
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

**Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934**

**Date of Report (date of earliest event reported):
July 27, 2006**

MONOLITHIC POWER SYSTEMS, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

000-51026
(Commission File Number)

77-0466789
(I.R.S. Employer
Identification Number)

**983 University Avenue, Building A
Los Gatos, California 95032**
(Address of principal executive offices) (Zip Code)

(408) 357-6600
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 1.01 Entry into a Material Definitive Agreement

On July 27, 2006, our Board of Directors adopted the 2006 Employee Bonus Plan (the "Plan") for certain employees, including executive officers. The Plan is a variable cash incentive program designed to motivate participants to achieve financial and other performance objectives, and to reward them for their achievements when those objectives are met. The Plan is a discretionary bonus plan, and all payments thereunder are made solely at the discretion of the Board of Directors, as the plan administrator.

The amount of bonus payments actually made to individual employees will be based on the achievement of (i) certain individual performance objectives tailored to each employee's role in the Company and (ii) certain Company performance objectives tied to the Company's annual revenues and non-GAAP operating income, which excludes expenses for stock-based compensation. The Compensation Committee establishes the performance measures for each executive officer and has the authority to modify these measures quarterly throughout the year as appropriate.

The table below describes the maximum potential bonus for fiscal year 2006 for the Company's executive officers. Such amounts may be adjusted downward based upon each executive's achievement of his or her individual objectives, as well as the Company's achievement of the corporate objectives described above:

	Maximum Potential Annual Bonus 2006
CEO	\$ 80,000
CFO	\$ 70,000
VP Operations	\$ 70,000
VP Sales	\$ 70,000
All Other Eligible Executives	\$ 50,000

This description of the 2006 Employee Bonus Plan is qualified in its entirety by the Plan, which is filed as Exhibit 10.1 to this report on Form 8-K and incorporated herein by reference.

Item 9.01. Financial Statements and Exhibits**(d) Exhibits.**

<u>Exhibit No.</u>	<u>Description</u>
10.1	2006 Employee Bonus Plan

SIGNATURES

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

Date: July 28, 2006

By: _____
C. Richard Neely, Jr.
Chief Financial Officer
(Principal Financial and Accounting Officer
and Duly Authorized Officer)

EXHIBIT INDEX

Exhibit No.	Description
10.1	2006 Employee Bonus Plan

MONOLITHIC POWER SYSTEMS, INC.

2006 EMPLOYEE BONUS PLAN

1. EFFECTIVE DATE; PURPOSE OF THE PLAN

1.1 Effective Date. Monolithic Power Systems, Inc. and its wholly-owned subsidiaries (the "Company") adopted the 2006 Employee Bonus Plan (the "Plan") effective for fiscal year 2006.

1.2 Purpose. The purpose of the Plan is to increase stockholder value and promote the success of the Company by ensuring that the efforts of key employees are aligned with Company strategy and vision. By providing incentive compensation for key employees, the Plan will enable the Company to attract, retain and reward critical skills and high performing employees, thereby leveraging and sustaining the Company's competitive advantages.

2. ADMINISTRATION OF THE PLAN

2.1 Administrator. The Plan will be administered by the Company's Board of Directors (the "Board," and the "Plan Administrator"); provided, however, that the Board may delegate to any officer or officers of the Company the responsibility (in whole or in part) for Plan administration.

2.2 Powers of the Administrator. The interpretation and construction of the Plan and the adoption of rules and regulations for administering the Plan will be made by the Plan Administrator. The Plan Administrator will have all powers and discretion necessary or appropriate to administer the Plan and to control its operation, including, but not limited to, the power to (1) determine which employees will be granted bonuses, (2) prescribe the applicable period, terms and conditions of bonuses, (3) interpret the Plan and the bonuses, (4) adopt rules for the administration, interpretation and application of the Plan as are consistent therewith, and (5) interpret, amend or revoke any such rules; provided, however, that any and all decisions with regard to the participation of executive officers in the Plan shall be made by the Compensation Committee of the Board, which shall communicate such decisions to the Board on a regular basis. Decisions of the Plan Administrator and the Compensation Committee will be final and binding on all parties who have an interest in the Plan.

2.3 Modification, Suspension and Termination. The Company reserves the right to modify, amend, suspend or terminate the Plan at any time and for any reason. The amendment, suspension or termination of the Plan will not, without the consent of any participant, alter or impair any rights or obligations under any bonus already earned. No bonus may be awarded during any period of suspension or after termination of the Plan.

3. DETERMINATION OF PARTICIPANTS

3.1 Eligible Individuals. An individual employed by the Company who has been notified by the Company's Human Resources department will be eligible to participate in the Plan. Notwithstanding the foregoing, an individual may not be eligible to participate in the Plan if the individual is on another incentive compensation plan (including, but not limited to, a Company sales commission plan). Individuals designated as participants will be referred to as "Participants."

3.2 Termination of Employee Status. For purposes of the Plan, and unless otherwise determined by the Plan Administrator at its discretion, an individual will be considered an employee for so long as such individual remains employed, on a full-time basis by the Company.

4. DETERMINATION OF AWARDS

4.1 Amount of Target Bonus. The Plan Administrator will determine each Participant's target bonus; provided, however, that the total amount of all target bonuses may be exceeded by an amount determined by the Plan Administrator; provided further, however, that the Compensation Committee will determine the target bonus (or any amount by which it may be exceeded) of any Participant that is also an executive officer of the Company. The Plan Administrator and Compensation Committee may also impose caps on total or target bonuses as they deem appropriate.

4.2 Performance Goals. A portion (as determined by Plan Administrator) of a target bonus will be earned by achieving individual or team goals (the "Individual Performance Portion"). The remaining portion of a target bonus will be earned if the Company meets Company-specific performance objectives (the "Company Performance Portion"). The allocation of the target bonus among the Individual Performance Portion and Company Performance Portion may be established by the Plan Administrator (and as appropriate for executive officers by the Compensation Committee) for all eligible Participants or individually for certain Participants.

(a) Individual Performance Portion. Every Participant will develop and establish goals (quarterly, bi-annually or annually as determined by the management, Compensation Committee and the Plan Administrator, as appropriate) in conjunction with the Participant's manager. The rating of such goals will be established by the Plan Administrator and the Compensation Committee.

(b) Company Performance Portion. Annual or semi-annual Company goals, based on revenue and non-GAAP Operating Income (defined as GAAP Operating Income less stock compensation expense) and other criteria as may be defined and determined by the Plan Administrator will be set by the Plan Administrator. Company goals and corporate achievement components may be amended or modified at any time by the Plan Administrator with input from the Compensation Committee.

5. PAYMENT OF AWARDS

5.1 Individual Performance Portion. The Individual Performance Portion of a target bonus will be earned on a semi-annual basis, based on the Participant's achievement of his or her specified goals and the weightings assigned to each goal. A Participant may be entitled to payments in excess of target bonus.

5.2 Company Performance Portion. The Company Performance Portion of a target bonus will be earned on an annual or semi-annual basis, subject to the Company meeting the performance criteria established by the Plan Administrator pursuant to Section 4.2(b). A Participant may be entitled to payments in excess of target bonus amounts if the Company's performance exceeds targets.

5.3 Pro-Rata Eligibility. Except as otherwise determined by the Plan Administrator, individuals who become eligible during a bi-annual review period are eligible to receive a prorated amount of their bonus based upon their length of service during the review period, provided that in order to receive any such bonus under the Plan such eligible individuals must be employed at the time of the bonus payment.

5.4 Timing and Form of Payment. Bonuses will be paid as soon as administratively practicable after the end of the applicable period. A Participant must be employed on the last day of the applicable period to receive a payment. Payment will be made by payroll check, and will be subject to applicable federal, state and local tax withholding. Notwithstanding anything in the Plan to the contrary, the Plan Administrator, in its sole discretion, may decide at any time and for any reason, on a per-Participant basis, that bonuses may be reduced or no bonuses will be paid.

6. GENERAL PROVISIONS

6.1 Funding Obligations. No amounts awarded or accrued under this Plan will actually be funded, set aside or otherwise segregated prior to payment. The obligation to pay bonuses will at all times be an unfunded and unsecured obligation of the Company. Participants will have the status of general creditors and may look solely to the general assets of the Company for the payment of their bonuses.

6.2 Transferability. No Participant will have the right to alienate, pledge or encumber his or her interest in this Plan, and such interest will not (to the extent permitted by law) be subject in any way to the claims of the Participant's creditors or to attachment, execution or other process of law.

6.3 Beneficiaries. A Participant may designate a beneficiary to receive any bonuses earned up to the time of death. If such designation is not made, the beneficiary named for regular employee benefit plans will be deemed to be the name beneficiary.

6.4 Continuing Employment Status. Neither the action of the Company in establishing the Plan, nor any action taken under the Plan by the Plan Administrator, nor any provision of the Plan itself will be construed to grant any Participant the right to remain in the employ of the Company for any period of specific duration. Each eligible employee will remain an "at-will" employee, which means that either such eligible employee or the Company may terminate the employment relationship at any time for any reason, with or without cause.

6.5 Integration. The Plan will be the full and complete agreement between the eligible employees and the Company on the terms described herein.

6.6 Validity. In the event any provision of the Plan is held illegal or invalid for any reason, the illegality or invalidity will not affect the remaining parts of the Plan, and the Plan will be construed and enforced as if the illegal or invalid provision had not been included.

6.7 Applicable Law. The granting of bonuses under the Plan will be subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required. The Plan and all bonuses will be construed in accordance with and governed by the laws of the State of California, without regard to the conflict of law provisions.