
**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):
October 30, 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 2.02 Results of Operations and Financial Condition.

On October 30, 2006, Monolithic Power Systems, Inc., a Delaware corporation, issued a press release and held a conference call regarding its financial results for the quarter ended September 30, 2006. A copy of the press release is attached hereto as Exhibit 99.1.

The information under this Item 2.02 of this Current Report on Form 8-K and the exhibit attached hereto are being furnished and shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “1934 Act”), nor shall they be deemed incorporated by reference in any filing with the Securities and Exchange Commission under the 1934 Act or the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

Exhibit Description

99.1 Press Release issued on October 30, 2006

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: October 30, 2006

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

Index to Exhibits

<u>Exhibit</u>	<u>Description</u>
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99.1	Press Release issued on October 30, 2006
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www.monolithicpower.com

Monolithic Power Systems, Inc. Announces Financial Results for Third Fiscal Quarter of 2006

LOS GATOS, Calif. October 30, 2006—Monolithic Power Systems (MPS) (Nasdaq: MPWR), a leading fabless manufacturer of high-performance analog and mixed-signal semiconductors, today announced financial results for the quarter ended September 30, 2006, as follows:

- Net revenues of \$27.3 million, down 8% percent from the third quarter of 2005 and up 2% sequentially from \$26.6 million in the second quarter of 2006
- Gross margin of 65.6%, compared to 64.3% in the third quarter of 2005 and 63.0% in the second quarter of 2006
- GAAP operating expenses of \$18.5 million, including \$9.9 million for research and development and selling, general and administrative, \$2.8 million for patent litigation, \$3.0 million for the one-time Micrel settlement, and \$2.8 million for stock-based compensation
- Non-GAAP(1) operating expenses of \$9.9 million, excluding \$2.8 million for stock-based compensation and \$5.8 million in total litigation expenses
- GAAP net loss of \$1.9 million, or (\$0.06) per basic share
- Non-GAAP(1) net income of \$3.8 million, or \$0.12 per diluted share, excluding stock-based compensation, the one-time litigation settlement listed above and related tax effects
- Cash, cash equivalents, current restricted cash and investments of \$74 million, up from \$64.5 million at the end of Q2, and compared with \$60.3 million at September 30, 2005

Other Third Quarter Business Highlights

- In Q3 MPS sampled the first 8 amp, 1.5 megahertz step-down converter based on our BCD Plus™ technology for graphics cards, flat panel TVs and laser printers. This is one of the first products from MPS' new and exciting, high current, high voltage "MiniMonsters™" product family.
- MPS' Chengdu test operations hit full production, contributing to a record gross margin.
- The company reached a settlement with Micrel Corporation, resulting in a one time charge, which enhances MPS's process technology portfolio.

"While the overall analog market environment remained challenging in Q3, we are pleased to have exceeded our revenue targets, hit a record high gross margin, introduced our first high current, high speed MiniMonsters product and added almost \$10 million to our cash balances," said Michael Hsing, chief executive officer of MPS. "With the Micrel settlement behind us, our BCD Plus technology demonstrating excellent early results, and with more products to be introduced in the fourth quarter, we look forward to the significant opportunities ahead of us."

Business Outlook

The following are MPS' financial targets for the fourth quarter ending December 31, 2006:

- Revenues in the range of \$25 million to \$27 million
- Gross margin in the upper end of our target range of 58% to 63%
- Research and development and selling, general and administrative expense between \$13.2 million and \$14.5 million. Non-GAAP Research and development and selling, general and administrative expense between \$10.5 million and \$11.5 million. These exclude an estimate of stock-based compensation expense in the range of \$2.7 million to \$3.0 million
- Litigation expense in the range of \$3.5 million to \$4.0 million

(1) Non-GAAP net income and non-GAAP operating expenses differ from net income and operating expenses determined in accordance with GAAP (Generally Accepted Accounting Principles in the United States). Non-GAAP net income excludes the effect of stock-based compensation expense, one-time legal settlements and provision for litigation and related tax effects. Non-GAAP operating expenses for the third quarter ending September 30, 2006 exclude the effect of stock-based compensation expense and patent litigation. Projected non-GAAP research and development, selling, general and administrative expense excludes the effect of stock-based compensation expense. A schedule reconciling these amounts is included in this news release. MPS' non-GAAP net income and non-GAAP operating expenses differ from GAAP net income and operating expenses in that the non-GAAP financial measures exclude stock-based compensation expense, one-time legal settlements and provision for litigation and related tax effect. Non-GAAP financial measures should not be considered as a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP. MPS utilizes both GAAP and non-GAAP net income and operating expenses in assessing what it believes to be its core operating performance and to evaluate and manage its internal business and assist in making financial operating decisions. MPS believes that the inclusion of non-GAAP financial measures, together with GAAP measures, provides investors with an alternative presentation useful to investors' understanding of MPS' core operating results and trends. Additionally, MPS believes that the inclusion of non-GAAP measures, together with GAAP measures, provides investors with an additional dimension of comparability to similar companies. However, investors should be aware that non-GAAP financial measures utilized by other companies are not likely to be comparable in most cases to the non-GAAP financials measures used by MPS.

Conference Call

MPS plans to conduct a management teleconference covering its second quarter results at 2:00 p.m. PST / 5:00 p.m. EST today, October 30, 2006. The call will be webcast at http://www.monolithicpower.com/cmp_02_inv_rel.htm. In addition to the webcast replay, which will be archived for all investors for one year on the MPS website, a phone replay will be available for seven days after the live call at 617-801-6888, code number 13526332. This press release and any other information related to the call will also be posted on the website.

Safe Harbor Statement

This press release contains forward-looking statements regarding MPS' planned product offerings, targeted net revenues, gross margin, GAAP and non-GAAP operating expenses, stock-based compensation expense and litigation expenses for the fiscal quarter ending December 31, 2006. These statements are not historical facts or guarantees of future performance or events, are based on current expectations, estimates, beliefs, assumptions, goals, and objectives, and involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from the results expressed by these statements. Readers of this press release and listeners to the accompanying conference call are cautioned not to place undue reliance on any forward-looking statements. Factors that could cause actual results to differ include, but are not limited to, the risks, uncertainties and costs of litigation in which the company is involved; the outcome of any upcoming trials, hearings, motions, and appeals; any interruptions in MPS' schedule of new product release development; adverse change in production and testing efficiency; adverse changes in government regulations in foreign

countries where MPS has offices; acceptance of, or demand for, MPS' products being lower than expected; the adverse impact on MPS' financial performance if its tax and litigation provisions are inadequate; difficulty in predicting or budgeting for future expenses and financial contingencies; and other important risk factors identified in MPS' SEC filings, including, but not limited to, its Annual Report on Form 10-K filed on March 28, 2006.

The forward-looking statements in this press release represent MPS' targets, not predictions of actual performance. MPS assumes no obligation to update the information in this press release or in the accompanying conference call. Any statements by persons outside of MPS speculating on the progress of the quarter or other aspects of MPS' business are not based on internal MPS information and should be assessed accordingly by investors.

About Monolithic Power Systems, Inc.

Monolithic Power Systems, Inc. (MPS) develops and markets proprietary, advanced analog and mixed-signal semiconductors. The company combines advanced process technology with its highly experienced analog designers to produce high-performance power management integrated circuits (ICs) for DC to DC converters, LED drivers, Cold Cathode Fluorescent Lamp (CCFL) backlight controllers, Class D audio amplifiers, and Linear ICs. MPS products are used extensively in computing and network communications products, LCD monitors and TVs, and a wide variety of consumer and portable electronics products. MPS partners with world-class manufacturing organizations to deliver top quality, ultra-compact, high-performance solutions through the most productive, cost-efficient channels. Founded in 1997 and headquartered in Los Gatos, California, the company has expanded its global presence with sales offices in Taiwan, China, Korea, Japan, and Europe, which operate under MPS International, Ltd.

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Monolithic Power Systems, MPS, and the MPS logo are registered trademarks of Monolithic Power Systems, Inc. in the U.S. and trademarked in certain other countries. BCD Plus and MiniMonsters are Trademarks of Monolithic Power Systems, Inc.

Contact:

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CONSOLIDATED BALANCE SHEET
(in thousands, except per share data)

	September 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 30,479	\$ 25,091
Short-term investments	39,650	38,814
Accounts receivable, net of allowances of \$227 at 2006 and 2005	9,577	9,537
Inventories	7,385	6,165
Deferred income tax asset—current	3,516	3,671
Prepaid expenses and other current assets	1,094	1,501
Restricted assets—current	3,850	2,938
Total current assets	<u>95,551</u>	<u>87,717</u>
Property and equipment, net	11,247	6,238
Other assets—non-current	469	387
Restricted assets	6,387	6,433
Total assets	<u>\$ 113,654</u>	<u>\$ 100,775</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 5,472	\$ 6,583
Accrued compensation and related benefits	3,493	2,974
Accrued income tax payable	—	2,913
Accrued liabilities	11,618	9,797
Total current liabilities	<u>20,583</u>	<u>22,267</u>
Deferred rent	355	209
Other accrued liability	1,000	—
Deferred income tax liability	—	131
Total liabilities	<u>21,938</u>	<u>22,607</u>
Stockholders' equity:		
Common stock, \$0.001 par value, \$30 and \$29 in 2006 and 2005, respectively; shares authorized: 150,000; shares issued and outstanding: 30,185 and 29,155 in 2006 and 2005, respectively	108,916	98,342
Deferred stock compensation	(801)	(4,544)
Notes receivable from stockholders	—	(398)
Accumulated other comprehensive income (loss)	(85)	(138)
Accumulated deficit	(16,314)	(15,094)
Total stockholders' equity	<u>91,716</u>	<u>78,168</u>
Total liabilities and stockholders' equity	<u>\$ 113,654</u>	<u>\$ 100,775</u>

CONSOLIDATED INCOME STATEMENT
(in thousands, except per share data)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2006	2005	2006	2005
Revenue (1)	\$27,255	\$29,706	\$ 78,619	\$ 66,600
Cost of revenue (1)	<u>9,382</u>	<u>10,593</u>	<u>28,588</u>	<u>24,307</u>
Gross profit	17,873	19,113	50,031	42,293
Operating expenses:				
Research and development (1)	5,897	4,045	16,391	10,980
Selling, general and administrative (1)	6,877	4,880	21,003	12,963
Patent litigation	<u>5,765</u>	<u>(4,488)</u>	<u>12,650</u>	<u>17,382</u>
Total operating expenses	<u>18,539</u>	<u>4,437</u>	<u>50,044</u>	<u>41,325</u>
(Loss) income from operations	(666)	14,676	(13)	968
Other income (expense):				
Interest and other income	662	401	1,887	1,094
Interest and other expense	<u>(71)</u>	<u>(74)</u>	<u>(251)</u>	<u>(160)</u>
Total other income (expense), net	<u>591</u>	<u>327</u>	<u>1,636</u>	<u>934</u>
(Loss) income before income taxes	(75)	15,003	1,623	1,902
Income tax provision (benefit)	<u>1,797</u>	<u>5,641</u>	<u>2,844</u>	<u>628</u>
Net (loss) income	<u>(1,872)</u>	<u>9,362</u>	<u>(1,221)</u>	<u>1,274</u>
Basic (loss) income per common share	<u>\$ (0.06)</u>	<u>\$ 0.33</u>	<u>\$ (0.04)</u>	<u>\$ 0.05</u>
Diluted (loss) income per common share	<u>\$ (0.06)</u>	<u>\$ 0.31</u>	<u>\$ (0.04)</u>	<u>\$ 0.04</u>
Shares used in basic net income per common share	29,736	28,093	29,335	27,794
Dilutive effect of stock options and restricted stock	—	2,549	—	2,569
Shares used in diluted net income per common share	<u>29,736</u>	<u>30,642</u>	<u>29,335</u>	<u>30,363</u>

(1) Includes stock-based compensation charges as follows:

Contra revenue	—	(9)	—	(21)
Cost of revenue	121	130	408	390
Research and development	1,330	569	4,039	2,045
Selling, general and administrative	<u>1,518</u>	<u>450</u>	<u>4,293</u>	<u>1,733</u>
Total stock-based compensation	2,969	1,140	8,740	4,147

RECONCILIATION OF NET INCOME TO NON-GAAP NET INCOME
(in thousands, except per share amounts)

Net (loss) income	<u>(1,872)</u>	<u>9,362</u>	<u>(1,221)</u>	<u>1,274</u>
Adjustments to reconcile net income to non-GAAP net income				
Stock-based compensation	2,969	1,140	8,740	4,147
One-time legal settlements and provision	3,000	(8,700)	4,500	3,300
Tax effect	<u>(341)</u>	<u>2,929</u>	<u>(2,673)</u>	<u>(2,973)</u>
Non-GAAP net income	<u>3,756</u>	<u>4,731</u>	<u>9,346</u>	<u>5,748</u>

Non-GAAP earnings per share excluding the effects of stock-based compensation and one-time legal settlements:

Basic	<u>\$ 0.13</u>	<u>\$ 0.17</u>	<u>\$ 0.32</u>	<u>\$ 0.21</u>
Diluted	<u>\$ 0.12</u>	<u>\$ 0.15</u>	<u>\$ 0.28</u>	<u>\$ 0.19</u>

Shares used in the calculation of non-GAAP earnings per share:

Basic	29,736	28,093	29,335	27,794
Diluted	32,296	30,642	33,164	30,363

RECONCILIATION OF OPERATING EXPENSES TO NON-GAAP OPERATING EXPENSES
(in thousands, except per share amounts)

Total operating expenses	<u>18,539</u>	<u>4,437</u>	<u>50,044</u>	<u>41,325</u>
Adjustments to reconcile total operating expenses to non-GAAP total operating expenses				
Stock-based compensation	(2,848)	(1,019)	(8,332)	(3,778)
Patent litigation	<u>(5,765)</u>	<u>4,488</u>	<u>(12,650)</u>	<u>(17,382)</u>
Non-GAAP total operating expenses	<u>9,926</u>	<u>7,906</u>	<u>29,062</u>	<u>20,165</u>