREATMENT PURSUANT TO RULE 406 OF REGULATION C PROMULGATED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. ACCORDINGLY, CERTAIN INFORMATION IN THIS EXHIBIT HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. OMITTED INFORMATION HAS BEEN REPLACED BY [*].

Dated this 14th day of August 2001

Between

MONOLITHIC POWER SYSTEMS, INC.

and

ADVANCED SEMICONDUCTOR MANUFACTURING CORP. OF SHANGHAI

FOUNDRY AGREEMENT

CONTENTS

THIS FOUNDRY AGREEMENT is made this 14th day of August 2001 (the "Effective Date") by and between:

(1) **Monolithic Power Systems, Inc.,** with its principal place of business at **3777 Stevens Creek Blvd., Suit 400, Santa Clara, CA 95051-7364, U.S.A.** (hereinafter referred to as **'MPS'**); and

(2) **ADVANCED SEMICONDUCTOR MANUFACTURING CORP. OF SHANGHAI (ASMC),** with a principal place of business at **385 Hong Cao Road, Shanghai 200233, China**.

WHEREAS

(A) MPS has designed and developed certain integrated circuit products and desires to have wafers manufactured to its specifications for the purposes of manufacturing such products;

(B) ASMC is in the business of manufacturing and selling semiconductor wafers; and

(C) MPS and ASMC desire to enter into an agreement for the purpose of having ASMC manufacture wafers for MPS.

NOW IT IS HEREBY AGREED as follows:

1. DEFINITIONS

1.1 In this Agreement, unless otherwise defined or the context otherwise requires, the following words and expressions shall bear the following meanings:

'Acceptance Criteria' shall mean the visual inspection criteria, electrical test and electrical parameters and other criteria for each Product to be met by ASMC prior to delivery of Wafers and mutually agreed upon by the Parties. The Acceptance Criteria is set out in Appendix C;

'Masks' means the masks and reticle sets used by ASMC in the production of Wafers for MPS;

'Products' means MPS's integrated circuit products identified by MPS's product part numbers listed in MPS's purchase orders;

'Scheduled Delivery Date' has the meaning set out in Clause 5.1;

'Wafers' means silicon wafers containing finished die for the Products manufactured by ASMC in accordance with the terms of this Agreement.

[*] means the [*] or the [*] of [*] each individual [*] device.

1.2 References to recitals, clauses and appendices are references to recitals, clauses and appendices of this Agreement.

1.3 The headings in this Agreement are inserted for convenience only and shall be ignored in the interpretation of this Agreement.

1.4 Unless the context otherwise requires, words denoting the singular number shall include the plural and vice versa, words importing the masculine gender shall include the feminine gender and words importing a person shall include a company or corporation and vice versa.

2. MANUFACTURE OF WAFERS

2.1 ASMC shall manufacture Wafers for MPS in accordance with the terms of this Agreement.

2.2 MPS shall furnish ASMC with all requisite technical support and assistance in starting up the manufacture of Wafers at ASMC's wafer manufacturing facilities ('the facilities') on terms and conditions to be mutually agreed. MPS shall also assist, if it requires wafer sort and test services from ASMC, in starting up sort and test capabilities for the Wafers at the facilities. MPS shall bear mutually agreed upon non-recurring engineering costs incurred in the start-up of the manufacture of the Wafers at the facilities.

2.3 MPS shall provide at its own expense all requisite Masks which meet ASMC's tooling specifications to ASMC within reasonable time for the manufacture of Wafers. The Parties agree that lot starts shall be initiated only after Masks meet ASMC's tooling and other specifications. MPS shall bear the costs of any Wafer lots put on hold by reason of the non-availability of the Masks. Alternatively, MPS may authorise ASMC to procure at MPS's expense and on terms mutually agreed beforehand, the Masks from a designated third-party contractor. Such Masks will be subject to ASMC's in-coming reticle inspection criteria and qualification process.

2.4 Ownership of the MPS products and [*]: MPS will retain and own exclusively throughout the world all right, title, and interest in the Products and designs, patents, copyrights, mask work rights and [*]. ASMC shall not disclose any information related to MPS's products and [*] to third parties without written permission from MPS. ASMC will not [*] any other customers.

2.5 ASMC will not disclose to the third parties the cooperation relationship between MPS and ASMC without written permission from MPS.

3. QUALIFICATION AND MODIFICATION

3.1 The Parties shall, where required by MPS, proceed in accordance with mutually agreed terms, with the qualification of the relevant ASMC process to be used in the manufacture of Wafers for MPS. ASMC shall provide to MPS the applicable electrical test and electrical parameters for each qualified process.

3.2 Upon successful qualification of the manufacturing process, ASMC shall manufacture the Wafers to conform with the Acceptance Criteria set out in Appendix C.

3.3 If the changes to the Acceptance Criteria are made otherwise than to correct any defects in the manufacture of Wafers hereunder, the Parties shall in good faith re-negotiate any existing terms and conditions of purchase (including pricing and delivery commitments) which require amendment as a result of such changes. Changes required shall be submitted to the MPS per procedures defined by Appendix D.

3.4 Any MPS requests for changes to the process flow for a Product and/or lot of Wafers shall be evaluated by ASMC in accordance with the ASMC's Process Request Form (PRF) Procedure referenced in Appendix E, where applicable. Other requested process changes not governed by the Process Request Procedure, including a request for a non-standard process flow, shall be evaluated by ASMC in accordance with ASMC's ROI Investigation Procedure for Non-standard Products.

4. PRODUCTION PLANNING

4.1 With effect from a date to be agreed by the Parties, MPS shall provide to ASMC no later than the 5th day of each month, its rolling 6-monthly forecast of its monthly volume requirements for Wafers for each relevant Product to be manufactured hereunder. The first 3 months of each 6-monthly forecast shall be backed by purchase orders for such first 3 months. By way of example, by 5th January, MPS shall provide to ASMC purchase orders for February, March and April, and a forecast of MPS's monthly volume requirements for May, June and July; and by 5th February, MPS shall provide to ASMC purchase orders for May, and a forecast of MPS's monthly volume requirements for June, July and August; and by 5th March, MPS shall provide to ASMC purchase orders for June, and a forecast of MPS's monthly volume requirements for July, August and September; and so on.

4.2 MPS shall use commercially reasonable efforts to make orders for a minimum of 24 Wafers per lot for 6" wafers, or 49 wafers per lot for 5" wafers. ASMC reserves the right to levy additional charges if Wafer lot sizes ordered are less than 24 Wafers per lot for 6" wafers, or 49 wafers per lot for 5" wafers.

4.3 If requested by MPS, ASMC shall establish an in-line production inventory of Wafers for MPS upon mutually agreed terms. ASMC reserves the right to levy additional charges in the event that the ageing of such inventory exceeds 1 month at mutually agreed terms.

4.4 In the event that the actual quantity of Wafers ordered by MPS for the period commencing January 1st of a calendar year, and ending on 31 December of the same year ('MPS Fiscal Year') for all Products combined is less than the MPS Purchase Plan for that MPS Fiscal Year, then the ASMC Capacity Plan to the MPS for the following MPS Fiscal Year shall be re-negotiated and mutually agreed upon, and either Party shall have no other obligation to the other Party with respect to that renegotiated portion of the MPS Purchase Plan or ASMC Capacity Plan.

5. PURCHASE ORDERS

5.1 The purchase and supply of Wafers under this Agreement shall commence only when:

(a) MPS has issued a purchase order to ASMC; and

(b) ASMC has returned to MPS such purchase order with ASMC's written acknowledgement thereon;

(c) ASMC has issued to MPS, within 5 business days, a written confirmation of the scheduled delivery date and scheduled starting week (the "Scheduled Delivery Date") of the Wafers ordered; and

(d) Subject to Appendix G, MPS may at any time cancel any purchase order prior to the commencement of manufacturing.

5.2 All purchase orders issued by MPS shall reference this Agreement. The terms and conditions of this Agreement shall exclusively govern the purchase and supply of Wafers hereunder and shall override any conflicting, amending and/or additional terms contained in any pricing agreement, MPS's purchase order, MPS's acceptance documents or ASMC's acknowledgement documents. No variation or addition to the terms and conditions contained in this Agreement shall be binding unless agreed in writing between the authorised representatives of the Parties.

5.3 The MPS's purchase order shall contain the Product code, ASMC product code, quantity of Wafers required, requested delivery dates for such Wafers, Wafer unit costs, a statement as to whether unprobed or probed Wafers are required and other purchase requirements. MPS shall request delivery dates consistent with ASMC's then prevailing production cycle-times for the relevant Product specified in MPS's purchase order.

6. PRICING AND PAYMENT TERMS

6.1 The purchase price of Wafers charged to MPS shall be in accordance with the terms of the relevant ASMC price quotation agreed to by the Parties for the relevant lots of Wafers purchased. Each Agreed Price Quotation, which shall reference this Agreement, shall be attached to this Agreement and shall be successively numbered as Appendix A-1, A-2, A-3 etc.

6.2 Payment term is determined according to credit check. MPS will use L/C as the payment term in first three month of production. After three months of production, ASMC will review MPS's credit and determine if give MPS T/T 30 days credit payment term in next phase. ASMC has the right to change the payment term in case MPS has not made the payment according to the agreed upon time. Any late payment for Wafers shall be subject to interest charges of 1.5% per month. All bank charges outside of Mainland China shall be paid by MPS.

6.3 All invoices issued by ASMC shall identify the Wafers and the relevant MPS purchase order number, Product part number, purchase order line and release number, description of items and quantity of items shipped. Unless otherwise agreed by MPS and ASMC in writing, invoices may be mailed no earlier than the relevant date of shipment.

6.4 In the event of any dispute over the amount invoiced, MPS shall first make payment of the undisputed portion in accordance with Clause 6.2 pending resolution of the dispute between the Parties.

6.5 MPS shall pay, in addition to the Ex-Works (ASMC Factory) prices of Wafers stipulated herein, the amount of any freight, insurance, handling and other duties levied on the shipment of Wafers to MPS. MPS shall also pay for all sales, use, excise or other similar taxes levied on the purchase of Wafers by MPS herein.

7. QUALITY CONTROL AND INSPECTION

7.1 ASMC will use commercially reasonable efforts to manufacture Wafers to conform with the Acceptance Criteria set out in Appendix C. Prior to delivery, ASMC shall perform on each lot of Wafers manufactured, the tests specified in the Acceptance Criteria. ASMC will deliver only Wafers which meet the Acceptance Criteria, unless MPS waives such obligation in accordance with the applicable Waiver Procedures specified in Appendix C, or as mutually agreed between the Parties.

7.2 If ASMC discovers that the Wafers do not meet any one of the Acceptance Criteria, ASMC shall as soon as reasonably possible effect the rectification or replacement of the Wafers.

8. PROCEDURE FOR CUSTOMER RETURNS

8.1 The Procedure for Customer Returns as set out in Appendix F shall apply to Wafers manufactured under this Agreement. The time limit for the return of Wafers due to low sort yield is 60 days from the delivery date of such Wafers, and the time limit for the return of Wafers due to reliability failures is 1 year from the delivery date of such Wafers.

8.2 ASMC shall have no liability and shall not be obliged to accept the return of Wafers after the relevant period of 60 days or 1 year, as the case may be. In addition, ASMC shall be under no liability for defects in the Wafers caused by persons other than ASMC, including, static discharge, abnormal working conditions, fair wear and tear, accident, wilful damage, abuse, misuse, neglect, improper installation, repair or alteration by persons other than ASMC, improper testing and/or improper storage and/or improper handling or use contrary to any instructions issued by ASMC which are in keeping with generally accepted industry practices. Further, ASMC shall be under no liability for any parts or materials it has not manufactured.

8.3 ASMC shall have the discretion to decide whether or not to conduct failure analysis on the Wafers returned by MPS, and if such failure analysis is conducted, ASMC will, at

MPS's request, provide MPS with copies of the results of such analysis. If ASMC's failure analysis determines that the defects are due to causes other than the causes specified in Clause 8.2, then MPS may at its option elect for either a full credit for the purchase price paid for such Wafers, or ASMC's replacement of the defective Wafers returned to ASMC. If MPS elects for the replacement of defective Wafers, the manufacture of such Wafers shall have high priority on ASMC's production schedule.

8.4 THE FOREGOING STATES ASMC'S ENTIRE LIABILITY, WHETHER IN CONTRACT OR IN TORT FOR DEFECTS IN WAFERS. THE EXPRESS TERMS OF THIS AGREEMENT ARE IN LIEU OF ALL WARRANTIES, CONDITIONS, TERMS, UNDERTAKINGS, AND OBLIGATIONS IMPLIED BY STATUTE, COMMON LAW, CUSTOM, TRADE USAGE, COURSE OF DEALING OR OTHERWISE, ALL OF WHICH ARE HEREBY EXPRESSLY EXCLUDED TO THE FULLEST EXTENT PERMITTED BY LAW AND ASMC SPECIFICALLY DISCLAIMS ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

9. PRODUCTION HALTS

9.1 MPS may at any time request ASMC to halt the manufacture of Wafers still in-process and ASMC shall effect production stoppage if commercially feasible. The manufacture of Wafers shall remain on hold pending written directions from MPS.

9.2 If MPS decides to cancel its order for Wafers, MPS shall pay to ASMC a Cancellation Fee based on the formula set out in Appendix G.

9.3 ASMC shall, if commercially feasible, re-start the manufacture of Wafers within a reasonable time after receipt of MPS's written request, subject to MPS' s agreement to bear all expenses incurred by ASMC in production stoppage and re-start. ASMC will make no commitments of yield, reliability and conformance with the Acceptance Criteria in respect of Wafers stopped in process (a) more than one time regardless of the number of days of stoppage, or (b) if the stoppage lasts for more than 30 days.

10. DELIVERY

10.1 ASMC shall use its commercially reasonable efforts to deliver the exact quantity of Wafers stipulated in the relevant MPS purchase order and confirmed by ASMC. However if for each purchase order the aggregate quantity of Wafers delivered by ASMC is either within plus or minus 10% of the quantity ordered, such quantity shall constitute compliance with MPS purchase order for the purposes of meeting delivery requirements.

10.2 Unless otherwise agreed by the Parties, Wafers shall be delivered Ex-Works (ASMC's factory in Shanghai, China). ASMC shall use its commercially reasonable efforts to deliver within the Scheduled Delivery Date. However if for each purchase order, Wafers are delivered within plus or minus 7 days of the Scheduled Delivery Date, such delivery shall constitute

compliance with MPS purchase order. ASMC shall promptly give MPS written notice of any prospective failure to deliver within the Scheduled Delivery Date.

10.3 All quantities of Wafers shall be delivered in ASMC standard containers with proper labels identifying the specific Product and lot number and shall be accompanied by a packing list specifying the relevant purchase order number, Wafer lot number, Wafer quantity and number of good un-inked die (if Wafers have been sorted) and agreed upon processing documentation.

10.4 If MPS fails to take delivery of any quantity of Wafers or fails to give adequate delivery instructions (otherwise than by reason of any cause beyond MPS's reasonable control or by reason of ASMC's fault), then without prejudice to any other right or remedy available to ASMC, ASMC may at its option, store such Wafers until actual delivery and charge MPS for reasonable costs (including insurance) of storage.

11. TERM AND TERMINATION

11.1 This Agreement shall commence on the Effective Date and shall continue for a period of 4 years therefrom, unless otherwise extended by the mutual agreement of the Parties or earlier terminated in the following events :

(a) by agreement of the Parties;

(b) forthwith by ASMC if MPS fails to pay any sum due to ASMC hereunder which has been outstanding for a period of 60 days;

(c) forthwith by either Party if the other commits any material breach of any term of this Agreement and which in the case of a breach capable of being remedied shall not have been remedied within 60 days of a written request to remedy the same.

(d) at the option of either Party, in any of the following events:

(i) the inability of the other Party to pay its debts in the normal course of business; or

(ii) the other Party ceasing or threatening to cease wholly or substantially to carry on its business, otherwise than for the purpose of a reconstruction or amalgamation without insolvency; or

(iii) any encumbrancer taking possession of or a receiver, trustee or judicial manager being appointed over the whole or any substantial part of the undertaking, property or assets of the other Party; or

(iv) the making of an order by a court of competent jurisdiction or the passing of a resolution for the winding-up of the other Party or any company controlling the other Party, otherwise than for the purpose of a reconstruction or amalgamation without insolvency.

11.2 Termination of this Agreement pursuant to Clause 11.1 shall take effect immediately upon the issue of a written notice to that effect by the Party terminating the Agreement to the other. The termination of this Agreement however caused shall be without prejudice to any obligations or rights of either Party which have accrued prior to such termination and shall not affect any provision of this Agreement which is expressly or by implication provided to come into effect on or to continue in effect after such termination. This indemnity shall survive the expiration or termination of this Agreement

11.3 MPS shall be financially responsible for any unused materials if purchased for the exclusive use by MPS if such material was originally purchased in support of MPS's demand forecast.

12. FORCE MAJEURE

12.1 Each Party's obligations under this Agreement shall be suspended upon the occurrence of a force majeure event such as act of God, flood, earthquake, fire, explosion, act of government, war, civil commotion, insurrection, embargo, riots, lockouts, labour disputes affecting such Party, for such period as such force majeure event may subsist. Upon the occurrence of a force majeure event, the affected Party shall notify the other Party in writing of the same and shall by subsequent written notice after the cessation of such force majeure event inform the other Party of the date on which that Party's obligation under this Agreement shall be reinstated.

12.2 Notwithstanding anything in this Clause 12, upon the occurrence of a force majeure event affecting either Party, and such force majeure event continues for a period exceeding 6 consecutive months without a prospect of a cure of such event, the other Party shall have the option, in its sole discretion, to terminate this Agreement. Such termination shall take effect immediately upon the written notice to that effect from the other Party to the Party affected by the force majeure event.

13. USE RESTRICTION AND LIMITATION OF LIABILITY

13.1 MPS accepts all responsibility for any use or action taken by MPS with respect to Wafers manufactured by ASMC, once ASMC has satisfactorily delivered the said Wafers to MPS or MPS's agent(s) in accordance with the terms of this Agreement.

13.2 MPS hereby agrees that the Wafers and Products are not authorized for use as critical or important components in (a) any medical, life saving or life support devices or systems; or (b) any safety devices or systems in any automotive applications and mechanisms (including but not limited to automotive brake systems or airbag systems). ASMC shall not be responsible or liable to MPS or any third party for any unauthorized use of the Wafers or Products. As used herein:

(i) Medical, life saving or life support devices or systems are devices or systems which are intended (aa) for surgical implant into the human body, or (bb) to support or sustain life, and whose malfunction or failure to perform may result in significant injury or death to the user.

(ii) A critical or important component is any component of a medical, life saving, life support or safety device or system whose malfunction or failure to perform may cause the failure of such device or system, or to affect its effectiveness.

13.3 MPS shall indemnify, hold harmless and defend ASMC, its officers, directors, employees and subcontractors from and against any claim, suit, demand or action which arise in any way out of, involve or relate to an unauthorized use of any Wafers or Products and MPS shall indemnify and hold harmless ASMC, its officers, directors, employees and subcontractors against any and all direct losses, liabilities, damages, awards of settlement (including court costs) and expenses (including all reasonable attorney's fees, whether or not legal proceedings are commenced) arising from any such claim, suit, demand or action. ASMC shall notify MPS of any such claim or allegation promptly after receiving notice thereof.

13.4 THE TOTAL LIABILITY OF ASMC ON ALL CLAIMS OF ANY KIND, WHETHER IN CONTRACT, TORT (INCLUDING NEGLIGENCE), STRICT LIABILITY OR OTHERWISE ARISING OUT OF THE PERFORMANCE OR BREACH OF THIS AGREEMENT OR USE OF THE WAFERS SHALL NOT EXCEED THE TOTAL AMOUNT RECEIVED BY ASMC FROM MPS IN RESPECT OF THE SALE OF THE WAFERS WHICH GIVES RISE TO THE CLAIM.

13.5 In no event shall either Party be liable to the other for any damages with respect to any subject matter of this Agreement under any contract, tort (including negligence), strict liability or other legal or equitable theory for any incidental, consequential, special or indirect damages of any sort even if such Party has been informed of the possibility of such damages.

14. CONFIDENTIALITY

14.1 All Confidential Information shall be kept confidential by the recipient unless or until the recipient Party can reasonably demonstrate that any such Confidential Information is, or part of it is, in the public domain through no fault of its own, whereupon to the extent that it is in the public domain or is required to be disclosed by law this obligation shall cease. For the purposes of this Agreement, "Confidential Information" shall mean all communications between the Parties, and all information and other materials supplied to or received by either of them from the other (a) prior to or on the date or after the date of this Agreement whether or not marked confidential; (b) all information concerning the business transactions and the financial arrangements of the Parties with any person with whom any of them is in a confidential relationship with regard to the matter in question coming to the knowledge of the recipient.

14.2 The Parties shall take all reasonable steps to minimise the risk of disclosure of Confidential Information, by ensuring that only they themselves and such of their employees and directors whose duties will require them to possess any of such information shall have access thereto, and will be instructed to treat the same as confidential.

14.3 The obligation contained in this Clause 14 shall endure, even after the termination of this Agreement, for a period of 5 years from the date of receipt of the Confidential

Information except and until such Confidential Information enters the public domain as set out above.

15. NOTICES

15.1 Addresses. All notices, demands or other communications required or permitted to be given or made under or in connection with this Agreement shall be in writing and shall be sufficiently given or made (a) if delivered by hand or commercial courier or (b) sent by pre-paid registered post or (c) sent by legible facsimile transmission (provided that the receipt of such facsimile transmission is confirmed and a copy thereof is sent immediately thereafter by pre-paid registered post or commercial courier) addressed to the intended recipient at its address or facsimile number set out below. A Party may from time to time notify the others of its change of address or facsimile number in accordance with this Clause 15.

Advanced Semiconductor Manufacturing Corp. of Shanghai
385 Hong Cao Road
Shanghai, 200233, China
Facsimile #: +86-21-64853925

Monolithic Power Systems, Inc.
3777 Stevens Creek Blvd., Suite 400
Santa Clara, CA 95051-7364
U.S.A.
Facsimile #: +1 408 2430099

15.2 Deemed Delivery. Any such notice, demand or communication shall be deemed to have been duly served (a) if delivered by hand or commercial courier, or sent by pre-paid registered post, at the time of delivery; or (b) if made by successfully transmitted facsimile transmission, at the time of dispatch (provided that the receipt of such facsimile transmission is confirmed and that immediately after such dispatch, a copy thereof is sent by pre-paid registered post or commercial courier).

16. WAIVER AND REMEDIES

16.1 No delay or neglect on the part of either Party in enforcing against the other Party any term or condition of this Agreement or in exercising any right or remedy under this Agreement shall either be or be deemed to be a waiver or in any way prejudice any right or remedy of that Party under this Agreement.

16.2 No remedy conferred by any of the provisions of this Agreement is intended to be exclusive of any other remedy which is otherwise available at law, in equity, by statute or otherwise and each and every other remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law, in equity, by statute or otherwise. The election of any one or more of such remedies by either of the Parties shall not constitute a waiver by such Party of the right to pursue any other available remedy.

17. SEVERANCE. If any provision or part of this Agreement is rendered void, illegal or unenforceable in any respect under any enactment or rule of law, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

18. ENTIRE AGREEMENT

18.1 This Agreement and the Appendices constitutes the entire agreement between ASMC and MPS and shall supersede all previous agreements and undertakings between Parties with respect to the subject matter hereof.

18.2 The following Appendices are hereby deemed a part of this Agreement and incorporated herein by reference. The term "Agreement" includes the following Appendices:

Appendix A	Agreed Price Quotations for Wafers
Appendix B	Qualification of process and product and Electrical Test and Electrical Parameters
Appendix C	Acceptance Criteria
Appendix D	Change Request Procedure
Appendix E	Process Change Requests
Appendix F	Procedure for Customer Returns
Appendix G	Cancellation Fee

18.3 The terms and conditions of the Agreed Price Quotations and this Agreement shall exclusively govern the purchase and supply of Wafers and shall override any conflicting, amending and/or additional terms contained on MPS's purchase order and/or acceptance documents which have been or may hereafter be issued by MPS or any acknowledgement or similar documents by ASMC. In the event of any conflict or inconsistency between the terms of this Agreement and the relevant Agreed Price Quotation, the terms of the Agreed Price Quotation shall prevail.

19. NO ASSIGNMENT OR SUB-CONTRACTING. Unless otherwise agreed in writing by the Parties, this Agreement may not be assigned or sub-contracted by either Party to any third party without the prior written consent of the other Party.

20. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the substantive laws of the People's Republic of China.

21. ARBITRATION. Any dispute arising from or relating to or in connection with this Agreement shall be submitted to China International Economic and Trade Arbitration Commission, Beijing, China for arbitration which shall be conducted in accordance with the commission's arbitration rules in effect at the time of applying for arbitration. The arbitral award is final and binding upon both parties.

IN WITNESS WHEREOF the Parties have hereunto entered into this Agreement as at the date first above written.

/s/ Deming Xiao

Name: Deming Xiao
Title: Foundry Manager 8/15/01

for and on behalf of
Monolithic Power Systems, Inc.

/s/ Sun Zhen

Name: Sun Zhen
Title: Sales and Marketing Dept. Manager

for and on behalf of
Advanced Semiconductor Manufacturing Corp. of Shanghai

APPENDIX A
(Ref : Clause 6.1)

AGREED PRICE QUOTATIONS FOR WAFERS

Each agreed price quotation shall reference this Foundry Agreement and shall be attached to this Agreement and successively numbered as Appendix A-1, A-2, A-3, etc. of Foundry Agreement dated **August 14, 2001**.

Appendix A

PRICE QUOTATIONS

1. ASMC – MPS Term Sheet

1.1 This document summarizes the mutual agreement between ASMC and MPS concerning the manufacture being manufactured by ASMC.

1.2 The current term of this agreement is in essence from Aug. 14, 2001 to Aug. 13, 2005, and may be by mutual consent, be extended beyond this term.

2. Process Technologies

2.1 The pricing covers the MPS [*] and its derivatives.

3. Pricing

3.1 Pricing for standard production wafers:

3.1.1 Production Pricing is based on the following assumptions:

3.1.1.1 Un-probed, PCM wafers

3.1.1.2 Price validity: Aug. 14, 2001 through Aug. 13, 2005.

3.1.1.3 Minimum Acceptable Yield: Refer to Appendix C of Foundry Agreement.

3.1.2 Price:

3.1.2.1 : [*] per mask layer and Epi layer for volume >= 1000 wafers on the quarterly average basis.

3.1.2.2 : [*] per mask layer and Epi layer for volume < 1000 wafers on the quarterly average basis.

3.1.3 Price during technology transfer and qualification: [*] per mask layer. The transfer and qualification period should be completed before Aug. 5, 2002.

3.2 Pricing for prototype wafers:

3.2.1 Pricing for prototype wafers: [*] premium over the standard production wafer.

3.2.2 Prototype lot status: Unless MPS requests otherwise, the Prototype lot assumes the hot lot status, defined as 1.8 days per mask layer. The exception is initial lots which used as setting up process in ASMC, which will take longer times.

3.2.3 Minimum wafer start for prototype lot: 12 wafers. One split in each lot. If customer ask for more split, the cost is [*] each more split.

3.3 Pricing for engineering wafers:

3.3.1 Engineering wafers defined as the wafers processed with nonproduction process.

3.3.2 Pricing for engineering wafers: [*] premium over the standard production wafers.

3.3.3 Engineering lot status: Unless MPS requests otherwise, the Engineering lot assumes the hot lot status, defined as 1.8 days per mask layer.

3.3.4 Minimum wafer start for engineer lot: 12 wafers. One split in each lot. If customer ask for more split, the cost is [*] each more split.

3.4 Pricing of wafers shall be charged to MPS on wafers shipped, fully processed. Pricing does not include probe or backgrind costs.

3.5 MPS will pay ASMC [*] to cover the cost of the [*] of its [*] and its derivatives to ASMC. The [*] shall be paid after the signing of the contract and rest of the NRE payment is due after the successful [*] of the [*].

The NRE will cover all the engineering cost before process ready (PCM in spec, and 1st product has above 70% wafer test yield). MPS will pay for mask cost and the qualification lot cost.

4. Capacity

4.1 ASMC Capacity Commitment

4.1.1 ASMC shall make available a loading commitment subject to the terms expressed in Section 4.0 PRODUCTION PLANNING in the Foundry Agreement.

4.1.2 ASMC will advise MPS within 48 hours of request outside the normal monthly forecast whether ASMC can accept an upside to planned capacity.

5. Forecasting:

See section 4.0 of the FOUNDRY AGREEMENT.

6. Obsolescence

6.1 MPS shall agree to give ASMC 3 months notification of intent to obsolete the manufacture of the products to be manufactured in the agreed upon technologies, and will place orders for at least 3 months after notification.

6.2 ASMC shall agree to give MPS 3 months notification of any intent to obsolete the availability of the technologies, and will accept orders for at least 3 months after notification. ASMC agrees to accept life time buy orders as by MPS to prevent MPS supply interruption while MPS obtains another supply source.

7. Terms & Conditions

7.1 If the above assumption sets prove to be invalid, both parties reserve the right to change the terms of the contract as applicable.

7.2 ASMC reserves the right to schedule the delivery according to Clause 10.2 of the Foundry Agreement.

7.3 MPS to [*] that meets ASMC's [*]. ASMC shall provide all [*] at no charge to MPS.

7.4 MPS assumes full responsibility against any claims on design intellectual property rights.

8. Effectiveness

This Price Quotations shall be interpreted and used in conjunction with the prevailing version of the Foundry Agreement entered into both Parties.

9. Governing Law

This Agreement shall be governed by the laws of The People's Republic of China.

Authorizing Signature	Authorizing Signature
Advanced Semiconductor Manufacturing Corp of Shanghai	Monothic Power Systems, Inc.
/s/ Sun Zhen	/s/ Deming Xiao
Name: Sun Zhen Designation: Dated: 8/15/01	Name: Deming Xiao Designation: Dated: 8/15/01

APPENDIX B

(Ref : Clause 3.1, 3.2)

QUALIFICATION OF PROCESS AND PRODUCT AND ELECTRICAL TEST AND ELECTRICAL PARAMETERS

The agreed Electrical Test and Electrical Parameters for each Product shall be based on the relevant ASMC process which has been qualified, as evidenced by a Release to Production document issued by ASMC.

APPENDIX C
(Ref : Clauses 3.2, 3.3, 7.1)

ACCEPTANCE CRITERIA

The Acceptance Criteria for each Product shall comprise the following:

A. Electrical Test and Electrical based on the relevant ASMC process which has been qualified, as evidenced by a Release to Production document issued by ASMC; and

B. The Wafer Quality and Reliability Criteria set out in this Appendix C.

C. Yield criteria:

C.1: Average yield: The average yield of a specific type is defined as the average yield achieved on the first 10 lots of wafers after this product is released to production.

C.2: Yield criteria: The lot will be returned to ASMC for fully refund if the yield is less than 50% of the average yield, unless MPS requests otherwise.

The following ASMC procedures shall apply. All procedures shall be subject to change by ASMC in accordance with the Change Request Procedure specified in Appendix D.

WAFER QUALITY AND RELIABILITY CRITERIA

WATER SORT

Document No.	**Document Title**
NA	Setting of ASMC wafer yield limits in all ASMC wafer sort subcontractors (includes amendments thereto)

OUTGOING QUALITY ASSURANCE

Document No.	**Document Title**
WOQ900104 Visual Inspection Photo Book	QA Outgoing Wafer Inspection Procedure (includes amendments thereto)
OQ002Q Procedure Outgoing Inspection	QA Outgoing Wafer Packing Procedure (includes amendments thereto)
MM008Q Procedure for Packing Diffused Wafer	Secondary Wafer Packing Procedure (includes amendments thereto)

RELIABILITY QUALIFICATION AND MONITORING

Document No.	Document Title
OQ015Q ASMC Wafer Level Reliability Monitoring Procedure	Process Reliability Qualification Requirements (includes amendments thereto)
OQ015Q ASMC Wafer Level Reliability Monitoring Procedure	Process Reliability Monitoring Requirement (includes amendments thereto)

WAIVER PROCEDURES

Document No.	Document Title
OQ011 Q Material Review Board Procedure	Material Review Board Procedure (includes amendments thereto)
OQ005Q Procedure for Concession Request	Waiver Request Procedure (includes amendments thereto)

APPENDIX D
(Ref : Clause 3.3)

CHANGE REQUEST PROCEDURE

The following ASMC procedures shall apply. All procedures shall be subject to change by ASMC in accordance with the Change Request Procedure set out in this Appendix D.

Document No.	**Document Title**
DCOIOQ Process Change Customer Approval Requirement	Major and Minor Change Definition (includes amendments thereto)
D0007Q TPD Change Procedure	Change Request Execution (includes amendments thereto)

APPENDIX E
(Ref: Clause 3.4)

PROCESS CHANGE REQUESTS

The ASMC specifications set out in the following documents are deemed a part of and are incorporated into this Agreement by reference:

Document No.	Document Title
D0007Q TPD Change Procedure	Process Request Form (PRF) Procedure (includes amendments thereto)

APPENDIX F
(Ref : Clause 8.1)

PROCEDURE FOR CUSTOMER RETURNS

The following ASMC procedures shall apply. All procedures shall be subject to change by ASMC in accordance with the Change Request Procedure set out in Appendix D.

Document No.	Document Title
OQ016Q Procedure for Customer Return	Procedure for Customer Returns (includes amendments thereto)
OQ012Q Procedure for Customer Complaints (Technical)	

APPENDIX G
(Ref : Clause 9.2)

CANCELLATION FEE

The Cancellation Fee payable by MPS upon cancellation of delivery of each Wafer in a purchase order will be calculated as follows:

CF = [(CS divided by TS) x (P - R)] + R + T

where

'CF'	means the cancellation fee payable by MPS.
'CS'	means the number of completed manufacturing steps as at the date of cancellation.
'TS'	means the total number of manufacturing steps required to produce the Wafers had there not been any cancellation.
'P'	refers to the purchase price of the Wafer as set out in the applicable Agreed Price Quotation.
'R'	refers to the raw wafer cost incurred by ASMC.
'T'	refers to any applicable sales, use, excise or other similar taxes levied on or otherwise payable in connection with the Cancellation Fee.

ASMC shall not charge MPS for the cancellation of orders if the wafers of the orders have not been started.

Exhibit 10.6

OFFICE LEASE

BOCCARDO CORPORATION
A California corporation

as "Landlord"

and

MONOLITHIC POWER SYSTEMS, INC.
A California corporation

as "Tenant"

SECOND AMENDMENT TO OFFICE LEASE

THIS SECOND AMENDMENT TO OFFICE LEASE ("**Amendment**") is entered into effective the 6thth day of May 2004 ("**Effective Date of this Amendment**") by and between Boccardo Corporation, a California corporation ("**Landlord**"), and Monolithic Power Systems, Inc, a California corporation ("**Tenant**").

RECITALS

A. On or about July 3, 2003, Landlord and Tenant entered into that certain Office Lease ("**Lease**") for the lease by Tenant from Landlord of that certain real property commonly known as 983 University Avenue, Buildings A & B-2, Los Gatos, California ("**Premises**"), and more fully described in the Lease and First Amendment to Office Lease;

B. Tenant desires additional office space as more fully set forth herein;

C. Landlord and Tenant wish to amend the Lease to account for such additional office space upon the terms and conditions set forth herein;

D. Landlord and Tenant wish to make additional modifications to the Lease upon the terms and conditions set forth herein.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

AGREEMENT

1. Additional Space: Premises shall be amended to include approximately 6,609 additional square feet (Additional Space) so that Section D of the Summary of Basic Lease Terms shall be amended to read as follows:

D. **(Section 1.21)**	**Premises:**	**That area consisting of approximately 34,489 rentable square feet, the address of which is 983 University Avenue, Building A (19,360 s.f.) & Building B (15,129 rentable sq. ft.), Los Gatos, California, within the Project.**

2. Tenant Improvement Allowance: Landlord shall provide Tenant with a tenant improvement allowance of $19,827.00. During the Lease Term, Tenant shall retain the use of the "reception desk" previously located within the Additional Space.

3. Base Monthly Rent for the Additional Space shall commence August 1, 2004.

4. Section K of the Summary of Basic Lease Terms, is hereby amended to read as follows:

Base Monthly Rent:

Building A:	
5/1/04 through 2/28/05	**$26,150.00**
3/1/05 through 2/28/06	**$28,086.00**
3/1/06 through 2/28/07	**$30,022.00**
3/1/07 through 2/28/08	**$31,958.00**
3/1/08 through 2/28/09	**$33,894.00**
Building B:	
5/1/04 through 7/31/04	**$ 0.00**
8/1/04 through 8/31/04	**$11,006.00**
9/1/04 through 2/28/05	**$15,129.00**
3/1/05 through 2/28/06	**$16,229.83**
3/1/06 through 2/28/07	**$18,429.83**
3/1/07 through 2/28/08	**$19,186.83**
3/1/08 through 2/28/09	**$19,943.00**

IN WITNESS WHEREOF, the parties hereto have executed this First Amendment to Office Lease as of the date set forth below their respective names.

Landlord:	Tenant:
Boccardo Corporation a California corporation	Monolithis Power Systems, Inc. a California corporation
By: /s/	By: /s/ Michael Hsing
Name: James C. Rees	Name: Michael Hsing
Its: CEO	Its: President & CEO
Date:	Date: 5/6/04

FIRST AMENDMENT TO OFFICE LEASE

THIS FIRST AMENDMENT TO OFFICE LEASE ("**Amendment**") is entered into effective the 30th day of October 2003 ("**Effective Date of this Amendment**") by and between Boccardo Corporation, a California corporation ("**Landlord**"), and Monolithic Power Systems, Inc, a California corporation ("**Tenant**").

RECITALS

A. On or about July 3, 2003, Landlord and Tenant entered into that certain Office Lease ("**Lease**") for the lease by Tenant from Landlord of that certain real property commonly known as 983 University Avenue, Buildings A & B-2, Los Gatos, California ("**Premises**"), and more fully described in the Lease;

B. Tenant has requested and Landlord has agreed to provide additional money to be used for tenant improvements related to the Premises and more fully set forth herein;

C. Landlord and Tenant wish to amend the Lease to account for such additional money upon the terms and conditions set forth herein;

D. Landlord and Tenant wish to make additional modifications to the Lease upon the terms and conditions set forth herein.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

AGREEMENT

1. Additional T.I. Allowance: Landlord shall provide Tenant with an additional T.I. Allowance of $154,604.00 (Additional Allowance). Such Additional Allowance shall be in addition to the existing T.I. Allowance of $41,820.00 as set forth in Exhibit C of the Lease. Such Additional Allowance shall be amortized at 5% annual interest over a 60-month period and incorporated in the Base Monthly Rent as set forth in Paragraph 4 herein. Tenant shall provide Landlord with invoices received from Tenant's contractor for the tenant improvement work related to the Premises. Landlord shall pay Tenant's contractor on a direct basis up to the total tenant improvement allowance of $196,424.00. Tenant shall be responsible for paying any amounts in excess of $196,424.00 subject to Paragraph 2 herein.

2. Additional Landlord Work: Landlord shall pay, at its expense, an additional $10,000.00 for code related work on the "draft stops", fire rated walls, and ADA upgrades to the existing bathrooms and $5,500.00 to construct the "equipment pad" and enclosure.

3. Section I of the Summary of Basic Lease Terms, is hereby amended to read as follows:

   Scheduled Commencement Date: January 1, 2004

4. Section K of the Summary of Basic Lease Terms, is hereby amended to read as follows:

Base Monthly Rent:	
Months 1 through 6	$26,150.00
Months 7 through 12	$34,670.00
Months 13 through 24	$36,606.00
Months 25 through 36	$40,246.00
Months 37 through 48	$42,608.00
Months 49 through 60	$44,970.00

5. TENANT'S RIGHT TO LANDLORD'S EQUIPMENT: The Exhibit C Work Letter contained in the Lease gives Tenant the right to use the existing office cubicles, furniture, telephone system and alarm system ("Landlord's Equipment") so long as Tenant remains as a tenant in the Premises. Tenant shall maintain any existing leases or maintenance agreements related to Landlord's Equipment, if any. Tenant shall also be responsible for any and all payments, equipment leases or maintenance agreements of any kind related to Landlord's Equipment. It is the express understanding that Landlord is only providing Tenant the use of Landlord's Equipment and shall have no responsibility of any kind for payments, equipment leases or maintenance agreements related to Landlord's Equipment and any such obligations shall be

borne solely by Tenant. Landlord makes no representations or warranties related to the Landlord's Equipment.

IN WITNESS WHEREOF, the parties hereto have executed this First Amendment to Office Lease as of the date set forth below their respective names.

Landlord:	Tenant:
Boccardo Corporation a California corporation	Monolithic Power Systems, Inc. a California corporation
By: /s/ James Rees	By: /s/ Brian McDonald
Name: James Rees	Name: Brian McDonald
Its: CEO	Its: VP & CEO
Date: 10/31/03	Date: 10/31/03

OFFICE LEASE

SUMMARY OF BASIC LEASE TERMS

SECTION (LEASE REFERENCE)		TERMS
A. (Introduction)	Lease Reference Date:	July 5, 2003
B. (Introduction)	Landlord:	Boccardo Corporation a California corporation
C. (Introduction)	Tenant:	Monolithic Power Systems, Inc. a California corporation
D. (Section 1.21)	Premises:	That area consisting of approximately 27,880 rentable square feet, the address of which is 983 University Avenue, Buildings A (19,360 s.f.) & B-2 (8,520 rentable sq. ft.), Los Gatos, California, within the Buildings as shown on Exhibit B.
E. (Section 1.22)	Project:	The land and improvements shown on Exhibit A consisting of four (4) building(s) the aggregate area of which is approximately 66,500 rentable square feet.
F. (Section 1.7)	Building	The building in which the Premises are located known as 983 University Avenue, Los Gatos
G. (Section 1.32)	Tenant's Share:	41.92%
H. (Section 4.6)	Tenant's Allocated Parking Stalls:	One hundred twelve (112) unassigned parking stalls
I. (Section 1.28)	Scheduled Commencement Date:	September 1, 2003
J. (Section 1.18)	Lease Term:	Sixty (60) calendar months (plus the partial month following the Commencement Date if such date is not the first day of the month).
K. (Section 3.1)	Base Monthly Rent:	September 1, 2003 – February 29, 2004: $23,232.00 March 1, 2004 – August 31, 2004: $31,752.00 September 1, 2004 – August 31, 2005: $33,688.00 September 1, 2005 – August 31, 2006: $37,328.00 September 1, 2006 – August 31, 2007: $39,690.00 September 1, 2007 – August 31, 2008: $42,052.00
L. (Section 3.3)	Prepaid Rent:	N/A
M. (Section 3.5)	Security Deposit:	$62,318.98 (Existing Security Deposit shall be transferred to this Lease upon termination of Building D Lease as provided in Addendum A.)
N. (Section 4.1)	Permitted Use:	General Office Use, R&D and Testing
O. (Section 5.2)	Permitted Tenant's Alterations Limit:	$5,000
P. (Section 8.1)	Direct Expenses:	See Article 8

Q. (Section 9.1)	Tenant's Liability Insurance Minimum:	$1,000,000
R. (Section 1.3)	Landlord's Address:	985 University Avenue, Suite 12 Los Gatos, CA 95032
S. (Section 1.3)	Tenant's Address:	Prior to Occupancy: 983 University Avenue, Building D Los Gatos, CA 95032 Upon Occupancy: 983 University Avenue, Building A Los Gatos, CA 95032
T. (Section 15.13)	Retained Real Estate Brokers:	None
U. (Section 1.17)	Lease:	This Office Lease includes the Summary of the Basic Lease Terms, the Lease, and the following exhibits and addenda: Exhibit A (site plan of the Project), Exhibit B (diagram of Premises shown as cross-hatched), Exhibit C (Work Letter), Exhibit D (Memorandum of Commencement Date), Exhibit E (form of Subordination Agreement), Exhibit F (Rules and Regulations) and Addendum A.

The foregoing Summary is hereby incorporated into and made a part of this Lease. Each reference in this Lease to any term of the Summary shall mean the respective information set forth above and shall be construed to incorporate all of the terms provided under the particular paragraph pertaining to such information. In the event of any conflict between the Summary and the Lease, the Summary shall control.

LANDLORD:

BOCCARDO CORPORATION
A California corporation

By: /s/ James Rees
James C. Rees

Title: CEO

Dated: 8/20/03

TENANT:

MONOLITHIC POWER SYSTEMS, INC.
A California corporation

By: /s/ Michael Hsing

Title: CEO

Dated: 7/3/03

OFFICE LEASE

This Office Lease ("Lease") is dated, for reference purposes only, as of the Lease Reference Date specified in Section A of the Summary of Basic Lease Terms ("Summary"), and is made by and between the party identified as Landlord in Section B of the Summary and the party identified as Tenant in Section C of the Summary.

ARTICLE 1

DEFINITIONS

1.1 General. Any initially capitalized term that is given a special meaning by this Article 1, the Summary, or by any other provision of this Lease (including the exhibits attached hereto) shall have such meaning when used in this Lease or any addendum or amendment hereto unless otherwise clearly indicated by the context.

1.2 Additional Rent. The term "Additional Rent" is defined in Section 3.2.

1.3 Address for Notices. The term "Address for Notices" shall mean the addresses set forth in Sections R and S of the Summary; provided, however, that after the Commencement Date, Tenant's Address for Notices shall be the address of the Premises.

1.4 Agents. The term "Agents" shall mean the following: (i) with respect to Landlord or Tenant, the agents, employees, contractors and invitees of such party, and (ii) in addition with respect to Tenant, Tenant's subtenants and their respective agents, employees, contractors and invitees.

1.5 Agreed interest Rate. The term "Agreed Interest Rate" shall mean that interest rate determined as of the time it is to be applied that is equal to the lesser of (i) the higher of five percent (5%) in excess of the discount rate established by the Federal Reserve Bank of San Francisco as it may be adjusted from time to time, or ten percent (10%) per annum, or (ii) the maximum interest rate permitted by Law.

1.6 Base Monthly Rent. The term "Base Monthly Rent" shall mean the fixed monthly rent payable by Tenant pursuant to Section 3.1 which is specified in Section K of the Summary.

1.7 Building. The term "Building" shall mean the building in which the Premises are located which Building is identified in Section F of the Summary, the rentable area of which is referred to herein as the "Building Rentable Area."

1.8 Commencement Date. The term "Commencement Date" is the date the Lease Term commences, which term is defined in Section 2.2.

1.9 Common Area. The term "Common Area" shall mean all areas and facilities within the Project that are not designated by Landlord for the exclusive use of Tenant or any other lessee or other occupant of the Project, including, without limitation, the parking areas, access and perimeter roads, pedestrian sidewalks, landscaped areas, trash enclosures, recreation areas and the like.

1.10 Direct Expenses. The term "Direct Expenses" is defined in Section 8.2.

1.11 Consumer Price Index. The term "Consumer Price index" shall refer to the Consumer Price index, All Urban Consumers, subgroup "All Items", for the San Francisco-Oakland-San Jose metropolitan area (base year 1982-84 equals 100), which is presently being published monthly by the United States Department of Labor, Bureau of Labor Statistics. However, if this Consumer Price Index is changed so that the base year is altered from that used as of the commencement of the Lease Term, the Consumer Price Index shall be converted in accordance with the conversion factor published by the United States Department of Labor, Bureau of Labor Statistics to obtain the same results that would have been obtained had the base year not been changed. If no conversion factor is available, or if the Consumer Price Index is otherwise changed, revised or discontinued for any reason, there shall be substituted in lieu thereof, and the term "Consumer Price Index" shall thereafter refer to, the most nearly comparable official price index of the United States government in order to obtain substantially the same result as would have been obtained had the original Consumer Price Index not been discontinued, revised or changed, which alternative index shall be selected by Landlord in its reasonable judgment.

1.12 Effective Date. The term "Effective Date" shall mean the date the last signatory to this Lease whose execution is required to make it binding on the parties hereto shall have executed this Lease.

1.13 Event of Tenant's Default. The term "Event of Tenant's Default" is defined in Section 13.1.

1.14 Hazardous Materials. The terms "Hazardous Materials" and "Hazardous Materials Laws" are defined in Section 7.2E.

1.15 Insured and Uninsured Peril. The terms "Insured Peril" and "Uninsured Peril" are defined in Section 11.2E.

1.16 Law(s). The term "Law(s)" shall mean any judicial decision, statute, constitution, ordinance, resolution, regulation, rule, administrative order or other requirement of any municipal, county, state, federal or other governmental agency or authority having jurisdiction over the parties to this Lease or the Premises, or both, in effect either at the Effective Date or any time during the Lease Term.

1.17 Lease. The term "Lease" shall mean the Summary and all elements of this Lease identified in Section U of the Summary, all of which are attached hereto and incorporated herein by this reference.

1.18 Lease Term. The term "Lease Term" shall mean the term of this Lease, which shall commence on the Commencement Date and, unless sooner terminated pursuant to this Lease, shall continue for the period specified in Section J of the Summary.

1.19 Lender. The term "Lender" shall mean any beneficiary, mortgagee, secured party, ground or underlying lessor, or other holder of any Security Instrument now or hereafter affecting the Project or any portion thereof.

1.20 Permitted Use. The term "Permitted Use" shall mean the use specified in Section N of the Summary, and no other use shall be permitted.

1.21 Premises. The term "Premises" shall mean that space described in Section D of the Summary that is within the Building.

1.22 Project. The term "Project" shall mean that real property and the improvements thereon which are specified in Section E of the Summary, the aggregate rentable area of which is referred to herein as the "Project Rentable Area."

1.23 Private Restrictions. The term "Private Restrictions" shall mean all recorded covenants, conditions and restrictions, private agreements, reciprocal easement agreements, and any other recorded instruments affecting the use of the Premises and/or the Project which exist as of the Effective Date or which are recorded after the Effective Date.

1.24 Real Property Taxes. The term "Real Property Taxes" is defined in Section 8.3.

1.25 Rent. The term "Rent" or "rent" shall mean, collectively, Base Monthly Rent, Additional Rent and all other payments of money payable to Landlord under this Lease, whether or not such payments are specifically denominated as rent hereunder.

1.26 Rentable Area. The term "Rentable Area" as used in this Lease shall mean, with respect to the Premises, the rentable square feet set forth in Section D of the Summary, and, with respect to the Project, the rentable square feet set forth in Section E of the Summary (subject to reformulation pursuant to Section 1.32 below). Landlord and Tenant agree that (i) each has had an opportunity to determine to its satisfaction the actual area of the Project, the Building and the Premises, (ii) all measurements of area contained in this Lease are conclusively agreed to be correct and binding upon the parties, even if a subsequent measurement of any one of these areas determines that it is more or less than the amount of area reflected in this Lease, and (iii) any such subsequent determination that the area is more or less than shown in this Lease shall not result in a change in any way of the computations of rent, improvement allowances, or other matters described in this Lease where area is a factor.

1.27 Rules and Regulations. The term "Rules and Regulations" shall mean the rules and regulations attached hereto as Exhibit G and any amendments or supplements thereto and any additional rules and regulations, all as may be adopted and promulgated by Landlord from time to time.

1.28 Scheduled Commencement Date. The term "Scheduled Commencement Date" shall mean the date specified in Section I of the Summary.

1.29 Security Instrument. The term "Security Instrument" shall mean any ground or underlying lease, mortgage or deed of trust which now or hereafter affects the Project (or any portion thereof), and any renewal, modification, consolidation, replacement or extension thereof.

1.30 Summary. The term "Summary" shall mean the Summary of Basic Lease Terms executed by Landlord and Tenant that is part of this Lease.

1.31 Tenant's Alterations. The term "Tenant's Alterations" shall mean all improvements, additions, alterations and fixtures installed in the Premises by or for the benefit of Tenant following the Commencement Date which are not Trade Fixtures.

1.32 Tenant's Share. The term "Tenant's Share" shall mean the percentage obtained by dividing Tenant's Rentable Area by the Project Rentable Area, which, as of the Effective Date, is the percentage identified in Section G of the Summary. In the event Landlord constructs other buildings on the Project, Landlord may, in Landlord's sole discretion, reformulate Tenant's Share, as to any or all of the items which comprise Direct Expenses, to reflect the rentable square footage of the Premises as a percentage of all rentable square footage of the Project. In the event Tenant's Share is reformulated in accordance with this Section 1.32, Landlord shall promptly provide Tenant notice of such reformulation, together with a written statement showing in reasonable detail the manner in which Tenant's Share was reformulated and a list of all items of Direct Expenses which will be accounted for using the reformulated percentage. Any items of Direct Expenses to which the reformulated share is not applied shall be accounted for using the original Tenant's Share set forth in Section G of the Summary.

1.33 Trade Fixtures. The term "Trade Fixtures" shall mean (i) Tenant's inventory, furniture, signs, business equipment and other personal property, and (ii) anything affixed to the Premises by Tenant at its expense for purposes of trade (except replacement of similar work or material originally installed by Landlord) which can be removed without material injury to the Premises unless such thing has, by the manner in which it is affixed, become an integral part of the Premises.

ARTICLE 2

DEMISE, CONSTRUCTION, AND ACCEPTANCE

2.1 Demise of Premises. Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord, for the Lease Term upon the terms and conditions of this Lease, the Premises for Tenant's own use in the conduct of Tenant's business together with (i) the non-exclusive right to use the number of Tenant's Allocated Parking Stalls within the Common Area (subject to the limitations set forth in Section 4.6), and (ii) the non-exclusive right to use the Common Area for ingress to and egress from the Premises. Landlord reserves the use of the exterior walls, the roof and the area beneath and above the Premises, together with the right to install, maintain, use and replace ducts, wires, conduits and pipes leading through the Premises in locations which will not materially interfere with Tenant's use of the Premises.

2.2 Commencement Date. If Landlord is not obligated to construct improvements to the Premises prior to the Commencement Date pursuant to Section 2.3, then, on the Scheduled Commencement Date, Landlord shall deliver possession of the Premises to Tenant and the Lease Term shall commence on such date (and such date shall be referred to herein as the "Commencement Date"), subject to Section 2.4. If Landlord is required to construct improvements to the Premises prior to the Commencement Date pursuant to Section 2.3, then the Scheduled Commencement Date shall be only an estimate of the actual Commencement Date, and the Lease Term shall begin on the first to occur of the following, which, subject to acceleration under the Work Letter attached hereto as Exhibit C, shall be the "Commencement Date": (i) the date Landlord offers to deliver possession of the Premises to Tenant following substantial completion of all improvements to be constructed by Landlord pursuant to Section 2.3 except for punchlist items which do not prevent Tenant from using the Premises for the Permitted Use, or (ii) the date Tenant enters into occupancy of the Premises. Tenant shall accept possession and enter into good faith occupancy of the entire Premises and commence the operation of its business therein within thirty (30) days after the Commencement Date. Promptly following the delivery of possession of the Premises by Landlord to Tenant, Landlord and Tenant shall together execute a Memorandum of Commencement Date in the form attached as Exhibit D, appropriately completed (but the failure to execute such Memorandum of Commencement Date shall not affect the Commencement Date or Tenant's obligations hereunder).

2.3 Construction of Improvements. Landlord shall construct certain improvements that shall constitute or become part of the Premises if required by, and then in accordance with, the terms of the Work Letter attached hereto as Exhibit C (and, if Exhibit C is left blank, then Landlord shall not be obligated to construct any improvements to the Premises). Except as specifically provided in Exhibit C attached hereto, Landlord shall have no obligation whatsoever to in any way alter or improve the Premises. Tenant acknowledges that it has had an opportunity to conduct, and has conducted, such inspections of the Premises as it deems necessary to evaluate its condition. Except as otherwise specifically provided herein, Tenant agrees to accept possession of the Premises in its then existing condition "as-is", including all patent and latent defects. Tenant's taking possession of any part of the Premises shall be deemed to be an acceptance by Tenant of any work of improvement done by Landlord in such part as complete and in accordance with the terms of this Lease, subject to Landlord's obligations, if any, under Exhibit C attached hereto.

2.4 Delay in Delivery of Possession. If for any reason Landlord cannot deliver possession of the Premises to Tenant on or before the Scheduled Commencement Date, Landlord shall not be subject to any liability therefore, and such failure shall not affect the validity of this Lease or the obligations of Tenant hereunder, but, in such case, Tenant shall not be obligated to pay Base Monthly Rent or Tenant's Share of Direct Expenses until the Commencement Date has occurred; provided, however, if Landlord cannot deliver possession of the Premises to Tenant on or before the date ("Outside Commencement Date") that is **ninety (90) days** one hundred eighty (180) days following the Scheduled Commencement

Date, Tenant shall have the right, as its sole and exclusive remedy, to terminate this Lease by providing Landlord with written notice thereof within five (5) days following the Outside Commencement Date (provided, however, in the event that Landlord's failure to deliver possession of the Premises to Tenant on or before the Outside Commencement Date is attributable, in whole or in part, to any action or inaction by Tenant or Tenant's Agents (including, without limitation, any Tenant Delay described in the Work Letter attached hereto as Exhibit C) or by reason of any causes beyond the reasonable control of Landlord ("Force Majeure Delay"), the Outside Commencement Date shall be extended for the period of delay attributable to the action or inaction by Tenant or Tenant's Agents in question and/or the Force Majeure Delay in question, as applicable). In the event Tenant provides Landlord with written notice of termination within such five (5) day period, this Lease shall terminate upon such notice and Landlord shall promptly return to Tenant any deposits made by Tenant to Landlord under this Lease. In the event Tenant fails to provide Landlord with written notice of termination within such five (5) day period, this Lease shall continue in full force and effect.

2.5 Early Occupancy. If Tenant enters or permits its Agents to enter the Premises prior to the Commencement Date with the written permission of Landlord, it shall do so upon all of the terms of this Lease (including its obligations regarding indemnity and insurance) except those regarding the obligation to pay rent, which shall commence on the Commencement Date.

2.6 [Omitted.]

2.7 No Roof Rights. In no event shall Tenant have any rights whatsoever to use all or any portion of the roof of the Building, it being understood and agreed that Landlord expressly reserves the right to use (and/or permit others to use) the roof of the Building in its sole and absolute discretion. **Tenant requests to place an air compressor on the roof shall not be unreasonable withheld.**

ARTICLE 3

RENT

3.1 Base Monthly Rent. Commencing on the Commencement Date and continuing throughout the Lease Term, Tenant shall pay to Landlord the Base Monthly Rent set forth in Section K of the Summary.

3.2 Additional Rent. Commencing on the Commencement Date and continuing throughout the Lease Term, Tenant shall pay the following as additional rent (the "Additional Rent"): (i) any late charges or interest due Landlord pursuant to Section 3.4; (ii) Tenant's Share of Direct Expenses as provided in Section 8.1; (iii) Landlord's share of any Transfer Consideration received by Tenant upon certain assignments and sublettings as required by Section 14.1; (iv) any legal fees and costs due Landlord pursuant to Section 15.9; and (v) any other sums or charges payable by Tenant pursuant to this Lease.

3.3 Payment of Rent. Concurrently with Tenant's execution of this Lease, Tenant shall pay to Landlord the amount set forth in Section L of the Summary as prepayment of rent for credit against the first installment(s) of Base Monthly Rent. All rent required to be paid in monthly installments shall be paid in advance on the first day of each calendar month during the Lease Term. If Section K of the Summary provides that the Base Monthly Rent is to be increased during the Lease Term and if the date of such increase does not fall on the first day of a calendar month,

such increase shall become effective on the first day of the next calendar month. All rent shall be paid in lawful money of the United States, without any abatement, deduction or offset whatsoever (except as specifically provided in Sections 11.4 and 12.3), and without any prior demand therefore. Rent shall be paid to Landlord at its address set forth in Section R of the Summary, or at such other place as Landlord may designate from time to time. Tenant's obligation to pay Base Monthly Rent and Tenant's Share of Direct Expenses shall be prorated at the commencement and expiration of the Lease Term.

3.4 Late Charge and Interest. Tenant acknowledges that late payment by Tenant to Landlord of Rent under this Lease will cause Landlord to incur costs not contemplated by this Lease, the exact amount of which is extremely difficult or impracticable to determine. Such costs include, but are not limited to, processing and accounting charges, late charges that may be imposed on Landlord by the terms of any Security Instrument, and late charges and penalties that may be imposed due to late payment of Real Property Taxes. Therefore, if any installment of Base Monthly Rent or any payment of Additional Rent or other rent due from Tenant is not received by Landlord in good funds **within ten (10) days of the** applicable due date, Tenant shall pay to Landlord an additional sum equal to ten percent (10%) of the amount overdue as a late charge. The parties acknowledge that this late charge represents a fair and reasonable estimate of the costs that Landlord will incur by reason of late payment by Tenant. In no event shall this provision for a late charge be deemed to grant to Tenant a grace period or extension of time within which to pay any rent or prevent Landlord from exercising any right or remedy available to Landlord upon Tenant's failure to pay any rent due under this Lease in a timely fashion, including any right to terminate this Lease pursuant to Section 13.2C. If any rent remains delinquent for a period in excess of thirty (30) days then, in addition to such late charge, Tenant shall pay to Landlord interest on any rent that is not paid when due at the Agreed Interest Rate following the date such amount became due until paid.

3.5 Security Deposit. Concurrently with its execution of this Lease, Tenant shall deposit with Landlord the amount set forth in Section M of the Summary as security for the performance by Tenant of its obligations under this Lease, and not as prepayment of rent (the "Security Deposit"). Landlord may from time to time apply such portion of the Security Deposit as is necessary for the following purposes: (i) to remedy any default by Tenant in the payment of rent; (ii) to repair damage to the Premises caused by Tenant; (iii) to clean the Premises upon the expiration or sooner termination of the Lease; and/or (iv) to remedy any other default of Tenant to the extent permitted by Law, including, without limitation, on account of damages owing to Landlord under Section 13.2, and, in this regard, Tenant hereby waives any restriction on the uses to which the Security Deposit may be put contained in California Civil Code Section 1950.7. In the event the Security Deposit or any portion thereof is so used, Tenant agrees to pay to Landlord promptly upon demand an amount in cash sufficient to restore the Security Deposit to the full original amount. Landlord shall not be deemed a trustee of the Security Deposit, may use the Security Deposit in business, and shall not be required to segregate it from its general accounts. Tenant shall not be entitled to any interest on the Security Deposit. If Landlord transfers the Premises during the Lease Term, Landlord may pay the Security Deposit to any transferee of Landlord's interest in conformity with the provisions of California Civil Code Section 1950.7 and/or any successor statute, in which event the transferring Landlord will be released from all liability for the return of the Security Deposit. If Tenant performs every provision of this Lease to be performed by Tenant, the unused portion of the Security Deposit shall be returned to Tenant (or the last assignee of Tenant's interest under this Lease) within fifteen (15) days following the expiration or sooner termination of this Lease and the surrender of the Premises by Tenant to Landlord in accordance with the terms of this Lease. If this Lease is terminated following an Event of Tenant's Default, the unpaid portion of the Security Deposit, if any, shall be returned to Tenant two (2) weeks after final determination of all damages due Landlord, and, in this respect, the provisions of California Civil Code Section 1950.7 are hereby waived by Tenant.

ARTICLE 4

USE OF PREMISES

4.1 Limitation on Use. Tenant shall use the Premises solely for the Permitted Use specified in Section N of the Summary and for no other purpose whatsoever without the prior written consent of Landlord, which consent may be withheld and/or conditioned by Landlord in its sole and absolute discretion. Tenant shall not do anything in or about the Premises which will (i) cause structural injury to the Building, or (ii) cause damage to any part of the Building except to the extent reasonably necessary for the installation of Tenant's Trade Fixtures and Tenant's Alterations, and then only in a manner which has been first approved by Landlord in writing. Tenant shall not operate any equipment within the Premises which will (i) materially damage the Building or the Common Area, (ii) overload existing electrical systems or other mechanical equipment servicing the Building, (iii) impair the efficient operation of the sprinkler system or the heating ventilating or air conditioning ("HVAC") equipment within or servicing the Building, or (iv) damage, overload or corrode the sanitary sewer system. Tenant shall not attach, hang or suspend anything from the ceiling, roof, walls or columns of the Building or set any load on the floor in excess of the load limits for which such items are designed nor operate hard wheel forklifts within the Premises. Any dust, fumes, or waste products generated by Tenant's use of the Premises shall be contained and disposed so that they do not (i) create an unreasonable fire or health hazard, (ii) damage the Premises, or (iii) result in the violation of any Laws. Tenant shall not change the exterior of the Building or install any equipment or antennas on or make any penetrations of the exterior or roof of the Building. Tenant shall not commit any waste in or about the Premises, and Tenant shall keep the Premises in a neat, clean, attractive and orderly condition, free of any nuisances. If Landlord designates a standard window covering for use throughout the Building, Tenant shall use this standard window covering to cover all windows in the Premises. Tenant shall not conduct on any portion of the Premises or the Project any sale of any kind, including, without limitation, any public or private auction, fire sale, going-out-of-business sale, distress sale or other liquidation sale.

4.2 Compliance with Regulations. Tenant shall not use the Premises in any manner which violates any Laws or Private Restrictions which affect the Premises. Tenant shall abide by and promptly observe and comply with all Laws and Private Restrictions. Tenant shall not use the Premises in any manner which will cause a cancellation of any insurance policy covering the Premises, the Building, Tenant's Alterations or any improvements installed by Landlord at its expense or which poses an unreasonable risk of damage or injury to the Premises. Tenant shall not sell, or permit to be kept, used, or sold in or about the Premises any article which may be prohibited by the standard form of fire insurance policy. Tenant shall comply with all reasonable requirements of any insurance company, insurance underwriter or Board of Fire Underwriters which are necessary to maintain the insurance coverage carried by either Landlord or Tenant pursuant to this Lease.

4.3 Outside Areas. No materials, supplies, tanks or containers, equipment, finished products or semi-finished products, raw materials, inoperable vehicles or articles of any nature shall be stored upon or permitted to remain outside of the Premises.

4.4 Signs. Tenant shall not place on any portion of the Premises any sign, placard, lettering in or on windows, banner, displays or other advertising or communicative material which is visible from the exterior of the Building without the prior written approval of Landlord. All such approved signs shall strictly conform to all Laws, Private Restrictions, and any sign criteria established by Landlord for the Building from time to time, and shall be installed at the expense of Tenant. Tenant shall maintain such signs in good condition and repair, and, upon the expiration or sooner termination of this Lease, remove the same and repair any damage caused thereby, all at its sole cost and expense and to the reasonable satisfaction of Landlord.

4.5 No Light, Air or View Easement. Any diminution or shutting off of light, air or view by any structure which may be erected on the Project or any lands adjacent to the Project shall in no way affect this Lease or impose any liability on Landlord.

4.6 Parking. Tenant is allocated and shall have the non-exclusive right to use the non-exclusive parking spaces located within the Project from time to time, for its use and the use of Tenant's Agents, in common with other tenants of the Project, up to, but not exceeding, the lesser of (i) the number of allocated

parking spaces set forth in Section H of the Summary, or (ii) the Tenant's Share of the non-exclusive parking spaces available for use within the Project from time to time (which as of the Effective Date is the percentage set forth in Section G of the Summary), the location of which parking spaces may be designated from time to time by Landlord. Tenant shall not at any time use more parking spaces than the number so allocated to Tenant or park its vehicles or the vehicles of others in any portion of the Project not designated by Landlord as a non-exclusive

parking area. Tenant shall not have the exclusive right to use any specific parking space. If Landlord grants to any other tenant the exclusive right to use any particular parking space(s), Tenant shall not use such spaces. Tenant shall not park or store vehicles at the Project for more that (24) hours without the Landlord's written consent in Landlord's sole and absolute discretion. Such unauthorized vehicles may be towed at Tenant's expense. Landlord reserves the right, after having given Tenant reasonable notice, to have any vehicles owned by Tenant or Tenant's Agents utilizing parking spaces in excess of the parking spaces allowed for Tenant's use to be towed away at Tenant's cost. All trucks and delivery vehicles shall be (i) parked in such areas as Landlord may designate from time to time, (ii) loaded and unloaded in a manner which does not interfere with the businesses of other occupants of the Project, and (iii) permitted to remain on the Project only so long as is reasonably necessary to complete loading and unloading. In the event Landlord elects or is required by any Law to limit or control parking in the Project, whether by validation of parking tickets or any other method of assessment, Tenant agrees to participate in such validation or assessment program under such rules and regulations as are from time to time established by Landlord.

4.7 Rules and Regulations. Landlord may from time to time promulgate such Rules and Regulations applicable to the Project and/or the Building as Landlord may, in its sole discretion, deem necessary or appropriate for the care and orderly management of the Project and the safety of its tenants and invitees. Such Rules and Regulations shall be binding upon Tenant upon delivery of a copy thereof to Tenant, and Tenant agrees to abide by such Rules and Regulations. If there is a conflict between the Rules and Regulations and any of the provisions of this Lease, the provisions of this Lease shall prevail. Landlord shall not be responsible for the violation by any other tenant of the Project of any such Rules and Regulations.

4.8 Telecommunications. The use of the Premises by Tenant for the Permitted Use specified in Section N of the Summary shall not include using the Premises to provide telecommunications services (including, without limitation, Internet connections) to third parties, it being intended that Tenant's telecommunications activities within the Premises be strictly limited to such activities as are incidental to general office use.

ARTICLE 5

TRADE FIXTURES AND ALTERATIONS

5.1 Trade Fixtures. Throughout the Lease Term, Tenant may provide and install, and shall maintain in good condition, any Trade Fixtures required in the conduct of its business in the Premises; provided, however, if the installation of any Trade Fixtures will necessitate the making of any Tenant's Alterations, then Tenant shall not be permitted to make such installation unless and until the applicable Tenant's Alterations have been approved by Landlord pursuant to Section 5.2. All Trade Fixtures shall remain Tenant's property.

5.2 Tenant's Alterations. Construction by Tenant of Tenant's Alterations shall be governed by the following:

A. Tenant shall not construct any Tenant's Alterations or otherwise alter the Premises without Landlord's prior written approval, which approval may be withheld and/or conditioned by Landlord in its reasonable discretion. Tenant shall be entitled, without Landlord's prior approval, to make Tenant's Alterations (i) which do not affect the structural or exterior pans or water tight character of the Building, (ii) do not affect the HVAC, electrical, plumbing or life safety systems of the Building, and (iii) the reasonably estimated cost of which, plus the original cost of any part of the Premises removed or materially altered in connection with such Tenant's Alterations, together do not exceed the Permitted Tenant Alterations Limit specified in Section O of the Summary per work of improvement (and, for purposes thereof, all work performed or commenced within a six (6) month period shall be considered a single work of improvement). In the event Landlord's approval for any Tenant's Alterations is required, Tenant shall not construct the Tenant's Alterations until Landlord has approved in writing the plans and specifications therefore, and such Tenant's Alterations shall be constructed substantially in compliance with such approved plans and specifications by a licensed contractor first approved by Landlord. All Tenant's Alterations constructed by Tenant shall be constructed by a reputable licensed contractor (approved in writing by Landlord) in accordance with all Laws using new materials of good quality.

B. Tenant shall not commence construction of any Tenant's Alterations until (i) all required governmental approvals and permits have been obtained, (ii) all requirements regarding insurance imposed by this Lease have been satisfied, (iii) Tenant has given Landlord at least five (5) days' prior written notice of its intention to commence such construction, and (iv) if requested by Landlord, Tenant has obtained contingent liability and broad form builders' risk insurance in an amount reasonably satisfactory to Landlord if there are any perils relating to the proposed construction not covered by insurance carried pursuant to Article 9.

C. All Tenant's Alterations shall remain the property of Tenant during the Lease Term but shall not be altered or removed from the Premises. At the expiration or sooner termination of the Lease Term, all Tenant's Alterations shall be surrendered to Landlord as part of the realty and shall then become Landlord's property, and Landlord shall have no obligation to reimburse Tenant for all or any portion of the value or cost thereof; provided, however, Landlord expressly reserves the right to require Tenant to remove any Tenant's Alterations, prior to the expiration or sooner termination of the Lease Term by providing Tenant with written notice thereof prior to or upon such expiration or sooner termination.

5.3 Alterations Required by Law. Tenant shall, at its sole cost and expense, make any alteration, addition or change of any sort to the Premises, the Building and the Project, that is required by any Law because of (i) Tenant's particular use or change of use of the Premises; (ii) Tenant's application for any permit or governmental approval; (iii) Tenant's construction or installation of any Tenant's Alterations or Trade Fixtures; or (iv) an Event of Tenant's Default. Any such alterations, additions or changes shall be made by Tenant in accordance with and subject to the provisions of Section 5.3. Any other alteration, addition, or change required by Law which is not the responsibility of Tenant pursuant to the foregoing shall be made by Landlord (subject to Landlord's right to reimbursement from Tenant specified in Section 5.4).

5.4 Amortization of Certain Capital Improvements. Tenant shall pay as Additional Rent in the event Landlord reasonably elects or is required to make any of the following kinds of capital improvements to the Project and the cost thereof is not reimbursable as a Direct Expense or is not the responsibility of Tenant pursuant to Section 5.3: (i) capital improvements required to be constructed in order to comply with any Laws (including compliance with Hazardous Materials Laws, other than where such compliance is necessitated by reason of the particular use of Hazardous Materials by any tenant or related party or in connection with the remediation of any contamination caused by any tenant or related party, which matters are governed by section 7.2 below) not in effect or applicable to the Project as of the Effective Date; (ii) modification of existing or construction of additional capital improvements or building service equipment for the purpose of reducing the consumption of utility services or Direct Expenses; (iii) replacement of capital improvements or building service equipment existing as of the Effective Date when required because of normal wear and tear; and (iv) restoration of any part of the Project that has been damaged by any peril to the extent the cost thereof is not covered by insurance proceeds actually recovered by Landlord up to a maximum amount per occurrence of ten percent (10%) of the then replacement cost of the Project. The amount of Additional Rent Tenant is to pay with respect to each such capital improvement shall be determined as follows:

A. All costs paid by Landlord to construct such improvements (including financing costs) shall be amortized over the useful life of such improvement (as reasonably determined by Landlord in accordance with generally accepted accounting principles) with interest on the unamortized balance at the then prevailing market rate Landlord would pay if it borrowed funds to construct such improvements from an institutional lender, and Landlord shall inform Tenant of the monthly amortization payment required to so amortize such costs, and shall also provide Tenant with the

information upon which such determination is made; and

B. As Additional Rent, Tenant shall pay at the same time the Base Monthly Rent is due an amount equal to Tenant's Share of such monthly amortization payment for each month after such improvements are completed until the first to occur of (i) the expiration of the Lease Term (as it may be extended), or (ii) the end of the term over which such costs were amortized.

5.5 Mechanic's Liens. Tenant shall keep the Project free from any liens and shall pay when due all bills arising out of any work performed, materials furnished, or obligations incurred by or at the direction of Tenant or Tenant's Agents relating to the Project. If Tenant fails to cause the release of record of any lien(s) filed against the Project (or any portion thereof) or its leasehold interest therein by payment or posting of a proper bond within ten (10) days from the date of the lien filing(s), then Landlord may, at Tenant's expense, cause such lien(s) to be released by any means Landlord deems proper, including, but not limited to, payment of or defense against the claim giving rise to the lien(s). All sums disbursed, deposited or incurred by Landlord in connection with the release of the lien(s) shall be due and payable by Tenant to Landlord on demand by Landlord, together with interest at the Agreed Interest Rate from the date of demand until paid by Tenant.

5.6 Taxes on Tenant's Property. Tenant shall pay before delinquency any and all taxes, assessments, license fees and public charges levied, assessed or imposed against Tenant or Tenant's estate in this Lease or the property of Tenant situated within the Premises which become due during the Lease Term, including, without limitation, Tenant's Alterations and Trade Fixtures. If any tax or other charge is assessed by any governments agency because of the execution of this Lease, such tax shall be paid by Tenant. On demand by Landlord, Tenant shall furnish Landlord with satisfactory evidence of these payments.

ARTICLE 6

REPAIR AND MAINTENANCE

6.1 Tenant's Obligation to Maintain. By taking possession of the Premises, Tenant shall be deemed to have accepted the Premises as being in good, sanitary order, condition and repair. Tenant shall, at Tenant's sole cost and expense, keep the Premises and every part thereof in good condition and repair, damage thereto from causes beyond the control of Tenant and ordinary wear and tear excepted. Tenant shall upon the expiration or sooner termination of this Lease hereof surrender the Premises in the condition described in Section 15.2. Except as specifically provided in an addendum, if any, to this Lease, Landlord shall have no obligation whatsoever to alter, remodel, improve, decorate or paint the Premises or any part thereof and the parties hereto affirm that Landlord has made no representations to Tenant respecting the condition of the Premises or the Building except as expressly herein set forth.

6.2 Landlord's Obligation to Maintain. Landlord shall repair and maintain, in reasonably good condition, except as provided in Sections 11.2 and 12.3, the following: (i) the structural components of the Building, (ii) the Common Area of the Building, and (iii) the electrical, life safety, plumbing, sewage and HVAC systems serving the Building, installed or furnished by Landlord. It is an express condition precedent to all Landlord's obligations to repair and maintain that Tenant shall have first notified Landlord in writing of the need for such repairs and maintenance. The cost of such maintenance, repair and services shall be included as part of Direct Expenses unless such maintenance, repairs or services are necessitated, in whole or in part, by the act, neglect, fault or omission of Tenant or Tenant's Agents, or such services are to be a separate charge to Tenant, in which case Tenant shall pay to Landlord the cost of such maintenance, repairs and services within ten (10) days following Landlord's written demand therefore. Tenant hereby waives all rights provided for by the provisions of Sections 1941 and 1942 of the California Civil Code and any present or future Laws regarding Tenant's right to make repairs at the expense of Landlord and/or to terminate this Lease because of the condition of the Premises. **Landlord warrants that the existing electrical, plumbing, fire sprinkler, lighting, heating, ventilation and air conditioning systems and all such elements in the Premises shall be in good operating condition on the Commencement Date. If non-compliance with such warranty exists as of the Commencement Date, or if such systems or elements should malfunction or fail within the appropriate warranty period, Landlord shall, as Landlord's sole obligation with respect to such matter, promptly after receipt of written notice to Landlord setting forth with specificity the nature and extent of such non-compliance, malfunction or failure, rectify same at Landlord's expense. The Warranty Periods shall be as follows: (i) Two (2) months to the ventilation and air conditioning systems, and (ii) one (1) month as to the remaining systems and other elements of the Premises. If Tenant does not give Landlord the required notice within the appropriate warranty period, correction of any such non-compliance malfunction or failure shall be the obligation of Tenant at Tenant's sole cost and expense.**

6.3 Control of Common Area. Landlord shall at all times have exclusive control of the Common Area. Landlord shall have the right, exercisable in its sole and absolute discretion and without the same constituting an actual or constructive eviction and without entitling Tenant to any abatement of rent, to: (i) close any part of the Common Area to whatever extent required in the opinion of Landlord's counsel to prevent a dedication thereof or the accrual of any prescriptive rights therein; (ii) temporarily close the Common Area to perform maintenance or for any other reason deemed sufficient by Landlord; (iii) change the shape, size, location and extent of the Common Area; (iv) eliminate from or add to the Project any land or improvement, including multi-deck parking structures; (v) make changes to the Common Area, including, without limitation, changes in the location of driveways, entrances, passageways, doors and doorways, elevators, stairs, restrooms, exits, parking spaces, parking areas, sidewalks or the direction of the flow of traffic and the site of the Common Area; (vi) remove unauthorized persons from the Project; and/or (vii) change the name or address of the Building or Project. Tenant shall keep the Common Area clear of all obstructions created or permitted by Tenant. If, in the opinion of Landlord, unauthorized persons are using any of the Common Area by reason of the presence of Tenant in the Building, Tenant, upon demand of Landlord, shall restrain such unauthorized use by appropriate proceedings. In exercising any such rights regarding the Common Area, (i) Landlord shall make a reasonable effort to minimize any disruption to Tenant's business, and (ii) Landlord shall not exercise its rights to control the Common Area in a manner that would materially interfere with Tenant's use of the Premises without first obtaining Tenant's consent, which consent shall not be unreasonably withheld, conditioned or delayed.

ARTICLE 7

WASTE DISPOSAL AND UTILITIES

7.1 Waste Disposal. Tenant shall store its waste either inside the Premises or within outside trash enclosures provided by Landlord

7.2 Hazardous Materials. Landlord and Tenant agree as follows with respect to the existence or use of Hazardous Materials in, on or about the Project:

A. Except as otherwise permitted pursuant to Section 7.2C below, any handling, transportation, storage, treatment, disposal or use of Hazardous Materials by Tenant and Tenant's Agents after the Effective Date in or about the Project is strictly prohibited. Tenant shall indemnify, defend upon demand with counsel reasonably acceptable to Landlord and hold harmless Landlord from and against any liabilities, losses, claims, damages, lost profits, consequential damages, interest, penalties, fines, monetary sanctions, attorneys' fees, experts' fees, court costs, remediation costs, investigation costs, and other expenses which result from or arise in any manner whatsoever out of the use, storage, treatment, transportation, release, or disposal of any Hazardous Materials on or about the Project caused or permitted by Tenant or Tenant's Agents.

B. If the presence of Hazardous Materials in, on or about the Project caused or permitted by Tenant or Tenant's Agents results in contamination or deterioration of water or soil resulting in a level of contamination greater than the levels established as acceptable by any governmental agency having jurisdiction over such contamination, then Tenant shall promptly take any and all action necessary to investigate and remediate such contamination if required by Law or as a condition to the issuance or continuing effectiveness of any governmental approval which relates to the use of the Project or any part thereof. Tenant shall further be solely responsible for, and shall defend indemnify and hold Landlord and its Agents harmless from and against, all claims, costs and liabilities, including, without limitation, attorneys' fees and costs, arising out of or in connection with any investigation and remediation required hereunder to return the Project to its condition existing prior to the appearance of such Hazardous Materials.

C. Tenant shall give written notice to Landlord as soon as reasonably practicable of (i) any communication received from any governmental authority concerning Hazardous Materials which relates to the Project, and (ii) any contamination of the Project by Hazardous Materials which constitutes a violation of any Hazardous Materials Laws. Tenant may use small quantities of household chemicals such as adhesives, lubricants and cleaning fluids in order to conduct its business at the Premises and such other Hazardous Materials as are reasonably necessary for the operation of Tenant's business of which Landlord receives notice prior to such Hazardous Materials being brought onto the Premises and which Landlord consents in writing may be brought onto the Premises. Any such permitted use of Hazardous Materials shall be undertaken by Tenant, at its sole cost and expense, in strict compliance with all Laws (including without limitation, Hazardous Materials Laws), including the construction of any capital improvements that may be required by reason of such use of Hazardous Materials. At any time during the Lease Term, Tenant shall within five (5) days after written request therefore received from Landlord, disclose in writing all Hazardous Materials that are being used by Tenant in, on or about the Project, the nature of such use, and the manner of storage and disposal.

D. Landlord may cause testing wells to be installed on the Project, and may cause the ground water to be tested to detect the presence of Hazardous Materials by the use of such tests as are then customarily used for such purposes. If Tenant so requests, Landlord shall supply Tenant with copies of such test results. The cost of such tests and of the installation, maintenance, repair and replacement of such wells shall be paid by Tenant if such tests disclose the existence of facts which give rise to liability of Tenant pursuant to its indemnity given in Section 7.2A and/or Section 7.2B.

E. As used herein, the term "Hazardous Materials" means any hazardous or toxic substance, material or waste which is or becomes regulated by any local governmental authority, the State of California or the United States government. The term "Hazardous Materials" includes, without limitation, petroleum products, asbestos, PCB's, and any material or substance which is (i) listed under Article 9 or defined as hazardous or extremely hazardous pursuant to Article 11 of Title 22 of the California Administrative Code, Division 4, Chapter 20, (ii) deemed as a "hazardous waste" pursuant to Section 1004 of the Federal Resource Conservation and Recovery Act, 42 U.S.C. 6901 et seq. (42 U.S.C. 6903), or (iii) defined as a "hazardous substance" pursuant to Section 101 of the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. 9601 et seq. (42 U.S.C. 9601). As used herein, the term "Hazardous Material Law(s)" shall mean any statute, law, ordinance, or regulation of any governmental body or agency (including the U.S. Environmental Protection Agency, the California Regional Water Quality Control Board, and the California Department of Health Services) which regulates the use, storage, release or disposal of any Hazardous Materials.

F. The obligations of Landlord and Tenant under this Section 7.2 shall survive the expiration or earlier termination of the Lease Term. Except as otherwise provided in Section 5.4 (i) above, the rights and obligations of Landlord and Tenant with respect to issues relating to Hazardous Materials are exclusively established by this Section 7.2. In the event of any inconsistency between any other part of this Lease and this Section 7.2, the terms of this Section 7.2 shall control.

7.3 Utilities: Except as otherwise provided in this Section 7.3, all charges for water, gas, electricity, sewer service, waste pick-up and other utilities shall be included as part of Direct Expenses or, at Landlord's option, Tenant shall be responsible for the direct payment and procurement of such services or group of services. Notwithstanding the foregoing, (i) Tenant shall be responsible for the direct payment and procurement of all telecommunications services provided to the Premises, and (ii) if Landlord determines that Tenant is using a disproportionate amount of any utility service, then Landlord at its election may (a) periodically charge Tenant, as Additional Rent, a sum equal to Landlord's reasonable estimate of the cost of Tenant's excess use of such utility service, or (b) install a separate meter (at Tenant's expense) to measure the utility service supplied to the Premises and periodically charge Tenant, as Additional Rent, a sum equal to the cost of Tenant's excess use of such utility service as measured by such separate meter.

7.4 Utilities and Services. Tenant shall be responsible for determining if the local supplier of water, gas and electricity can supply the needs of Tenant and whether or not the existing water, gas and electrical distribution systems within the Building and the Premises are adequate for Tenant's needs. Tenant shall pay all charges for water, gas, electricity, and storm and sanitary sewer services as so supplied to the Premises, irrespective of whether or not the services are maintained in Landlord's or Tenant's name. Landlord shall not be in default hereunder or be liable for any damages directly or indirectly resulting from, nor shall rent be abated by reason of failure to furnish any of the foregoing items as a result of (a) accident, breakage or repairs; (b) strikes, lockouts or other labor disturbance or labor dispute of any character; (c) governmental regulation, moratorium or other governmental action; (d) inability, despite the exercise of reasonable diligence, to obtain any of the foregoing utilities or services; (e) interruption necessary to install or repair facilities in the Building, or (f) any other causes beyond Landlord's reasonable control. In the event of any failure, stoppage or interruption of such utilities or services, Landlord shall diligently attempt to promptly resume the utilities or service in question. Tenant shall provide trash bins (or other adequate garbage disposal facilities) within the trash enclosure areas provided or permitted by Landlord outside the Premises sufficient for the interim disposal of all of its trash, garbage and waste. All such trash, garbage and waste temporarily stored in such areas shall be stored in such a manner so that it is not visible from outside of such areas, and Tenant shall cause such trash, garbage and waste to be regularly removed from the Property at Tenant's sole cost. Tenant shall at all times keep the Premises, the Building, the Common Area and the Property in a clean, safe and neat condition free and clear of all trash, garbage, waste and/or boxes, pallets and containers containing same at all times. Tenant shall contract directly with a janitorial service for the cleaning of the Premises. Tenant shall, at all times during the Lease Term and at its sole cost and expense, regularly clean and continuously keep and maintain in good order, condition and repair all heating ventilating and air conditioning equipment. Tenant, if requested to do so by Landlord, shall hire, at Tenant's sole cost and expense, a licensed heating, ventilating and air conditioning contractor to regularly and periodically (not less frequently than every three months) inspect and perform required maintenance on the heating, ventilating and air conditioning equipment and systems serving the Leased Premises, or alternatively, Landlord may, at its election, contract in its own name for such regular and periodic inspections of and maintenance on such heating, ventilating and air conditioning equipment and systems and charge to Tenant, as additional Rent, the cost thereof.

7.5 Compliance with Regulations. Tenant shall comply with all rules, regulations and requirements promulgated by national, state or local governmental agencies or utility suppliers concerning the use of utility services, including, without limitation, any rationing, limitation or other control, together with all rules, regulations and requirements promulgated by Landlord from time to time to conserve utilities and/or reduce utilities costs. Tenant shall not be entitled to terminate this Lease nor to any abatement in rent by reason of such compliance.

7.6 Window Treatments: Landlord reserves the right, exercisable in its sole and absolute discretion, to install and/or apply any treatments to the interior and/or exterior surfaces of any windows of the Premises as Landlord may from time to time desire.

ARTICLE 8

DIRECT EXPENSES

8.1 Tenant's Obligation to Reimburse. As Additional Rent, Tenant shall pay Tenant's Share (specified in Section G of the Summary) of the amount of Direct Expenses paid or incurred in any calendar year. The following provision shall apply to the foregoing obligation of Tenant:

A. Payment shall be made by whichever of the following methods is from time to time designated by Landlord, and Landlord reserves the right to change the method of payment at any time in its sole and absolute discretion. After each calendar year during the Lease Term, Landlord may invoice Tenant for Tenant's Share of the Direct Expenses for such calendar year, and Tenant shall pay such amounts so invoiced within **fifteen (15)** days after receipt of such notice. Alternatively, (i) Landlord shall deliver to Tenant Landlord's reasonable estimate of the Direct Expenses it anticipates will be paid or incurred for the calendar year in question; (ii) during such calendar year, Tenant shall pay such Tenant's Share of the estimated Direct Expenses in advance in equal monthly installments due with each installment of Base Monthly Rent; and (iii) within one hundred twenty (120) days after the end of such calendar year (or as soon thereafter as is reasonably practical), Landlord shall furnish to Tenant a statement in reasonable detail of the actual Direct Expenses for the just ending calendar year. If Tenant's estimated payments are less than Tenant's Share of actual Direct Expenses as shown by the applicable statement, Tenant shall pay the difference to Landlord within fifteen (15) days after delivery of such statement. If Tenant shall have overpaid Tenant's Share of actual Direct Expenses, then Landlord shall credit such overpayment toward Tenant's next installment payment of Tenant's Share of estimated Direct Expenses. When the final determination is made of Tenant's Share of actual Direct Expenses for the calendar year in which this Lease expires or sooner terminates, Tenant shall, even though this Lease has terminated, pay the difference to Landlord within fifteen (15) days after delivery of the final statement. Conversely, any overpayment by Tenant shall be rebated by Landlord to Tenant concurrently with the delivery of such final statement. Notwithstanding the forgoing, Landlord may, at Landlord's sole and absolute discretion, require Tenant to contract directly with utility providers and vendors to supply utilities and services to the Premises.

B. Within sixty (60) days after the date of Tenant's receipt of Landlord's statement of actual Direct Expenses for any calendar year, Tenant may give Landlord written notice of its intent to review records, invoices and receipts relating to the actual Direct Expenses for such calendar year. Tenant shall provide Landlord with at least ten (10) days prior written notice of the date upon which it intends to review such records, invoices and receipts. The review shall be performed during normal business hours at Landlord's principal place of business or such other location as may be designated by Landlord, and shall be performed at Tenant's sole cost and expense. Promptly following Tenant's review of such records, invoices and receipts, Tenant shall provide Landlord with a copy of the results of such review and Tenant's conclusions regarding any overstatement or understatement by Landlord of actual Direct Expenses for such calendar year. If Landlord disputes Tenant's conclusions regarding any such overstatement or understatement, Landlord shall select a certified public accountant (which accountant may be Landlord's accountant) ("Auditor") to review the accuracy of Tenant's determination. During such Auditor's review, Tenant shall continue to pay, without abatement or offset, all Base Monthly Rent and Additional Rent (as calculated by Landlord) payable by Tenant under this Lease. Tenant shall be responsible for the cost and expense of such audit unless (a) the Auditor finds greater than an overall five (5%) discrepancy resulting in overpayment by Tenant, and (b) there is not a commercially reasonable justification for Landlord's determinations. The Auditor's decision shall be final and binding on the parties. In the event that the Auditor finds greater than an overall five percent (5%) discrepancy resulting in overpayment by Tenant and there is not a commercially reasonable justification for Landlord's determinations, then Landlord shall reimburse Tenant for the reasonable cost and expense of the Audit, which reimbursement shall be made by Landlord to Tenant within thirty (30) days following Landlord's receipt of Tenant's written demand therefore, together with satisfactory evidence of the sums paid by Tenant for such Audit. In the event Tenant fails to object in writing to Landlord's determination of actual Direct Expenses within sixty (60) days following delivery of Landlord's statement, Landlord's determination of actual Direct Expenses for the applicable calendar year shall be conclusive and binding on Tenant and any future claims to the contrary shall be barred.

8.2 Direct Expenses Defined. The term "Direct Expenses" shall be determined as if the Project were one hundred percent (100%) occupied and shall mean the following:

A. All costs and expenses paid or incurred by Landlord in doing the following (including payments to independent contractors providing services related to the performance of the following): (i) maintaining, cleaning, repairing and resurfacing the roof (including repair of leaks) and the exterior surfaces (including painting) of all buildings located on the Project; (ii) maintenance of the liability, fire, property damage and any other insurance covering the Project carried by Landlord pursuant to Section 9.2 or otherwise (including the prepayment of premiums for coverage of up to one year); (iii) maintaining, repairing, operating and replacing when necessary HVAC equipment, utility facilities and other building service equipment; (iv) providing utilities to the Project (including lighting, trash removal and water for landscaping irrigation); (v) complying with all applicable Laws and Private Restrictions; (vi) operating, maintaining, repairing, cleaning, painting, restriping and resurfacing the Common Area; (vii) replacement or installation of lighting fixtures, directional or other signs and signals, irrigation systems, trees, shrubs, ground cover and other plant materials, and all landscaping in the Common Area; (viii) providing the utilities and services described in this Lease other than those which are described therein as being separately chargeable to Tenant; and (ix) providing security, if any;

B. The following costs: (i) Real Property Taxes as defined in Section 8.3; (ii) the amount of any deductible paid by Landlord under any insurance maintained by Landlord; (iii) the cost to repair damage caused by an Uninsured Peril up to a maximum amount in any twelve (12) month period equal to four percent (4%) of the replacement cost of the Project; and (iv) that portion of all compensation (including benefits and premiums for workers' compensation and other insurance) paid to or on behalf of employees of Landlord but only to the extent they are involved in the performance of the work described by Sections 8.2A or 8.2D that is fairly allocable to the Project;

C. Fees for management services rendered by either Landlord or a third party manager engaged by Landlord (which may be a party affiliated with Landlord); and

D. All additional costs and expenses incurred by Landlord with respect to the operation, protection, maintenance, repair and replacement of the Project which would be considered a current expense (and not a capital expenditure but subject to Tenant's obligations under Section 5.4) pursuant to generally accepted accounting principles; provided, however, that Direct Expenses shall not include any of the following: (i) debt payments on any loans affecting the Project; (ii) depreciation of any buildings or any major systems of building service equipment within the Project; (iii) leasing commissions; and (iv) the cost of tenant improvements installed for the exclusive use of other tenants of the Project.

8.3 Real Property Taxes. The term "Real Property Taxes" shall mean all taxes, assessments, levies, and other charges of any kind or nature whatsoever, general and special, foreseen and unforeseen (including all installments of principal and interest required to pay any existing or future general or special assessments for public improvements, services or benefits, and any increases resulting from reassessments resulting from a change in ownership, new construction, or any other cause), now or hereafter imposed by any governmental or quasi-governmental authority or special district having the direct or indirect power to tax or levy assessments, which are levied or assessed against, or with respect to the value, occupancy or use of all or any portion of the Project (as now constructed or as may at any time hereafter be constructed, altered or otherwise changed) or Landlord's interest therein, the fixtures, equipment and other property of Landlord, real or personal, that are an integral part of and located on the Project, the gross receipts, income, or rentals from the Project, or the use of parking areas, public utilities, or energy within the Project, or Landlord's business of leasing the Project. If at any time during the

Lease Term the method of taxation or assessment of the Project prevailing as of the Effective Date shall be altered so that in lieu of or in addition to any Real Property Taxes described above there shall be levied, assessed or imposed (whether by reason of a change in the method of taxation or assessment, creation of a new tax or charge, or any other cause) an alternate or additional tax or charge (i) on the value, use or occupancy of the Project or Landlord's interest therein, or (ii) on or measured by the gross receipts, income or rentals from the Project, on Landlord's business of leasing the Project, or computed in any manner with respect to the operation of the Project, then any such tax or charge, however designated, shall be included within the meaning of the term "Real Property Taxes" for purposes of this Lease. If any Real Property Tax is based upon property or rents unrelated to the Project, then only that part of such Real Property Taxes that is fairly allocable to the Project shall be included within the meaning of the term "Real Property Taxes." Notwithstanding the foregoing the term "Real Property Taxes" shall not include estate, inheritance, transfer, gift or franchise taxes of Landlord or the federal or state net income tax imposed on Landlord's income from all sources. "Real Property Taxes" shall also include any costs and expenses incurred by Landlord in connection with appealing and/or contesting any Real Property Taxes.

ARTICLE 9

INSURANCE

9.1 Tenant's Insurance. Tenant shall maintain insurance complying with all of the following:

A. Tenant shall procure, pay for and keep in full force and effect the following:

(1) Commercial general liability insurance, including property damage, against liability for personal injury, bodily injury, death and damage to property occurring in or about, or resulting from an occurrence in or about, the Premises with combined single limit coverage of not less than the amount of Tenant's Liability Insurance Minimum specified in Section Q of the Summary, which insurance shall contain a "contractual liability" endorsement insuring Tenant's performance of Tenant's obligation to indemnify Landlord contained in Section 10.3;

(2) Fire and property damage insurance in so-called "all risk" form insuring Tenant's Trade Fixtures and Tenant's Alterations for the full actual replacement cost thereof; and

(3) Such other insurance that from time to time is either (i) required by any Lender, or (ii) reasonably required by Landlord and customarily carried by tenants of similar property in similar businesses in the vicinity of the Project.

B. Each policy of insurance required to be carried by Tenant pursuant to this Section 9.1: (i) shall name Landlord and such other parties in interest as Landlord reasonably designates as additional insured; (ii) shall be primary insurance which provides that the insurer shall be liable for the full amount of the loss up to and including the total amount of liability set forth in the declarations without the right of contribution from any other insurance coverage of Landlord; (iii) shall be in a form satisfactory to Landlord; (iv) shall be carried with companies reasonably acceptable to Landlord and having a rating of A+, AAA or better in "Best's Insurance Guide;" (v) shall provide that such policy shall not be subject to cancellation, lapse or change except after at least thirty (30) days prior written notice to Landlord so long as such provision of thirty (30) days notice is reasonably obtainable, but in any event not less than ten (10) days prior written notice; (vi) shall not have a "deductible" in excess of such amount as is approved by Landlord; (vii) shall contain a cross liability endorsement; (viii) shall contain a "severability" clause; and (ix) shall be in such form and include such endorsements as may be required by any Lender or insurance advisor of Landlord. If Tenant has in full force and effect a blanket policy of liability insurance with the same coverage for the Premises as described above, as well as other coverage of other premises and properties of Tenant, or in which Tenant has some interest, such blanket insurance shall satisfy the requirements of this Section 9.1 provided such blanket insurance shall have a Landlord's protective liability endorsement attached thereto in a form acceptable to Landlord.

C. A copy of each paid-up policy evidencing the insurance required to be carried by Tenant pursuant to this Section 9.1 (appropriately authenticated by the insurer) or a certificate of the insurer, certifying that such policy has been issued, providing the coverage required by this Section 9.1, and containing the provisions specified herein, shall be delivered to Landlord prior to the time Tenant or any of its Agents enters the Premises and upon renewal of such policies, but not less than five (5) days prior to the expiration of the term of such coverage. Landlord may, at any time, and from time to time, inspect and/or copy any and all insurance policies required to be procured by Tenant pursuant to this Section 9.1. If any Lender or insurance advisor reasonably determines at any time that the amount of coverage required for any policy of insurance Tenant is to obtain pursuant to this Section 9.1 is not adequate, then Tenant shall increase such coverage for such insurance to such amount as such Lender or insurance advisor reasonably deems adequate.

9.2 Landlord's Insurance:

A. Landlord shall maintain a policy or policies of fire and property damage insurance in so-called "all risk" form insuring Landlord (and such others as Landlord may designate) against loss of rents for a period of not less than twelve (12) months and from physical damage to the Project with coverage of not less than the full replacement cost thereof. Landlord may so insure the Project separately, or may insure the Project with other property owned by Landlord which Landlord elects to insure together under the same policy or policies. Such fire and property damage insurance (i) may be endorsed to cover loss caused by such additional perils against which Landlord may elect to insure, including, without limitation, earthquake and/or flood, and to provide such additional coverage as Landlord reasonably requires, and (ii) shall contain reasonable "deductibles" which, in the case of earthquake and flood insurance, may be up to fifteen percent (15%) of the replacement value of the property insured or such higher amount as is then commercially reasonable. Landlord shall not be required to cause such insurance to cover any Trade Fixtures or Tenant's Alterations.

B. Landlord may, at its election, maintain (i) a policy or policies of commercial general liability insurance insuring Landlord (and such others as are designated by Landlord) against liability for personal injury, bodily injury, death and damage to property occurring or resulting from an occurrence in, on or about the Project, with combined single limit coverage in such amount as Landlord from time to time determines is reasonably necessary for its protection, and/or (ii) such other forms of insurance as Landlord may desire to maintain with respect to the Project.

9.3 Tenant's Obligation to Reimburse. The cost of all insurance maintained by Landlord with respect to the Project shall be included as part of Direct Expenses, except that if Landlord's insurance rates for the Project are increased at any time during the Lease Term as a result of the nature of Tenant's use of the Premises, Tenant shall reimburse Landlord for the full amount of such increase within fifteen (15) days following receipt of a bill from Landlord therefore.

9.4 Release and Waiver of Subrogation. Landlord and Tenant each hereby waives all rights of recovery against the other and the other's Agents on account of loss and damage occasioned to the property of such waiving party to the extent only that such loss or damage is required to be insured against under any "all risk" property insurance policies required by this Article 9; provided, however, that (i) the foregoing waiver shall not apply to the extent of Tenant's obligations to pay deductibles under any such policies and this Lease, and (ii) if any loss is due to the act, omission or negligence or willful misconduct of Tenant or its agents, employees, contractors, guests or invitees, Tenant's liability insurance shall be primary and shall cover all losses and damages prior to any other insurance hereunder. By this waiver it is the intent of the parties that neither Landlord nor Tenant shall be liable to any insurance company (by way of subrogation or otherwise) insuring the other party for any loss or damage insured against under any "all-risk" property insurance policies required by this Article 9, even though such loss or damage might be occasioned by the negligence of such party or its Agents. The provisions of this Section 9.4 shall not limit the indemnification, hold harmless and/or defense provisions elsewhere contained in this Lease.

ARTICLE 10

LIMITATION ON LANDLORD'S LIABILITY AND INDEMNITY

10.1 Limitation on Landlord's Liability. Landlord shall not be liable to Tenant, nor shall Tenant be entitled to terminate this Lease or to any abatement of rent (except as expressly provided otherwise herein), for any injury to Tenant or Tenant's Agents, damage to the property of Tenant or Tenant's Agents, or loss to Tenant's business resulting from any cause, including, without limitation, any of the following: (i) failure, interruption or installation of any HVAC or other utility system or service; (ii) failure to furnish or delay in furnishing any utilities or services when such failure or delay is caused by fire or other peril, the elements, labor disturbances of any character, or any other accidents or any other conditions; (iii) limitation, curtailment, rationing or restriction on the use of water or electricity, gas or any other form of energy or any services or utility serving the Project; (iv) vandalism or forcible entry by unauthorized persons or the criminal act of any person; or (v) penetration of water into or onto any portion of the Premises or the Building through roof leaks or otherwise. Notwithstanding the foregoing but subject to Section 9.4 and Section 10.2, Landlord shall be liable for any such injury, damage or loss which is caused solely by Landlord's willful misconduct or gross negligence of which Landlord has actual notice and a reasonable opportunity to cure but which it fails to so cure; provided, however, notwithstanding anything contained in this Lease to the contrary, in no event shall Landlord be liable to Tenant for lost profits, consequential damages and/or incidental damages of any kind or nature.

10.2 Limitation on Tenant's Recourse. If Landlord is a corporation, trust, partnership, limited liability company, joint venture, unincorporated association or other form of business entity: (i) the obligations of Landlord shall not constitute personal obligations of the officers, directors, trustees, partners, joint venturers, members, managers, owners, stockholders, or other principals or representatives of such business entity, and (ii) Tenant shall not have recourse to the assets of such of officers, directors, trustees, partners, joint venturers, members, managers, owners, stockholders, principals or representatives except to the extent of their interest in the Project. Tenant hereby waives and releases the officers, directors, trustees, partners, joint venturers, members, managers, owners, stockholders, principals or representative from personal liability for the obligations of Landlord under this Lease, and Tenant shall have recourse only to the interest of Landlord in the Project for the satisfaction of the obligations of Landlord hereunder and shall not have recourse to any other assets of Landlord for the satisfaction of such obligations.

10.3 Indemnification of Landlord. To the fullest extent permitted by law, Tenant shall hold harmless, indemnify and defend Landlord, and its Agents, with competent counsel reasonably satisfactory to Landlord (and Landlord agrees to accept counsel that any insurer requires be used), from all liability, penalties, losses, damages, costs, expenses, causes of action, claims and/or judgments arising by reason of any death, bodily injury, personal injury or property damage resulting from (i) any cause or causes whatsoever (other than solely by the willful misconduct or gross negligence of Landlord of which Landlord has had notice and a reasonable time to cure, but which Landlord has failed to cure) occurring in or about or resulting from an occurrence in or about the Premises during the Lease Term, (ii) the negligence or willful misconduct of Tenant or its Agents, wherever the same may occur, or (iii) an Event of Tenant's Default. The provisions of this Section 10.3 shall survive the expiration or sooner termination of this Lease.

ARTICLE 11

DAMAGE TO PREMISES

11.1 Landlord's Duty to Restore. If the Premises are damaged by any peril after the Effective Date, Landlord shall restore the Premises unless the Lease is terminated by Landlord pursuant to Section 11.2 or by Tenant pursuant to Section 11.3. All insurance proceeds available from the fire and property damage insurance carried by Landlord pursuant to Section 9.2 shall be paid to and become the property of Landlord. If this Lease is terminated pursuant to either Section 11.2 or Section 11.3, then all insurance proceeds available from insurance carried by Tenant which covers loss to property that is Landlord's property or would become Landlord's property on expiration or termination of this Lease shall be paid to and become the property of Landlord. If this Lease is not so terminated then upon receipt of the insurance proceeds (if the loss is covered by insurance) and the issuance of all necessary governmental permits, Landlord shall commence and diligently prosecute to completion the restoration of the Premises, to the extent then allowed by Law, to substantially the same condition in which the Premises were immediately prior to such damage. Landlord's obligation to restore shall be limited to the Premises and interior improvements constructed by Landlord as they existed as of the Commencement Date, excluding any Tenant's Alterations, Trade Fixtures and/or personal property constructed or installed by Tenant in the Premises. Tenant shall forthwith replace or fully repair all Tenant's Alterations and Trade Fixtures installed by Tenant and existing at the time of such damage or destruction, and all insurance proceeds received by Tenant from the insurance carried by it pursuant to Section 9.1A(2) shall be used for such purpose.

11.2 Landlord's Right to Terminate. Landlord shall have the right to terminate this Lease in the event any of the following occurs, which right may be exercised by delivery to Tenant of a written notice of election to terminate within forty-five (45) days after the date of such damage:

A. The Project is damaged by an Insured Peril to such an extent that the estimated cost to restore exceeds ten percent (10%) of the then actual replacement cost thereof, or the Building in which the Premises is located is damaged to such an extent that the estimated cost to restore exceeds twenty-five percent (25%) of the then actual replacement cost thereof;

B. Either the Project or the Building is damaged by an Uninsured Peril to such an event that the estimated cost to restore exceeds two percent (2%) of the then actual replacement cost of the Building;

C. The Premises are damaged by any peril within twelve (12) months of the last day of the Lease Term to such an extent that the estimated cost to restore equals or exceeds an amount equal to six (6) times the Base Monthly Rent then due; or

D. Either the Project or the Building is damaged by any peril and, because of the Laws then in force, (i) cannot be restored at reasonable cost to substantially the same condition in which it was prior to such damage, or (ii) cannot be used for the same use being made thereof before such damage if restored as required by this Article.

E. As used herein, the following terms shall have the following meanings: (i) the term "Insured Peril" shall mean a peril actually insured against for which the insurance proceeds actually received by Landlord (and which are not required to be paid to any Lender) are sufficient (except for any "deductible" amount specified by such insurance) to restore the Project under then existing Laws to the condition existing immediately prior to the damage; and (ii) the term "Uninsured Peril" shall mean any peril which is not an Insured Peril. Notwithstanding the foregoing, if the "deductible" for earthquake or flood insurance exceeds two percent (2%) of the replacement cost of the improvements insured, such peril shall, at Landlord's election, be deemed an "Uninsured Peril" for purposes of this Lease.

11.3 Tenant's Right to Terminate. If the Premises are damaged by any peril and Landlord does not elect to terminate this Lease or is not entitled to terminate this Lease pursuant to Section 11.2, then as soon as reasonably practicable, Landlord shall furnish Tenant with the written opinion of Landlord's architect or construction consultant as to when the restoration work required of Landlord may be completed. Tenant shall have the right to terminate this Lease in the event any of the following occurs, which right may be exercised only by delivery to Landlord of a written notice of election to terminate within

seven (7) days after Tenant receives from Landlord the estimate of the time needed to complete such restoration.

A. The Premises are damaged by any peril and, in the reasonable opinion of Landlord's architect or construction consultant, the restoration of the Premises cannot be substantially completed within one hundred twenty (120) days after the date of such damage; or

B. The Premises are damaged by any peril within twelve (12) months of the last day of the Lease Term and, in the reasonable opinion of Landlord's architect or construction consultant, the restoration of the Premises cannot be substantially completed within ninety (90) days after the date of such damage and such damage renders unusable more than thirty percent (30%) of the Premises.

11.4 Abatement of Rent. In the event of damage to the Premises which does not result in the termination of this Lease, the Base Monthly Rent and Tenant's Share of Direct Expenses shall be temporarily abated during the period of restoration in proportion to the degree to which Tenant's use of the Premises is impaired by such damage, but in no event shall such abatement exceed the rental interruption insurance proceeds actually received by Landlord. Tenant shall not be entitled to any compensation or damages from Landlord for loss of Tenant's business or property or for any inconvenience or annoyance caused by such damage or restoration. Tenant hereby waives the provisions of California Civil Code Sections 1932(2) and 1933(4) and the provisions of any similar law hereinafter enacted.

ARTICLE 12

CONDEMNATION

12.1 Total Taking—Premises. If title to the Premises or so much thereof is taken for any public or quasi-public use under any statute or by right of eminent domain so that reconstruction of the Premises will not result in the Premises being reasonably suitable for Tenant's continued occupancy for the uses and purposes permitted by this Lease, this Lease shall terminate as of the date possession of the Premises or part thereof is so taken.

12.2 Partial Taking—Project. If title to ten percent (10%) of more of the Project is taken for any public or quasi-public use under any statute or by right of eminent domain, Landlord shall have the right to terminate this Lease as of the date possession of such portion of the Project is so taken by providing Tenant with written notice thereof no less than sixty (60) days prior to possession being so taken.

12.3 Partial Taking—Premises. If any part of the Premises is taken for any public or quasi-public use under any statute or by right of eminent domain and the remaining part is reasonably suitable for Tenant's continued occupancy for the uses permitted by this Lease, this Lease shall, as to the part so taken, terminate as of the date possession of such part of the Premises is taken and Base Monthly Rent shall be reduced in the same proportion that the floor area of the portion of the Premises so taken (less any addition thereto by reason of any reconstruction) bears to the original floor area of the Premises, as reasonably determined by Landlord. Landlord shall, at its own cost and expense, make all necessary repairs and alterations to the Premises so as to make the portion of the Premises not taken a complete architectural unit. Such work shall not, however, exceed the scope of the work done by Landlord in originally constructing the Premises. If severance damages from the condemning authority are not available to Landlord in sufficient amounts to permit such restoration, Landlord may terminate this Lease upon written notice to Tenant. Base Monthly Rent due and payable hereunder shall be temporarily abated during such restoration period in proportion to the degree to which there is substantial interference with Tenant's use of the Premises, as reasonably determined by Landlord. Each party hereby waives the provisions of Sections 1265.130 of the California Code of Civil Procedure and any present or future law allowing either party to petition the Superior Court to terminate this Lease in the event of a partial taking of the Building or the Premises.

12.4 No Apportionment of Award. No award for any partial or total taking shall be apportioned, it being agreed and understood that Landlord shall be entitled to the entire award for any partial or entire taking. Tenant assigns to Landlord its interest in any award which may be made in such taking or condemnation, together with any and all rights of Tenant arising in or to the same or any part thereof. Nothing contained herein shall be deemed to give Landlord any interest in or require Tenant to assign to Landlord any separate award made to Tenant for the taking of Tenant's Trade Fixtures, for the interruption of Tenant's business or its moving costs, or for the loss of goodwill.

12.5 Temporary Taking. No temporary taking of the Premises (which for purposes hereof shall mean a taking of all or any part of the Premises for one hundred eighty (180) days or less) shall terminate this Lease or give Tenant any right to abatement or reduction in Rent. Any award made to Tenant by reason of such temporary taking shall belong entirely to Tenant and Landlord shall not be entitled to share therein. Each party agrees to execute and deliver to the other all instruments that may be required to effectuate the provisions of this Section 12.5.

12.6 Sale Under Threat of Condemnation. A sale made in good faith to any authority having the power of eminent domain, either under threat of condemnation or while condemnation proceedings are pending, shall be deemed a taking under the power of eminent domain for all purposes of this Article 12.

ARTICLE 13

DEFAULT AND REMEDIES

13.1 Events of Tenant's Default. Tenant shall be in default of its obligations under this Lease if any of the following events occurs (an "Event of Tenant's Default"):

A. Tenant shall have failed to pay any Rent when due, and such failure is not cured within three (3) days after delivery of written notice from Landlord or Landlord's counsel specifying such failure to pay; or

B. Tenant shall have failed to perform any term, covenant, or condition of this Lease except those requiring the payment of Rent, and Tenant shall have failed to cure such breach within thirty (30) days after written notice from Landlord specifying the nature of such breach where such breach could reasonably be cured within said thirty (30) day period, or if such breach could not be reasonably cured within said thirty (30) day period, Tenant shall have failed to commence such cure within said thirty (30) day period and thereafter continue with due diligence to prosecute such cure to completion within such time period as is reasonably needed but not to exceed ninety (90) days from the date of Landlord's notice; or

C. Tenant shall have sublet the Premises or assigned its interest in the Lease in violation of the provisions contained in Article 14; or

D. Tenant shall have abandoned the Premises or left the Premises substantially vacant; or

E. The occurrence of the following: (i) the making by Tenant of any general arrangements or assignments for the benefit of creditors: (ii) Tenant becomes a "debtor" as defined in 11 U.S.C. Section 101 or any successor statute thereto (unless, in the case of a petition filed against Tenant, the same is dismissed within sixty (60) days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where possession is not restored to Tenant within thirty (30) days; or (iv) the attachment, execution or other judicial seizure of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where such seizure is not discharged within thirty (30) days; provided, however, in the event that any provision of this Section 13.1E is contrary to any applicable Law, such provision shall be of no force or effect;

F. Tenant shall have failed to deliver documents required of it pursuant to Section 15.4 or Section 15.6 within the time periods specified therein; or

G. Chronic delinquency by Tenant in the payment of any Rent. For purposes of this Lease, "Chronic delinquency" shall mean failure by Tenant to pay within five (5) days of the due date any Rent for any three (3) months (consecutive or non-consecutive) during any twelve (12) month period during the Lease Term. This section shall in no way limit, nor be construed as a waiver of the rights and remedies of Landlord provided hereunder or by law in the event of even one (1) instance of delinquency in the payment of Rent by Tenant. In the event of chronic delinquency, at Landlord's option, Landlord shall have the right, in addition to all other rights under this Lease and at law, to require that all Rent be paid by Tenant on a quarterly basis, in advance. In addition, the occurrence of a chronic delinquency shall automatically void any options granted to Tenant under this Lease.

13.2 Landlord's Remedies. If an Event of Tenant's Default occurs, Landlord shall have the following remedies, in addition to all other rights and remedies provided by any Law or otherwise provided in this Lease, to which Landlord may resort to cumulatively or in the alternative:

A. Landlord may keep this Lease in effect and enforce by an action at law or in equity all of its rights and remedies under this Lease, including (i) the right to recover the rent and other sums as they become due by appropriate legal action, (ii) the right to make payments required of Tenant or perform Tenant's obligations and be reimbursed by Tenant for the cost thereof with interest at the Agreed Interest Rate from the date the sum is paid by Landlord until Landlord is reimbursed by Tenant, and (iii) the remedies of injunctive relief and specific performance to compel Tenant to perform its obligations under this Lease. Notwithstanding anything contained in this Lease, in the event of a breach of an obligation by Tenant which results in a condition which poses an imminent danger to safety of persons or damage to property, an unsightly condition visible from the exterior of the Building, or a threat to insurance coverage, then if Tenant does not cure such breach within three (3) days after delivery to it of written notice from Landlord identifying the breach, Landlord may cure the breach of Tenant and be reimbursed by Tenant for the cost thereof with interest at the Agreed Interest Rate from the date the sum is paid by Landlord until Landlord is reimbursed by Tenant.

B. Landlord may enter the Premises and re-lease them to third parties for Tenant's account for any period, whether shorter or longer than the remaining Lease Term. Tenant shall be liable immediately to Landlord for all costs Landlord incurs in releasing the Premises, including, without limitation, brokers' commissions, expenses of altering and preparing the Premises required by the releasing. Tenant shall pay to Landlord the rent and other sums due under this Lease on the date the rent is due, less the rent and other sums Landlord received from any releasing. No act by Landlord allowed by this subparagraph shall terminate this Lease unless Landlord notices Tenant in writing that Landlord elects to terminate this Lease. Notwithstanding any releasing without termination, Landlord may later elect to terminate this Lease because of the default by Tenant.

C. Landlord may terminate this Lease by giving Tenant written notice of termination, in which event this Lease shall terminate on the date set forth for termination in such notice. Any termination under this Section 13.2C shall not relieve Tenant from its obligation to pay sums then due Landlord or from any claim against Tenant for damages or rent previously accrued or then accruing. In no event shall any one or more of the following actions by Landlord, in the absence of a written election by Landlord to terminate this Lease, constitute a termination of this Lease: (i) appointment of a receiver or keeper in order to protect Landlord's interest hereunder; (ii) consent to any subletting of the Premises or assignment of this Lease by Tenant, whether pursuant to the provisions hereof or otherwise; or (iii) any other action by Landlord or Landlord's Agents intended to mitigate the adverse effects of any breach of this Lease by Tenant, including, without limitation, any action taken to maintain and preserve the Premises or any action taken to relet the Premises or any portions thereof to the event such actions do not affect a termination of Tenant's right to possession of the Premises.

D. In the event Tenant breaches this Lease and abandons the Premises, this Lease shall not terminate unless Landlord gives Tenant written notice of its election to so terminate this Lease. No act by or on behalf of Landlord intended to mitigate the adverse effect of such breach, including those described by Section 13.2C, shall constitute a termination of Tenant's right to possession unless Landlord gives Tenant written notice of termination. Should Landlord not terminate this Lease by giving Tenant written notice, Landlord may enforce all its rights and remedies under this Lease and/or any Laws, including, without limitation, the remedy described in California Civil Code Section 1951.4 (lessor may continue lease in effect after lessee's breach and abandonment and recover rent as it becomes due, if lessee has right to sublet or assign, subject only to reasonable limitations). Tenant acknowledges and agrees that the express standards and conditions set forth in Article 14 below relating to assignments of this Lease and sublettings of the Premises are reasonable at the time this Lease is executed by Tenant.

E. In the event Landlord terminates this Lease, Landlord shall be entitled, at Landlord's election, to damages in an amount as set forth in California Civil Code Section 1951.2 as in effect on the Effective Date. For purposes of computing damages pursuant to California Civil Code Section 1951.2, (i) an interest rate equal to the Agreed Interest Rate shall be used where permitted, and (iii) the term "rent" includes Base Monthly Rent and Additional Rent. Such damages shall include, without limitation:

(1) The worth at the time of award of the amount by which the unpaid rent for the balance of the Lease Term after the time of award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided, computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%); and

(2) Any other amount necessary to compensate Landlord for all detriment proximately caused by Tenant's failure to perform Tenant's obligations under this Lease, or which in the ordinary course of things would be likely to result therefrom, including the following: (i) expenses for cleaning, repairing or restoring the Premises; (ii) expenses for altering, remodeling or otherwise improving the Premises for the purpose of reletting, including installation of leasehold improvements (whether such installation be funded by a reduction of rent, direct payment or allowance to a new tenant, or otherwise); (iii) broker's fees, advertising costs and other expenses of reletting the Premises; (iv) costs of carrying the Premises, such as taxes, insurance premiums, utilities and security precautions; (v) expenses in retaking possession of the Premises; and (vi) attorneys' fees and court costs incurred by Landlord in retaking possession of the Premises and in releasing the Premises or otherwise incurred as a result of Tenant's default.

F. Nothing in this Section 13.2 shall limit Landlord's right to indemnification from Tenant as provided in Section 7.2 and Section 10.3. Any notice given by Landlord in order to satisfy the requirements of Section 13.1A or 13.1B above shall also satisfy the notice requirements of California Code of Civil Procedure Section 1161 regarding unlawful detainer proceedings.

13.3 Waiver. One party's consent to or approval of any act by the other party requiring the first party's consent or approval shall not be deemed to waive or render unnecessary the first party's consent to or approval of any subsequent similar act by the other party. The receipt by Landlord of any rent or payment with or without knowledge of the breach of any other provision hereof shall not be deemed a waiver of any such breach unless such waiver is in writing and signed by Landlord. No delay or omission in the exercise of any right or remedy accruing to either party upon any breach by the other party under this Lease shall impair such right or remedy or be construed as a waiver of any such breach theretofore or thereafter occurring. The waiver by either party of any breach of any provision of this Lease shall not be deemed to be a waiver of any subsequent breach of the same or of any other provisions herein contained.

13.4 Limitation On Exercise of Rights. At any time that an Event of Tenant's Default has occurred and remains uncured, (i) it shall not be unreasonable

for Landlord to deny or withhold any consent or approval requested of it by Tenant which Landlord would otherwise be obligated to give, and (ii) Tenant may not exercise any option to extend, right to terminate this Lease, or other right granted to it by this Lease which would otherwise be available to it.

13.5 Waiver by Tenant of Certain Remedies. Tenant waives the provisions of Sections 1932(1), 1941 and 1942 of the California Civil Code and any similar or successor law regarding Tenant's right to terminate this Lease or to make repairs and deduct the expenses of such repairs from the rent due under this Lease. Tenant hereby waives any right of redemption or relief from forfeiture under the laws of the State of California, or under any other present or future law, including, without limitation, the provisions of Sections 1174 and 1179 of the California Code of Civil Procedure.

13.6 Landlord's Default. Landlord shall not be deemed to be in default in the performance of any obligation required to be performed by it hereunder unless and until it has failed to perform such obligation within thirty (30) days after receipt of written notice from Tenant to Landlord (and any Lender who have provided Tenant with notice) specifying the nature of such default; provided, however, that if the nature of Landlord's obligation is such that more than thirty (30) days are reasonably required for its performance, then Landlord shall not be deemed to be in default if it shall commence such performance within such thirty (30) day period and thereafter diligently prosecutes the same to completion. Tenant expressly waives any right to terminate this Lease or to claim a constructive eviction by reason of any default by Landlord hereunder.

13.7 Limitation of Actions Against Landlord. Any claim, demand or right of any kind by Tenant which is based upon or arises in connection with this Lease shall be barred unless Tenant commences an action thereon within six (6) months after the date that the act, omission, event or default upon which the claim, demand or right in question arises, has occurred.

ARTICLE 14

ASSIGNMENT AND SUBLETTING,

14.1 Transfer By Tenant. The following provisions shall apply to any assignment, subletting or other transfer by Tenant or any subtenant or assignee or other successor in interest of the original Tenant (collectively referred to in this Section 14.1 as "Tenant"):

A. Tenant shall not do any of the following (collectively referred to herein as a "Transfer"), whether voluntarily, involuntarily or by operation of law, without the prior written consent of Landlord, which consent shall not be unreasonably withheld or delayed (subject to Section 14.1B and Section 14.1C below): (i) sublet all or any part of the Premises or allow it to be sublet, occupied or used by any person or entity other than Tenant; or (ii) assign its interest in this Lease. In no event shall Tenant mortgage or encumber the Lease (or otherwise use the Lease as a security device) in any manner, or materially amend or modify an assignment, sublease or other transfer that has been previously approved by Landlord. Tenant shall reimburse Landlord for all reasonable costs and attorneys' fees incurred by Landlord in connection with the evaluation, processing and/or documentation of any requested Transfer, whether or not Landlord's consent is granted. Landlord's reasonable costs shall include the cost of any review or investigation performed by Landlord or consultant acting on Landlord's behalf of (i) Hazardous Materials (as defined in Section 7.2E of this Lease) used, stored, released, or disposed of by the potential subtenant or assignee, and/or (ii) violations of Hazardous Materials Law (as defined in Section 7.2E of this lease) by Tenant or the proposed subtenant or assignee. Any Transfer so approved by Landlord shall not be effective until Tenant has delivered to Landlord an executed counterpart of the document evidencing the Transfer which (i) is in a form reasonably approved by Landlord, (ii) contains the same terms and conditions as stated in Tenant's notice given to Landlord pursuant to Section 14.1B, and (iii) in the case of an assignment of the Lease, contains the agreement of the proposed transferee to assume all obligations of Tenant under this Lease arising after the effective date of such Transfer and to remain jointly and severally liable therefore with Tenant. Any attempted Transfer without Landlord's consent shall constitute an Event of Tenant's Default and shall be voidable at Landlord's option. Landlord's consent to any one Transfer shall not constitute a waiver of the provisions of this Section 14.1 as to any subsequent Transfer or a consent to any subsequent Transfer. No Transfer, even with the consent of Landlord, shall relieve Tenant of its personal and primary obligation to pay the rent and to perform all of the other obligations to be performed by Tenant hereunder. The acceptance of rent by Landlord from any person shall not be deemed to be a waiver by Landlord of any provision of this Lease nor to be a consent to any Transfer.

B. At least thirty (30) days before a proposed Transfer is to become effective, Tenant shall give Landlord written notice of the proposed terms of such Transfer and request Landlord's approval, which notice shall include the following: (i) the name and legal composition of the proposed transferee; (ii) a current financial statement of the transferee, financial statements of the transferee covering the preceding three (3) years if the same exist, and (if available) an audited financial statement of the transferee for a period ending not more than one year prior to the proposed effective date of the Transfer, all of which statements are prepared in accordance with generally accepted accounting principles; (iii) the nature of the proposed transferee's business to be carried out in the Premises; (iv) all consideration to be given on account of the Transfer; (v) a current financial statement of Tenant; and (vi) an accurately filled out response to Landlord's then-standard Hazardous Materials Questionnaire, if any. Tenant shall provide to Landlord such other information as may be reasonably requested by Landlord within seven (7) days after Landlord's receipt of such notice from Tenant. Landlord shall respond in writing to Tenant's request for Landlord's consent to a Transfer within the later of (i) fifteen (15) business days of receipt of such request together with the required accompanying documentation, or (ii) seven (7) days after Landlord's receipt of all information which Landlord reasonably requests within seven (7) days after it receives Tenant's first notice regarding the Transfer in question. If Landlord fails to respond in writing within said period, Landlord will be deemed to have withheld its consent to such Transfer, provided that if Tenant specifically requests from Landlord, within five (5) days following the expiration of said period a statement of reasons for withholding consent, Landlord shall have thirty (30) days following such request within which to provide Tenant with a written statement of its reasonable objections to the Transfer in question (and, if Landlord fails to provide such statement to Tenant within such thirty (30) day, then Landlord shall be deemed to have consented to the Transfer in question). Tenant shall immediately notify Landlord of any material modification to the proposed terms of such Transfer.

Tenant agrees, by way of example and without limitation, that its shall not be unreasonable for Landlord to withhold its consent to a proposed Transfer if any of the following situations exist or may exist:

(1) Landlord determines that the proposed assignee's or sublessee's use of the Premises conflicts with Article 4 above, presents an unacceptable risk, as determined by Landlord, under Section 7.2 above, or conflicts with any other provision under this Lease;

(2) Landlord determines that the proposed assignee or sublessee is not as financially responsible as Tenant as of the date of Tenant's request for consent or as of the effective date of such proposed assignment or subletting;

(3) Landlord determines that the proposed assignee or sublessee lacks sufficient business reputation or experience to conduct on the Premises a business of a type and quality equal to that conducted by Tenant;

(4) Landlord determines that the proposed assignment or subletting would breach a covenant, condition or restriction in some other lease, financing agreement or other agreement relating to the Project, the Building, the Premises or this Lease;

(5) An Event of Tenant's Default (or any act or omission which, with the giving of notice or the passage of time, or both, would constitute an Event of Tenant's Default) has occurred and is continuing at the time of Tenant's request for Landlord's consent, or as of the effective date of such assignment or subletting;

(6) [Omitted.]

(7) The proposed assignment or subletting would require alterations, additions or changes to the Premises not otherwise approved by Landlord pursuant to Section 5.2; or

(8) The proposed assignee's or sublessee's use of the Premises would place additional burdens on the Project and/or its operation, including, without limitation, the Common Area and the utilities.

C. Notwithstanding anything contained in this Article 14 to the contrary, in the event that Tenant seeks to make any Transfer, Landlord shall have the right to terminate this Lease or, in the case of a sublease of less than all of the Premises, terminate this Lease as to that part of the Premises proposed to be so sublet, either (i) on the condition that the proposed transferee immediately enter into a direct lease of the Premises with Landlord (or, in the case of a partial sublease, a lease for the portion proposed to be so sublet) on the same terms and conditions contained in Tenant's notice, or (ii) so that Landlord is thereafter free to lease the Premises (or, in the case of a partial sublease, the portion proposed to be so sublet) to whomever (including, without limitation, the proposed transferee) it pleases on whatever terms are acceptable to Landlord. In the event Landlord elects to so terminate this Lease, then (i) if such termination is conditioned upon the execution of a lease between Landlord and the proposed transferee, Tenant's obligations under this Lease shall not be terminated until such transferee executes a new lease with Landlord, enters into possession and commences the payment of rent, and (ii) if Landlord elects simply to terminate this Lease (or, in the case of a partial sublease, terminate this Lease as to the portion to be so sublet), the Lease shall so terminate in its entirety (or as to the space to be so sublet) fifteen (15) days after Landlord has notified Tenant in writing of such election. Upon such termination, Tenant shall be released from any further obligation under this Lease if it is terminated in its entirety (or shall be released from any further obligation under the Lease with respect to the space proposed to be sublet in the case of a proposed partial sublease), except that the foregoing release shall not apply to, and Tenant shall not be released from, (i) any obligations under this Lease accruing prior to such termination, (ii) any obligations under Section 15.2 below relating to the surrender of the Premises or such space proposed to be sublet, as applicable, and (iii) any obligations which, by their terms, are to survive the expiration or sooner termination of this Lease. In the case of a partial termination of the Lease, the Base Monthly Rent and Tenant's Share shall be reduced to an amount which bears the same relationship to the original amount thereof as the area of that part of the Premises which remains subject to the Lease bears to the original area of the Premises, all as reasonably determined by Landlord. Upon Landlord's request, Tenant shall execute a separate termination agreement evidencing any termination of this Lease pursuant to this Section 14.1C.

D. If Landlord consents to a Transfer proposed by Tenant, Tenant may enter into such Transfer, and if Tenant does so, the following shall apply:

(1) Tenant shall not be released of its liability for the performance of all of its obligations under this Lease.

(2) If Tenant assigns its interest in this Lease, then Tenant shall pay to Landlord **fifty percent (50%)** of all Transfer Consideration (as defined in Section 14.1D(5)) received by Tenant over and above (i) the assignee's agreement to assume the obligations of Tenant under this Lease, and (ii) all Permitted Transfer Costs related to such assignment. In the case of assignment, the amount of Transfer Consideration owed to Landlord shall be paid to Landlord on the same basis, whether periodic or in lump sum, that such Transfer Consideration is paid to Tenant by the assignee.

(3) If Tenant sublets any part of the Premises, then with respect to the space so subleased, Tenant shall pay to Landlord **fifty percent (50%)** of the positive difference, if any, between (i) all Transfer Consideration paid by the subtenant to Tenant, less (ii) the sum of all Base Monthly Rent and Tenant's Share of Direct Expenses allocable to the space sublet and all Permitted Transfer Costs related to such sublease. Such amount shall be paid to Landlord on the same basis, whether periodic or in lump sum, that such Transfer Consideration is paid to Tenant by its subtenant. In calculating Landlord's share of any periodic payments, all Permitted Transfer Costs shall be first recovered by Tenant.

(4) Tenant's obligations under this Section 14.1D shall survive any Transfer, and Tenant's failure to perform its obligations hereunder shall be an Event of Tenant's Default. At the time Tenant makes any payment to Landlord required by this Section 14.1D, Tenant shall deliver to Landlord an itemized statement of the method by which the amount to which Landlord is entitled was calculated, certified by Tenant as true and correct. Landlord shall have the right at reasonable intervals to inspect Tenant's books and records relating to the payments due hereunder. Upon request therefore, Tenant shall deliver to Landlord copies of all bills, invoices or other documents upon which its calculations are based. Landlord may condition its approval of any Transfer upon obtaining a certification from both Tenant and the proposed transferee of all Transfer Consideration and other amounts that are to be paid to Tenant in connection with such Transfer.

(5) As used in this Section 14.1D, the term "Transfer Consideration" shall mean**:** any consideration of any kind received, or to be received, by Tenant as a result of the Transfer, if such sums are related to Tenant's interest in this Lease or in the Premises, including payments from or on behalf of the transferee (in excess of the book value thereof) for Tenant's assets, fixtures, leasehold improvements, inventory, accounts, goodwill, equipment, furniture, and general intangibles. As used in this Section 14.1D, the term "Permitted Transfer Costs" shall mean (i) all reasonable leasing commissions paid to third parties not affiliated with Tenant in order to obtain the Transfer in question, and (ii) all reasonable attorneys' fees incurred by Tenant with respect to negotiating the Transfer in question.

E. The sale of all or substantially all of Tenant's assets (other than bulk sales in the ordinary course of business), any dissolution of Tenant, or, if Tenant is a corporation, an unincorporated association, a partnership or a limited liability company, the transfer, assignment and/or hypothecation of any stock or other interest in such corporation, association, partnership or limited liability company in the aggregate in excess of twenty-five percent (25%) during the Term (except for publicly traded shares of stock constituting a transfer of twenty-five percent (25%) or more in the aggregate, so long as no change in the controlling interests of Tenant occurs as a result thereof) shall be deemed an assignment within the meaning and provisions of this Article 14. As used in the Section 14.1E, the term "Tenant" shall mean Tenant and/or any person or entity that owns, directly or indirectly, in whole or in part, Tenant (e.g., a parent corporation of Tenant).

14.2 Transfer By Landlord. Landlord and its successors in interest shall have the right to transfer their interest in this Lease, the Building and the Project at any time and to any person or entity. In the event of any such transfer, the Landlord originally named herein (and, in the case of any subsequent transfer, the transferor) from the date of such transfer, shall be automatically relieved, without any further act by any person or entity, of all liability for the performance of the obligations of the Landlord hereunder which may accrue after the date of such transfer. After the date of any such transfer, the term "Landlord" as used herein shall mean the applicable transferee of such interest in the Premises.

ARTICLE 15

GENERAL PROVISIONS

15.1 Landlord's Right to Enter. Landlord and its Agents may enter the Premises at any reasonable time after giving reasonable prior written or verbal notice to Tenant (except in the case of any emergency or regularly scheduled services, in which case no prior notice shall be required) for the purpose of: (i) inspecting the same; (ii) posting notices of non-responsibility; (iii) supplying any service to be provided by Landlord to Tenant; (iv) showing the Premises to prospective purchasers, Lenders or tenants; (v) making necessary alterations, additions or repairs; (vi) performing Tenant's obligations when Tenant has failed to do so after written notice from Landlord; (vii) placing upon the Premises ordinary "for lease" signs or "for sale" signs; and (viii) responding to an emergency. Landlord shall have the right to use any and all means Landlord may deem necessary and proper to enter the Premises in an emergency. Any entry into the Premises obtained by Landlord in accordance with this Section 15.1 shall not be deemed to be a forcible or unlawful entry into, or a detainer of, the Premises, or an eviction, actual or constructive, of Tenant from the Premises. Tenant hereby waives any claims for damages for any injury or inconvenience to or interference with Tenant's business, any loss of occupancy or quiet enjoyment of the Premises, and any other loss occasioned thereby.

15.2 Surrender of the Premises. Upon the expiration or sooner termination of this Lease, Tenant shall vacate and surrender the Premises to Landlord in the same condition as existed on the Commencement Date, except for (i) reasonable wear and tear, (ii) damage caused by any casualty not caused by Tenant or Tenant's Agents or condemnation, and (iii) contamination by Hazardous Materials for which Tenant is not responsible pursuant to Section 7.2A or Section 7.2B. In this regard, normal wear and tear shall be construed to mean wear and tear caused to the Premises by the natural aging process which occurs in spite of prudent application of the best standards for maintenance, repair and janitorial practices, and does not include items of neglected or deferred maintenance. In any event, Tenant shall cause the following to be done prior to the expiration or the sooner termination of this Lease: (i) all interior walls shall be painted or cleaned so that they appear freshly painted; (ii) all non-carpeted floor coverings shall be cleaned and waxed; (iii) all carpets shall be cleaned and shampooed; (iv) [Omitted.]; and (v) all windows shall be washed. If Landlord so requests, Tenant shall, prior to the expiration or sooner termination of this Lease, (i) remove any Tenant's Alterations which Tenant is required to remove pursuant to Section 5.2 and repair all damage caused by such removal, and (ii) return the Premises or any part thereof to its original configuration existing as of the time the Premises were delivered to Tenant. If the Premises are not so surrendered upon the expiration or sooner termination of this Lease, Tenant shall be liable to Landlord for all costs incurred by Landlord in returning the Premises to the required condition, plus interest on all costs incurred at the Agreed Interest Rate. Tenant shall indemnify Landlord against loss or liability resulting from delay by Tenant in so surrendering the Premises, including, without limitation, any claims made by any succeeding tenant or losses to Landlord due to lost opportunities to lease to succeeding tenants.

15.3 Holding Over. This Lease shall terminate without further notice at the expiration of the Lease Term. Any holding over by Tenant after expiration of the Lease Term shall not constitute a renewal or extension of this Lease or give Tenant any rights in or to the Premises except as expressly provided in this Lease. Any holding over after such expiration with the written consent of Landlord shall be construed to be a tenancy from month to month on the same terms and conditions herein specified insofar as applicable except that Base Monthly Rent shall be increased to an amount equal to two hundred percent (200 %) of the then market Base Monthly Rent as determined by Landlord.

15.4 Subordination. The following provisions shall govern the relationship of this Lease to any Security Instrument:

A. The Lease is subject and subordinate to all Security Instruments existing as of the Effective Date. However, if any Lender so requires, this Lease shall become prior and superior to any such Security Instrument.

B. At Landlord's election, this Lease shall become subject and subordinate to any Security Instrument created after the Effective Date. Notwithstanding such subordination, Tenant's right to quiet possession of the Premises shall not be disturbed so long as Tenant is not in default and performs all of its obligations under this Lease, unless this Lease is otherwise terminated pursuant to its terms.

C. Tenant shall upon request execute and acknowledge any document or instrument reasonably required by any Lender to make this Lease either prior or subordinate to a Security Instrument, which may include such other matters as the Lender customarily requires in connection with such agreements, including provisions that the Lender not be liable for (i) the return of any security deposit unless the Lender receives it from Landlord, (ii) any defaults on the part of Landlord occurring prior to the time the Lender takes possession of the Project in connection with the enforcement of its Security Instrument, and/or (iii) completion of any improvements to the Premises or the Project agreed to or undertaken by Landlord. Tenant's failure to execute any such document or instrument within ten (10) days after written demand therefore shall constitute an Event of Tenant's Default. Tenant approves as reasonable the form of subordination agreement attached to this Lease as Exhibit E; provided, however, the attachment of such form as an exhibit to this Lease shall in no way limit the form of document or instrument that Landlord may request Tenant to execute and acknowledge pursuant to this Section 15.4C.

15.5 Mortgage Protection and Attornment. In the event of any default on the part of the Landlord, Tenant will use reasonable efforts to give notice by registered mail to any Lender whose name has been provided to Tenant and shall offer such Lender a reasonable opportunity to cure the default, including time to obtain possession of the Premises by power of sale or judicial foreclosure or other appropriate legal proceedings, if such should prove necessary to effect a cure. Tenant shall attorn to any purchaser of the Premises at any foreclosure sale or private sale conducted pursuant to any Security Instrument encumbering the Premises, or to any grantee or transferee designated in any deed given in lieu of foreclosure.

15.6 Estoppel Certificates and Financial Statements. At all times during the Lease Term, Tenant agrees, following any request by Landlord, to execute and deliver to Landlord within ten (10) days following delivery of such request an estoppel certificate: (i) certifying that this Lease is unmodified and in full force and effect or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect, (ii) stating the date to which the Rent and other charges are paid in advance, if any, (iii) acknowledging that there are not any uncured defaults on the part of any party hereunder or, if there are uncured defaults, specifying the nature of such defaults, and (iv) certifying such other information about the status of the Lease and the Premises as may be required by Landlord. A failure to deliver an estoppel certificate within ten (10) days after delivery of a request therefore shall be a conclusive admission that, as of the date of the request for such statement: (i) this Lease is unmodified except as may be represented by Landlord in said request and is in full force and effect, (ii) there are no uncured defaults in Landlord's performance, (iii) no rent has been paid more than thirty (30) days in advance, and (iv) the information regarding the status of this Lease, as represented by Landlord in said request, is true and correct. At any time during the Lease Term Tenant shall, upon ten (10) days' prior written notice from landlord, provide Tenant's most recent financial statement and financial statements covering the twenty-four (24) month period prior to the date of such most recent financial statement to any existing Lender or to any potential Lender or buyer of the Premises. Such statements shall be prepared in accordance with generally accepted accounting principles and shall be certified by Tenant's chief financial officer as true and correct in all material respects or, if such is the normal practice of Tenant, shall be audited by an independent certified public accountant.

15.7 Landlord's Consent. Wherever Landlord's approval or consent is required under this Lease before any action may be taken by Tenant, such approval or consent may be withheld or conditioned in Landlord's sole and absolute discretion unless a different standard is specifically provided for with

respect to the required approval or consent in question.

15.8 Notices. Any notice required or desired to be given regarding this Lease shall be in writing and may be given by personal delivery, by facsimile telecopy, by courier service, or by mail. A notice shall be deemed to have been given (i) on the third business day after mailing if such notice was deposited in the United States mail, certified or registered, postage prepaid, addressed to the party to be served at its Address for Notices specified in Section R or Section S of the Summary (as applicable), (ii) when delivered if given by personal delivery, and (iii) in all other cases

when actually received at the party's Address for Notices. Either party may change its address by giving notice of the same in accordance with this Section 15.8, provided however, that any address to which notices may be sent must be a California address.

15.9 Attorneys' Fees. In the event either Landlord or Tenant shall bring any action or legal proceeding or any appeal therefrom, for an alleged breach of any provision of this Lease, to recover rent, to terminate this Lease or otherwise to enforce, protect or establish any term or covenant of this Lease, the prevailing party shall be entitled to recover as a part of such action or proceeding, or in a separate action brought for that purpose, reasonable attorneys' fees, court costs, and experts' fees as may be fixed by the court.

15.10 Authority. If Tenant is a corporation (or partnership or limited liability company), each individual executing this Lease on behalf of Tenant represents and warrants that he is duly authorized to execute and deliver this Lease on behalf of such corporation in accordance with the by-laws of such corporation (or partnership in accordance with the partnership agreement of such partnership or limited liability company in accordance with the operating agreement of such limited liability company) and that this Lease is binding upon such corporation (or partnership or limited liability company) in accordance with its terms. Each of the persons executing this Lease on behalf of a corporation, partnership or limited liability company does hereby covenant and warrant that the party for whom it is executing this Lease is a duly authorized and existing corporation, partnership or limited liability company, that such entity is qualified to do business in California, and that such entity has full right and authority to enter into this Lease.

15.11 Miscellaneous. Should any provision of this Lease prove to be invalid or illegal, such invalidity or illegality shall in no way affect, impair or invalidate any other provision hereof, and such remaining provisions shall remain in full force and effect. Time is of the essence with respect to the performance of every provision of this Lease in which time of performance is a factor. The captions used in this Lease are for convenience only and shall not be considered in the construction or interpretation of any provision hereof. Any executed copy of this Lease shall be deemed an original for all purposes. This Lease shall, subject to the provisions regarding assignment, apply to and bind the respective heirs, successors, executors, administrators and assigns of Landlord and Tenant. "Party" shall mean Landlord or Tenant, as the context implies. If Tenant consists of more than one person or entity, then all persons or entities so comprising Tenant shall be jointly and severally liable hereunder. This Lease shall be construed and enforced in accordance with the laws of the State of California. The language in all parts of this Lease shall in all cases be construed as a whole according to its fair meaning, and not strictly for or against either Landlord or Tenant. When the context of this Lease requires, the neuter gender includes the masculine, the feminine, a partnership or corporation or joint venture, and the singular includes the plural. The terms "shall", "will" and "agree" are mandatory. The term "may" is permissive. When a party is required to do something by this Lease, it shall do so at its sole cost and expense without right of reimbursement from the other party unless a provision of this Lease expressly requires reimbursement. Landlord and Tenant agree that (i) the gross leasable area of the Premises includes any atriums, depressed loading docks, covered entrances or egresses, and covered loading areas, (ii) each has had an opportunity to determine to its satisfaction the actual area of the Project and the Premises, (iii) all measurements of area contained in this Lease are conclusively agreed to be correct and binding upon the parties, even if a subsequent measurement of any one of these areas determines that it is more or less than the amount of area reflected in this Lease, determination that the area is more or less than shown in this Lease shall not result in a change in any of the computations of rent, improvement allowances, or other matters described in this Lease where area is a factor. Where a party hereto is obligated not to perform any act, such party is also obligated to restrain any others within its control from performing said act, including the Agents of such party. Landlord shall not become or be deemed a partner or a joint venturer with Tenant by reason of the provisions of this Lease.

15.12 Termination by Exercise Right. If this Lease is terminated pursuant to its terms by the proper exercise of a right to terminate specifically granted to Landlord or Tenant by this Lease, then this Lease shall terminate thirty (30) days after the date the right to terminate is properly exercised (unless another date is specified in that part of the Lease creating the right, in which event the date so specified for termination shall prevail), the rent and all other charges due hereunder shall be prorated as of the date of termination, and neither Landlord nor Tenant shall have any further rights or obligations under this Lease except for those that have accrued prior to the date of termination or those obligations which this Lease specifically provides are to survive the expiration or sooner termination of this Lease. This Section 15.12 does not apply to a termination of this Lease by Landlord as a result of an Event of Tenant's Default.

15.13 Brokerage Commissions. Each party hereto (i) represents and warrants to the other that it has not had any dealings with any real estate brokers, leasing agents or salesmen, or incurred any obligations for the payment of real estate brokerage commissions or finder's fees which would be earned or due and payable by reason of the execution of this Lease, other than to the Retained Real Estate Brokers described in Section T of the Summary (and then only to the extent set forth in such separate agreement), and (ii) agrees to indemnify, defend, and hold harmless the other party from any claim for any such commission or fees which allegedly result from the actions of the indemnifying party. Landlord shall be responsible for the payment of any commission owed to the Retained Real Estate Brokers if, and only to the extent, there is a separate written commission agreement between Landlord and the Retained Real Estate Brokers for the payment of a commission as a result of the execution of this Lease by Tenant. The indemnity, defense and hold harmless obligations under this Section 15.13 shall survive the expiration or sooner termination of this Lease.

15.14 Force Majeure. Any prevention, delay or stoppage due to strikes, lock-outs, inclement weather, labor disputes, inability to obtain labor, materials, fuels or reasonable substitutes therefore, governmental restrictions, regulations, controls, action or inaction, civil commotion, fire or other acts of God, and other causes beyond the reasonable control of the party obligated to perform (except financial inability) shall excuse the performance, for a period equal to the period of any said prevention, delay or stoppage, of any obligation hereunder except the obligation of Tenant to pay rent or any other sums due hereunder.

15.15 Entire Agreement. This Lease constitutes the entire agreement between the parties, and there are no binding agreements or representations between the parties except as expressed herein. Tenant acknowledges that neither Landlord nor Landlord's Agents has made any legally binding representation or warranty as to any matter except those expressly set forth herein, including any warranty as to (i) whether the Premises may be used for Tenant's intended use under existing Laws, (ii) the suitability of the Premises or the Project for the conduct of Tenant's business, or (iii) the condition of any improvements. There are no oral agreements between Landlord and Tenant affecting this Lease, and this Lease supersedes and cancels any and all previous negotiations, arrangements, brochures, agreements and understandings, if any, between Landlord and Tenant or displayed by Landlord to Tenant with respect to the subject matter of this Lease. This instrument shall not be legally binding until it is executed by both Landlord and Tenant. No subsequent change or addition to this Lease shall be binding unless in writing and signed by Landlord and Tenant.

15.16 JURY TRIAL WAIVER. LANDLORD AND TENANT EACH ACKNOWLEDGES THAT IT IS AWARE OF AND HAS HAD THE ADVICE OF COUNSEL OF ITS CHOICE WITH RESPECT TO ITS RIGHTS TO TRIAL BY JURY, AND EACH PARTY DOES HEREBY EXPRESSLY AND KNOWINGLY WAIVE AND RELEASE ALL SUCH RIGHTS TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT BY EITHER PARTY HERETO AGAINST THE OTHER (AND/OR AGAINST ITS OFFICERS, DIRECTORS, PARTNERS, MEMBERS, EMPLOYEES, AGENTS, OR SUBSIDIARY OR AFFILIATED ENTITIES) ON ANY MATTERS WHATSOEVER ARISING OUT OF OR IN ANY WAY CONNECTED WITH THIS LEASE, TENANT'S USE OR OCCUPANCY OF THE PREMISES, AND/OR ANY CLAIM OF INJURY OR DAMAGE.

LANDLORD'S INITIALS: JR TENANT'S INITIALS: BM

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease with the intent to be legally bound thereby, to be effective as of the Effective Date.

LANDLORD:

BOCCARDO CORPORATION
A California corporation

By: /s/ James C. Rees
James C. Rees

Its: CEO

Dated: 8/20/03

TENANT:

MONOLITHIC POWER SYSTEMS, INC.
A California corporation

By: /s/ Michael Hsing

Michael Hsing
typed or printed name

Title: President & CEO

Dated: 7/3/03

EXHIBIT A
PROJECT SITE PLAN

[diagram]

EXHIBIT B
DIAGRAM OF PREMISES

[diagram]

EXHIBIT C

WORK LETTER

Landlord shall provide Tenant with a $1.50 per square foot ($41,820) T.I. Allowance which will be used to improve Premises per a mutually acceptable space plan and layout.

In addition Landlord shall provide the following improvements at its sole cost and expense:

1. Complete the necessary improvements in Building B to properly demise space to accommodate multiple tenants.

Tenant shall have the use of the existing office cubicles located within the Premises. Tenant may also utilize the existing telephone system and alarm system. However, Tenant shall be responsible for costs associated with reworking and rewiring such furniture, telephone and alarm systems for Tenants specific use. Tenant shall obtain Landlord's reasonable consent prior to reusing any such systems in order to ensure that the remaining systems will be reusable to accommodate additional future tenants within Building B.

EXHIBIT D

MEMORANDUM OF COMMENCEMENT DATE

(Tenant Improvements)

Landlord:	Boccardo Corporation, a California corporation
Tenant:	Monolithic Power Systems, Inc.
Project:	University Park
Premises:	983 University Avenue, Building A & B-2

In connection with that certain Office Lease dated _____, the undersigned hereby certify as follows:

1. That the undersigned Tenant occupies the above-described Premises consisting of approximately _____ rentable square feet.

2. That the Lease Term commenced (and the Commencement Date occurred) on _____, and, unless sooner terminated pursuant to the terms of said Office Lease, shall expire on _____.

3. That Tenant's obligation to pay Base Monthly Rent in the amount of _____ commenced [or will commence] on _____.

4. That a security deposit of _____ has been paid by Tenant to Landlord.

5. That all construction to be performed by Landlord under said Office Lease is complete and the Premises has been accepted by Tenant in good and sanitary order, condition and repair in its present "as-is" condition with the only exceptions being the following Punch List items: _____.

LANDLORD

BOCCARDO CORPORATION INC.
a California corporation

By: _____
Name: _____
Its: _____

TENANT

MONOLITHIC POWER SYSTEMS,
a California corporation

By: /s/ Michael Hsing
Name: Michael Hsing
Its: 7/3/03

EXHIBIT E

SUBORDINATION, NON-DISTURBANCE
AND ATTORNMENT AGREEMENT

THIS AGREEMENT is entered into as of the __ day of _____, ____, by and between _____, a _____ (the "Beneficiary"), _____, a _____ (the "Tenant") and _____, a _____ (the "Landlord").

W I T N E S S E T H

A. Tenant has entered into a certain lease dated _____, _____ (the "Lease") with Landlord covering certain spaces (the "Premises") located in and upon the real property described in Schedule 1 attached hereto (the "Property");

B. Beneficiary is the holder of a mortgage loan (the "Loan") to Landlord in the amount of _____ Dollars ($_____) which is secured by a _____ (the "Deed of Trust") covering the Property;

C. The parties hereto desire expressly to confirm the subordination of the Lease to the lien of the Deed of Trust, it being a requirement by Beneficiary that the lien and charge of the Deed of Trust be unconditionally and at all times prior and superior to the leasehold interests and estates created by the Lease; and

D. Tenant has requested that Beneficiary agree not to disturb Tenant's possessory rights in the Premises in the event Beneficiary should foreclose the Deed of Trust, provided that Tenant is not in default under the Lease and provided that Tenant attorns to Beneficiary or the purchaser at any foreclosure or Trustee's sale of the Property.

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

1. Notwithstanding anything to the contrary set forth in the Lease, the Lease and the leasehold estate created thereby and all of Tenant's rights thereunder shall be and shall at all times remain subject, subordinate to the Deed of Trust and the lien thereof and all rights of Beneficiary thereunder and to any and all renewals, modifications, consolidations, replacements and extensions thereof.

2. Tenant hereby declares, agrees and acknowledges that:

A. Beneficiary would not have agreed to recognize the Lease without this Agreement; and

B. Beneficiary, in making disbursements pursuant to the agreements evidencing and securing the Loan, is under no obligation or duty to oversee or direct the application of the proceeds of such disbursements and such proceeds may be used by Landlord for purposes other than improvement of the Premises.

3. In the event of foreclosure of the Deed of Trust, or upon a sale of the Property pursuant to the Trustee's power of sale contained therein, or upon a transfer of the Property by deed in lieu of foreclosure, then so long as Tenant is not in default under any of the terms, covenants, or conditions of the Lease, the Lease shall continue in full force and effect as a direct lease between the succeeding owner of the Property and Tenant, upon and subject to all of the terms, covenants and conditions of the Lease for the balance of the term of the Lease. Tenant hereby agrees to attorn to and accept any such successor owner as landlord under the Lease, and to be bound by and perform all of the obligations imposed by the Lease and Beneficiary or any such successor owner of the Property will not disturb the possession of Tenant, and will be bound by all of the obligations imposed by the Lease upon the landlord thereunder; provided, however, that the Beneficiary, or any purchaser at a trustee's or sheriff's sale or any successor owner of the Property shall not be:

A. liable for any act or omission of a prior landlord (including Landlord); or

B subject to any offsets or defenses which the Tenant might have against any prior landlord (including Landlord); or

C. bound by any rent or additional rent which the Tenant might have paid in advance to any prior landlord (including Landlord) for a period in excess of one month; or

D. bound by any agreement or modification of the Lease made without the written consent of the Beneficiary; or

E. liable or responsible for or with respect to the retention, application and/or return to Tenant of any security deposit paid to any prior lessor (including Landlord), whether or not still held by such prior lessor, unless and until Beneficiary or such other purchaser has actually received for its own account as lessor the full amount of such security deposit; or

F. bound by or liable under any representations, warranties, covenants or indemnities made to Tenant by any prior landlord (including Landlord) regarding Hazardous Materials (as defined in the Lease); or

G. obligated to construct the building in which the Premises are located or any improvements for Tenant's use.

4. Upon the written request of Beneficiary at the time of a foreclosure, Trustee's sale or deed in lieu thereof or at any time thereafter, the parties agree to execute a lease of the Premises upon the same terms and conditions as the Lease between Landlord and Tenant, which lease shall cover any unexpired term of the Lease existing prior to such foreclosure, Trustee's sale or conveyance in lieu of foreclosure.

5. Tenant agrees to give to Beneficiary, by registered mail, a copy of any notice or statement served upon Landlord. Tenant agrees not to exercise any rights of termination available by virtue of a default unless (i) Landlord shall have failed to cure such default, and (ii) following expiration of the applicable period under the Lease for cure by Landlord of such default, Tenant shall have furnished to Beneficiary notice of Landlord's failure to cure such default and afforded Beneficiary an additional thirty (30) days following receipt of such notice within which to cure such default, or if such default cannot be cured within that time, then such additional time as may be necessary if within such thirty (30) days Beneficiary has commenced and is diligently pursuing the remedies necessary to cure such default (including, but not limited to, commencement of foreclosure proceedings if necessary to effect such cure), in which event such right, if any, as Tenant might otherwise have to terminate the Lease shall not be exercised while such remedies are being so diligently pursued.

6. Landlord, as landlord under the Lease and trustor under the Deed of Trust, agrees for itself and its heirs, successors, and assigns, that: (i) this Agreement does not constitute a waiver by Beneficiary of any of its rights under the Deed of Trust or in any way release Landlord from its obligation to comply with the terms, provisions, conditions, covenants, agreements and clauses of the Deed of Trust; and (ii) the provisions of the Deed of Trust remain in full force and effect and must be complied with by Landlord, if Beneficiary so requires.

7. Tenant acknowledges that it has notice that the Lease and the rent and all other sums due thereunder have been assigned or are to be assigned to Beneficiary as security for the Loan secured by the Deed of Trust. In the event the Beneficiary notifies Tenant of a default under the Deed of Trust and demands that Tenant pay its rent and all other sums due under the Lease to the Beneficiary, Tenant agrees that it will honor such demand and pay its rent and all other sums due under the Lease directly to the Beneficiary or as otherwise required pursuant to such notice.

8. All notices hereunder shall be deemed to have been duly given if mailed by United States registered or certified mail with return receipt requested, postage prepaid, to Beneficiary at the following address (or at such other address as shall be given in writing by Beneficiary to the Tenant) and shall be deemed complete upon any such mailing:

_____
_____
_____

Attention:_____

with a copy
to: _____
_____
_____
_____
_____

9. This Agreement supersedes any inconsistent provisions of the Lease.

10. This Agreement shall inure to the benefit of the parties hereto, their successors and permitted assigns; provided, however, that in the event of the assignment or transfer of the interest of Beneficiary, all obligations and liabilities of Beneficiary under this Agreement shall terminate, and thereupon all such obligations and liabilities shall be the responsibility of the party to whom Beneficiary's interest is assigned or transferred.

11. Tenant agrees that this Agreement satisfies any condition or requirement in the Lease relating to the granting of a non-disturbance agreement.

12. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the parties have executed this Agreement on the date and year first set forth above.

"Beneficiary"

_____
a _____

By: _____

Printed
Name: _____

Title: _____

"Landlord"

_____
a _____

By: _____

Printed
Name: _____

Title: _____

"Tenant"

_____
a _____

By: /s/ Michael Hsing

Printed
Name: Michael Hsing

Title: CEO

EXHIBIT F

RULES & REGULATIONS

1. No sign, placard, picture, advertisement, name or notice shall be inscribed, displayed, or printed or affixed on or to any part of the outside or inside of the Building without the written consent of Landlord first had and obtained and Landlord shall have the right to remove any such sign, placard, picture, advertisement, name or notice without notice to and at the expense of Tenant.

All approved signs or lettering on doors shall be printed, painted, affixed or inscribed at the expense of Tenant by a person approved of by Landlord.

Tenant shall not place anything or allow anything to be placed near the glass of any window, door, partition or wall which may appear unsightly from outside the Premises; provided, however, that Landlord may furnish and install a Building standard window covering at all exterior windows. Tenant shall not without prior written consent of Landlord cause or otherwise sunscreen any window.

2. The sidewalks, halls, passages, exits, entrances, elevators and stairways shall not be obstructed by any of the tenants or used by them for any purpose other than for ingress and egress from their respective Premises.

3. Tenant shall not alter any lock or install any new or additional locks or any bolts on any doors or windows of the Premises.

4. Tenant shall not allow any chairs with wheels or casters to be used without a carpet protector or chairmat. Failure to follow this requirement which results in carpet damage will result in Tenant being charged for replacement of the carpet.

5. The toilet rooms, urinals, wash bowls and other apparatus shall not be used for any purpose other than that for which they were constructed and no foreign substance of any kind whatsoever shall be thrown therein and the expense of any breakage, stoppage or damage resulting from the violation of this rule shall be borne by Tenant who, or whose employees or invitees shall have caused it.

6. Tenant shall not overload the floor of the Premises or in any way deface the Premises or any part thereof.

7. Landlord shall have the right to prescribe the weight, size and position of all safes and other heavy equipment brought into the Building and also the times and manner of moving the same in and out of the Building. Safes or other heavy objects shall, if considered necessary by Landlord, stand on supports of such thickness as is necessary to properly distribute the weight. Landlord will not be responsible for loss of or damage to any such safe or property from any cause and all damage done to the Building by moving or maintaining any such safe or other property shall be repaired at the expense of Tenant.

8. Tenant shall not use, keep or permit to be used or kept any foul or noxious gas or substance in the Premises, or permit or suffer the Premises to be occupied or used in a manner offensive or objectionable to Landlord or other occupants of the Building by reason or noise, odors and/or vibrations, or interfere in any way with other tenants or those having business therein, nor shall any animals or birds be brought in or kept in or about the Premises or the Building.

9. No cooking, except by microwave oven, shall be done or permitted by any Tenant on the Premises, nor shall the Premises be used for the storage of merchandise, for washing clothes, for lodging, or for any improper, objectionable or immoral purposes.

10. Tenant shall not use or keep in the Premises of the Building any kerosene, gasoline, or inflammable or combustible fluid or material, or use any method of heating or air conditioning other than that supplied by Landlord.

11. Landlord will direct electricians as to where and how telephone and telegraph wires are to be introduced. No boring or cutting for wires will be allowed without the consent of Landlord. The locations of telephones, call boxes and other office equipment affixed to the Premises shall be subject to the approval of Landlord.

12. On Saturdays, Sundays, and legal holidays, and on other days between the hours of 6:00 PM and 8:00 AM the following day, access to the Building, or to the halls, corridors, elevators or stairways in the Building, or to the Premises may be refused unless the person seeking access is known to the person or employee of the Building in charge and has a pass or is properly identified. Landlord shall in no case be liable for damages for any error with regard to admission to or exclusion from the Building of any person. In case of invasion, mob, riot, public excitement, or other commotion, Landlord reserves the right to prevent access to the Building during the continuance of the same by closing of the doors or otherwise, for the safety of the tenants and protection of property in the Building and the Building.

13. Landlord reserves the right to exclude or expel from the Building any person who, in the judgment of Landlord, is intoxicated or under the influence of liquor or drugs, or who shall in any manner do any act in violation of any of the rules and regulations of the Building.

14. [Omitted.]

15. Landlord shall have the right, exercisable without notice and without liability to Tenant, to change the name and street address of the Building of which the Premises are a part.

16. Tenant shall not disturb, solicit, or canvass any occupant of the Building and shall cooperate to prevent the same.

17. Without the written consent of Landlord, Tenant shall not use the name of the Building in connection with or in promoting or advertising the business of Tenant except as Tenant's address.

18. Landlord shall have the right to control and operate the public portions of the Building, and the public facilities, and heating and air conditioning, as well as facilities furnished for the common use of the tenants, in such manner as it deems best for the benefit of the tenants generally.

19. All entrance doors in the Premises shall be left locked when the Premises are not in use, and all doors opening to public corridors shall be kept closed except for normal ingress and egress from the Premises.

20. Landlord shall clean the Premises as provided in the Lease, and except with the written consent of Landlord, no person or persons other than those approved by Landlord will be permitted to enter the Building for such purposes. Tenant shall not cause unnecessary labor by reason of Tenant's carelessness and indifference in the preservation of good order and cleanliness. All cardboard boxes must be "broken down", and all styrofoam chips must be bagged or otherwise contained so as not to constitute a nuisance. Landlord shall have no responsibility whatsoever for the

theft of or damage to any property of Tenant or its employees resulting from any acts or omissions of janitorial personnel, and Tenant hereby waives any and all claims against Landlord therefore.

21. Landlord reserves the right to amend or supplement the foregoing Rules and Regulations and to adopt and promulgate additional rules and regulations applicable to the Project, the Building and/or the Premises.

22. Neither Landlord nor Landlord's Agents or any other person or entity shall be responsible to Tenant or to any other person for the violation of these or other Rules and regulations by any other tenant or other person. Tenant shall be deemed to have read these Rules and Regulations and to have agreed to abide by them as a condition precedent, waivable only by Landlord, to Tenant's occupancy of the Premises

Addendum A

ADDENDUM TO THE ATTACHED OFFICE LEASE DATED JULY 5, 2003 BY AND BETWEEN BOCCARDO CORPORATION, LANDLORD AND MONOLITHIC POWER SYSTEMS INC., TENANT.

The following provisions are incorporated into the above referenced office Lease:

Termination of Efficient Networks Lease: The Lease shall be subject to the prior termination of the Efficient Networks lease associated with 983 University Ave, Building A & B and shall be null and void if such lease termination is not completed to Landlord's satisfaction.

Termination of Existing Lease: The lease dated May 6, 2002 by and between Boccardo Corporation and Monolithic Power Systems (Original Lease) shall be subject to the following terms and conditions:

1. Conditional Termination of Lease. Subject to Tenant's performance of its obligations hereunder and its obligations under the Office Lease dated July 3, 2003 by and between Boccardo Corporation, Landlord and Monolithic Power Systems, Inc. (New Lease), the term of the Original Lease shall automatically terminate as of the Commencement Date of the New Lease ("Original Lease Termination Date").

2. Surrender of Possession of the Premises. Tenant shall vacate the 983 University Ave. Building D premises (Original Premises) and surrender and deliver exclusive possession of the Original Premises to Landlord on or before the Original Lease Termination Date. Tenant acknowledges that, pursuant to Section 15.2 of the Original Lease, Tenant is to deliver the Original Premises to Landlord with all of the improvements, parts and surfaces thereof clean and free of debris and in good operating order, condition and state of repair, ordinary wear and tear excepted. The Original Premises shall include all Utility Installations and Tenant is to be responsible for the repair of any damages occasioned by the installation, maintenance or removal of Tenant's Trade Fixtures, furnishings, equipment, and Alterations and/or Utility Installations, all as may then be required by Applicable Law and/or good service practice.

Partial Lease Cancellation: Tenant shall have the right to terminate the Building B-2 portion of the Premises at any time after the thirty-sixth (36th) month of the initial Lease Term and prior to the fortieth (40th) month of the initial Lease Term by giving Landlord ninety (90) days prior written notice. If Tenant exercises its option to cancel the Building B-2 portion of the Premises as provided herein, Tenant shall pay a termination fee which shall be equal to the Security Deposit. Upon termination of the Building B-2 portion of the Premises (a) the Lease shall remain in full force and effect as to the reduced Premises, (b) any formulas contained in the Lease that rely on square footage calculations to derive its value shall be recalculated using the reduced Premises square footage, and (c) the Base Monthly Rent shall be adjusted in accordance with the following Base Rent Schedule:

Year 4 Monthly Base Rent for the reduced Premises shall be $29,040

Year 5 Monthly Base Rent for the reduced Premises shall be $30,052

TENANT:

MONOLITHIC POWER SYSTEMS, INC.
a California corporation

By: _____
Name: _____
Its: _____

LANDLORD:

BOCCARDO CORPORATION
a California corporation

By: _____
Name: _____
Its: _____

Exhibit 10.7

MONOLITHIC POWER SYSTEMS, INC.

EMPLOYMENT AGREEMENT

This Employment Agreement (this "**Agreement**") by and between Michael Hsing (the "**CEO**") and Monolithic Power Systems, Inc. (the "**Company**"), is entered into as of August 23, 2002 (the "**Effective Date**").

WHEREAS, the CEO has been employed by the Company as the Company's Chief Executive Officer;

WHEREAS, the CEO and the Company desire to enter into this Agreement in connection with the employment relationship between the Company and the CEO;

NOW, THEREFORE, the parties hereto agree as follows:

1. Certain Definitions. For purposes of this Agreement:

(a) "**Cause**" means (i) the CEO's failure to perform the duties or responsibilities of his employment, in any material respect, as reasonably required or directed by the Board of Directors of the Company (the "**Board**"), which failure is not cured within thirty (30) days following notice to the CEO of the poor performance which notice describes in reasonable detail the poor performance; (ii) the CEO personally engaging in illegal conduct that is detrimental to the Company; (iii) the CEO being convicted of a felony; or (iv) the CEO committing a material act of dishonesty, fraud or misappropriation of property.

(b) "**Good Reason**" means, without the CEO's consent, (i) a reduction by the Company in the base salary of the CEO as in effect immediately prior to such reduction, except where a substantially equivalent percentage reduction in base salary is applied to all other officers of the Company; (ii) a material reduction by the Company in the kind or level of employee benefits to which the CEO is entitled immediately prior to such reduction with the result that the CEO's overall benefits package is significantly reduced, except where a substantially equivalent reduction in benefits is applied to all other officers of the Company; (iii) a material, adverse change in the CEO's title, authority, responsibilities or duties, as measured against his title, authority, responsibilities or duties immediately prior to such change, which change is not reversed or modified within thirty (30) days after notice from CEO to the Board describing in reasonable detail the material adverse change; or (iv) the relocation of the CEO's place of work to a facility or a location more than fifty (50) miles from the CEO's then-present work location.

(c) "**Disability**" means the CEO's inability to substantially perform the CEO's duties as required by the CEO's employment with or services to the Company as the result of the CEO's incapacity due to physical or mental illness.

(i) "**Change of Control**" means a merger or consolidation of the Company with or into any other corporation or corporations, or the merger of any other corporation or corporations with or into the Company, unless the shareholders of the Company hold at least a majority of the outstanding voting equity securities of the surviving corporation, or any transaction or series of related transactions to which the Company is a party in which in excess of fifty percent (50%) of the Company's voting power is transferred by the then shareholders of the Company to third parties, excluding any consolidation or merger effected exclusively to change the domicile of the Company, or a sale of all or substantially all of the assets of the Company.

2. Employment and Duties. The CEO shall continue to be employed as the Chief Executive Officer of the Company as of the Effective Date. The CEO shall assume and discharge the duties and responsibilities assigned by the Board, and consistent with the office and position of Chief Executive Officer. The CEO shall perform faithfully the duties assigned to him to the best of his ability.

3. Salary. In consideration of the CEO's services, the CEO shall be paid a base salary at the rate of $160,000 per year during the period of employment (the "**Base Salary**"), to be paid in installments in accordance with the Company's standard payroll practices. This Base Salary shall be reviewed for increases at least annually by the Board on the same basis as the Board shall review the compensation of other executive officers of the Company, but such increases are not guaranteed.

4. At-Will Employment. The Company and the CEO acknowledge that the CEO's employment is and shall continue at all times to be at-will, as defined under applicable law. If the CEO's employment terminates for any reason, the CEO shall not be entitled to any payments, benefits, damages, awards or compensation other than as provided by this Agreement, or as may otherwise be available in accordance with the Company's established employee plans and policies or other written agreements with the CEO at the time of termination.

5. Benefits. The CEO, together with his spouse and dependent children, if any, shall be permitted, to the extent eligible, to participate at the Company's expense in any group medical, dental, life insurance and disability insurance plans, or similar benefit plans of the Company that are available to other executive officers in each case pursuant to the terms and conditions of each such plan or program. The CEO shall also be entitled to fifteen days of paid time off (PTO) annually.

6. Termination for Cause and Voluntary Termination without Good Reason. In the event that the CEO resigns from the Company without Good Reason, or the Company terminates the CEO's employment for Cause, the CEO shall not receive any compensation or benefits under this Agreement on account of such termination, except for obligations accrued at such time. The CEO's rights under any applicable Company benefit plans upon such termination shall be determined under the provisions of the respective benefit plans.

7. Termination without Cause and Voluntary Termination with Good Reason. Subject to Section 10 below, if the Company terminates the CEO's employment without Cause, or the CEO

resigns from the Company for Good Reason, then the CEO shall receive severance payments and partial acceleration of the vesting of the Options (as defined below) (together the "**Severance Benefits**") pursuant to Sections 7(a) and (b) below:

(a) Severance Payments. After the date of such termination, the Company shall continue to pay the CEO at a rate based on his then Base Salary and target annual bonus, in installments in accordance with the Company's standard payroll practices, and will provide the CEO and his dependents full medical benefits, for a period of six (6) months after the date of such termination; provided; however, such payments and benefits shall terminate immediately upon the date of the CEO's commencement of new employment with another company, and the CEO shall provide the Company with written notice of his acceptance of new employment within three (3) days thereof. In the event such termination occurs within one (1) year following a Change of Control, then such payments and benefits shall continue for a period of one (1) year after the date of such termination.

(b) Vesting Acceleration. Effective upon such termination, the CEO shall receive accelerated vesting equivalent to twelve (12) months of service beyond the date of his termination with respect to the shares subject to the July 2002 Grant (as defined below) and any other options granted to the CEO after the date hereof (collectively, the "**Options**"); provided, however, that in the event such termination occurs within one (1) year following a Change of Control, then fifty percent (50%) of the then unvested shares subject to the Options, and any other options grated to the CEO, shall become vested in full. For purposes hereof, the "**July 2002 Grant**" means the option to purchase 400,000 shares of the Company's Common Stock granted to the CEO by the Board on or about July 17, 2002.

8. Death. In the event of the CEO's death, except for obligations accrued at such time, the Company shall have no obligation to pay or provide any compensation or benefits under this Agreement. The CEO's rights under the Company's benefit plans in the event of the CEO's death shall be determined under the provisions of such benefit plans.

9. Disability. In the event of the CEO's Disability, except for obligations that have accrued prior to the CEO's Disability, no compensation or benefits will be paid or provided to the CEO under this Agreement. The CEO's rights under the Company's benefit plans shall be determined under the provisions of such benefit plans.

10. Conditional Nature of Severance Benefits.

(a) Noncompete. CEO acknowledges that the nature of the Company's business is such that if CEO were to become employed by, or substantially involved in, the business of a direct competitor of the Company during the six (6) months following the termination of CEO's employment with the Company, it would be very difficult for CEO not to rely on or use the Company's trade secrets and confidential information. Thus, to avoid the likely disclosure of the Company's trade secrets and confidential information, CEO agrees and acknowledges that CEO's

right to receive the Severance Benefits set forth above (to the extent Executive is otherwise entitled to such Severance Benefits) shall be conditioned upon CEO not directly engaging in (whether as an employee, consultant, agent, proprietor, principal, partner, stockholder (other than as a holder of less than five percent (5%) of the outstanding shares of capital stock of a public company), corporate officer, director or otherwise), nor having participation in the financing, operation, management or control of, any person, firm, corporation or business that directly competes with the Company. Upon any breach of this Section 10 or Section 13 below, all Severance Benefits to which the CEO may be entitled, if any, pursuant to this Agreement shall immediately cease. Nothing in this Section 10(a) or in this Agreement shall be construed to lessen or obviate the CEO's obligations pursuant to Section 12 hereof and the Proprietary Information Agreement described therein in any manner whatsoever.

11. Other Activities. The CEO shall devote substantially all of his working time and efforts during the Company's normal business hours to the business and affairs of the Company and its subsidiaries and to the diligent and faithful performance of the duties and responsibilities duly assigned to him pursuant to this Agreement, except for vacations, holidays and sickness. However, the CEO may devote a reasonable amount of his time to civic, community, or charitable activities and, with the prior written approval of the Company, to serve as a director of other corporations and to other types of business or public activities not expressly mentioned in this paragraph.

12. Proprietary Information. During the period of employment and thereafter, the CEO shall not, without the prior written consent of the Company, disclose or use for any purpose (except in the course of his employment under this Agreement and in furtherance of the business of the Company or any of its affiliates or subsidiaries) any confidential information or proprietary data of the Company. The CEO's obligations as such are set forth more fully under the Company's form of Proprietary Information Agreement entered into by the CEO.

13. Covenant Not to Solicit. Beginning with the date of the CEO's termination and until one (1) year thereafter, the CEO agrees that he will not:

(i) solicit, encourage, or take any other action which is intended to induce any other employee of the Company to terminate his employment with the Company, or

(ii) interfere in any manner with the contractual or employment relationship between the Company and any employee of the Company.

14. Tax Provisions. In the event that the benefits provided for in the Agreement, when aggregated with any other payments or benefits received by the CEO, would (i) constitute "parachute payments" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "**Code**"), and (ii) would be subject to the excise tax imposed by Section 4999 of the Code (the "**Excise Tax**"), then the CEO's benefits hereunder shall be either

(a) delivered in full, or

(b) delivered as to such lesser extent which would result in no portion of such benefits being subject to the Excise Tax,

whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the Excise Tax, results in the receipt by the CEO on an after-tax basis, of the greatest amount of benefits, notwithstanding that all or some portion of such benefits may be taxable under Section 4999 of the Code. Unless the Company and the CEO otherwise agree in writing, any determination required under this paragraph shall be made in writing by the Company's independent public accountants (the "**Accountants**") whose determination shall be conclusive and binding upon the CEO and the Company for all purposes. For purposes of making the calculations required by this paragraph, the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company and the CEO shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this paragraph.

15. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California applicable to agreements made and to be performed entirely within such state, without regard to principles of conflicts of laws.

16. Integration. This Agreement, any written agreements or other documents evidencing matters referred to herein and any written Company existing plans that are referenced herein represent the entire agreement and understanding between the parties as to the subject matter hereof and thereof and supersede all prior or contemporaneous agreements as to the subject matter hereof and thereof, whether written or oral.

17. Notices. Notices and all other communications contemplated by this Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by U.S. registered or certified mail, return receipt requested and postage prepaid. In the case of the CEO, mailed notices shall be addressed to him at the home address that he most recently communicated to the Company in writing. In the case of the Company, mailed notices shall be addressed to its corporate headquarters, and all notices shall be directed to the attention of its Chief Financial Officer.

18. Waiver etc. No waiver, alteration, or modification, if any, of the provisions of this Agreement shall be binding unless in writing and signed by duly authorized representatives of the parties hereto. If either party should waive any breach of any provisions of this Agreement, such party shall not thereby be deemed to have waived any preceding or succeeding breach of the same or any other provision of this Agreement.

19. Severability. If any term of this Agreement is held by a court of competent jurisdiction to be invalid, void or unenforceable, then the remainder of the terms of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

20. Counterparts. This Agreement may be executed in counterparts, which together will constitute one instrument.

(Remainder of page intentionally left blank)

The parties have executed this Agreement as of the date first above written.

"Company"

Monolithic Power Systems, Inc.

/s/ Jim Moyer
Board Member MPS
Jim Moyer
23 Aug 2002

By: /s/ Brian McDonald
Name: Brian McDonald
Title: Chief Financial Officer

"CEO"

/s/ Michael Hsing
Name: Michael Hsing

Exhibit 10.8

MONOLITHIC POWER SYSTEMS, INC.

EMPLOYMENT AGREEMENT

This Employment Agreement (this "**Agreement**") by and between Timothy Christoffersen (**"Executive**") and Monolithic Power Systems, Inc. (the "**Company**"), is effective as of June 22, 2004 (the "**Effective Date**").

1. Certain Definitions. For purposes of this Agreement:

(a) "**Cause**" means (i) Executive's failure to comply with lawful directions of the chief executive officer or the Board of Directors of the Company (the "**Board**"), which failure is not cured within thirty (30) days following notice to Executive of such failure; (ii) Executive personally engaging in illegal conduct that a reasonable person would know to be detrimental to the Company; (iii) Executive being convicted of a felony; or (iv) Executive committing a material act of dishonesty, fraud or misappropriation of property respecting the Company.

(b) "**Change of Control**" means a merger or consolidation of the Company with or into any other corporation or corporations, or the merger of any other corporation or corporations with or into the Company, unless the shareholders of the Company before such transaction or related set of transactions hold at least a majority of the outstanding voting equity securities of the surviving corporation, or any transaction or series of related transactions to which the Company is a party in which in excess of fifty percent (50%) of the Company's voting power is transferred by the then shareholders of the Company to third parties, excluding any consolidation or merger effected exclusively to change the domicile of the Company, or a sale of all or substantially all of the assets of the Company.

(c) "**Disability**" means Executive's inability to substantially perform Executive's duties as required by Executive's employment with or services to the Company as the result of Executive's incapacity due to physical or mental illness.

(d) "**Good Reason**" means, without Executive's consent, (i) a reduction by the Company in the base salary and/or target bonus opportunity of Executive as in effect immediately prior to such reduction, except where a substantially equivalent percentage reduction in base salary is applied to all other officers of the Company; (ii) a material reduction by the Company in the kind or level of employee benefits to which Executive is entitled immediately prior to such reduction with the result that Executive's overall benefits package is significantly reduced, except where a substantially equivalent reduction in benefits is applied to all other officers of the Company; (iii) a significant, adverse change in Executive's title, authority, responsibilities or duties, as measured against his title, authority, responsibilities or duties immediately prior to such change, which change is not reversed or modified within thirty (30) days after notice from Executive to the Board describing in reasonable detail the significant, adverse change; or (iv) the relocation of Executive's place of work to a facility or a location more than thirty-five (35) miles from Executive's then-present work location.

2. Employment and Duties. As of the Effective Date, Executive will serve as Chief Financial Officer of the Company. Executive will render such business and professional services in the performance of his duties, consistent with Executive's position within the Company, as will reasonably be assigned to him by the Board and the Company's Chief Executive Officer. Executive will perform faithfully the duties assigned to him to the best of his ability. Executive may devote a reasonable amount of his time to civic, community, or charitable activities and, with the prior written approval of the Company, to serve as a director of other corporations and to other types of business or public activities not expressly mentioned in this paragraph. The Company specifically approves Executive's service as a director of Genesis Microchip Incorporated and Executive's expert witness activities in a semiconductor matter.

3. Compensation.

(a) Salary. In consideration of Executive's services, Executive will be paid a base salary at the rate of no less than $170,000 per year during the period of employment (the "**Base Salary**"), to be paid in installments in accordance with the Company's standard payroll practices. The Board will review the Base Salary for increases at least annually on the same basis as the Board will review the compensation of other executive officers of the Company, but such increases are not guaranteed.

(b) Bonus. Executive's annual target bonus will be payable upon achievement of personal and Company specific performance objectives established by the Board or the Compensation Committee of the Board (the "**Committee**").

(c) Stock Options.

(i) Initial Option. Subject to approval of the Board or the Committee, Executive will be granted a stock option to purchase 250,000 shares of the Company's Common Stock ("**Common Stock**") (as adjusted for stock splits, stock dividends and similar events between the date this Agreement is executed by both parties and the date of grant) at an exercise price equal to $10.00 per share (the "**Initial Option**"). Subject to the accelerated vesting provisions set forth herein, the Initial Option will be vested and exercisable on the date of grant as to 70,000 shares subject to the Initial Option. The remaining 180,000 shares subject to the Initial Option will vest as to 1/36th of such shares each month following the Effective Date, so that the Initial Option will be fully vested and exercisable three (3) years from the Effective Date, subject to Executive's continued service to the Company through the relevant vesting dates. The Initial Option will be subject to the terms, definitions and provisions of the Company's stock plan (the "**Option Plan**") and the stock option agreement by and between Executive and the Company (the "**Option Agreement**"), both of which documents are incorporated herein by reference.

(ii) Director Options. All of Executive's options to purchase Common Stock granted to him prior to the Effective Date in his capacity as a member of the Board (the "**Director Options**") will be cancelled and terminate to the extent any such options have not vested

as of the Effective Date. Executive will have no further rights with respect to such cancelled Director Options or the shares subject to such options. All vested Director Options that remain outstanding following the Effective Date will continue to be subject to the terms and conditions of the plan under which they were granted, if any, and any agreements between Executive and the Company relating to such options.

(iii) Post-Termination Exercise Period. In the event that Executive resigns from the Company or the Company terminates Executive's employment for any reason at any time, Executive will have six (6) months following such resignation or termination to exercise all outstanding Options (as defined in Section 8).

4. At-Will Employment. The parties agree that Executive's employment with the Company will be "at-will" employment and may be terminated at any time with or without cause or notice. Executive understands and agrees that neither his job performance nor promotions, commendations, bonuses or the like from the Company give rise to or in any way serve as the basis for modification, amendment, or extension, by implication or otherwise, of his employment with the Company. If Executive's employment terminates for any reason, Executive will not be entitled to any payments, benefits, damages, awards or compensation other than as provided by this Agreement, or as may otherwise be available in accordance with the Company's established employee plans and policies or other written agreements with Executive at the time of termination.

5. Benefits. The Company will reimburse Executive for his monthly health insurance premiums for coverage Executive has with Blue Cross as of the Effective Date, not to exceed the amount the Company would have otherwise paid to have Executive and his eligible dependents covered under the Company's group health insurance had Executive elected such coverage. In the event Executive or any of his eligible dependents become covered under the Company's group health insurance, the Company will no longer reimburse Executive for premiums Executive and his eligible dependents incur for coverage outside of the Company's health coverage. Executive, together with his spouse and dependent children, if any, will be permitted, to the extent eligible, to participate in any group dental, life insurance and disability insurance plans, or similar benefit plans of the Company that are available to other executive officers in each case pursuant to the terms and conditions of each such plan or program. The Company reserves the right to cancel or change the benefit plans and programs it offers to its employees at any time.

6. Paid Time Off. Executive will be entitled to fifteen (15) days of paid time off (PTO) annually in accordance with the Company's policy (including, without limitation, its policy relation to maximum accrual), with the timing and duration of specific vacations mutually and reasonably agreed to by the parties hereto.

7. Expenses and Perquisites. The Company will reimburse the reasonable travel, entertainment or other expenses incurred by Executive in the furtherance of or in connection with the performance of his duties hereunder, in accordance with the Company's expense reimbursement policy as in effect from time to time. In addition, for the first twelve (12) months following the

Effective Date that Executive is employed hereunder, the Company will provide Executive with a housing allowance of $2,000 per month, less applicable withholding taxes. In the event Executive's employment with the Company terminates for any reason within twelve (12) months of the Effective Date, the Company will cease providing Executive with such housing allowance.

8. Change of Control. Upon a Change of Control that occurs while Executive is an employee of the Company, the Initial Option together with all stock options granted by the Company to Executive whether granted on, or after the Effective Date (the "**Options**") will become fully vested and exercisable as of the date of the Change of Control to the extent such Options are outstanding and unexercisable at such time and all stock subject to a right of repurchase by the Company issued by the Company to Executive ("**Restricted Stock**") that was issued prior to the Change of Control will have such right of repurchase lapse with respect to all of the shares as of the date of the Change of Control.

9. Termination.

(a) Termination for Cause and Voluntary Termination without Good Reason. In the event that Executive resigns from the Company without Good Reason, or the Company terminates Executive's employment for Cause, Executive will not receive any compensation or benefits under this Agreement on account of such termination, except for obligations accrued at such time. Executive's rights under any applicable Company benefit plans upon such termination will be determined under the provisions of the respective benefit plans as they may be in effect from time to time.

(b) Termination for other than Cause, Death or Disability and Voluntary Termination with Good Reason. Subject to Sections 8 and 10 hereof, if the Company terminates Executive's employment for other than Cause, death or disability, or Executive resigns from the Company for Good Reason, then Executive will receive accelerated vesting equivalent to twelve (12) months of service beyond the date of his termination with respect to the Options and Restricted Stock in addition to Executive's rights under any applicable Company benefit plans determined under the provisions of the respective benefit plans as they may be in effect from time to time.

(c) Termination for other than Cause, Death or Disability and Voluntary Termination with Good Reason within Eighteen Months Following a Change of Control. Subject to Section 10 below, if within eighteen (18) following a Change of Control (i) the Company terminates Executive's employment with the Company other than for Cause, death or disability, or (ii) Executive resigns from his employment with the Company for Good Reason, then, in addition to the benefits described in Section 9(b), Executive will be entitled to receive a lump sum payment (less applicable withholding taxes) equal to six (6) months of Executive's Base Salary, as then in effect or (if greater) at the level in effect immediately prior to the Change of Control.

(d) Death. In the event of Executive's death, except for obligations accrued at such time, the Company will have no obligation to pay or provide any compensation or benefits

under this Agreement. Executive's rights under the Company's benefit plans in the event of Executive's death will be determined under the provisions of such benefit plans as they may be in effect from time to time.

(e) Disability. In the event of Executive's Disability, except for obligations that have accrued prior to Executive's Disability, no compensation or benefits will be paid or provided to Executive under this Agreement. Executive's rights under the Company's benefit plans will be determined under the provisions of such benefit plans as they may be in effect from time to time.

10. Conditional Nature of Severance Benefits.

(a) Separation Agreement and Release of Claims. The receipt of any severance pursuant to Section 9(b) or (c) will be subject to Executive signing and not revoking a separation agreement and release of claims in a form reasonably acceptable to the Company. No severance pursuant to such Section will be paid or provided until the separation agreement and release agreement becomes effective.

(b) No Duty to Mitigate. Executive will not be required to mitigate the amount of any payment contemplated by this Agreement, nor will any earnings that Executive may receive from any other source reduce any such payment.

11. Sale Restriction. Without the Company's consent, Executive agrees and acknowledges that he will not offer, pledge, sell, contract to sell, sell any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any securities of the Company or enter into any swap, hedging or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any securities of the Company (whether acquired before, on, or after the Effective Date of this Agreement) until the later of (i) June 22, 2005 or (ii) 180 days after the effective date of the first registration statement that is filed by the Company under the Securities Act of 1933, as amended. This Section 11 will be in addition to any other restrictions to which Executive may otherwise be subject and will not supercede any other agreements or arrangements concerning the same subject matter.

12. Proprietary Information. During the period of employment and thereafter, Executive will not, without the prior written consent of the Company, disclose or use for any purpose (except in the course of his employment under this Agreement and in furtherance of the business of the Company or any of its affiliates or subsidiaries) any confidential information or proprietary data of the Company. Executive agrees to enter into the Company's Confidential Information and Invention Assignment Agreement ("**Confidentiality Agreement**") upon commencing employment hereunder.

13. Covenant Not to Solicit. Beginning with the date of Executive's termination and until one (1) year thereafter, Executive agrees that he will not:

(i) solicit, encourage, or take any other action which is intended to induce any other employee of the Company to terminate his employment with the Company, or

(ii) interfere in any manner with the contractual or employment relationship between the Company and any employee of the Company.

14. Arbitration.

(a) General. In consideration of Executive's service to the Company, its promise to arbitrate all employment related disputes and Executive's receipt of the compensation, pay raises and other benefits paid to Executive by the Company, at present and in the future, Executive agrees that any and all controversies, claims, or disputes with anyone (including the Company and any employee, officer, director, shareholder or benefit plan of the Company in their capacity as such or otherwise) arising out of, relating to, or resulting from Executive's service to the Company under this Agreement or otherwise or the termination of Executive's service with the Company, including any breach of this Agreement, will be subject to binding arbitration under the Arbitration Rules set forth in California Code of Civil Procedure Section 1280 through 1294.2, including Section 1283.05 (the "**Rules**") and pursuant to California law. Disputes which Executive agrees to arbitrate, and thereby agrees to waive any right to a trial by jury, include any statutory claims under state or federal law, including, but not limited to, claims under Title VII of the Civil Rights Act of 1964, the Americans with Disabilities Act of 1990, the Age Discrimination in Employment Act of 1967, the Older Workers Benefit Protection Act, the California Fair Employment and Housing Act, the California Labor Code, claims of harassment, discrimination or wrongful termination and any statutory claims. Executive further understands that this Agreement to arbitrate also applies to any disputes that the Company may have with Executive.

(b) Procedure. Executive agrees that any arbitration will be administered by the American Arbitration Association ("**AAA**") and that a neutral arbitrator will be selected in a manner consistent with its National Rules for the Resolution of Employment Disputes. The arbitration proceedings will allow for discovery according to the rules set forth in the *National Rules for the Resolution of Employment Disputes or California Code of Civil Procedure*. Executive agrees that the arbitrator will have the power to decide any motions brought by any party to the arbitration, including motions for summary judgment and/or adjudication and motions to dismiss and demurrers, prior to any arbitration hearing. Executive agrees that the arbitrator will issue a written decision on the merits. Executive also agrees that the arbitrator will have the power to award any remedies, including attorneys' fees and costs, available under applicable law. Executive understands the Company will pay for any administrative or hearing fees charged by the arbitrator or AAA except that Executive will pay the first $125.00 of any filing fees associated with any arbitration Executive initiates. Executive agrees that the arbitrator will administer and conduct any arbitration in a manner consistent with the Rules and that to the extent that the AAA's National Rules for the Resolution of Employment Disputes conflict with the Rules, the Rules will take precedence.

(c) Remedy. Except as provided by the Rules, arbitration will be the sole, exclusive and final remedy for any dispute between Executive and the Company. Accordingly, except as provided for by the Rules, neither Executive nor the Company will be permitted to pursue court action regarding claims that are subject to arbitration. Notwithstanding, the arbitrator will not have the authority to disregard or refuse to enforce any lawful Company policy, and the arbitrator will not order or require the Company to adopt a policy not otherwise required by law which the Company has not adopted.

(d) Availability of Injunctive Relief. In addition to the right under the Rules to petition the court for provisional relief, Executive agrees that any party may also petition the court for injunctive relief where either party alleges or claims a violation of this Agreement or the Confidentiality Agreement or any other agreement regarding trade secrets, confidential information, nonsolicitation or Labor Code §2870. In the event either party seeks injunctive relief, the prevailing party will be entitled to recover reasonable costs and attorneys' fees.

(e) Administrative Relief. Executive understands that this Agreement does not prohibit Executive from pursuing an administrative claim with a local, state or federal administrative body such as the Department of Fair Employment and Housing, the Equal Employment Opportunity Commission or the workers' compensation board. This Agreement does, however, preclude Executive from pursuing court action regarding any such claim.

(f) Voluntary Nature of Agreement. Executive acknowledges and agrees that Executive is executing this Agreement voluntarily and without any duress or undue influence by the Company or anyone else. Executive further acknowledges and agrees that Executive has carefully read this Agreement and that Executive has asked any questions needed for Executive to understand the terms, consequences and binding effect of this Agreement and fully understand it, including that Executive is waiving Executive's right to a jury trial. Finally, Executive agrees that Executive has been provided an opportunity to seek the advice of an attorney of Executive's choice before signing this Agreement.

15. Tax Provisions. In the event that the benefits provided for in the Agreement, when aggregated with any other payments or benefits received by Executive, would (i) constitute "parachute payments" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "**Code**"), and (ii) would be subject to the excise tax imposed by Section 4999 of the Code (the "**Excise Tax**"), then Executive's benefits hereunder will be either

(a) delivered in full, or

(b) delivered as to such lesser extent which would result in no portion of such benefits being subject to the Excise Tax,

whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the Excise Tax, results in the receipt by Executive on an after-tax basis, of the greatest amount of benefits, notwithstanding that all or some portion of such benefits may be taxable

under Section 4999 of the Code. Unless the Company and Executive otherwise agree in writing, any determination required under this paragraph will be made in writing by the Company's independent public accountants (the "**Accountants**") whose determination will be conclusive and binding upon Executive and the Company for all purposes. For purposes of making the calculations required by this paragraph, the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company and Executive will furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this paragraph.

16. Governing Law. This Agreement will be governed by and construed in accordance with the laws of the State of California applicable to agreements made and to be performed entirely within such state, without regard to principles of conflicts of laws.

17. Integration. This Agreement, the Confidentiality Agreement, any written agreements or other documents evidencing matters referred to herein and any written Company existing plans that are referenced herein represent the entire agreement and understanding between the parties as to the subject matter hereof and thereof and supersede all prior or contemporaneous agreements as to the subject matter hereof and thereof, whether written or oral.

18. Notices. Notices and all other communications contemplated by this Agreement will be in writing and will be deemed to have been duly given when personally delivered or when mailed by U.S. registered or certified mail, return receipt requested and postage prepaid. In the case of Executive, mailed notices will be addressed to him at the home address that he most recently communicated to the Company in writing. In the case of the Company, mailed notices will be addressed to its corporate headquarters, and all notices will be directed to the attention of its Chief Financial Officer.

19. Waiver etc. No waiver, alteration, or modification, if any, of the provisions of this Agreement will be binding unless in writing and signed by duly authorized representatives of the parties hereto. If either party should waive any breach of any provisions of this Agreement, such party will not thereby be deemed to have waived any preceding or succeeding breach of the same or any other provision of this Agreement.

20. Severability. If any term of this Agreement is held by a court of competent jurisdiction to be invalid, void or unenforceable, then the remainder of the terms of this Agreement will remain in full force and effect and will in no way be affected, impaired or invalidated.

21. Counterparts. This Agreement may be executed in counterparts, which together will constitute one instrument.

The parties have executed this Agreement as of the date first above written.

"Company"

Monolithic Power Systems, Inc.

By: /s/ Michael Hsing Date: 7/8/2004

Name: Michael Hsing

Title: CEO

"Executive"

/s/ Tim Christoffersen Date: July 7, 2004

Name: Tim Christoffersen

Exhibit 10.9

MONOLITHIC POWER SYSTEMS, INC.

EMPLOYMENT AGREEMENT

This Employment Agreement (this "**Agreement**") by and between James Moyer (the "**Executive**") and Monolithic Power Systems, Inc. (the "**Company**"), is entered into as of September 12, 2002 (the "**Effective Date**").

WHEREAS, the Executive has been employed by the Company as the Company's Chief Design Engineer;

WHEREAS, the Executive and the Company desire to enter into this Agreement in connection with the employment relationship between the Company and the Executive;

NOW, THEREFORE, the parties hereto agree as follows:

1. Certain Definitions. For purposes of this Agreement:

(a) "**Cause**" means (i) the Executive's failure to perform the duties or responsibilities of his employment, in any material respect, as reasonably required or directed by the Chief Executive Officer and/or the Board of Directors of the Company (the "**Board**"), which failure is not cured within thirty (30) days following notice to the Executive of the poor performance which notice describes in reasonable detail the poor performance; (ii) the Executive personally engaging in illegal conduct that is detrimental to the Company; (iii) the Executive being convicted of a felony; or (iv) the Executive committing a material act of dishonesty, fraud or misappropriation of property.

(b) "**Good Reason**" means, without the Executive's consent, (i) a reduction by the Company in the base salary of the Executive as in effect immediately prior to such reduction, except where a substantially equivalent percentage reduction in base salary is applied to all other officers of the Company; (ii) a material reduction by the Company in the kind or level of employee benefits to which the Executive is entitled immediately prior to such reduction with the result that the Executive's overall benefits package is significantly reduced, except where a substantially equivalent reduction in benefits is applied to all other officers of the Company; (iii) a material, adverse change in the Executive's title, authority, responsibilities or duties, as measured against his title, authority, responsibilities or duties immediately prior to such change, which change is not reversed or modified within thirty (30) days after notice from Executive to the Chief Executive Officer and the Board describing in reasonable detail the material adverse change; or (iv) the relocation of the Executive's place of work to a facility or a location more than fifty (50) miles from the Executive's then-present work location.

(c) "**Disability**" means the Executive's inability to substantially perform the Executive's duties as required by the Executive's employment with or services to the Company as the result of the Executive's incapacity due to physical or mental illness.

(i) "**Change of Control**" means a merger or consolidation of the Company with or into any other corporation or corporations, or the merger of any other corporation or corporations with or into the Company, unless the shareholders of the Company hold at least a majority of the outstanding voting equity securities of the surviving corporation, or any transaction or series of related transactions to which the Company is a party in which in excess of fifty percent (50%) of the Company's voting power is transferred by the then shareholders of the Company to third parties, excluding any consolidation or merger effected exclusively to change the domicile of the Company, or a sale of all or substantially all of the assets of the Company.

2. Employment and Duties. The Executive shall continue to be employed as the Chief Design Engineer of the Company as of the Effective Date. The Executive shall assume and discharge the duties and responsibilities assigned by the Chief Executive Officer and/or the Board, and consistent with the office and position of Chief Design Engineer;. The Executive shall perform faithfully the duties assigned to him to the best of his ability.

3. Salary. In consideration of the Executive's services, the Executive shall be paid a base salary at the rate of $123,500 per year during the period of employment (the "**Base Salary**"), to be paid in installments in accordance with the Company's standard payroll practices. This Base Salary shall be reviewed for increases at least annually by the Chief Executive Officer and/or the Board on the same basis as the Chief Executive Officer and/or the Board shall review the compensation of other executive officers of the Company, but such increases are not guaranteed.

4. At-Will Employment. The Company and the Executive acknowledge that the Executive's employment is and shall continue at all times to be at-will, as defined under applicable law. If the Executive's employment terminates for any reason, the Executive shall not be entitled to any payments, benefits, damages, awards or compensation other than as provided by this Agreement, or as may otherwise be available in accordance with the Company's established employee plans and policies or other written agreements with the Executive at the time of termination.

5. Benefits. The Executive, together with his spouse and dependent children, if any, shall be permitted, to the extent eligible, to participate at the Company's expense in any group medical, dental, life insurance and disability insurance plans, or similar benefit plans of the Company that are available to other executive officers in each case pursuant to the terms and conditions of each such plan or program. The Executive shall also be entitled to fifteen days of paid time off (PTO) annually.

6. Termination for Cause and Voluntary Termination without Good Reason. In the event that the Executive resigns from the Company without Good Reason, or the Company terminates the Executive's employment for Cause, the Executive shall not receive any compensation or benefits under this Agreement on account of such termination, except for obligations accrued at such time. The Executive's rights under any applicable Company benefit plans upon such termination shall be determined under the provisions of the respective benefit plans.

7. Termination without Cause and Voluntary Termination with Good Reason. Subject to Section 10 below, if the Company terminates the Executive's employment without Cause, or the Executive resigns from the Company for Good Reason, then the Executive shall receive severance payments and partial acceleration of the vesting of the Options (as defined below) (together the "**Severance Benefits**") pursuant to Sections 7(a) and (b) below:

(a) Severance Payments. After the date of such termination, the Company shall continue to pay the Executive at a rate based on his then Base Salary and target annual bonus, in installments in accordance with the Company's standard payroll practices, and will provide the Executive and his dependents full medical benefits, for a period of six (6) months after the date of such termination; provided; however, such payments and benefits shall terminate immediately upon the date of the Executive's commencement of new employment with another company, and the Executive shall provide the Company with written notice of his acceptance of new employment within three (3) days thereof. In the event such termination occurs within one (1) year following a Change of Control, then such payments and benefits shall continue for a period of one (1) year after the date of such termination.

(b) Vesting Acceleration. Effective upon such termination, the Executive shall receive accelerated vesting equivalent to twelve (12) months of service beyond the date of his termination with respect to the shares subject to the July 2002 Grant (as defined below) and any other options granted to the Executive after the date hereof (collectively, the "**Options**"); provided, however, that in the event such termination occurs within one (1) year following a Change of Control, then fifty percent (50%) of the then unvested shares subject to the Options, and any other options grated to the Executive, shall become vested in full. For purposes hereof, the "**July 2002 Grant**" means the option to purchase 250,000 shares of the Company's Common Stock granted to the Executive by the Board on or about July 17, 2002.

8. Death. In the event of the Executive's death, except for obligations accrued at such time, the Company shall have no obligation to pay or provide any compensation or benefits under this Agreement. The Executive's rights under the Company's benefit plans in the event of the Executive's death shall be determined under the provisions of such benefit plans.

9. Disability. In the event of the Executive's Disability, except for obligations that have accrued prior to the Executive's Disability, no compensation or benefits will be paid or provided to the Executive under this Agreement. The Executive's rights under the Company's benefit plans shall be determined under the provisions of such benefit plans.

10. Conditional Nature of Severance Benefits.

(a) Noncompete. The Executive acknowledges that the nature of the Company's business is such that if Executive were to become employed by, or substantially involved in, the business of a direct competitor of the Company during the six (6) months following the termination of the Executive's employment with the Company, it would be very difficult for Executive not to

rely on or use the Company's trade secrets and confidential information. Thus, to avoid the likely disclosure of the Company's trade secrets and confidential information, the Executive agrees and acknowledges that Executive's right to receive the Severance Benefits set forth above (to the extent Executive is otherwise entitled to such Severance Benefits) shall be conditioned upon the Executive not directly engaging in (whether as an employee, consultant, agent, proprietor, principal, partner, stockholder (other than as a holder of less than five percent (5%) of the outstanding shares of capital stock of a public company), corporate officer, director or otherwise), nor having participation in the financing, operation, management or control of, any person, firm, corporation or business that directly competes with the Company. Upon any breach of this Section 10 or Section 13 below, all Severance Benefits to which the Executive may be entitled, if any, pursuant to this Agreement shall immediately cease. Nothing in this Section 10(a) or in this Agreement shall be construed to lessen or obviate the Executive's obligations pursuant to Section 12 hereof and the Proprietary Information Agreement described therein in any manner whatsoever.

11. Other Activities. The Executive shall devote substantially all of his working time and efforts during the Company's normal business hours to the business and affairs of the Company and its subsidiaries and to the diligent and faithful performance of the duties and responsibilities duly assigned to him pursuant to this Agreement, except for vacations, holidays and sickness. However, the Executive may devote a reasonable amount of his time to civic, community, or charitable activities and, with the prior written approval of the Company, to serve as a director of other corporations and to other types of business or public activities not expressly mentioned in this paragraph.

12. Proprietary Information. During the period of employment and thereafter, the Executive shall not, without the prior written consent of the Company, disclose or use for any purpose (except in the course of his employment under this Agreement and in furtherance of the business of the Company or any of its affiliates or subsidiaries) any confidential information or proprietary data of the Company. The Executive's obligations as such are set forth more fully under the Company's form of Proprietary Information Agreement entered into by the Executive.

13. Covenant Not to Solicit. Beginning with the date of the Executive's termination and until one (1) year thereafter, the Executive agrees that he will not:

(i) solicit, encourage, or take any other action which is intended to induce any other employee of the Company to terminate his employment with the Company, or

(ii) interfere in any manner with the contractual or employment relationship between the Company and any employee of the Company.

14. Tax Provisions. In the event that the benefits provided for in the Agreement, when aggregated with any other payments or benefits received by the Executive, would (i) constitute "parachute payments" within the meaning of Section 280G of the Internal Revenue Code of 1986, as

amended (the "**Code**"), and (ii) would be subject to the excise tax imposed by Section 4999 of the Code (the "**Excise Tax**"), then the Executive's benefits hereunder shall be either

(a) delivered in full, or

(b) delivered as to such lesser extent which would result in no portion of such benefits being subject to the Excise Tax,

whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the Excise Tax, results in the receipt by the Executive on an after-tax basis, of the greatest amount of benefits, notwithstanding that all or some portion of such benefits may be taxable under Section 4999 of the Code. Unless the Company and the Executive otherwise agree in writing, any determination required under this paragraph shall be made in writing by the Company's independent public accountants (the "**Accountants**") whose determination shall be conclusive and binding upon the Executive and the Company for all purposes. For purposes of making the calculations required by this paragraph, the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company and the Executive shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this paragraph.

15. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California applicable to agreements made and to be performed entirely within such state, without regard to principles of conflicts of laws.

16. Integration. This Agreement, any written agreements or other documents evidencing matters referred to herein and any written Company existing plans that are referenced herein represent the entire agreement and understanding between the parties as to the subject matter hereof and thereof and supersede all prior or contemporaneous agreements as to the subject matter hereof and thereof, whether written or oral.

17. Notices. Notices and all other communications contemplated by this Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by U.S. registered or certified mail, return receipt requested and postage prepaid. In the case of the Executive, mailed notices shall be addressed to him at the home address that he most recently communicated to the Company in writing. In the case of the Company, mailed notices shall be addressed to its corporate headquarters, and all notices shall be directed to the attention of its Chief Financial Officer.

18. Waiver etc. No waiver, alteration, or modification, if any, of the provisions of this Agreement shall be binding unless in writing and signed by duly authorized representatives of the parties hereto. If either party should waive any breach of any provisions of this Agreement, such party shall not thereby be deemed to have waived any preceding or succeeding breach of the same or any other provision of this Agreement.

19. Severability. If any term of this Agreement is held by a court of competent jurisdiction to be invalid, void or unenforceable, then the remainder of the terms of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

20. Counterparts. This Agreement may be executed in counterparts, which together will constitute one instrument.

(Remainder of page intentionally left blank)

The parties have executed this Agreement as of the date first above written.

"Company"

Monolithic Power Systems, Inc.

By: /s/ Michael Hsing

Name: Michael Hsing
Title: Chief Executive Officer

"Executive"

/s/ James Moyer

Name: James Moyer

Exhibit 10.10

MONOLITHIC POWER SYSTEMS, INC HAS REQUESTED THAT PORTIONS OF THIS DOCUMENT BE ACCORDED CONFIDENTIAL TREATMENT PURSUANT TO RULE 406 OF REGULATION C PROMULGATED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. ACCORDINGLY, CERTAIN INFORMATION IN THIS EXHIBIT HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. OMITTED INFORMATION HAS BEEN REPLACED BY [*].

SEPARATION AGREEMENT AND RELEASE

RECITALS

This Separation Agreement and Release ("Agreement") is made by and between Brian McDonald ("Employee") and Monolithic Power Systems, Inc. (the "Company") (jointly referred to as the "Parties"):

WHEREAS, Employee was employed by the Company;

WHEREAS, the Employee and the Company entered into an Employment Agreement effective July 26, 2002 (the "Employment Agreement");

WHEREAS, the Company and Employee entered into an Employee Confidential Information and Invention Assignment Agreement dated August 5, 2002 (the "Confidentiality Agreement");

WHEREAS, the Company granted Employee an option ("Option 1") to purchase 400,000 shares of the Company's common stock ("Common Stock") on August 20, 2002 under the Company's 1998 Stock Plan (the "Plan"), subject to the terms of the Plan and the option agreement executed by the Company and Employee relating to Option 1 ("Option Agreement 1"), an option ("Option 2") to purchase 40,000 shares of Common Stock on November 6, 2003 under the Plan, subject to the terms of the Plan and the option agreement executed by the Company and Employee relating to Option 2 ("Option Agreement 2"), and an option ("Option 3" and together with Option 1 and Option 2, the "Options") to purchase 10,000 shares of Common Stock on January 28, 2004 under the Plan, subject to the terms of the Plan and the option agreement executed by the Company and Employee relating to Option 3 ("Option Agreement 3" and together with Option Agreement 1 and Option Agreement 2, the "Option Agreements");

WHEREAS, the Company has agreed to accept Employee's resignation as its Vice President of Finance and Administration and Chief Financial Officer and his relinquishment of all other officer and director positions with the Company and its affiliates as of June 22, 2004 (the "Resignation Date"); and

WHEREAS, the Parties wish to resolve any and all disputes, claims, complaints, grievances, charges, actions, petitions and demands that the Employee may have against the Company, including, but not limited to, any and all claims arising or in any way related to Employee's employment with or separation from the Company.

NOW THEREFORE, in consideration of the promises made herein, the Parties hereby agree as follows:

COVENANTS

1. Consideration.

(a) Severance Payment. The Company agrees to pay Employee the lump sum equivalent of two (2) weeks of his base salary (as in effect on the Resignation Date), less applicable withholding, in accordance with the Company's regular payroll practices. This payment will be made to Employee within five (5) business days after the Effective Date.

(b) Consulting. Commencing on the Resignation Date, Employee will make himself available to serve as a consultant to the Company through September 24, 2004 (the "Consulting Term"), pursuant to the written consulting agreement (the "Consulting Agreement"), attached hereto as Exhibit A.

2. Options. The Parties acknowledge and agree that one hundred eighty three thousand three hundred thirty-three (183,333) shares of Common Stock subject to Option 1 have vested as of the Resignation Date, zero (0) shares of Common Stock subject to Option 2 have vested as of the Resignation Date, and zero (0) shares of Common Stock subject to Option 3 have vested as of the Resignation Date. The Parties hereby agree that no further shares will vest under the Options from and after the Resignation Date. The vested portion of Option 1 will remain outstanding following the Resignation Date and will continue to be subject to the terms and conditions of the Plan and the applicable Option Agreement. Option 2 and Option 3 will cease to exist and be cancelled and Employee will have no further rights with respect to Option 2 and Option 3. The portion of Option 1 that has not vested as of the Resignation Date will cease to exist and be cancelled and Employee will have no further rights with respect to such unvested portion of Option 1. Employee will continue to be a Service Provider for purposes of the Plan and the Option Agreements, pursuant to the Consulting Agreement. The Company shall provide written notice to Employee not more than five (5) business days after Employee ceases to be a Service Provider for purposes of the Plan and Option Agreements; *provided, however*, that the Company shall have no obligation to provide such notice when Employee ceases to be a Service Provider for purposes of the Plan and Option Agreements because the Consulting Agreement expires by its own terms. Employee acknowledges that if any of the Options have been classified as "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, such Options will convert into nonstatutory stock options three (3) months and one (1) day after the Resignation Date. Furthermore, Employee acknowledges that in the event the Options are classified as nonstatutory stock options on the date such Options are exercised, the income recognized upon such exercise will be considered wages that must be reported on Employee's W-2 and applicable tax withholding will be required. Employee agrees that the Company may refuse to process any such exercise until Employee has made arrangements satisfactory to the Company to satisfy any such withholding obligations.

3. Benefits. Employee's health insurance benefits will cease on June 30, 2004, subject to Employee's right to continue his health insurance under COBRA. Employee's participation in all other benefits and incidents of employment will cease on the Resignation Date. Employee will cease accruing employee benefits, including, but not limited to, vacation time and paid time off, as of the Resignation Date.

4. Confidential Information. Employee will continue to maintain the confidentiality of all confidential and proprietary information of the Company and will continue to comply with the terms and conditions of the Confidentiality Agreement between Employee and the Company. Employee

will return all of the Company's property and confidential and proprietary information in his possession to the Company.

5. Payment of Salary and Benefits. Employee acknowledges and represents that the Company has paid all salary, wages, bonuses, accrued vacation, commissions and any and all other benefits due to Employee through the Resignation Date. Employee ceased accruing employee benefits, including, but not limited to, vacation time and paid time off, as of the Resignation Date.

6. Release of Claims. Employee agrees that the foregoing consideration represents settlement in full of all outstanding obligations owed to Employee by the Company and its officers, managers, supervisors, agents and employees. Employee, on his own behalf, and on behalf of his respective heirs, family members, executors, agents, and assigns, hereby fully and forever releases the Company and its current and former officers, directors, employees, agents, investors, shareholders, attorneys, administrators, affiliates, divisions, subsidiaries, predecessor and successor corporations, and assigns ("the Releasees"), from, and agrees not to sue concerning, any claim, duty, obligation or cause of action relating to any matters of any kind, whether presently known or unknown, suspected or unsuspected, that Employee may possess arising from any omissions, acts or facts that have occurred up until and including the Effective Date of this Agreement including, without limitation:

(a) any and all claims relating to or arising from Employee's employment relationship with the Company and the termination of that relationship;

(b) any and all claims relating to, or arising from, Employee's right to purchase, or actual purchase of shares of stock of the Company, including, without limitation, any claims for fraud, misrepresentation, breach of fiduciary duty, breach of duty under applicable state corporate law, and securities fraud under any state or federal law;

(c) any and all claims under the law of any jurisdiction including, but not limited to, wrongful discharge of employment, constructive discharge from employment, termination in violation of public policy, discrimination, harassment, retaliation, fraud, fraudulent inducement, breach of contract, both express and implied, breach of a covenant of good faith and fair dealing, both express and implied; promissory estoppel, negligent or intentional infliction of emotional distress, negligent or intentional misrepresentation, negligent or intentional interference with contract or prospective economic advantage, unfair business practices, defamation, libel, slander, negligence, personal injury, assault, battery, invasion of privacy, false imprisonment, conversion, workers' compensation and disability benefits;

(d) any and all claims for violation of any federal, state or municipal statute, including, but not limited to, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Age Discrimination in Employment Act of 1967, the Americans with Disabilities Act of 1990, the Fair Labor Standards Act, the Family and Medical Leave Act, the California Family Rights Act, the Employee Retirement Income Security Act of 1974, the Older Workers Benefit Protection Act, The Worker Adjustment and Retraining Notification Act, the California Fair Employment and Housing Act, and the California Labor Code;

(e) any and all claims for violation of the federal, or any state, constitution;

(f) any and all claims arising out of any other laws and regulations relating to employment or employment discrimination;

(g) any claim for any loss, cost, damage, or expense arising out of any dispute over the non-withholding or other tax treatment of any of the proceeds received by Employee as a result of this Agreement; and

(h) any and all claims for attorneys' fees and costs.

The Company and Employee agree that the release set forth in this section will be and remain in effect in all respects as a complete general release as to the matters released. This release does not extend to any obligations incurred under this Agreement.

7. Acknowledgement of Waiver of Claims Under ADEA. Employee acknowledges that he is waiving and releasing any rights he may have under the Age Discrimination in Employment Act of 1967 ("ADEA") and that this waiver and release is knowing and voluntary. Employee and the Company agree that this waiver and release does not apply to any rights or claims that may arise under ADEA after the Effective Date of this Agreement. Employee acknowledges that the consideration given for this waiver and release Agreement is in addition to anything of value to which Employee was already entitled. Employee further acknowledges that he has been advised by this writing that:

(a) he should consult with an attorney prior to executing this Agreement;

(b) he has up to twenty-one (21) days within which to consider this Agreement;

(c) he has seven (7) days following his execution of this Agreement to revoke the Agreement;

(d) this Agreement will not be effective until the revocation period has expired; and

(e) nothing in this Agreement prevents or precludes Employee from challenging or seeking a determination in good faith of the validity of this waiver under the ADEA, nor does it impose any condition precedent, penalties or costs for doing so, unless specifically authorized by federal law.

8. Civil Code Section 1542. Employee represents that he is not aware of any claim by him other than the claims that are released by this Agreement. Employee acknowledges that he has been advised by legal counsel and is familiar with the provisions of California Civil Code Section 1542, which provides as follows:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM

MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.

Employee, being aware of said code section, agrees to expressly waive any rights he may have thereunder, as well as under any other statute or common law principles of similar effect.

9. No Pending or Future Lawsuits. Employee represents that he has no lawsuits, claims, or actions pending in his name, or on behalf of any other person or entity, against the Company or any other person or entity referred to herein. Employee also represents that he does not intend to bring any claims on his own behalf or on behalf of any other person or entity against the Company or any other person or entity referred to herein.

10. Confidentiality. The Parties acknowledge that Employee's agreement to keep the terms and conditions of this Agreement confidential was a material factor on which all parties relied in entering into this Agreement. Employee hereto agrees to use his best efforts to maintain in confidence the existence of this Agreement, the contents and terms of this Agreement, and the consideration for this Agreement (hereinafter collectively referred to as "Settlement Information"). Employee agrees to take every reasonable precaution to prevent disclosure of any Settlement Information to third parties, and agrees that there will be no publicity, directly or indirectly, concerning any Settlement Information. Employee agrees to take every precaution to disclose Settlement Information only to those attorneys, accountants, governmental entities, and family members who have a reasonable need to know of such Settlement Information.

11. No Cooperation. Employee agrees he will not act in any manner that might damage the business of the Company. Employee agrees that he will not encourage, counsel or assist any attorneys or their clients in the presentation or prosecution of any disputes, differences, grievances, claims, charges, or complaints by any third party against any of the Releasees, unless under a subpoena or other court order to do so. Employee will inform the Company in writing within three (3) days of receiving any such subpoena or other court order.

12. Non-Disparagement. Employee agrees to refrain from any defamation, libel or slander of the Releasees, and any tortious interference with the contracts, relationships and prospective economic advantage of the Releasees. Employee agrees that he will direct all inquiries by potential future employers to Human Resources. The Company agrees that it and its executive officers will not disparage and will refrain from any defamation, libel or slander of the Employee, and any tortious interference with the contracts, relationships and prospective economic advantage of the Employee.

13. Non-Solicitation. Employee agrees that for a period of twelve (12) months immediately following the Effective Date of this Agreement, Employee will not either directly or indirectly solicit, induce, recruit or encourage any of the Company's employees or consultants to leave their employment, or attempt to do so, either for himself or any other person or entity.

14. Breach. Employee acknowledges and agrees that any breach of any provision of this Agreement will constitute a material breach of this Agreement and will entitle the Company

immediately to recover and/or cease the severance benefits provided to Employee under this Agreement.

15. No Admission of Liability. The Parties understand and acknowledge that this Agreement constitutes a compromise and settlement of actual or potential disputed claims. No action taken by the Parties hereto, or either of them, either previously or in connection with this Agreement will be deemed or construed to be:

(a) an admission of the truth or falsity of any claims made or any potential claims; or

(b) an acknowledgment or admission by either party of any fault or liability whatsoever to the other party or to any third party.

16. Costs. The Parties will each bear their own costs, expert fees, attorneys' fees and other fees incurred in connection with this Agreement, except as provided herein.

17. Arbitration. The Parties agree that any and all disputes arising out of the terms of this Agreement, their interpretation, and any of the matters herein released, will be subject to binding arbitration in Santa Clara County before the American Arbitration Association under its National Rules for the Resolution of Employment Disputes or California Code of Civil Procedure. The Parties agree that the prevailing party in any arbitration will be entitled to injunctive relief in any court of competent jurisdiction to enforce the arbitration award. The Parties agree that the prevailing party in any arbitration will be awarded its reasonable attorneys' fees and costs. **The Parties hereby agree to waive their right to have any dispute between them resolved in a court of law by a judge or jury.** This paragraph will not prevent either party from seeking injunctive relief (or any other provisional remedy) from any court having jurisdiction over the Parties and the subject matter of their dispute relating to Employee's obligations under this Agreement and the Confidentiality Agreement.

18. Tax Consequences. The Company makes no representations or warranties with respect to the tax consequences of the payment of any sums to Employee under the terms of this Agreement. Employee agrees and understands that he is responsible for payment, if any, of local, state and/or federal taxes on the sums paid hereunder by the Company and any penalties or assessments thereon. Employee further agrees to indemnify and hold the Company harmless from any claims, demands, deficiencies, penalties, assessments, executions, judgments, or recoveries by any government agency against the Company for any amounts claimed due on account of Employee's failure to pay federal or state taxes or damages sustained by the Company by reason of any such claims, including reasonable attorneys' fees.

19. Authority. The Company represents and warrants that the undersigned has the authority to act on behalf of the Company and to bind the Company and all who may claim through it to the terms and conditions of this Agreement. Employee represents and warrants that he has the capacity to act on his own behalf and on behalf of all who might claim through him to bind them to the terms and conditions of this Agreement. Each party warrants and represents that there are no liens or claims of lien or assignments in law or equity or otherwise of or against any of the claims or causes of action released herein.

20. No Representations. Each party represents that it has had the opportunity to consult with an attorney, and has carefully read and understands the scope and effect of the provisions of this Agreement. In entering into this Agreement, neither party has relied upon any representations or statements made by the other party hereto which are not specifically set forth in this Agreement.

21. Severability. In the event that any provision, or any portion thereof, becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Agreement will continue in full force and effect without said provision or portion of said provision.

22. Entire Agreement. This Agreement represents the entire agreement and understanding between the Company and Employee concerning the subject matter of this Agreement and Employee's relationship with the Company, and supersedes and replaces any and all prior agreements and understandings between the Parties concerning the subject matter of this Agreement and Employee's relationship with the Company, with the exception of the Confidentiality Agreement, the Consulting Agreement, the Plan, and, to the extent not amended hereby, the Option Agreements.

23. No Waiver. The failure of the Company to insist upon the performance of any of the terms and conditions in this Agreement, or the failure to prosecute any breach of any of the terms and conditions of this Agreement, will not be construed thereafter as a waiver of any such terms or conditions. This entire Agreement will remain in full force and effect as if no such forbearance or failure of performance had occurred.

24. No Oral Modification. This Agreement may only be amended in a writing signed by Employee and the Chief Executive Officer of the Company.

25. Governing Law. This Agreement will be construed, interpreted, governed, and enforced in accordance with the laws of the State of California, without regard to choice-of-law provisions. Employee hereby consents to personal and exclusive jurisdiction and venue in the State of California.

26. Effective Date. This Agreement will become effective on the date that (i) it has been signed by both parties and (ii) eight (8) days have passed since Employee has signed it.

27. Counterparts. This Agreement may be executed in counterparts, and each counterpart will have the same force and effect as an original and will constitute an effective, binding agreement on the part of each of the undersigned.

28. Voluntary Execution of Agreement. This Agreement is executed voluntarily and without any duress or undue influence on the part or behalf of the Parties hereto, with the full intent of releasing all claims. The Parties acknowledge that:

(a) They have read this Agreement;

(b) They have been represented in the preparation, negotiation, and execution of this Agreement by legal counsel of their own choice or that they have voluntarily declined to seek such counsel;

(c) They understand the terms and consequences of this Agreement and of the releases it contains; and

(d) They are fully aware of the legal and binding effect of this Agreement.

IN WITNESS WHEREOF, the Parties have executed this Agreement on the respective dates set forth below.

BRIAN McDONALD

Dated: 6/23/2004

By: /s/ Brian McDonald
Brian McDonald

MONOLITHIC POWER SYSTEMS, INC.

Dated: 6/23/2004

By: /s/ Michael Hsing
Name: Michael Hsing
Title: CEO

EXHIBIT A

CONSULTING AGREEMENT

MONOLITHIC POWER SYSTEMS, INC.

CONSULTING AGREEMENT

This Consulting Agreement ("**Agreement**") is effective as of June 22, 2004 by and between Monolithic Power Systems, Inc. (the "**Company**") and Brian McDonald ("**Consultant**"). The Company desires to retain Consultant as an independent contractor to perform consulting services for the Company, and Consultant is willing to perform such services, on the terms described below. In consideration of the mutual promises contained herein, the parties agree as follows:

1. *Services and Compensation*. Consultant agrees to perform for the Company the services described in Exhibit A (the "**Services**"), and the Company agrees to pay Consultant the compensation described in Exhibit A for Consultant's performance of the Services.

2. *Confidentiality*.

A. *Definition*. "**Confidential Information**" means any non-public information that relates to the actual or anticipated business or research and development of the Company, technical data, trade secrets or know-how, including, but not limited to, research, product plans or other information regarding Company's products or services and markets therefor, customer lists and customers (including, but not limited to, customers of the Company on whom Consultant called or with whom Consultant became acquainted during the term of this Agreement), software, developments, inventions, processes, formulas, technology, designs, drawing, engineering, hardware configuration information, marketing, finances or other business information. Confidential Information does not include information that (i) is known to Consultant at the time of disclosure to Consultant by the Company as evidenced by written records of Consultant, (ii) has become publicly known and made generally available through no wrongful act of Consultant or (iii) has been rightfully received by Consultant from a third party who is authorized to make such disclosure.

B. *Nonuse and Nondisclosure*. Consultant will not, during or subsequent to the term of this Agreement, (i) use the Confidential Information for any purpose whatsoever other than the performance of the Services on behalf of the Company or (ii) disclose the Confidential Information to any third party. Consultant agrees that all Confidential Information will remain the sole property of the Company. Consultant also agrees to take all reasonable precautions to prevent any unauthorized disclosure of such Confidential Information.

C. *Former Client Confidential Information*. Consultant agrees that Consultant will not, during the term of this Agreement, improperly use or disclose any proprietary information or trade secrets of any former or current employer of Consultant or other person or entity with which Consultant has an agreement or duty to keep in confidence information acquired by Consultant, if any. Consultant also agrees that Consultant will not bring onto the Company's premises any unpublished document or proprietary information belonging to any such employer, person or entity unless consented to in writing by such employer, person or entity.

D. *Third Party Confidential Information*. Consultant recognizes that the Company has received and in the future will receive from third parties their confidential or proprietary information subject to a duty on the Company's part to maintain the confidentiality of such information and to use it only for certain limited purposes. Consultant agrees that, during the term of this Agreement and thereafter, Consultant owes the Company and such third parties a duty to hold all such confidential or proprietary information in the strictest confidence and not to disclose it to any person, firm or corporation or to use it except as necessary in carrying out the Services for the Company consistent with the Company's agreement with such third party.

E. *Return of Materials*. Upon the termination of this Agreement, or upon Company's earlier request, Consultant will deliver to the Company all of the Company's property, including but not limited to all electronically stored information and passwords to access such property, or Confidential Information that Consultant may have in Consultant's possession or control.

3. *Ownership*.

A. *Assignment*. Consultant agrees that all copyrightable material, notes, records, drawings, designs, inventions, improvements, developments, discoveries and trade secrets conceived, discovered, developed or reduced to practice by Consultant, solely or in collaboration with others, during the term of this Agreement that relate to the products, technology or research and development of the Company, that are created using any facilities, equipment, supplies or trade secret information of Company or that are created in connection with performing the Services under this Agreement (collectively, "**Inventions**"), are the sole property of the Company. Consultant also agrees to assign (or cause to be assigned) and hereby assigns fully to the Company all Inventions and any copyrights, patents, mask work rights or other intellectual property rights relating to all Inventions.

B. *Further Assurances*. Consultant agrees to assist Company, or its designee, at the Company's expense, in every proper way to secure the Company's rights in Inventions and any copyrights, patents, mask work rights or other intellectual property rights relating to all Inventions in any and all countries, including the disclosure to the Company of all pertinent information and data with respect to all Inventions, the execution of all applications, specifications, oaths, assignments and all other instruments that the Company may deem necessary in order to apply for and obtain such rights and in order to assign and convey to the Company, its successors, assigns and nominees the sole and exclusive right, title and interest in and to all Inventions, and any copyrights, patents, mask work rights or other intellectual property rights relating to all Inventions. Consultant also agrees that Consultant's obligation to execute or cause to be executed any such instrument or papers shall continue after the termination of this Agreement.

C. *Pre-Existing Material*s. Subject to Section 3.A, Consultant agrees that if, in the course of performing the Services, Consultant incorporates into any Invention developed under this Agreement any pre-existing invention, improvement, development, concept, discovery or other proprietary information owned by Consultant or in which Consultant has an interest, (i) Consultant will inform Company, in writing before incorporating such invention, improvement, development, concept, discovery or other proprietary information into any Invention, and (ii) the Company is

hereby granted a nonexclusive, royalty-free, perpetual, irrevocable, worldwide license to make, have made, modify, use and sell such item as part of or in connection with such Invention. Consultant will not incorporate any invention, improvement, development, concept, discovery or other proprietary information owned by any third party into any Invention without Company's prior written permission.

D. *Attorney-in-Fact*. Consultant agrees that, if the Company is unable because of Consultant's unavailability, dissolution, mental or physical incapacity, or for any other reason, to secure Consultant's signature for the purpose of applying for or pursuing any application for any United States or foreign patents or mask work or copyright registrations covering the Inventions assigned to the Company in Section 3.A, then Consultant hereby irrevocably designates and appoints the Company and its duly authorized officers and agents as Consultant's agent and attorney-in-fact, to act for and on Consultant's behalf to execute and file any such applications and to do all other lawfully permitted acts to further the prosecution and issuance of patents, copyright and mask work registrations with the same legal force and effect as if executed by Consultant.

4. *Conflicting Obligations.*

A. *Conflicts*. Consultant certifies that Consultant has no outstanding agreement or obligation that is in conflict with any of the provisions of this Agreement or that would preclude Consultant from complying with the provisions of this Agreement. Consultant will not enter into any such conflicting agreement during the term of this Agreement. Subject to the foregoing, Consultant is permitted to enter into any other employment or independent contracting relationships concurrent with this Agreement. Consultant's violation of this Section 4.A will be considered a material breach under Section 6.B.

B. *Substantially Similar Designs*. In view of Consultant's access to the Company's trade secrets and proprietary know-how, Consultant agrees that, if and to the extent that Consultant contributes to or has access to any semiconductor circuit or other product designs or technology of Company, Consultant will not, without Company's prior written approval, design identical or substantially similar semiconductor circuit or other product designs as those developed under this Agreement for any third party during the term of this Agreement and for a period of twelve (12) months after the termination of this Agreement. Consultant acknowledges that the obligations in this Section 4 are ancillary to Consultant's nondisclosure obligations under Section 2.

5. *Reports*. Consultant also agrees that Consultant will, from time to time during the term of this Agreement or any extension thereof, keep the Company advised as to Consultant's progress in performing the Services under this Agreement. Consultant further agrees that Consultant will, as requested by the Company, prepare written reports with respect to such progress. The Company and Consultant agree that the time required to prepare such written reports will be considered time devoted to the performance of the Services.

6. *Term and Termination.*

A. *Term*. The term of this Agreement will begin on June 22, 2004 and will continue until the earlier of (i) September 24, 2004, or (ii) termination as provided in Section 6.B.

B. *Termination*. Either party may terminate this Agreement upon giving the other party 14 days' prior written notice of such termination pursuant to Section 11.E of this Agreement in the event that the other party is in breach of any material provision of this Agreement, which breach is not cured within such notice period.

C. *Survival*. Upon such termination, all rights and duties of the Company and Consultant toward each other shall cease except:

(1) The Company will pay, within 30 days after the effective date of termination, all amounts owing to Consultant for Services completed and accepted by the Company prior to the termination date and related expenses, if any, submitted in accordance with the Company's policies and in accordance with the provisions of Section 1 of this Agreement; and

(2) Section 2 (Confidentiality), Section 3 (Ownership), Section 4 (Conflicting Obligations), Section 7 (Independent Contractor; Benefits), Section 8 (Indemnification), Section 9 (Nonsolicitation) and Section 10 (Arbitration and Equitable Relief) will survive termination of this Agreement.

7. *Independent Contractor; Benefits.*

A. *Independent Contractor.* It is the express intention of the Company and Consultant that Consultant perform the Services as an independent contractor to the Company. Nothing in this Agreement shall in any way be construed to constitute Consultant as an agent, employee or representative of the Company. Without limiting the generality of the foregoing, Consultant is not authorized to bind the Company to any liability or obligation or to represent that Consultant has any such authority. Consultant agrees to furnish (or reimburse the Company for) all tools and materials necessary to accomplish this Agreement and shall incur all expenses associated with performance, except as expressly provided in Exhibit A. Consultant acknowledges and agrees that Consultant is obligated to report as income all compensation received by Consultant pursuant to this Agreement. Consultant agrees to and acknowledges the obligation to pay all self-employment and other taxes on such income.

B. *Benefits*. The Company and Consultant agree that Consultant will receive no Company-sponsored benefits from the Company. If Consultant is reclassified by a state or federal agency or court as Company's employee, Consultant will become a reclassified employee and will receive no benefits from the Company, except those mandated by state or federal law, even if by the terms of the Company's benefit plans or programs of the Company in effect at the time of such reclassification, Consultant would otherwise be eligible for such benefits.

8. *Indemnification*. Consultant agrees to indemnify and hold harmless the Company and its directors, officers and employees from and against all taxes, losses, damages, liabilities, costs and expenses, including attorneys' fees and other legal expenses, arising directly or indirectly from or in connection with (i) any negligent, reckless or intentionally wrongful act of Consultant or Consultant's assistants, employees or agents, (ii) any breach by the Consultant or Consultant's assistants, employees or agents of any of the covenants contained in this Agreement, (iii) any failure of Consultant to perform the Services in accordance with all applicable laws, rules and regulations,

or (iv) any violation or claimed violation of a third party's rights resulting in whole or in part from the Company's use of the work product of Consultant under this Agreement.

9. *Nonsolicitation*. From the date of this Agreement until 12 months after the termination of this Agreement (the "**Restricted Period**"), Consultant will not, without the Company's prior written consent, directly or indirectly, solicit or encourage any employee or contractor of the Company or its affiliates to terminate employment with, or cease providing services to, the Company or its affiliates. During the Restricted Period, Consultant will not, whether for Consultant's own account or for the account of any other person, firm, corporation or other business organization, intentionally interfere with any person who is or during the period of Consultant's engagement by the Company was a partner, supplier, customer or client of the Company or its affiliates.

10. *Arbitration and Equitable Relief.*

A. *Arbitration*. Consultant agrees that any and all controversies, claims or disputes with anyone (including the Company and any employee, officer, director, shareholder or benefit plan of the Company, in its capacity as such or otherwise) arising out of, relating to or resulting from Consultant's performance of the Services under this Agreement or the termination of this Agreement, including any breach of this Agreement, shall be subject to binding arbitration under the Arbitration Rules set forth in California Code of Civil Procedure Section 1280 through 1294.2, including Section 1283.05 (the "**Rules**") and pursuant to California law. CONSULTANT AGREES TO ARBITRATE, AND THEREBY AGREES TO WAIVE ANY RIGHT TO A TRIAL BY JURY WITH RESPECT TO, ALL DISPUTES ARISING FROM OR RELATED TO THIS AGREEMENT, INCLUDING BUT NOT LIMITED TO: ANY STATUTORY CLAIMS UNDER STATE OR FEDERAL LAW, CLAIMS UNDER TITLE VII OF THE CIVIL RIGHTS ACT OF 1964, THE AMERICANS WITH DISABILITIES ACT OF 1990, THE AGE DISCRIMINATION IN EMPLOYMENT ACT OF 1967, THE OLDER WORKERS BENEFIT PROTECTION ACT, THE CALIFORNIA FAIR EMPLOYMENT AND HOUSING ACT, THE CALIFORNIA LABOR CODE, CLAIMS OF HARASSMENT, DISCRIMINATION OR WRONGFUL TERMINATION AND ANY STATUTORY CLAIMS. Consultant understands that this Agreement to arbitrate also applies to any disputes that the Company may have with Consultant.

B. *Procedure*. Consultant agrees that any arbitration will be administered by the American Arbitration Association ("**AAA**"), and that a neutral arbitrator will be selected in a manner consistent with its National Rules for the Resolution of Employment Disputes. Consultant agrees that the arbitrator will have the power to decide any motions brought by any party to the arbitration, including discovery motions, motions for summary judgment and/or adjudication and motions to dismiss and demurrers, prior to any arbitration hearing. Consultant agrees that the arbitrator will issue a written decision on the merits. Consultant also agrees that the arbitrator will have the power to award any remedies, including attorneys' fees and costs, available under applicable law. Consultant understands that the Company will pay for any administrative or hearing fees charged by the arbitrator or AAA, except that Consultant shall pay the first $200.00 of any filing fees associated with any arbitration Consultant initiates. Consultant agrees that the arbitrator will administer and conduct any arbitration in a manner consistent with the Rules and that, to the extent that the AAA's

National Rules for the Resolution of Employment Disputes conflict with the Rules, the Rules will take precedence.

C. *Remedy*. Except as provided by the Rules, arbitration will be the sole, exclusive and final remedy for any dispute between the Company and Consultant. Accordingly, except as provided for by the Rules, neither the Company nor Consultant will be permitted to pursue court action regarding claims that are subject to arbitration. Notwithstanding the foregoing, the arbitrator will not have the authority to disregard or refuse to enforce any lawful Company policy, and the arbitrator shall not order or require the Company to adopt a policy not otherwise required by law which the Company has not adopted.

D. *Availability of Injunctive Relief*. In addition to the right under the Rules to petition the court for provisional relief, Consultant agrees that any party may also petition the court for injunctive relief where either party alleges or claims a violation of Sections 2 (Confidentiality), 3 (Ownership) or 4 (Conflicting Obligations) of this Agreement or any other agreement regarding trade secrets, confidential information, nonsolicitation or Labor Code §2870. In the event either the Company or Consultant seeks injunctive relief, the prevailing party will be entitled to recover reasonable costs and attorneys' fees.

E. *Administrative Relief*. Consultant understands that this Agreement does not prohibit Consultant from pursuing an administrative claim with a local, state or federal administrative body such as the Department of Fair Employment and Housing, the Equal Employment Opportunity Commission or the workers' compensation board. This Agreement does, however, preclude Consultant from pursuing court action regarding any such claim.

F. *Voluntary Nature of Agreement*. Consultant acknowledges and agrees that Consultant is executing this Agreement voluntarily and without any duress or undue influence by the Company or anyone else. Consultant further acknowledges and agrees that Consultant has carefully read this Agreement and has asked any questions needed to understand the terms, consequences and binding effect of this Agreement and fully understand it, including that Consultant is waiving its right to a jury trial. Finally, Consultant agrees that Consultant has been provided an opportunity to seek the advice of an attorney of its choice before signing this Agreement.

11. *Miscellaneous*.

A. *Governing Law*. This Agreement shall be governed by the laws of California without regard to California's conflicts of law rules.

B. *Assignability*. Except as otherwise provided in this Agreement, Consultant may not sell, assign or delegate any rights or obligations under this Agreement.

C. *Entire Agreement*. This Agreement constitutes the entire agreement between the parties with respect to the subject matter of this Agreement and supersedes all prior written and oral agreements between the parties regarding the subject matter of this Agreement.

D. *Headings*. Headings are used in this Agreement for reference only and shall not be considered when interpreting this Agreement.

E. *Notices*. Any notice or other communication required or permitted by this Agreement to be given to a party shall be in writing and shall be deemed given if delivered personally or by commercial messenger or courier service, or mailed by U.S. registered or certified mail (return receipt requested), or sent via facsimile (with receipt of confirmation of complete transmission) to the party at the party's address or facsimile number written below or at such other address or facsimile number as the party may have previously specified by like notice. If by mail, delivery shall be deemed effective 3 business days after mailing in accordance with this Section 11(E).

(1) If to the Company, to:

983 University Avenue, Building A
Los Gatos, CA 95032
Attention: Chief Executive Officer
Telephone: (408) 357-6600
Facsimile: (408) 357-6750

(2) If to Consultant, to the address for notice on the signature page to this Agreement or, if no such address is provided, to the last address of Consultant provided by Consultant to the Company.

F. *Attorneys' Fees*. In any court action at law or equity that is brought by one of the parties to this Agreement to enforce or interpret the provisions of this Agreement, the prevailing party will be entitled to reasonable attorneys' fees, in addition to any other relief to which that party may be entitled.

G. *Severability*. If any provision of this Agreement is found to be illegal or unenforceable, the other provisions shall remain effective and enforceable to the greatest extent permitted by law.

(Remainder of page intentionally left blank.)

IN WITNESS WHEREOF, the parties hereto have executed this Consulting Agreement effective as of the date first set forth above.

CONSULTANT

By: /s/ Brian McDonald
Name: Brian McDonald
Title: Self

Address for Notice:

Brian McDonald
5821 Algonquin Way
San Jose, CA 95138

MONOLITHIC POWER SYSTEMS, INC.

By: /s/ Michael Hsing
Name: Michael Hsing
Title: CEO

EXHIBIT A

Services and Compensation

1. *Contact*. Consultant's principal Company contact:

Name: Michael Hsing

Title: CEO

2. *Services*. The Services consist of the following:

Consultant will provide consulting and advisory services relating to financial and accounting matters and to projects or work in process that had been within the Consultant's areas of responsibility while he served as Chief Financial Officer of the Company, including such appropriate tasks as the Company's Board of Directors (the "Board") may request as necessary and appropriate to assist Timothy Christoffersen transition into the position of the Company's Chief Financial Officer. Consultant will not be required to provide more than one work day (eight hours) per calendar week in services under this Agreement, except as mutually agreed by Consultant and the Company.

3. *Compensation*.

A. The Company will pay Consultant [*] per hour for every hour of service actually performed under this Agreement.

B. The Company will reimburse Consultant for all reasonable expenses incurred by Consultant in performing the Services pursuant to this Agreement, if Consultant receives written consent from an authorized agent of the Company prior to incurring such expenses and submits receipts for such expenses to the Company in accordance with Company policy.

Every two weeks, Consultant shall submit to the Company a written invoice for Services and expenses, and such statement shall be subject to the approval of the contact person listed above or other designated agent of the Company.

Effective as of June 22, 2004

CONSULTANT

By: /s/ Brian McDonald
Name: Brian McDonald
Title: Self

MONOLITHIC POWER SYSTEMS, INC.

By: /s/ Michael Hsing
Name: Michael Hsing
Title: CEO

Exhibit 21.1

Subsidiaries

Monolithic Power Systems, Inc., incorporated in accordance with the Companies Law of the Cayman Islands.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the use in this Registration Statement of Monolithic Power Systems, Inc. on Form S-1 of our report dated July 9, 2004 (which report expresses an unqualified opinion and includes an explanatory paragraph relating to lawsuits related to alleged patent infringement and alleged misappropriation of trade secrets) appearing in the Prospectus, which is part of this Registration Statement.

We also consent to the reference to us under the heading "Experts" in such Prospectus.

/s/ Deloitte & Touche LLP

San Jose, California
July 12, 2004

Exhibit 23.3

Chen and Lin
Taipei, Taiwan R.O.C.

July 13, 2004

Monolithic Power Systems, Inc.
983 University Avenue
Building A
Los Gatos, CA 95032

Re: Monolithic Power Systems, Inc. Registration Statement on Form S-1.

Dear Sirs:

We hereby consent to the reference to our firm under the caption "Experts" in Monolithic Power Systems, Inc.'s Registration Statement on Form S-1.

Very truly yours,
CHEN AND LIN

By: /s/ C.H. CHEN

C.H. Chen