MONOLITHIC POWER SYSTEMS INC
Form 10-Q
May 14, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2008

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission file number: 000-51026

Monolithic Power Systems, Inc.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Delaware	**77-0466789**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification Number)**

6409 Guadalupe Mines Road, San Jose, CA 95120 (408) 826-0600

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES, INCLUDING ZIP CODE AND TELEPHONE NUMBER)

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

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller Reporting Company ¨

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

There were 33,071,545 shares of the registrant s common stock issued and outstanding as of May 2, 2008.

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MONOLITHIC POWER SYSTEMS, INC.

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EXPLANATORY NOTE

We are amending the unaudited condensed financial information for the three-month period ended March 31, 2007 contained in this Quarterly Report on Form 10-Q to amend and restate our condensed consolidated financial statements for such period, and the related notes thereto, as discussed in Note 11 in our Notes to Condensed Consolidated Financial Statements contained under *Item 1: Financial Statements* in this Quarterly Report on Form 10-Q.

On April 28, 2008, the Audit Committee of our Board of Directors determined that our previously issued financial statements for the years ended December 31, 2006 and 2007 contained a material error thus requiring the restatement of such financial statements. On May 12, 2008, we filed an Amendment No. 1 to our Annual Report on Form 10-K/A for the year ended December 31, 2007, to amend and restate our consolidated financial statements as of December 31, 2007 and 2006 and for the years ended December 31, 2007 and 2006 with respect to errors in the accounting for the tax effect of stock-based compensation related to Monolithic Power Systems, Inc. s cost-share agreement with a foreign subsidiary.

The effects of these restatements are reflected in the condensed consolidated financial statements for the three-month period ended March 31, 2007 included in this Quarterly Report on Form 10-Q. Therefore, we have not amended and do not intend to amend any of our previously filed Quarterly Reports on Form 10-Q for any period prior to December 31, 2007.

The following sections in this report have been amended from the Company s Quarterly Report for the quarter ended March 31, 2007 filed on April 27, 2007 as a result of the matters described above:

Part I:

Item 1	Financial Statements
Item 2	Management s Discussion and Analysis of Financial Condition and Results of Operations

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MONOLITHIC POWER SYSTEMS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except par value and share amounts)

(Unaudited)

	March 31, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 64,300	$ 83,114
Short-term investments	4,772	27,765
Accounts receivable, net of allowances of $227 in 2008 and 2007	11,314	8,239
Inventories	16,390	17,487
Deferred income tax asset current	74	72
Prepaid expenses and other current assets	4,395	4,733
Restricted cash	7,350	7,350
Total current assets	108,595	148,760
Property and equipment, net	14,880	14,175
Long -term investments	39,140	
Deferred income tax asset long term	776	776
Other assets	507	539
Restricted assets	8,598	8,340
Total assets	$ 172,496	$ 172,590
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 7,667	$ 6,154
Accrued compensation and related benefits	5,465	8,299
Accrued liabilities	14,620	14,959
Total current liabilities	27,752	29,412
Deferred rent	173	237
Non-current income tax liability	5,317	5,318
Other long term liabilities	2	86
Total liabilities	33,244	35,053
Commitments and contingencies (Note 8)		
Stockholders equity:		
Common stock, $0.001 par value, $33 and $33 in 2008 and 2007, respectively; shares authorized: 150,000,000; shares issued and outstanding: 33,163,290 and 33,454,595 in 2008 and 2007, respectively	139,365	143,890

Deferred stock compensation		(3)
Accumulated deficit	(880)	(6,815)
Accumulated other comprehensive income	767	465
Total stockholders equity	139,252	137,537
Total liabilities and stockholders equity	$ 172,496	$ 172,590

See accompanying notes to condensed consolidated financial statements.

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MONOLITHIC POWER SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(Unaudited)

	Three months ended	
	March 31, 2008	**March 31, 2007 (as restated, see Note 11)**
Revenue	$ 35,409	$ 24,496
Cost of revenue*	13,044	8,963
Gross profit	22,365	15,533
Operating expenses:		
Research and development*	7,572	5,932
Selling, general and administrative*	8,728	6,197
Provision for litigation expense	736	2,847
Total operating expenses	17,036	14,976
Income from operations	5,329	557
Other income (expense):		
Interest and other income	1,434	1,007
Interest and other expense	(6)	(7)
Total other income, net	1,428	1,000
Income before income taxes	6,757	1,557
Income tax provision	822	1,886
Net income (loss)	$ 5,935	$ (329)
Basic net income (loss) per share	$ 0.18	$ (0.01)
Diluted net income (loss) per share	$ 0.17	$ (0.01)
Weighted average common shares outstanding	33,340	30,482
Stock options	2,551	
Diluted weighted-average common equivalent shares outstanding	35,891	30,482
* Stock-based compensation has been included in the following line items:		
Cost of revenue	$ 45	$ 111
Research and development	1,207	1,101
Selling, general and administrative	1,535	1,108
Total	$ 2,787	$ 2,320

See accompanying notes to condensed consolidated financial statements.

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MONOLITHIC POWER SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Three months ended March 31, 2008	2007 (as restated, See Note 11)
Cash flows from operating activities:		
Net income (loss)	$ 5,935	$ (329)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,331	875
Loss on disposal of property and equipment	1	97
Deferred income tax assets		2,025
Deferred income tax liabilities		(38)
Tax benefit from stock option transactions	146	948
Excess tax benefit from stock option transactions	(49)	(721)
Stock-based compensation	2,787	2,320
Changes in operating assets and liabilities:		
Accounts receivable	(3,074)	1,377
Inventories	1,159	(2,620)
Prepaid expenses and other current assets	387	(2,176)
Accounts payable	807	1,131
Accrued and long-term liabilities	(432)	2,103
Accrued income taxes payable and noncurrent tax liabilities	(102)	2,265
Accrued compensation and related benefits	(2,934)	(1,361)
Deferred rent	(64)	(40)
Net cash provided by operating activities	5,898	5,856
Cash flows from investing activities:		
Property and equipment purchases	(988)	(1,182)
Proceeds from sale of property and equipment		27
Purchase of short-term investments	(11,775)	(18,250)
Purchase of long-term investments	(28,050)	
Proceeds from sale of short-term investments	23,325	21,424
Changes in restricted assets		(125)
Net cash provided by (used in) investing activities	(17,488)	1,894
Cash flows from financing activities:		
Proceeds from issuance of common stock	1,219	2,723
Proceeds from employee stock purchase plan	853	811
Repurchase of common stock	(9,492)	
Excess tax benefits from stock option transactions	49	721
Net cash provided by (used in) financing activities	(7,371)	4,255
Effect of change in exchange rates on cash	147	68
Net increase (decrease) in cash and cash equivalents	**(18,814)**	**12,073**

Cash and cash equivalents, beginning of period		83,114		50,816
Cash and cash equivalents, end of period	$	64,300	$	62,889
Supplemental disclosures for cash flow information:				
Cash paid (refund) for taxes	$	172	$	(1,028)
Supplemental disclosures of non-cash investing and financing activities:				
Liability accrued for equipment purchases	$	690	$	277
Unrealized loss on available-for-sale investments	$	360	$	

See accompanying notes to condensed consolidated financial statements.

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MONOLITHIC POWER SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. ***Basis of Presentation*** The accompanying unaudited condensed consolidated financial statements have been prepared by Monolithic Power Systems, Inc. (the Company or MPS) in accordance with the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted in accordance with these rules and regulations. The information in this report should be read in conjunction with the Company s audited consolidated financial statements and notes thereto included in its Form 10-K/A filed with the SEC on May 12, 2008.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) necessary to summarize fairly the Company s financial position, results of operations and cash flows for the interim periods presented. The financial statements contained in this Form 10-Q are not necessarily indicative of the results that may be expected for the year ending December 31, 2008 or for any other future period.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157 (SFAS 157), Fair Value Measurements. SFAS 157 defines fair value to measure assets and liabilities, establishes a framework for measuring fair value, and requires additional disclosures about the use of fair value. SFAS 157 is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value. SFAS 157 does not expand or require any new fair value measures. In February 2008, the FASB issued FASB Staff Position (FSP) SFAS 157-2, Effective Date of FASB Statement No. 157 which delays the effective date of SFAS No. 157 from 2008 to 2009 for all non-financial assets and non-financial liabilities , except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company adopted SFAS 157 on January 1, 2008. The impact of the adoption of FAS 157 on the Company s consolidated financial statements is discussed in Note 10. The Company is currently evaluating the impact of adoption of SFAS 157 as it relates to their nonfinancial assets and nonfinancial liabilities.

In February 2007, the FASB issued SFAS No. 159 (SFAS 159), The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115. SFAS 159 expands the use of fair value accounting but does not affect existing standards which require assets or liabilities to be carried at fair value. The objective of SFAS 159 is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Under SFAS 159, a company may elect to use fair value to measure eligible items at specified election dates and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. Eligible items include, but are not limited to, accounts and loans receivable, available-for-sale and held-to-maturity securities, equity method investments, accounts payable, guarantees, issued debt and firm commitments. The Company adopted SFAS 159 on January 1, 2008 for its financial assets and liabilities and the adoption has no impact on it s consolidated financial statements.

2. ***Stock-Based Compensation*** The Company has two stock option plans and an employee stock purchase plan the 1998 Stock Option Plan, the 2004 Equity Incentive Plan and the 2004 Employee Stock Purchase Plan. The Company recognized stock-based compensation expenses for the three months ended March 31, 2008 and 2007, as follows (in thousands):

	Three months ended March 31,	
	2008	**2007**
Non-Employee	(12)	$ 21
ESPP	135	144
Restricted Stock	657	344
Stock Options	2,007	1,811
TOTAL	$ 2,787	$ 2,320

Stock Options

1998 Stock Option Plan

Under the Company s 1998 Stock Option Plan (the 1998 Plan), the Company reserved 11,807,024 shares of common stock for issuance to the Company s employees, directors and consultants. Options granted under the 1998 Plan have a maximum term of 10 years and generally vest over four years at the rate of 25 percent one year from the date of grant and

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued) (Unaudited)

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

2004 Equity Incentive Plan

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

Available for Grant as of December 31, 2007	1,603,319
2008 Additions to Plan	1,672,730
2008 Grants	(801,417)
2008 Cancellations	175,007
Available for Grant as of March 31, 2008	2,649,639

A summary of the status of the Company s stock option plans at March 31, 2008 and changes during the three months then ended is presented in the table below:

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2007	7,442,806	$ 10.50	6.64	$ 81,762,963
Options granted (weighted-average fair value of $5.76 per share)	640,290	15.94		
Options exercised	(199,773)	6.10		
Options forfeited	(158,218)	14.12		
Options expired	(5,803)	14.47		
Outstanding at March 31, 2008	7,719,302	$ 10.98	6.41	$ 52,875,872
Options exercisable at March 31, 2008 and expected to become exercisable	7,130,681	$ 10.69	6.39	$ 50,889,812
Options vested and exercisable at March 31, 2008	3,922,671	$ 7.47	6.19	$ 40,046,508

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued) (Unaudited)

For the three months ended March 31, 2008 and 2007, the compensation expense recognized for options granted under the 1998 Plan and 2004 Plan was $2.0 million and $1.8 million, respectively. The total intrinsic value of options exercised during the three months ended March 31, 2008 and 2007 was $2.0 million and $8.5 million, respectively. Net cash proceeds from the exercise of stock options were $1.2 million for the three months ended March 31, 2008 and $2.7 million for the three months ended March 31, 2007. At March 31, 2008, unamortized compensation expense related to unvested options was approximately $18.4 million. The weighted average period over which compensation expense related to these options will be recognized is approximately 2.5 years.

The employee stock-based compensation expense recognized under SFAS 123(R) was determined using the Black-Scholes option pricing model. Option pricing models require the input of subjective assumptions and these assumptions can vary over time. The Company used the following weighted-average assumptions to determine the fair values of stock based awards granted during the three months ended March 31, 2008 and 2007:

	Three months ended March 31,	
	2008	2007
Expected term (years)	4.3	4.7
Expected volatility	40.3%	52.9%
Risk-free interest rate	2.7%	4.7%
Dividend yield		

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

2004 Employee Stock Purchase Plan

Under the 2004 Employee Stock Purchase Plan (the Purchase Plan), eligible employees may purchase common stock through payroll deductions. Participants may not purchase more than 2,000 shares in a six-month offering period or stock having a value greater than $25,000 in any calendar year as measured at the beginning of the offering period in accordance with the Internal Revenue Code and applicable Treasury Regulations. A total of 200,000 shares of common stock were reserved for issuance under the Purchase Plan. The Purchase Plan provides for an automatic annual increase beginning on January 1, 2005 by an amount equal to the least of 1,000,000 shares; 2% of the outstanding shares of common stock on the first day of the year; or a number of shares as determined by the Board of Directors. For the three months ended March 31, 2008 and 2007, 60,090 shares and 108,683 shares, respectively, were issued under the Purchase Plan. The following is a summary of the Purchase Plan and changes during the three months ended March 31, 2008:

Available Shares as of December 31, 2007	1,497,217
2008 Additions to Plan	669,092
2008 Purchases	(60,090)
Available Shares as of March 31, 2008	2,106,219

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued) (Unaudited)

The Purchase Plan is considered compensatory under SFAS 123(R) and is accounted for in accordance with FASB Technical Bulletin 97-1 (FTB 97-1) *Accounting under Statement 123 for Certain Employee Stock Purchase Plans with a Look-Back Option*. The compensation expense for each of the three months ended March 31, 2008 and 2007 was $0.1 million. The intrinsic value for stock purchased was $0.2 million and $0.7 million for the three months ended March 31, 2008 and 2007, respectively. The unamortized expense as of March 31, 2008 was $0.3 million, which will be recognized over 0.4 years. The Black-Scholes option pricing model was used to value the employee stock purchase rights. For three months ended March 31, 2008 and 2007, the following assumptions were used in the valuation of the stock purchase rights:

	Three months ended March 31, 2008	Three months ended March 31, 2007
Expected term (years)	0.5	0.5
Expected volatility	50.5%	50.4%
Risk-free interest rate	2.1%	5.2%
Dividend yield		

Restricted Stock

A portion of the Company s shares of common stock were issued under restricted stock purchase agreements. Under these agreements, in the event of a termination of an employee, the Company has the right to repurchase the common stock at the original issuance price of $0.001. The repurchase right expires over a 48 month period. A summary of the Company s restricted stock awards is presented in the table below:

	Restricted Stock Awards	Weighted Average Grant Date Fair Value	Weighted Average Remaining Recognition Period (Years)
Outstanding at December 31, 2007	175,539	$ 10.86	1.31
Awards granted			
Awards released	(41,839)	11.52	
Awards forfeited	(6,836)	8.33	
Outstanding at March 31, 2008	126,864	$ 10.77	1.17

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

	Restricted Stock Units	Weighted Average Grant Date Fair Value	Weighted Average Remaining Recognition Period (Years)
Granted as of December 31, 2007	182,500	$ 15.37	1.91
Awards granted	161,127	15.61	
Awards released	(10,500)	12.68	
Awards forfeited	(6,000)	16.00	
Granted as of March 31, 2008	327,127	$ 15.88	2.68

The total fair value and compensation expense recorded for restricted stock awards and units was $0.7 million and $0.3 million for the three months ended March 31, 2008 and 2007, respectively. The intrinsic value related to restricted stock awards and units released for the three months ended March 31, 2008 and 2007 was $0.9 million and $0.7 million, respectively. At March 31, 2008, unamortized compensation expense related to unvested restricted stock awards and units was approximately $4.7 million with a weighted average remaining recognition period of 2.3 years.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued) (Unaudited)

3. ***Inventories*** - Inventories consist of the following (in thousands):

	March 31, 2008	December 31, 2007
Work in progress	$ 8,890	$ 8,101
Finished goods	7,500	9,386
Total inventories	$ 16,390	$ 17,487

4. ***Accrued Liabilities*** - Accrued liabilities consist of the following (in thousands):

	March 31, 2008	December 31, 2007
Warranty	$ 977	$ 1,025
Legal expenses and settlement costs	8,768	9,664
Professional fees	732	746
Deferred revenue	1,567	1,306
Other	2,576	2,218
Total accrued liabilities	$ 14,620	$ 14,959

***5.* Comprehensive Income and Net Income per Share** Basic Net Income per Share is computed based on the weighted average number of common shares outstanding during the period and does not include the dilutive effect of common equivalent shares, such as stock options. Diluted Net Income per Share is computed based on both the weighted average number of common shares outstanding during the period and the dilutive effect of common equivalent shares, such as stock options.

For the three months ended March 31, 2008 and 2007, the Company had securities outstanding that could potentially dilute basic earnings per share in the future, but were excluded from the computation of diluted net income per share in the periods presented as their effect would have been antidilutive. The shares of common stock issuable upon conversion or exercise of such outstanding securities consist of 3.6 million stock options and 1.3 million stock options for the three months ended March 31, 2008 and 2007, respectively.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued) (Unaudited)

The Company s comprehensive income (loss) includes foreign currency translation adjustments and an unrealized gain of $50,000, offset by a temporary impairment (unrealized loss) of $0.4 million from available-for-sale investments. The following table sets forth the components of other comprehensive income, net of income tax effect (in thousands):

	Three months ended March 31, 2008	2007
Net income (loss)	$ 5,935	$ (329)
Other comprehensive income (loss):		
Unrealized loss on available-for-sale investments	(360)	
Foreign currency translation adjustments	663	30
Comprehensive income (loss)	$ 6,238	$ (299)

6. ***Income Taxes***

The Company computes income taxes for interim reporting purposes using estimates of the effective annual income tax rate for the entire fiscal year. This process involves estimating the full-year tax liability and assessing the temporary differences between the book and tax treatments. These temporary differences result in deferred tax assets and liabilities, which are recorded on the Company s Condensed Consolidated Balance Sheet in accordance with SFAS No. 109, *Accounting for Income Taxes*, which established financial accounting and reporting standards for the effect of income taxes. The Company must assess the likelihood that its deferred tax assets will be recovered from future taxable income and, to the extent the Company believes that recovery is not likely, the Company must establish a valuation allowance. Changes in the Company s valuation allowance in a period are recorded through the income tax provision on the Condensed Consolidated Statement of Operations.

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

On January 1, 2007, the Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes An interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements in accordance with SFAS No. 109, Accounting for Income Taxes and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Under FIN 48, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As a result of the implementation of FIN 48, the Company recognized a cumulative adjustment in the liability for unrecognized income tax benefits in the amount of $0.9 million, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings. At the adoption date of January 1, 2007, the Company had $5.3 million of unrecognized tax benefits, $4.8 million of which would affect its effective tax rate if recognized. At December 31, 2007, the Company had $7.9 million of unrecognized tax benefits, $5.3 million of which would affect its effective tax rate if recognized.

The Company recognizes interest related to uncertain tax positions in its income tax provision. As of March 31, 2008, the Company has approximately $54,000 of accrued interest related to uncertain tax positions.

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

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued) (Unaudited)

The Company adopted SFAS 123(R) as of January 1, 2006 and, as a result, incurred significant stock-based compensation expense, some of which related to incentive stock options for which no corresponding tax benefit is recognized unless a disqualifying disposition occurs. Disqualifying dispositions result in a reduction of income tax expense in the quarter when the disqualifying disposition occurs in an amount equal to the tax benefit relating to previously recognized stock compensation expense. Tax benefits related to realized tax deductions in excess of previously expensed stock compensation are recorded as an addition to paid-in-capital.

7. ***Segment Information***

As defined by the requirements of SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, the Company operates in one reportable segment: the design, development, marketing and sale of high-performance, mixed-signal analog semiconductors for the computing, consumer electronics, and wireless markets. Geographic revenue is based on the location to which customer shipments are delivered. For the three months ended March 31, 2008, the Company derived substantially all of its revenue from sales to customers located outside North America. The following is a list of customers whose sales exceeded 10% of revenue for the three months ended March 31, 2008 and 2007:

Customers	Three months ended March 31, 2008	2007
A	19%	17%
B	11%	*
C	10%	16%

The following is a summary of revenue by geographic region based on customer ship-to location (in thousands):

Country	Three months ended March 31, 2008	2007
China	$ 14,987	$ 12,231
Korea	5,581	3,712
Taiwan	4,922	4,143
Japan	4,329	1,723
Europe	2,675	1,220
Other	1,911	550
USA	1,004	917
Total	$ 35,409	$ 24,496

The following is a summary of revenue by product family (in thousands):

Product Family	Three months ended March 31, 2008	2007
DC to DC Converters	$ 25,423	$ 16,773
LCD Backlight Inverters	7,231	6,041
Audio Amplifiers	2,755	1,682
Total	$ 35,409	$ 24,496

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued) (Unaudited)

The following is a summary of long-lived assets by geographic region, excluding restricted assets (in thousands):

	March 31, 2008	December 31, 2007
China	$ 10,735	$ 10,598
United States	$ 4,163	3,635
Taiwan	$ 103	105
Japan	$ 29	26
Other	$ 49	55
TOTAL	**$ 15,079**	**$ 14,419**

8. ***Litigation***

O2 Micro, Inc.

Since November 2000, the Company has been engaged in multiple legal proceedings involving patent infringement claims with O2 Micro, Inc. and its parent corporation, O2 Micro International Limited (referred to hereinafter as O2). All of these claims relate to the Company s cold cathode fluorescent lighting (CCFL) backlight inverter products, which are part of its LCD backlight inverter family.

In the United States District Court for the Northern District of California, O2 alleged that certain of the Company s CCFL products, the Company s foundry, and several of the Company s customers whose products incorporate its inverter controllers, infringe O2 s 722 patent. On May 15, 2007, the jury returned a verdict that all of the 722 patent claims asserted by O2 against the Company, its foundry, and customers are invalid. On October 30, 2007, the Court denied all post-trial motions and entered judgment in favor of the Company. Subsequently, O2 filed an appeal, and the Company filed a cross-appeal, with the Federal Circuit. The appeals are currently pending.

On May 1, 2007, the Company filed for declaratory judgment relief in the United States District Court for the Northern District of California against O2 that certain of the Company s CCFL products do not infringe O2 s 129 patent and that the 129 patent is invalid and unenforceable. On February 12, 2008, O2 filed a counterclaim and alleged certain of the Company s CCFL products infringe the 129 patent. The case is still in the early proceeding and no trial date has been set.

In addition to the U.S. litigation described above, O2 has brought various legal proceedings against the Company in Taiwan based upon a Taiwan patent. The Company has obtained counter-injunctions from the Taiwan courts against O2, one of which prohibits O2 from interfering with the Company s or other parties manufacture, sale, use or importation, by either the Company or a third party, of certain of its CCFL products. In connection with the counter-injunctions, the Company posted cash bonds of approximately $6.1 million, which are currently recorded as long-term restricted assets on the Company s consolidated balance sheet. In addition, the Company posted an additional $1.9 million, which the Company has included in restricted assets on the consolidated balance sheet, to have its assets released and to avoid seizures until the matter with O2 is resolved. If the Company does not prevail at trial, the Company 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 which may materially and adversely affect the Company s results of operations and financial position for that quarter.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued) (Unaudited)

Taiwan Sumida Electronics

In August 2005, the Company sued Taiwan Sumida Electronics (TSE) and was countersued by TSE for material breach of the parties December 25, 2002 Indemnification Agreement seeking, among other things, reimbursement of attorney fees paid by the Company to TSE s attorneys. On July 30, 2007, the Company settled its litigation with TSE concerning the December 25, 2002 Indemnification Agreement. Based on the settlement agreement, the Company provided an upfront payment to TSE of $2.5 million. On October 22, 2007, the Company placed into escrow, an additional $7.4 million for which the Company could be liable subject to the outcome of certain legal activities. The settlement agreement releases the Company and TSE from all claims and indemnification obligations that relate to or arise under the patent infringement lawsuit brought by O2 Micro International Limited in the Eastern District of Texas (O2 Micro International Limited v. Sumida Corp., et al., Case No. C 03-0007 TJW) and the lawsuit filed by the Company against TSE in the Northern District of California (Monolithic Power Systems, Inc. v. Taiwan Sumida Electronics, Inc., Case No. C 05-3522 CW). The settlement agreement also terminates the Indemnification Agreement.

Linear Technology Corporation

On August 3, 2006, Linear Technology (Linear) filed an action against the Company in the United States District Court for the District of Delaware. Linear alleges that one of the Company s parts infringes Linear s 178 and 258 patents and constitutes a breach of the parties Settlement and License Agreement dated October 1, 2005. Trial is currently scheduled for June 23, 2008 and at this time, the Company is not able to reasonably estimate the probability of loss or the range of possible loss in this case.

Chip Advanced Technology Inc.

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

9. ***Stock Repurchase Program***

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

2008 Calendar Year	Shares Repurchased	Average Price per Share	Value (in thousands)
February	27,500	$ 16.88	$ 464
March	527,332	$ 17.12	$ 9,028
Total Shares Repurchased	554,832		$ 9,492

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued) (Unaudited)

10. ***Fair Value Measurements***

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

		Fair Value Measurements at Reporting Date Using		
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Cash and cash equivalents	$ 43,415	$ 43,415	$	$
Fixed income available-for-sale securities	25,657	25,657		
Auction-rate securities	39,140			39,140
	$ 108,212	$ 69,072	$	$ 39,140

Fixed income available-for-sale securities include US treasury securities, corporate bonds and government agencies. Fixed income available-for-sale securities include $4.8 million of short-term investments, the remainder of which is classified as cash and cash equivalents on the Consolidated Balance Sheets.

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

Beginning balances as of January 1, 2008	$
Unrealized loss included in accumulated other comprehensive loss	$ (410)
Purchases, sales and settlements (net)	$ 28,050
Transfer into Level 3	$ 11,500
Ending balances as of March 31, 2008	$ 39,140

The market for auction-rate securities, which are generally issued by municipalities with interest rates that reset through a dutch auction every 7 to 35 days, has recently become illiquid. As of March 31, 2008, the Company s investment portfolio included $39.1 million in auction-rate securities backed by municipal bonds and government-backed student loans, which the Company has classified as long-term investments. As of March 31, 2008, $39.6 million have failed to reset through successful auction and it is unclear as to when these investments will regain their liquidity. The underlying maturity of these auction-rate securities is up to 30 years and the underlying credit quality of these instruments in which the Company has invested remains AAA rated.

To value our auction-rate securities, the discounted cash flow model used the following assumptions:

two-year expected life;

discount rate of approximately 5.0%, which includes the 2-year LIBOR rate, the cost of debt and a liquidity risk premium; and cash flows of approximately 4.3% over the expected life.

Based on these assumptions, the Company recorded a temporary impairment on investments of $0.4 million for these available-for-sale securities in other comprehensive income (loss) within equity. As a result, net assets decreased by $0.4 million. The temporary impairment charge had no impact on net income. The Company intends to hold these investments through available auctions which the Company believes could take up to two years. Therefore, the Company reclassified all auction-rate securities as non-current on its balance sheet. The valuation is subject to fluctuations in the future, which will depend on many factors, including the collateral quality, potential to be called or restructured, underlying final maturity, insurance guaranty, liquidity and market conditions, among others. The Company experienced its first failed auction in mid-February 2008. Since then, $3.8 million in auction-rate securities were sold successfully or called at par. If the auctions continue to fail, the liquidity of the Company s investment portfolio may be negatively impacted and the value of its investment portfolio could decline.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued) (Unaudited)

11. Restatement

Subsequent to the issuance of the Company s financial statements for the year ended December 31, 2007, the Company s management determined that there was an error in recording the tax effect of stock-based compensation expense related to Monolithic Power Systems, Inc. s cost-share agreement with a foreign subsidiary. As a result, the Company is restating the accompanying condensed consolidated financial statements for the three months ended March 31, 2007.

A summary of the effects of the restatement is shown below which includes the following adjustments:

an error in the calculation of the deferred tax asset, for which the Company had a full valuation allowance, which increased the amount of tax expense recognized for the period and included adjustments to the cash flow effects related to the tax assets and liabilities and tax benefits within the Condensed Consolidated Statement of Cash Flows. There was no change to cash and cash equivalents as a result of these adjustments.

Condensed Consolidated Statement of Operations (in thousands, except per share amounts):

	For the three months ended March 31, 2007	
	as previously reported	as restated
Income tax provision	$ 1,495	$ 1,886
Net income (loss)	$ 62	$ (329)
Basic net income (loss) per share	$ 0.00	$ (0.01)
Diluted net income (loss) per share	$ 0.00	$ (0.01)

Condensed Consolidated Statement of Cash Flows (in thousands):

	For the three months ended March 31, 2007	
	as previously reported	as restated
Cash flows from operating activities:		
Net income (loss)	$ 62	$ (329)
Deferred income tax assets	$ 1,658	$ 2,025
Tax benefit from stock option transactions	$ 897	$ 948
Excess tax benefit from stock option transactions	$ (897)	$ (721)
Prepaid expenses and other current assets	$ (1,950)	$ (2,176)
Accrued income taxes payable and noncurrent tax liabilities	$ 2,066	$ 2,265
Net cash provided by operating activities	$ 5,680	$ 5,856
Cash flows from financing activities:		
Excess tax benefit from stock option transactions	$ 897	$ 721
Net cash provided by financing activities	$ 4,431	$ 4,255
Net increase (decrease) in cash and cash equivalents	$ 12,073	$ 12,073

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This quarterly report on Form 10-Q contains forward-looking statements that involve many risks and uncertainties. These statements relate to future events and our future performance and are based on current expectations, estimates, forecasts and projections about the industries in which we operate and the beliefs and assumptions of our management. These include statements concerning:

- *the above-average industry growth of product and market areas that we have targeted,*
- *our plan to introduce additional new products within our existing product families as well as in new product categories,*
- *the impact of our outstanding litigation on the revenue we derive from our CCFL product line,*
- *our belief that our products and the markets they target have the ability to offer above average industry growth over the long term,,*
- *the cyclical nature of the semiconductor industry,*
- *the factors that we believe will impact our ability to achieve revenue growth;*
- *the effect of auction-rate securities on our liquidity and capital resources, and*
- *estimates of our future liquidity requirements.*

You can identify forward-looking statements by terms such as would, could, may, will, should, expect, intend, plan, anticipate, believe, estimate, predict, potential, targets, seek, or continue, the negative of these terms or other variations of such terms. These statements are only predictions based upon assumptions that we believe to be reasonable at the time made, and are subject to risks and uncertainties. Therefore, actual events or results may differ materially and adversely from those expressed in any forward-looking statement. In evaluating these statements, you should specifically consider the risks described below in the section entitled Risk Factors. These factors may cause our actual results to differ materially from any forward-looking statements. Except as required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

The following discussion reflects the effects of the restatement discussed in Note 11 to the condensed consolidated financial statements.

Overview

We are a fabless semiconductor company that designs, develops, and markets proprietary, advanced analog and mixed-signal semiconductors. We currently offer products that serve multiple markets, including notebook computers, flat panel displays, cellular handsets, digital cameras, telecommunications equipment, home entertainment systems, and set top boxes, among others. We believe that we differentiate ourselves by offering solutions that are more highly integrated, smaller in size, more energy efficient, more accurate with respect to performance specifications and, consequently, more cost-effective than many competing solutions. We plan to introduce additional new products within our existing product families, as well as in new product categories.

We operate in the cyclical semiconductor industry where there is seasonal demand for certain of our products. 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.

We work with third parties to manufacture and assemble our integrated circuits. This has enabled us to limit our capital expenditures and fixed costs, while focusing our engineering and design resources on our core strengths.

Following the introduction of a product, our sales cycle generally takes six to twelve months to achieve revenue. Volume production is usually achieved in three to six months after we receive an initial customer order for a new product. Typical lead times for orders are fewer than 90 days. These factors, combined with the fact that orders in the semiconductor industry can typically be cancelled or rescheduled without significant penalty to the customer, make the forecasting of our orders and revenue challenging.

We derive most of our revenue from direct sales or sales through distribution arrangements to customers in Asia, where the components we produce are incorporated into an end-user product. 89% of our revenue for the three months ended March 31,

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2008 and 91% for the three months ended March 31, 2007 was attributable to direct or indirect sales to customers in Asia. We derive a majority of our revenue from the sales of our DC to DC converter product family which services the computing, consumer electronics and communications markets. We believe our ability to achieve revenue growth will depend, in part, on our ability to develop new products, enter new market segments, gain market share, manage litigation risk, diversify our customer base and successfully secure manufacturing capacity.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated 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, revenue and expenses, and related disclosure of contingent assets and liabilities. We evaluate our estimates on an on-going basis, including those related to stock-based compensation, long-term investments, inventories, income taxes, warranty obligations and contingencies. 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. Estimates and judgments used in the preparation of our financial statements are, by their nature, uncertain and unpredictable, and depend upon, among other things, many factors outside of our control, such as demand for our products and economic conditions. Accordingly, our estimates and judgments may prove to be incorrect and actual results may differ, perhaps significantly, from these estimates under different estimates, assumptions or conditions.

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 revenue in accordance with Staff Accounting Bulletin No. 104, *Revenue Recognition* (SAB 104) issued by the Staff of the SEC. SAB 104 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the fee is fixed 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 generally recognizing revenue upon shipment (when title passes) to customers. Should changes in conditions cause management to determine these criteria are not met for certain future transactions, revenue recognized for any reporting period could be adversely impacted.

The majority of our sales are made through distribution arrangements with third parties. We recognize revenue upon our shipment to those third party distributors under these distribution arrangements. Some of these arrangements include limited stock rotation rights that permit the return of a small percentage of the previous six months purchases. We maintain a sales reserve for stock rotation rights, which is based on historical experience of actual stock rotation returns and information related to product in the distribution channel. We record an estimate of the stock rotation returns at the time of sale.

Our normal payment terms with our distributors are generally 30 to 45 days from invoice date, and our arrangements with our largest distributors do not include price protection provisions. In addition, terms in a majority of our distribution agreements include the non-exclusive right to sell, and the agreement to use best efforts to promote and develop a market for, our products in certain regions of the world and the ability to terminate the agreement by either party with up to three months notice. Estimated sales returns are based on historical experience and are recorded at the time product revenue is recognized.

In 2006, we signed a distribution agreement with a U.S. distributor. Revenue from this distributor is recognized upon sale by the distributor to the end customer because the distributor has certain rights of return which management believes are not estimable. For the three months ended March 31, 2008 and 2007, we recognized $0.3 million and $0.2 million, respectively, in revenue that is attributable to this distributor. We also had a distribution and service agreement with a distributor for which the revenue is deferred until the services have been performed. For the three months ended March 31, 2008 and 2007, we recognized $0.8 million and $0, respectively, in revenue that is attributable to this distributor. As of March 31, 2008, we had $0.6 million in deferred revenue from this distributor.

Warranty Reserves. We currently provide a 12-month warranty against defects in materials and workmanship and will either repair the goods or provide replacement products at no charge to the customer for defective products. We record estimated warranty costs by product, which are based on historical experience over the preceding 12 months by product, at the time we recognize product revenue. Reserve requirements are recorded in the period of sale and are based on an assessment of the products sold with warranty and historical warranty costs incurred. As the complexity of our products increases, we could experience higher warranty claims relative to sales than we have previously experienced, and we may need to increase these estimated warranty reserves.

Inventory Valuation. We value our inventory at the lower of the standard cost (which approximates actual cost on a first-in, first-out basis) or its current estimated market value. We write down inventory for obsolescence or lack of demand, based on 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 Income Taxes. Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, Accounting for Income Taxes* establishes financial accounting and reporting standards for the effect of income taxes and was adopted by us on January 1, 2007. In accordance with Statement of Financial Accounting Standards (SFAS) No. 109, we recognize federal, state and foreign current tax liabilities or assets based on our estimate of taxes payable or refundable in the current fiscal year by tax jurisdiction. We also recognize federal, state and foreign deferred tax assets or liabilities for our estimate of future tax effects attributable to temporary differences and carryforwards. We record a valuation allowance to reduce any deferred tax assets by the amount of any tax benefits that, based on available evidence and judgment, are not expected to be realized.

Our calculation of current and deferred tax assets and liabilities is based on certain estimates and judgments and involves dealing with uncertainties in the application of complex tax laws. Our estimates of current and deferred tax assets and liabilities may change based, in part, on added certainty or finality to an anticipated outcome, changes in accounting or tax laws in the U.S., or foreign jurisdictions where we operate, or changes in other facts or circumstances. In addition, we recognize liabilities for potential U.S. and foreign income tax for uncertain income tax positions on the tax returns if it has less than a 50% likelihood of being sustained. If we determine that payment of these amounts is unnecessary or if the recorded tax liability is less than our current assessment, we may be required to recognize an income tax benefit or additional income tax expense in our financial statements in the period such determination is made. Due to the adoption of FIN 48 effective January 1, 2007, we calculated our uncertain tax positions which were attributable to certain estimates and judgments primarily related to transfer pricing, cost sharing and our international tax structure exposure.

As of March 31, 2008 and December 31, 2007, we had a valuation allowance of $11.9 million and $11.9 million, respectively, attributable to management s determination that none of the deferred tax assets will be realized, except for certain deferred tax assets related to uncertain income tax positions. Should it be determined that all or part of the net deferred tax asset will not be realized in the future, an adjustment to increase the deferred tax asset valuation allowance will be charged to income in the period such determination is made. Likewise, in the event we were to determine that we would be able to realize our deferred tax assets in the future in excess of our net recorded amount, an adjustment to the allowance for the deferred tax asset would increase income in the period such determination was made.

Contingencies. We are engaged in legal proceedings resulting from several patent infringement actions against us. In addition, from time to time, we become aware that we are subject to other contingent liabilities. When this occurs, we will evaluate the appropriate accounting for the potential contingent liabilities using SFAS No. 5, *Accounting for Contingencies*, to determine whether a contingent liability should be recorded. In making this determination, management may, depending on the nature of the matter, consult with internal and external legal counsel and technical experts. Based on the facts and circumstances in each matter, we use our judgment to determine whether it is probable that a contingent loss has occurred and whether the amount of such loss can be estimated. If we determine a loss is probable and estimable, we record a contingent loss in accordance with SFAS 5. In determining the amount of a contingent loss, we take into account advice received from experts for each specific matter regarding the status of legal proceedings, settlement negotiations (which may be ongoing), prior case history and other factors. Should the judgments and estimates made by management need to be adjusted as additional information becomes available, we may need to record additional contingent losses that could materially and adversely impact our results of operations. Alternatively, if the judgments and estimates made by management are adjusted, for example, if a particular contingent loss does not occur, the contingent loss recorded would be reversed which could result in a favorable impact on our results of operations.

Accounting for Stock-Based Compensation. Effective January 1, 2006, we adopted the provisions of SFAS No. 123R, *Share-Based Payment*, under the modified prospective method. SFAS 123R eliminates the alternative of applying the intrinsic value measurement provisions of Accounting Principles Board (APB) Opinion 25 to stock compensation awards issued to employees. Rather, the standard requires us to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award, known as the requisite service period (usually the vesting period). We currently use the Black-Scholes option-pricing model to estimate the fair value of our share-based payments. The Black-Scholes option-pricing model is based on a number of assumptions, including expected volatility for which we use the average volatility of a number of our competitors and combine them with our limited historical volatility to come up with an overall volatility that is used in the model. The Black-Scholes option pricing model also includes an assumption of expected life, risk-free interest rate and expected dividends. If these assumptions change, stock-based compensation may differ significantly from what we have recorded in the past. The amount of stock-based compensation that we recognize is also based on an expected forfeiture rate. If there is a difference between the forfeiture assumptions used in determining stock-based compensation costs and the actual forfeitures which become known over time, we may change the forfeiture rate, which could have a significant impact on our stock-based compensation expense.

Results of Operations

The table below sets forth the data from our statement of operations as a percentage of revenue for the periods indicated:

	Three months ended March 31,	
	2008	**2007**
Revenue	100.0%	100.0%
Cost of revenue	36.8%	36.6%
Gross profit	63.2%	63.4%
Operating expenses:		
Research and development	21.4%	24.2%
Selling, general and administrative	24.6%	25.3%
Provision for litigation expense	2.1%	11.6%
Total operating expenses	48.1%	61.1%
Income from operations	15.1%	2.3%
Other income (expense):		
Interest and other income	4.0%	4.1%
Interest and other expense	0.0%	0.0%
Total other income, net	4.0%	4.1%
Income before income taxes	19.1%	6.4%
Income tax provision	2.3%	7.7%
Net income (loss)	16.8%	(1.3%)

Revenue.

	For the three months ended March 31,		
	2008	**2007**	**Change**
	(in thousands)		
Revenue	$ 35,409	$ 24,496	44.6%

Revenue for the three months ended March 31, 2008 was $35.4 million, an increase of $10.9 million, or 44.6%, from $24.5 million for the three months ended March 31, 2007. The increase in revenue between the two periods resulted from increased sales of our DC to DC converters of $8.7 million, LCD backlight inverter products of $1.2 million and audio products of $1.1 million. For the three months ended March 31, 2008, revenue from our DC to DC converters increased 51.6% due to increased sales of flat panel TVs and other consumer devices. Revenue for our CCFL products, which are a part of our LCD backlight inverter family increased 19.7% due to strength in the notebook market over the same period in 2007. However, given the uncertainty of the outcome of our litigation with O2 Micro, Inc., we cannot predict the impact that such litigation will have on such revenue in the future. Revenue for our audio amplifier product family increased by 63.8% primarily due to increased demand for new and existing products used in consumer electronic applications.

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The following table illustrates changes in our revenue by product family:

	For the three months ended March 31, 2008 (in thousands) Amount	% of Revenue	2007 (in thousands) Amount	% of Revenue	Change
DC to DC Converters	$ 25,423	71.8%	$ 16,773	68.5%	51.6%
LCD Backli ght Inverters	7,231	20.4%	6,041	24.7%	19.7%
Audio Amplifiers	2,755	7.8%	1,682	6.9%	63.8%
	$ 35,409	100.0%	$ 24,496	100.0%	44.5%

Gross Profit. Gross profit as a percentage of revenue, or gross margin, was 63.2% for the three months ended March 31, 2008 and 63.4% for the three months ended March 31, 2007. Gross margin declined year-over-year as a result of a slight decrease in the average selling price of certain of our mature DC to DC products and an increase in the sales of our lower margin audio products. We increased inventory reserves by $0.4 million due to changes in forecasted customer demand while first quarter sales of previously reduced zero-valued inventory resulted in an added gain of $0.5 million. The net impact of the valuation adjustment was $0.1 million, or 0.3% of sales.

Research and Development.

	For the three months ended March 31, 2008 (in thousands)	2007	Change
Revenue	$ 35,409	$ 24,496	44.6%
Research and development (R&D) (including stock-based compensation of $1,207 and $1,101 for the three months ended March 31, 2008 and 2007, respectively)	7,572	5,932	27.7%
R&D as a percentage of revenue	21.4%	24.2%	

R&D expenses were $7.6 million, or 21.4% of revenue, for the three months ended March 31, 2008 and $5.9 million, or 24.2% of revenue, for the three months ended March 31, 2007. The year-over-year increase in R&D expenses was due to an increase in R&D headcount, as well as increased new product development activities, primarily in the DC to DC product line both in the U.S. and Asia. R&D expenses also increased because of patent related activities.

Selling, General and Administrative.

	For the three months ended March 31, 2008 (in thousands)	2007	Change
Revenue	$ 35,409	$ 24,496	44.6%
Selling, general and administrative (SG&A) (including stock-based compensation of $1,535 and $1,108 for the three months ended March 31, 2008 and 2007, respectively)	8,728	6,197	40.8%
SG&A as a percentage of revenue	24.6%	25.3%	

SG&A expenses were $8.7 million, or 24.6% of revenue, for the three months ended March 31, 2008 and $6.2 million, or 25.3% of revenue, for the three months ended March 31, 2007. SG&A expenses increased year-over-year due to an increase in headcount to support the business, bonus accruals, sales commissions and sales representative contractual obligations. The year-over-year increase was also due to an increase in stock-based compensation expenses in the amount of $0.4 million.

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Patent Litigation Expense.

	For the three months ended March 31,		
	2008	2007	Change
	(in thousands)		
Revenue	$ 35,409	$ 24,496	44.6%
Provision for litigation expense	736	2,847	-74.1%
Patent litigation as a percentage of revenue	2.1%	11.6%	

Patent litigation expenses were $0.7 million, or 2.1% of revenue, for the three months ended March 31, 2008 as compared to $2.8 million, or 11.6% of revenue, for the three months ended March 31, 2007. The year-over-year decrease in patent litigation expenses was due to reduced litigation expenses as a result of the settlement and preliminary resolution of certain lawsuits in 2007 and reduced litigation activities related to current ongoing litigation, which we expect will increase in the second quarter of 2008.

Income Tax Provision. The income tax provision for the three months ended March 31, 2008 was $0.8 million or 12.2% of our income before income taxes. This differs from the federal statutory rate of 34% primarily because our foreign income is taxed at lower rates. The income tax provision for the three months ended March 31, 2007 was $1.9 million or 121.1% of the pre-tax income. This differs from the federal statutory rate of 34% primarily because we recorded a one-time write off of our deferred tax assets in the amount of $1.5 million as we no longer expect that our deferred tax assets will be realized.

Liquidity and Capital Resources.

As of March 31, 2008, we had working capital of $80.8 million, including cash and cash equivalents of $64.3 million and short-term investments of $4.8 million compared to working capital of $119.3 million, including cash and cash equivalents of $83.1 million and short-term investments of $27.8 million as of December 31, 2007. During the quarter ended March 31, 2008, we reclassified $39.6 million in auction-rate securities from-short-term investments to long-term investments and recorded a temporary impairment on investments of $0.4 million for these available-for-sale securities in other comprehensive income (loss) within equity. We have financed our growth primarily with proceeds from cash generated from operating activities, the issuance of common stock and the exercise of stock options.

For the three months ended March 31, 2008, net cash provided by operating activities was $5.9 million, primarily due to strong quarterly sales and a decrease in net inventory. This was partially offset by an increase in accounts receivable and the payout of our employee bonuses. Net cash provided by operating activities was $5.9 million for the three months ended March 31, 2007.

For the three months ended March 31, 2008, net cash used in investing activities was $17.5 million, primarily related to the purchase of investments which the Company was not able to sell during the period due to the illiquidity related to auction-rate securities and the purchase of $2.0 million in capital equipment, of which $1.0 million was unpaid as of March 31, 2008. For the three months ended March 31, 2007, we generated $1.9 million, primarily due to net proceeds from our investments in the amount of $3.2 million, partially offset by cash used in investing activities, primarily due to the purchase of $1.5 million in capital equipment, of which $0.3 million was unpaid as of March 31, 2007.

We use professional investment management firms to manage the majority of our invested cash. Our fixed income portfolio is primarily invested in municipal bonds, government securities, auction-rate securities and highly rated corporate notes. The balance of the fixed income portfolio is managed internally and invested primarily in money market funds for working capital purposes.

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The market for auction-rate securities, which are generally issued by municipalities with interest rates that reset through a Dutch auction every 7 to 35 days, has recently become illiquid. As of March 31, 2008, the Company s investment portfolio included $39.1 million in auction-rate securities backed by municipal bonds and government-backed student loans. As of that date, $39.6 million have failed to reset through successful auction and it is unclear as to when these investments will regain their liquidity. The underlying maturity of these auction-rate securities is up to 30 years and the underlying credit quality of these instruments in which we have invested remains AAA rated.

The Company adopted the provisions of SFAS No. 157, *Fair Value Measurements,* effective January 1, 2008. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies to the auction-rate securities for which the Company has invested, the fair value of which was determined using the discounted cash flow model. The discounted cash flow model used the following assumptions:

- two-year expected life;
- discount rate of approximately 5.0%, which includes the 2-year LIBOR rate, the cost of debt and a liquidity risk premium; and
- cash flows of approximately 4.3% over the expected life.

Based on these assumptions, the Company recorded a temporary impairment on investments of $0.4 million for these available-for-sale securities in other comprehensive income (loss) within equity. The Company intends to hold these investments through available auctions, however, the valuation is subject to fluctuations in the future, which will depend on many factors, including the collateral quality, potential to be called or restructured, underlying final maturity, insurance guaranty, liquidity and market conditions, amongst others. The Company experienced its first failed auction in mid-February 2008. If the auctions continue to fail, the liquidity of the Company s investment portfolio may be negatively impacted and the value of its investment portfolio could decline.

Net cash used by financing activities for the three months ended March 31, 2008 was $7.4 million, primarily from the repurchase of $9.5 million of our common stock of which our Board approved a repurchase of up to $25.0 million. This was partially offset by the proceeds related to the issuance of common stock in the amount of $2.1 million. Net cash provided by financing activities for the three months ended March 31, 2007 was $4.3 million, primarily from the issuance of common stock in the amount of $3.5 million.

Although cash requirements will fluctuate based on the timing and extent of many factors such as those discussed above, we believe that cash generated from operations, together with the liquidity provided by existing cash balances and short-term investments, will be sufficient to satisfy our liquidity requirements for the next 12 months. For further details regarding our operating, investing and financing activities, see our Condensed Consolidated Statements of Cash Flows.

Contractual Obligation and Off Balance Sheet Arrangements.

We lease our headquarters in San Jose, California under a non-cancelable operating lease which expires in October 2009. Although we relocated our headquarters from Los Gatos, California to San Jose, we have a non-cancelable lease on our Los Gatos facility which expires in February 2009, for which we signed an agreement in May 2007 to sublease a portion of the property for the remaining term. Certain of our facility leases provide for periodic rent increases. In addition, as described below, we have a five-year lease arrangement which we entered into in September 2004 for our manufacturing facility located in Chengdu, China. We also lease our sales offices in Japan, China, Taiwan and Korea.

In the fourth quarter of 2007, we qualified a second source foundry and have incorporated their wafers in our production units. There were no material changes to our contractual obligations since December 31, 2007. However, as of March 31, 2008, our total outstanding purchase commitments were $17.8 million, which includes wafer purchases from our foundries and the purchase of assembly services primarily from two contractors in Asia. This compares to purchase commitments of $9.1 million as of December 31, 2007.

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

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For a discussion of market risks at December 31, 2007, refer to Item 7A, Quantitative and Qualitative Disclosures about Market Risk in our amended annual report on Form 10-K/A for the fiscal year ended December 31, 2007 filed with the SEC on May 12, 2008. During the three months ended March 31, 2008, there were no material changes or developments that would materially alter the market risk assessment performed as of December 31, 2007.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures.

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(e) under the Securities Exchange Act of 1934 as of the end of the period covered by this Quarterly Report on Form 10-Q. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs. Based on this evaluation and because of the material weakness described below, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures were not effective as of March 31, 2008.

As disclosed in the Explanatory Note of this Quarterly Report on Form 10-Q, the Audit Committee of our Board of Directors determined on April 28, 2008 that our previously issued financial statements for the years ended December 31, 2006 and 2007 contained a material error thus requiring the restatement of such financial statements. We have determined that our accounting for the tax effect of stock-based compensation related to Monolithic Power Systems Inc. s cost-share agreement with a foreign subsidiary was not recorded correctly.

As more fully described in our amended annual report on Form 10-K/A filed on May 12, 2008, we did not maintain, as of December 31, 2007, effective internal control over financial reporting related to accounting for certain tax effects of stock-based compensation. As a result, our management concluded that these control deficiencies that resulted in the need for a restatement of our previously issued consolidated financial statements constituted a material weakness as of December 31, 2007 that has continued through March 31, 2008.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company s annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness as of December 31, 2007 was identified and reported in our amended annual report on Form 10-K/A, filed with the Securities and Exchange Commission on May 12, 2008:

> A material weakness exists in the operating effectiveness of the controls over the calculation of the tax effect of stock-based compensation expenses related to Monolithic Power Systems, Inc. s cost-share agreement with a foreign subsidiary. This control deficiency led to a misstatement of certain tax-related accounts in 2007 and 2006, which was not prevented or detected on a timely basis, and a restatement of MPS s 2007 and 2006 consolidated financial statements.

Changes in internal control over financial reporting.

The Company made no changes to its internal control over financial reporting during the three-month period ended March 31, 2008.

Remedial Efforts to Address the Material Weakness

Following the identification of the material weakness in the second quarter of fiscal 2008, the Company has initiated remediation measures to address the material weakness over the accounting for income taxes, which include the recruitment of new external tax advisors and improvement in the tax provision process and the underlying procedures and internal control.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

O2 Micro, Inc.

Since November 2000, we have been engaged in multiple legal proceedings involving patent infringement claims with O2 Micro, Inc. and its parent corporation, O2 Micro International Limited (referred to hereinafter as O2). All of these claims relate to our CCFL backlight inverter products, which are part of its LCD backlight inverter family. For further information regarding the history of these legal proceedings, refer to our filings on Forms 10-K and related amendments, 10-Q and 8-K.

In the United States District Court for the Northern District of California, O2 alleged that certain of our CCFL products, our foundry, and several of our customers whose products incorporate our inverter controllers, infringe O2 s 722 patent. On May 15, 2007, the jury returned a verdict that all of the 722 patent claims asserted by O2 against us, our foundry, and customers are invalid. On October 30, 2007, the Court denied all post-trial motions and entered judgment in favor of us. Subsequently, O2 filed an appeal, and we filed a cross-appeal, with the Federal Circuit. The appeals are currently pending.

On May 1, 2007, we filed for declaratory judgment relief in the United States District Court for the Northern District of California against O2 that certain of our CCFL products do not infringe O2 s 129 patent and that the 129 patent is invalid and unenforceable. On February 12, 2008, O2 filed a counterclaim and alleged certain of our CCFL products infringe the 129 patent. The case is still in the early proceeding and no trial date has been set.

In addition to the U.S. litigation described above, O2 has brought various legal proceedings against us in Taiwan based upon a Taiwan patent. We have obtained counter-injunctions from the Taiwan courts against O2, one of which prohibits O2 from interfering with our or other parties manufacture, sale, use or importation, by either us or a third party, of certain of our CCFL products. In connection with the counter-injunctions, we posted cash bonds of approximately $6.1 million, which are currently recorded as long-term restricted assets on our consolidated balance sheet. In addition, we posted an additional $1.9 million, which we have included in restricted assets on the consolidated balance sheet, to have our assets released and to avoid seizures until the matter with O2 is resolved. 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 which may materially and adversely affect our results of operations and financial position for that quarter.

Taiwan Sumida Electronics

In August 2005, the we sued Taiwan Sumida Electronics (TSE) and were countersued by TSE for material breach of the parties December 25, 2002 Indemnification Agreement seeking, among other things, reimbursement of attorney fees paid by us to TSE s attorneys. On July 30, 2007, we settled our litigation with TSE concerning the December 25, 2002 Indemnification Agreement. Based on the settlement agreement, we provided an upfront payment to TSE of $2.5 million. On October 22, 2007, we placed into escrow, an additional $7.4 million for which we could be liable subject to the outcome of certain legal activities. The settlement agreement releases us and TSE from all claims and indemnification obligations that relate to or arise under the patent infringement lawsuit brought by O2 Micro International Limited in the Eastern District of Texas (O2 Micro International Limited v. Sumida Corp., et al., Case No. C 03-0007 TJW) and the lawsuit filed by us against TSE in the Northern District of California (Monolithic Power Systems, Inc. v. Taiwan Sumida Electronics, Inc., Case No. C 05-3522 CW). The settlement agreement also terminates the Indemnification Agreement.

Linear Technology Corporation

On August 3, 2006, Linear Technology (Linear) filed an action against us in the United States District Court for the District of Delaware. Linear alleges that one of our parts infringes Linear s 178 and 258 patents and constitutes a breach of the parties Settlement and License Agreement dated October 1, 2005. Trial is currently scheduled for June 23, 2008 and at this time, we are not able to reasonably estimate the probability of loss or the range of possible loss in this case.

Chip Advanced Technology Inc.

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

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ITEM 1A. RISK FACTORS

Our business involves risks and uncertainties. You should carefully consider the risks described below, together with all of the other information in this Form 10-Q and other filings with the Securities and Exchange Commission in evaluating our business. If any of the following risks actually occur, our business, financial condition, operating results and growth prospects would likely 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. Our past financial performance should not be considered to be a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods. These risks involve forward-looking statements and our actual results may differ substantially from those discussed in these forward-looking statements.

If we are unsuccessful in any of the legal proceedings involving us and O2 Micro or Linear Technology, we could be prevented from selling many of our products and/or be required to pay substantial damages. An unfavorable outcome or an additional award of damages, attorneys fees or an injunction could cause our revenue to decline significantly and could severely harm our business and operating results.

We are engaged in legal proceedings with O2 and Linear. These proceedings involve various claims and counterclaims in the United States and Taiwan alleging, among other things, patent infringement and breach of contract. O2 has also taken legal action against one of our customers of our products in Taiwan, which we are indemnifying, and against one of our suppliers. We are also involved in litigation with CAT. See the Legal Proceedings section (Item 1) of this quarterly report on Form 10-Q for more information.

If we or our customer are not ultimately successful in any of these proceedings or other litigation that could be brought against us, or if any of the decisions in our favor are reversed on appeal, we could be ordered to pay monetary fines and/or damages. If we are found liable for willful patent infringement, damages could be doubled or tripled. We and/or our customers could also be prevented from selling some or all of our products, either into Taiwan or in the U.S. Moreover, our customers and end-users could decide not to use our products, our wafer manufacturer could decide to reduce or eliminate its manufacturing of some of our products, or our products or our customers accounts payable to us could be seized in Taiwan. Finally, interim developments in these proceedings could increase the volatility in our stock price as the market assesses the impact of such developments on the likelihood that we will or will not ultimately prevail in these proceedings.

In July 2007, we settled our litigation with Taiwan Sumida Electronics, Inc. (TSE) concerning our December 25, 2002 Indemnification Agreement with TSE. If certain conditions are met under the Settlement Agreement, we could be liable for additional potential payments up to a total sum of $7.4 million subject to the outcome of certain legal activities, which amount does not include approximately $2.5 million that we paid TSE as an upfront payment.

Given our inability to control the timing and nature of significant events in our legal proceedings, our legal expenses are difficult to forecast and may vary substantially from our publicly-disclosed forecasts with respect to any given quarter, which could contribute to increased volatility in our stock price and business.

Until our legal proceedings with O2, Linear and CAT are resolved, we will continue to incur significant legal expenses that vary with the level of activity in each of these proceedings. This level of activity is not entirely within our control as we may need to respond to legal actions by the opposing parties or scheduling decisions by the judges. Consequently, it is difficult for us to forecast our legal expenses for any given quarter, which adversely affects our ability to forecast our expected results of operations in general. If we fail to meet the expectations of securities or industry analysts as a result of unexpected changes in our legal expenses, our stock price could be impacted.

Our ongoing legal proceedings and the potential for additional legal proceedings have diverted financial and management resources.

The semiconductor industry is characterized by frequent claims of infringement and litigation regarding patent and other intellectual property rights, such as our litigation matters with O2, Linear and CAT. 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 additional infringement claims. Such litigation is very costly. In the event any third party makes a new infringement claim against us or our customers, we could incur additional ongoing legal expenses. Our management team may also be required to devote a great deal of time, effort and energy to these legal proceedings, which could adversely affect our business.

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The market for auction-rate securities, which are generally issued by municipalities with interest rates that reset every 7 to 35 days, has recently suffered a decline in liquidity which may impact the liquidity and potential value of our investment portfolio.

The market for auction-rate securities, which are generally issued by municipalities with interest rates that reset through a dutch auction every 7 to 35 days, has recently become illiquid. As of March 31, 2008, the Company s investment portfolio included $39.1 million in auction-rate securities backed by municipal bonds and government-backed student loans. As of that date, $39.6 million have failed to reset through successful auction and it is unclear as to when these investments will regain their liquidity. The underlying maturity of these auction-rate securities is up to 30 years and the underlying credit quality of these instruments in which we have invested remains AAA rated.

Based on certain assumptions described in the Liquidity and Capital Resources section of Part I, Item 2 of this quarterly report on Form 10-Q, the Company recorded a temporary impairment on investments at March 31, 2008 of $0.4 million for these available-for-sale securities in other comprehensive income (loss) within equity. The valuation is subject to fluctuations in the future, which will depend on many factors, including the collateral quality, potential to be called or restructured, underlying final maturity, insurance guaranty, liquidity and market conditions, amongst others. The Company experienced its first failed auction in mid-February 2008. If the auctions continue to fail, the liquidity of the Company s investment portfolio may be negatively impacted and the value of its investment portfolio could decline.

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

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 timely develop new technologies or to react quickly to changes in existing technologies could materially delay our development of new products, which could result in product obsolescence, decreased revenue, and/or a loss of market share to competitors.

As we develop new product lines, we must adapt to market conditions that are unfamiliar to us, such as competitors and distribution channels that are different from those we have known in the past. Some of our new product lines require us to re-equip our labs to test parameters we have not tested in the past. If we are unable to adapt rapidly to these new and additional conditions, we may not be able to successfully penetrate new markets.

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;
- the ability to secure and effectively utilize fabrication capacity in different geometries;
- product performance;
- the quality and reliability of the product; and
- effective marketing, sales and service.

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

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

We believe that the application of our products in the computer, consumer electronics and communications markets will continue to account for the majority of our revenue. If the demand for our products declines in the major end markets that we serve, our revenue will decrease. For example, as technology evolves, the ability to integrate the functionalities of various components, including our discrete semiconductor products, onto a single chip and/or onto other components of systems containing our products increases. Should our customers require integrated solutions that we do not offer, demand for our products could decrease, and our business and results of operations could be adversely affected.

Moreover, approximately 20% of our business is based on products that are used in systems that contain CCFL. CCFL tubes contain mercury, which is the subject of environmental concerns, particularly in Europe. Should environmental issues impair the widespread use of our CCFL-based products, and should we be unable to produce replacement products based on LED lighting fast enough to compensate for the loss of our CCFL-related business, our business and results of operations could be adversely affected.

We may not experience growth rates comparable to past years.

In the past, our revenues increased significantly in certain years due to increased sales of certain of our products. Due to increased competition, market acceptance and penetration of our current and future products and ongoing litigation, we may not experience growth rates comparable to past periods, which could affect our stock price and results of operations.

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 revenue, expenses, and results of operations are difficult to predict, have varied significantly in the past and will continue to fluctuate significantly in the future due to a number of factors, many of which are beyond our control. We expect fluctuations to continue for a number of reasons, including:

- the timing of developments and related expenses in our litigation matters with O2, TSE, Linear and CAT and any future litigation;
- the possibility of additional lost business as a result of customer and prospective customer concerns about adverse outcomes in our litigations or about being litigation targets;
- continued dependence on our turns business (orders received and shipped within the same fiscal quarter);
- increases in assembly costs due to commodity price increases;
- the timing of new product introductions by us and our competitors;
- the acceptance of our new products in the marketplace;
- our ability to develop new process technologies and achieve volume production;
- the scheduling, rescheduling, or cancellation of orders by our customers;
- the cyclical nature of demand for our customers products;
- inventory levels and product obsolescence;
- seasonality and variability in the computer, consumer electronics, and communications markets;

- the availability of adequate manufacturing capacity from our outside suppliers**;**

- changes in manufacturing yields;

- general economic conditions in the countries where our products are sold or used; and

- movements in exchange rates, interest rates or tax rates.

Due to the factors noted above and other risks described 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.

We have a history of losses, and we may not be profitable on a quarterly or annual basis.

Our accumulated deficit was $0.9 million as of March 31, 2008. Our profitability is dependent on many factors, including:

- our sales, which because of our turns business, is difficult to accurately forecast;

- our competition, which could adversely impact our selling prices and our potential sales;

- our manufacturing costs, including our ability to negotiate with our vendors and our ability to efficiently run our test facility in China; and

- our operating expenses, including general and administrative expenses, selling and marketing expenses, stock-based compensation expenses, litigation expenses, which we expect to be significant due to the litigation in which we are involved, and research and development expenses relating to products that will not be introduced and will not generate revenue until later periods, if at all.

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We may not achieve profitability on a quarterly or annual basis in the future. Unfavorable changes in any of the factors noted above may have a material adverse effect on our quarterly or annual profitability.

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.

Historically, the semiconductor industry has 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 and production capacity, as well as rapid erosion of average selling prices. The industry may experience severe or prolonged downturns in the future, which could result in downward pressure on the price of our products as well as lower demand for our products. Because significant portions of our expenses are fixed in the short term or incurred in advance of anticipated sales, we may not be able to decrease our expenses in a timely manner to offset any sales shortfall. These conditions could have a material adverse effect on our operating results, financial condition and cash flows.

We receive a significant portion of our revenue from our distribution channel, and the loss of any one of these distributors 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 OEMs, ODMs 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. For the quarter ended March 31, 2008, sales to our three largest distributors accounted for approximately 40% of our total revenue. Significant deterioration in the liquidity or financial condition 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. We primarily conduct our sales on a purchase order basis, and we do not have any long-term supply contracts.

Moreover, we believe a high percentage of our products are eventually sold to a number of OEMs. Although we communicate with OEMs in an attempt to achieve design wins, which are decisions by OEMs and/or ODMs to incorporate our products, we do not have purchase commitments from these end users. Therefore, there can be no assurance that the OEMs and/or ODMs will continue to incorporate our integrated circuits, or ICs, into their products. OEM technical specifications and requirements can change rapidly, and we may not have products that fit new specifications from an end-customer for whom we have had previous design wins. 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 the OEMs, or that the OEMs will be successful in selling products which incorporate our ICs. 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 revenue and adversely affect our operations and financial condition.

Failure to protect our proprietary technologies or maintain the right to certain technologies may negatively affect our ability to compete.

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 to protect our proprietary technology, including through patents. However, 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.

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. In 2005, we extended our standard warranty period from 90 days to one year. As a result, we now have an increased risk of claims for defects and failures. If defects and failures occur in our products, we could experience lost revenue, increased costs, including warranty expense and costs associated with customer support, delays in, 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 currently depend on two third-party suppliers to provide us with wafers for our products. If our wafer suppliers fail to provide us sufficient wafers at acceptable yields and at anticipated costs, our revenue and gross margin may decline or we may not be able to fulfill our customer orders.

We have a supply arrangement with two suppliers for the production of wafers. Although certain aspects of our relationship with these suppliers are contractual, many important aspects of these relationships depend on our suppliers continued cooperation and our management relationships. 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. This could potentially reduce the yields. The failure of our suppliers to supply us wafers at acceptable yields could prevent us from fulfilling our customer orders for our products and would likely cause a decline in our revenue.

Although we provide our suppliers with rolling forecasts of our production requirements, their ability to provide wafers to us is limited by the available capacity, particularly capacity in the geometries we require, at 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 our suppliers to reduce capacity available to us. Our suppliers 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 customer requirements. If our suppliers extend lead times, limit supplies or the types of capacity we require, or increase prices due to capacity constraints or other factors, our revenue and gross margin may decline.

Further, as is common in the semiconductor industry, our customers may reschedule or cancel orders on relatively short notice. Under our agreement with our suppliers, we have an option to order wafers based on a committed forecast that can cover a period of one to six months. If our customers cancel orders after we submit a committed forecast to our suppliers for the corresponding wafers, we may be required to purchase wafers that we may not be able to resell, which would adversely affect our operating results, financial condition, and cash flows.

O2 sued ASMC, one of our suppliers, for patent infringement because ASMC manufactures our products. It is possible that our relationship with ASMC or any other supplier could be materially and adversely affected by the O2 litigation.

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 portion of our testing is currently performed by third-party subcontractors. We do not have any long-term 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.

We derive most of our revenue from direct or indirect sales to customers in Asia and have significant operations in Asia, which may expose us to political, cultural, regulatory, economic, foreign exchange, and operational risks.

We derive most of our revenue from customers located in Asia through direct or indirect sales through distribution arrangements with parties located in Asia. As a result, we are subject to increased risks due to this geographic concentration of business and operations. For the quarter ended March 31, 2008, approximately 89% of our revenue was from customers in Asia. 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, including restrictions imposed by the United States government on trading with parties in foreign countries;

transportation delays;

recent changes in tax regulations in China may impact our tax status in Chengdu;

multi-tiered distribution channels that lack visibility to end customer pricing and purchase patterns;

international political relationships and threats of war;

terrorism and threats of terrorism;

epidemics and illnesses;

work stoppages and infrastructure problems due to adverse weather conditions or natural disasters;

economic and political instability;

changes in import/export regulations, tariffs, and freight rates;

longer accounts receivable collection cycles and difficulties in collecting accounts receivables;

enforcing contracts generally;

currency exchange rate fluctuations impacting intra-company transactions; and

less effective protection of intellectual property and contractual arrangements.

The price and availability of commodities (e.g., gold, platinum, copper and silicon) may adversely impact our ability to deliver our products in a timely and cost-effective manner and may affect our business and results of operations.

Our products incorporate commodities such as gold, platinum, copper and silicon. The price and availability of these commodities and other like commodities that we use could negatively impact our business and results of operations.

Devaluation of the U.S. Dollar relative to other foreign currencies, including the Chinese Yuan, may adversely affect results of operations.

Our manufacturing and packaging suppliers are and will be substantially located in China. Should the value of the Chinese Yuan continue to rise against the U.S. Dollar, there could be an increase in our manufacturing costs relative to competitors who have manufacturing facilities located in the U.S., which could adversely affect our operations. In addition, because we collect payments from all customers in U.S. dollars, fluctuations in the value of foreign currencies could have an adverse impact on our customers business, which could negatively impact our business and results of operations.

We and our manufacturing partners are or will be subject to extensive Chinese government regulation, and may receive the benefit of various incentives from Chinese governments that include conditions or may be reduced or eliminated, any of which could increase our costs or limit our ability to sell products and conduct activities in China.

Most of our manufacturing partners are located in China. In addition, we have established 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 are establishing 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.

There are inherent risks associated with the operation of our testing facility in China, which could increase product costs or cause a delay in product shipments.

We have a testing facility in China that began operations in 2006. In addition to the risks discussed elsewhere in this quarterly report, we face the following risks, among others:

- inability to maintain appropriate and acceptable manufacturing controls; and
- higher than anticipated overhead and other costs of operation.

If we are unable to continue a fully operational status with appropriate controls, we may incur higher costs than our current expense levels, which would affect our gross margins. In addition, if capacity restraints result in significant delays in product shipments, our business and results of operations would be adversely affected.

Due to the nature of our business as a component supplier, we may have difficulty both in accurately predicting our future revenue and appropriately budgeting our expenses.

Because we provide components for end products and systems, demand for our products is influenced by our customers end product demand. As a result, we may have difficulty in accurately forecasting our revenue and expenses. Our revenue depends on the timing, size, and speed of commercial introductions of end products and systems that incorporate our products, all of which are inherently difficult to forecast, as well as the ongoing demand for previously introduced end products and systems. In addition, demand for our products is influenced by our customers ability to manage their inventory. Our sales to distributors are subject to higher volatility because they service demand from multiple levels of the supply chain which, in itself, is inherently difficult to forecast. If our customers, including distributors, do not manage their inventory correctly or misjudge their customers demand, our shipments to and orders from our customers may vary significantly on a quarterly basis.

The average selling prices of products in our markets have historically decreased over time and will likely do so in the future, which could harm our revenues and gross profits.

Average selling prices of semiconductor products in the markets we serve have historically decreased over time. Our gross profits and financial results will suffer if we are unable to offset any reductions in our average selling prices by reducing our costs, developing new or enhanced products on a timely basis with higher selling prices or gross profits, or increasing our sales volumes. Additionally, because we do not operate our own manufacturing or assembly facilities, we may not be able to reduce our costs as rapidly as companies that operate their own facilities, and our costs may even increase, which could also reduce our margins.

We purchase inventory in advance based on expected demand for our products, and if demand is not as expected, we may have insufficient or excess inventory, which could adversely impact our financial position.

As a fabless semiconductor company, we purchase our inventory from a third party manufacturer in advance of selling our product. We place orders with our manufacturer based on existing and expected orders from our customers for particular products. While our contracts with our customers and distributors include lead time requirements and cancellation penalties that are designed to protect us from misalignment between customer orders and inventory levels, we must nonetheless make some predictions when we place orders with our manufacturer. In the event that our predictions are inaccurate due to unexpected increases in orders or unavailability of product within the time frame that is required, we may have insufficient inventory to meet our customer demands. In the event that we order products that we are unable to sell due to a decrease in orders, unexpected order cancellations, injunctions due to patent litigations, or product returns, we may have excess inventory which, if not sold, may need to be disposed of. If any of these situations were to arise, it could have a material impact on our business and financial position.

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 revenue 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 six to twelve 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 three to six 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 OEMs and ODMs 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 revenue because a significant portion of our operating expenses is relatively fixed and based on expected revenue. 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.

The complexity of calculating our tax provision may result in errors that could result in further restatements of our financial statements.

Due to the complexity associated with the calculation of our tax provision, we have hired independent tax advisors to assist us in the calculation. If we or our independent tax advisors fail to resolve or fully understand certain issues, we could be subject to errors, which would result in us having to restate our financial statements. Restatements are generally costly and could adversely impact our results of operations and/or have a negative impact on the trading price of our common stock.

We face risks in connection with our internal control over financial reporting and any related remedial measures that we undertake to correct any material weaknesses in our internal control over financial reporting.

In accordance with Section 404 of the Sarbanes-Oxley Act, we are required to include in our amended annual report on Form 10-K/A, a management report regarding the effectiveness of our internal control over financial reporting as such term is defined in Rule 13a-15(f) and Rule 15d-15(f) under the Securities Exchange Act of 1934. This report must include disclosure of any material weakness in our internal control over financial reporting. In preparation for issuing this management report, we document, evaluate and test our internal control over financial reporting.

As a result of an error in our tax provision for the years ended December 31, 2007 and 2006, we are restating our consolidated financial statements included in this annual report on Form 10-K/A for the years ended December 31, 2007 and 2006. In conjunction with these restatements and our assessment of the effectiveness of our internal control over financial reporting, we have identified a material weakness, as follows:

- A material weakness exists in the operating effectiveness of the controls over the calculation of the tax effect of stock-based compensation expenses related to Monolithic Power Systems, Inc. s cost-share agreement with a foreign subsidiary. This control deficiency led to a misstatement of certain tax-related accounts in 2007 and 2006, which was not prevented or detected on a timely basis, and a restatement of MPS s 2007 and 2006 consolidated financial statements.

No material weakness will be considered remediated until any remedial procedures that we take have operated for an appropriate period, have been tested, and management has concluded that they are operating effectively. We cannot be certain that any measures we take will ensure that we implement and maintain adequate internal control over financial reporting and that we will remediate the material weakness. In addition, we cannot assure you that we will not in the future identify further material weaknesses in our internal control over financial reporting that we have not discovered to date, which may impact the reliability of our financial reporting and financial statements.

Changes in effective tax rates or adverse outcomes resulting from examination of our income tax returns could adversely affect our results

Our future effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates, by changes in the valuation of our deferred tax assets and liabilities, or by changes in tax laws, regulations, accounting principles or interpretations thereof. In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from these continuous examinations will not have an adverse effect on our operating results and financial condition.

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If we fail to retain key employees in sales, applications and finance and make continued improvements to our internal systems, particularly in the accounting and finance area, our business may suffer.

Since 2006, we significantly increased the quantity and quality of our sales, applications and financial staff. However, if we fail to continue to adequately staff these areas and maintain internal controls that meet the demands of our business, our ability to operate effectively will suffer. The operation of our business also depends upon our ability to retain these employees, as these employees hold a significant amount of institutional knowledge about us and our products, and, if they were to terminate their employment, our sales and internal control over financial reporting could be adversely affected.

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 on the continued services of our key executives, including Michael Hsing, our President and Chief Executive Officer, who founded our company and developed our proprietary process technology. In addition, 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 with critical capabilities in the future. If we are unable to retain the services of existing key employees or are unsuccessful in attracting new highly qualified employees quickly enough to meet the demands or our business, including design cycles, our business could be harmed.

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

We plan to continue to expand our domestic and foreign operations through internal growth, strategic relationships, or acquisitions. We expect that any such 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, as well as hire experienced administrative and financial personnel. 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 may review acquisition prospects that would complement our current product offerings, enhance our design capability or offer other growth opportunities. In the event of future acquisitions, we could use a significant portion of our available cash, cash equivalents and short-term investments, 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.

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 domestic and non-domestic 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 the expansion of the market segments in which we participate. We consider our competitors to include, but not be limited to: Analog Devices, Fairchild Semiconductor, Intersil, Linear, Maxim Integrated Products, Micrel, Microsemi, National Semiconductor, O2, RichTech, Semtech, STMicroelectronic and Texas Instruments. We expect continued competition from existing competitors as well as competition from new entrants in the semiconductor market.

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, which would materially and adversely affect our results of operations and our financial condition.

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The future trading price of our common stock could be subject to wide fluctuations in response to a variety of factors.

The future 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 O2, TSE, Linear and CAT litigation matters;
- 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 or acts of war;
- 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.

If securities or industry analysts downgrade our stock or do not continue to publish research or reports about our business, our stock price and trading volume could decline.

The trading market for our common stock will depend on the research and reports that industry or securities analysts publish about us or our business. We do not have any control over these analysts. If one or more of the analysts who cover us downgrade our stock, our stock price would likely decline. If one or more of these analysts cease coverage of us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

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 affiliated entities beneficially own in aggregate, approximately 24% of our outstanding common stock as of March 31, 2008. 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.

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 revenue, as well as our manufacturers and assemblers, are concentrated in Asia. Such concentration increases the risk that other natural disasters, labor strikes, terrorism, war, political unrest, epidemics, and/or health advisories 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.

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ITEM 5. OTHER INFORMATION

On January 31, 2008, the Compensation Committee of the Board of Directors of Monolithic Power Systems, Inc. approved the following 2007 actual cash performance bonuses and the following 2008 maximum achievable cash performance bonuses for our named executive officers based on meeting certain revenue and non-GAAP financial targets and achieving certain corporate and individual goals:

	Actual 2007 Performance Bonus	Maximum Achievable 2008 Performance Bonus
Michael Hsing	$ 188,500	$ 702,000
C. Richard Neely, Jr.	$ 145,000	$ 273,000
Deming Xiao	$ 145,000	$ 273,000
Maurice Sciammas	$ 145,000	$ 273,000
Adriana Chiocchi	$ 116,000	$ 246,000
Paul Ueunten	$ 116,000	$ 246,000
James C. Moyer	$ 72,500	$ 98,000

The Board of Directors ratified the following 2007 cash performance bonus disbursements to those Section 16 officers set forth below based on meeting certain revenue and non-GAAP financial targets and achieving certain corporate and individual goals:

	Cash Bonuses Paid for the First Half of 2007	Cash Bonuses Paid for the Second Half of 2007
Michael Hsing	$ 100,000	$ 88,500
C. Richard Neely, Jr.	$ 64,375	$ 80,625
Deming Xiao	$ 64,375	$ 80,625
Maurice Sciammas	$ 64,375	$ 80,625
Adriana Chiocchi	$ 51,500	$ 64,500
Paul Ueunten	$ 33,913	$ 82,087
James C. Moyer	$ 30,938	$ 41,562

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ITEM 6. EXHIBITS

3.1(1)	Amended and Restated Certificate of Incorporation
3.2(2)	Amended and Restated Bylaws
10.1	Form of Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K filed with the SEC on February 15, 2008)
31.1	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* This exhibit shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that Section, nor shall it be deemed incorporated by reference in any filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.

(1) Incorporated by reference to Exhibit 3.2 of the Registrant s Form S-1 Registration Statement (Registration No. 333-117327), declared effective by the Securities and Exchange Commission on November 18, 2004.

(2) Incorporated by reference to Exhibit 3.4 of the Registrant s Form S-1 Registration Statement (Registration No. 333-117327), declared effective by the Securities and Exchange Commission on November 18, 2004.

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MONOLITHIC POWER SYSTEMS, INC

SIGNATURE

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

MONOLITHIC POWER SYSTEMS, INC.

Dated: May 14, 2008

/s/ C. RICHARD NEELY, JR.
C. Richard Neely, Jr.

Chief Financial Officer

(Principal Financial and Accounting Officer)

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