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

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**FORM 8-K**

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**CURRENT REPORT**

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

**Date of Report (date of earliest event reported):  
September 2, 2005**

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**MONOLITHIC POWER SYSTEMS, INC.**

(Exact name of Registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**000-51026**  
(Commission File Number)

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

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

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

(former name or former address, if changed since last report)

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

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

On September 6, 2005, Monolithic Power Systems, Inc. (the "Company") announced the resignation of Timothy Christoffersen from his position as the Company's Chief Financial Officer and the appointment C. Richard Neely, Jr. to the position as the Company's Chief Financial Officer. Mr. Christoffersen's resignation from, and Mr. Neely's appointment to, the position as the Company's Chief Financial Officer is each effective as of September 6, 2005. In connection with Mr. Christoffersen's resignation, Mr. Christoffersen and the Company entered into a Separation Agreement and Release dated as of September 2, 2005 (the "Separation Agreement"). Pursuant to the Separation Agreement, from September 6, 2005 through April 5, 2006 (the "Transition Term"), Mr. Christoffersen will provide advisory services to the Company relating to financial and accounting matters and will be paid \$7,500 per month for twenty-five hours per calendar month of services. Mr. Christoffersen will not be eligible for an annual bonus during this time. In addition, as of September 6, 2005, 12,500 shares of Mr. Christoffersen's unvested restricted stock vested, and 7,000 shares of his unvested stock options vested and became exercisable. Mr. Christoffersen will have six months following the termination of his employment with the Company in which to exercise such options. This description is a summary of the terms and conditions of the Separation Agreement. The Separation Agreement is attached as Exhibit 99.1 to this Current Report on Form 8-K and is incorporated by reference herein.

**Officer Indemnification Agreement**

The Company entered into Indemnification Agreements dated September 6, 2005 with each of the following officers:

Saria Tseng  
C. Richard Neely, Jr.

The terms of the indemnification agreement are substantially similar to the form of indemnification agreement that the Company has previously entered into with certain of its officers and directors. The Company's form of indemnification agreement is filed as Exhibit 10.4 of the Company's Form S-1 Registration Statement (Registration No. 333-117327), declared effective by the Securities and Exchange Commission on November 18, 2004.

**Item 5.02 Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers**

(b) On September 6, 2005, the Company issued a press release announcing the resignation of Timothy Christoffersen from his position as the Company's Chief Financial Officer. A copy of the press release is furnished as Exhibit 99.2 to this Current Report on Form 8-K.

(c) On September 6, 2005, the Company announced the appointment of C. Richard Neely, Jr. as the Company's Chief Financial Officer. The Company and Mr. Neely entered into an Employment Agreement dated as of September 6, 2005 (the "Neely Employment Agreement"). Pursuant to the Neely Employment Agreement, Mr. Neely's annual base salary will be \$230,000. The Neely Employment Agreement also provides that Mr. Neely be granted, subject to the approval of the Board of Directors, an option to purchase 200,000 shares of Monolithic Power Systems' common stock at fair market value. Pursuant to the Neely Employment Agreement, a portion of any unvested options shall accelerate and become vested in the event that Mr. Neely's employment is terminated without cause or for good reason. This description is a summary of the terms of the Neely Employment Agreement. The Neely Employment Agreement is attached as Exhibit 99.3 to this Current Report on Form 8-K and is incorporated by reference herein.

Mr. Neely, age 51, has more than 24 years of financial and operations management experience in semiconductor, EDA and start-up company environments. From November 2002 through August 2005, Mr. Neely was the Chief Financial Officer at NuCORE Technology, a developer of leading-edge digital and analog imaging devices for digital, still and video cameras. While at NuCORE, Mr. Neely was responsible for finance, legal, human resources, information technologies and sales operations functions of the company. From August 2001 to November 2002, Mr. Neely was the principal of Neely Consulting, providing business, financial and management consulting services to various organizations. From August 2000 to August 2001, Mr. Neely served as Chief Financial Officer and managed the finance, information technologies and legal functions at Alventive, a private collaborative design software company. Mr. Neely has also served as Chief Financial Officer and Interim Chief Executive Officer for Beyond.com, Vice-President of Finance and Operations for Synopsys, and Vice President and Corporate Controller for Heartport. Mr. Neely spent 16 years with Advanced Micro Devices in a variety of senior financial management positions world-wide.

**Item 9.01 Financial Statements and Exhibits.**

(c) Exhibits.

<u>Exhibit</u>	<u>Description</u>
99.1	Separation Agreement and Release between the Company and Timothy Christoffersen dated as of September 6, 2005
99.2	Press release issued September 7, 2005
99.3	Employment Agreement between the Company and C. Richard Neely, dated as of September 6, 2005



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## Index to Exhibits

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99.3	Employment Agreement between the Company and C. Richard Neely, dated as of September 6, 2005

**SEPARATION AGREEMENT AND MUTUAL RELEASE****RECITALS**

This Separation Agreement and Mutual Release (the “**Agreement**”) is made by and between Timothy Christoffersen (“**Employee**”) and Monolithic Power Systems, Inc. (the “**Company**”) (jointly referred to as the “**Parties**”):

WHEREAS, Employee is employed by the Company;

WHEREAS, the Parties entered into that Amended and Restated Employment Agreement, effective as of April 28, 2005 (the “**Employment Agreement**”);

WHEREAS, the Company has agreed to accept Employee’s resignation as its Chief Financial Officer and Secretary and his relinquishment of all other officer and director positions with the Company and its affiliates (including, but not limited to, Employee’s appointment as Liquidator for the winding-up of Monolithic Power Systems, Inc., a Cayman Islands company and wholly-owned subsidiary of the Company), effective as of September 6, 2005 (the “**Resignation Date**”); and

WHEREAS, the Parties wish to resolve any and all disputes, claims, complaints, grievances, charges, actions, petitions and demands that the Employee may have against the Company, including, but not limited to, any and all claims arising or in any way related to Employee’s employment with or separation from the Company.

NOW THEREFORE, in consideration of the promises made herein, the Parties hereby agree as follows:

**COVENANTS**

1. **Consideration.** Upon the Resignation Date, the Company agrees to pay Employee a lump sum of \$3,000. This payment will be made to Employee within five (5) business days after the Resignation Date.

2. **Equity Matters.**

(a) **Stock Options.** Employee’s Options (as defined in the Employment Agreement) shall be governed by Section 3(c) of the Employment Agreement.

(b) **Option Status and Withholding.** From the Effective Date (as defined in Section 26 below) through the Resignation Date, Employee will continue to be a Service Provider for purposes of the Plan and the Option Agreements, pursuant to the Employment Agreement. Employee acknowledges that if any of the Options have been classified as “**incentive stock options**” within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, such Options

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will convert into nonstatutory stock options three (3) months and one (1) day after the Resignation Date. Furthermore, Employee acknowledges that in the event the Options are classified as nonstatutory stock options on the date such Options are exercised, the income recognized upon such exercise will be considered wages that must be reported on Employee's W-2 and applicable tax withholding will be required. Employee agrees that the Company may refuse to process any such exercise until Employee has made arrangements satisfactory to the Company to satisfy any such withholding obligations.

3. Benefits. Employee's health insurance benefits will cease on the Resignation Date, subject to Employee's right to continue his health insurance under COBRA. Employee's participation in all other benefits and incidents of employment will cease on the Resignation Date. Employee will cease accruing employee benefits, including, but not limited to, vacation time and paid time off, as of the Resignation Date.

4. Confidential Information. Employee will continue to maintain the confidentiality of all confidential and proprietary information of the Company and will continue to comply with the terms and conditions of the Confidentiality Agreement between Employee and the Company. Employee will return all of the Company's property and confidential and proprietary information in his possession to the Company promptly after the execution by the parties hereof.

5. Payment of Salary and Benefits. Employee acknowledges and represents that the Company has paid all salary, wages, bonuses, accrued vacation, commissions and any and all other benefits due to Employee through the Effective Date. Employee shall cease accruing employee benefits, including, but not limited to, vacation time and paid time off, as of the Resignation Date.

6. Mutual Release of Claims. Employee agrees that the foregoing consideration represents settlement in full of all outstanding obligations owed to Employee by the Company or any parent or subsidiary of the Company. Employee and the Company, on behalf of themselves and their respective heirs, agents, representatives, immediate family members, executors, assigns, directors, employees, attorneys, investors, shareholders, administrators, affiliates, divisions, subsidiaries, parents, predecessor and successor corporations, hereby fully and forever release each other and their respective heirs, agents, representatives, immediate family members, executors, assigns, directors, employees, attorneys, investors, shareholders, administrators, affiliates, divisions, subsidiaries, parents, predecessor and successor corporations and agree not to sue or otherwise institute or cause to be instituted any legal or administrative proceedings concerning any claim, duty, obligation or cause of action relating to any matters of any kind, whether presently known or unknown, suspected or unsuspected, that Employee or the Company may possess against each other from any omissions, acts or facts that have occurred up until and including the Effective Date of this Release including, without limitation:

(a) any and all claims relating to or arising from Employee's employment relationship with the Company and the termination of that relationship;

(b) any and all claims relating to, or arising from, Employee's right to purchase, or actual purchase of shares of stock of the Company, including, without limitation, any claims for fraud, misrepresentation, breach of fiduciary duty, breach of duty under applicable state corporate law, and securities fraud under any state or federal law;

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(c) any and all claims under the law of any jurisdiction including, but not limited to, wrongful discharge of employment, constructive discharge from employment, termination in violation of public policy, discrimination, harassment, retaliation, fraud, fraudulent inducement, breach of contract, both express and implied, breach of a covenant of good faith and fair dealing, both express and implied; promissory estoppel, negligent or intentional infliction of emotional distress, negligent or intentional misrepresentation, negligent or intentional interference with contract or prospective economic advantage, unfair business practices, defamation, libel, slander, negligence, personal injury, assault, battery, invasion of privacy, false imprisonment, conversion, workers' compensation and disability benefits;

(d) any and all claims for violation of any federal, state or municipal statute, including, but not limited to, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Age Discrimination in Employment Act of 1967, the Americans with Disabilities Act of 1990, the Fair Labor Standards Act, the Family and Medical Leave Act, the California Family Rights Act, the Employee Retirement Income Security Act of 1974, the Older Workers Benefit Protection Act, The Worker Adjustment and Retraining Notification Act, the California Fair Employment and Housing Act, and the California Labor Code;

(e) any and all claims for violation of the federal, or any state, constitution;

(f) any and all claims arising out of any other laws and regulations relating to employment or employment discrimination;

(g) any claim for any loss, cost, damage, or expense arising out of any dispute over the non-withholding or other tax treatment of any of the proceeds received by Employee as a result of this Agreement; and

(h) any and all claims for attorneys' fees and costs.

The Company and Employee agree that the release set forth in this section will be and remain in effect in all respects as a complete general release as to the matters released. This release does not extend to any obligations incurred under this Agreement, the Employment Agreement after the date of this Agreement and, to the extent applicable, to any Employee claims for indemnification from the Company due to claims made by third parties.

7. Acknowledgement of Waiver of Claims Under ADEA. Employee acknowledges that he is waiving and releasing any rights he may have under the Age Discrimination in Employment Act of 1967 ("ADEA") and that this waiver and release is knowing and voluntary. Employee and the Company agree that this waiver and release does not apply to any rights or claims that may arise under ADEA after the Effective Date of this Agreement. Employee acknowledges that the consideration given for this waiver and release Agreement is in addition to anything of value to which Employee was already entitled. Employee further acknowledges that he has been advised by this writing that:

(a) he should consult with an attorney prior to executing this Agreement;

(b) he has up to twenty-one (21) days within which to consider this Agreement;

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(c) he has seven (7) days following his execution of this Agreement to revoke the Agreement;

(d) this Agreement will not be effective until the revocation period has expired; and

(e) nothing in this Agreement prevents or precludes Employee from challenging or seeking a determination in good faith of the validity of this waiver under the ADEA, nor does it impose any condition precedent, penalties or costs for doing so, unless specifically authorized by federal law.

8. Civil Code Section 1542. Employee and the Company represent that they are not aware of any claim by them other than the claims that are released by this Agreement. Employee and the Company acknowledge that they are familiar with the provisions of California Civil Code Section 1542, which provides as follows:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.

Employee, being aware of said code section, agrees to expressly waive any rights he may have thereunder, as well as under any other statute or common law principles of similar effect.

9. No Pending or Future Lawsuits. Employee represents that he has no lawsuits, claims, or actions pending in his name, or on behalf of any other person or entity, against the Company or any other person or entity referred to herein. Employee also represents that he does not intend to bring any claims on his own behalf or on behalf of any other person or entity against the Company or any other person or entity referred to herein.

10. Confidentiality. The Parties acknowledge that Employee's agreement to keep the terms and conditions of this Agreement confidential was a material factor on which all parties relied in entering into this Agreement. Employee hereto agrees to use his best efforts to maintain in confidence the existence of this Agreement, the contents and terms of this Agreement, and the consideration for this Agreement (hereinafter collectively referred to as "**Settlement Information**"). Employee agrees to take every reasonable precaution to prevent disclosure of any Settlement Information to third parties, and agrees that there will be no publicity, directly or indirectly, concerning any Settlement Information. Employee agrees to take every precaution to disclose Settlement Information only to those attorneys, accountants, governmental entities, and family members who have a reasonable need to know of such Settlement Information.

11. No Cooperation. Employee agrees that he will not encourage, counsel or assist any attorneys or their clients in the presentation or prosecution of any disputes, differences, grievances, claims, charges, or complaints by any third party against any of the Releasees, unless under a subpoena or other court order to do so. Employee will inform the Company in writing within three (3) days of receiving any such subpoena or other court order.



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12. Non-Disparagement. Employee agrees to refrain from any defamation, libel or slander of the Releasees, and any tortious interference with the contracts, relationships and prospective economic advantage of the Releasees. Employee agrees that he will direct all inquiries by potential future employers to Human Resources. The Company agrees that it and its executive officers will not disparage and will refrain from any defamation, libel or slander of the Employee, and any tortious interference with the contracts, relationships and prospective economic advantage of the Employee.

13. Non-Solicitation. Employee agrees that for a period of twelve (12) months immediately following the Effective Date of this Agreement, Employee will not either directly or indirectly solicit, induce, recruit or encourage any of the Company's employees or consultants to leave their employment, or attempt to do so, either for himself or any other person or entity.

14. Breach. Employee and the Company acknowledge and agree that any breach of Sections 4, 6, 9, 12, 13 or 14 of this Agreement will constitute a material breach of this Agreement and will entitle the Company or Employee immediately to recover and/or cease the severance benefits provided to Employee under this Agreement.

15. No Admission of Liability. The Parties understand and acknowledge that this Agreement constitutes a compromise and settlement of actual or potential disputed claims. No action taken by the Parties hereto, or either of them, either previously or in connection with this Agreement will be deemed or construed to be:

- (a) an admission of the truth or falsity of any claims made or any potential claims; or
- (b) an acknowledgment or admission by either party of any fault or liability whatsoever to the other party or to any third party.

16. Costs. The Parties will each bear their own costs, expert fees, attorneys' fees and other fees incurred in connection with this Agreement, except as provided herein.

17. Arbitration. The Parties agree that any and all disputes arising out of the terms of this Agreement, their interpretation, and any of the matters herein released, will be subject to binding arbitration in Santa Clara County before the American Arbitration Association under its National Rules for the Resolution of Employment Disputes or California Code of Civil Procedure. The Parties agree that the prevailing party in any arbitration will be entitled to injunctive relief in any court of competent jurisdiction to enforce the arbitration award. The Parties agree that the prevailing party in any arbitration will be awarded its reasonable attorneys' fees and costs. **THE PARTIES HEREBY AGREE TO WAIVE THEIR RIGHT TO HAVE ANY DISPUTE BETWEEN THEM RESOLVED IN A COURT OF LAW BY A JUDGE OR JURY.** This paragraph will not prevent either party from seeking injunctive relief (or any other provisional remedy) from any court having jurisdiction over the Parties and the subject matter of their dispute relating to Employee's obligations under this Agreement and the Confidentiality Agreement.

18. Tax Consequences. The Company makes no representations or warranties with respect to the tax consequences of the payment of any sums to Employee under the terms of this Agreement. Employee agrees and understands that he is responsible for payment, if any, of local, state and/or federal taxes on the sums paid hereunder by the Company and any penalties or assessments thereon.

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Employee further agrees to indemnify and hold the Company harmless from any claims, demands, deficiencies, penalties, assessments, executions, judgments, or recoveries by any government agency against the Company for any amounts claimed due on account of Employee's failure to pay federal or state taxes or damages sustained by the Company by reason of any such claims, including reasonable attorneys' fees.

19. Authority. The Company represents and warrants that the undersigned has the authority to act on behalf of the Company and to bind the Company and all who may claim through it to the terms and conditions of this Agreement. Employee represents and warrants that he has the capacity to act on his own behalf and on behalf of all who might claim through him to bind them to the terms and conditions of this Agreement. Each party warrants and represents that there are no liens or claims of lien or assignments in law or equity or otherwise of or against any of the claims or causes of action released herein.

20. No Representations. Each party represents that it has had the opportunity to consult with an attorney, and has carefully read and understands the scope and effect of the provisions of this Agreement. In entering into this Agreement, neither party has relied upon any representations or statements made by the other party hereto which are not specifically set forth in this Agreement.

21. Severability. In the event that any provision, or any portion thereof, becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Agreement will continue in full force and effect without said provision or portion of said provision.

22. Entire Agreement. This Agreement represents the entire agreement and understanding between the Company and Employee concerning the subject matter of this Agreement and Employee's relationship with the Company, and supersedes and replaces any and all prior agreements and understandings between the Parties concerning the subject matter of this Agreement and Employee's relationship with the Company, with the exception of the Confidentiality Agreement, the Consulting Agreement, the Plan, and, to the extent not amended hereby, the Option Agreements.

23. No Waiver. The failure of the Company to insist upon the performance of any of the terms and conditions in this Agreement, or the failure to prosecute any breach of any of the terms and conditions of this Agreement, will not be construed thereafter as a waiver of any such terms or conditions. This entire Agreement will remain in full force and effect as if no such forbearance or failure of performance had occurred.

24. No Oral Modification. This Agreement may only be amended in a writing signed by Employee and the Chief Executive Officer of the Company.

25. Governing Law. This Agreement will be construed, interpreted, governed, and enforced in accordance with the laws of the State of California, without regard to choice-of-law provisions. Employee hereby consents to personal and exclusive jurisdiction and venue in the State of California.

26. Effective Date. This Agreement will become effective on the date that (i) it has been signed by both parties and (ii) eight (8) days have passed since Employee has signed it (the "**Effective Date**").

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27. Counterparts. This Agreement may be executed in counterparts, and each counterpart will have the same force and effect as an original and will constitute an effective, binding agreement on the part of each of the undersigned.

28. Voluntary Execution of Agreement. This Agreement is executed voluntarily and without any duress or undue influence on the part or behalf of the Parties hereto, with the full intent of releasing all claims. The Parties acknowledge that:

(a) They have read this Agreement;

(b) They have been represented in the preparation, negotiation, and execution of this Agreement by legal counsel of their own choice or that they have voluntarily declined to seek such counsel;

(c) They understand the terms and consequences of this Agreement and of the releases it contains; and

(d) They are fully aware of the legal and binding effect of this Agreement.

IN WITNESS WHEREOF, the Parties have executed this Agreement on the respective dates set forth below.

TIMOTHY CHRISTOFFERSEN

Dated: September 1, 2005

By: /s/ TIMOTHY CHRISTOFFERSEN

\_\_\_\_\_  
Timothy Christoffersen

MONOLITHIC POWER SYSTEMS, INC.

Dated: September 2, 2005

By: /s/ MICHAEL HSING

\_\_\_\_\_  
Name: Michael Hsing  
Title: Chief Executive Officer

**News Release**

Los Gatos, September 2005

For immediate release

**Monolithic Power Systems**

983 University Avenue, Building A,

Los Gatos, CA 95032 USA

T: 408 357 6600, F: 408 357 6601

www.monolithicpower.com

**Monolithic Power Systems Names Rick Neely  
Chief Financial Officer**

LOS GATOS, Calif., September 7, 2005 — Monolithic Power Systems, Inc. (MPS) (Nasdaq: [MPWR](#)), a leading fabless manufacturer of high-performance analog and mixed-signal semiconductors, is pleased to announce the appointment of Rick Neely as chief financial officer. Mr. Neely succeeds Tim Christoffersen, who announced his retirement on April 28, 2005 and plans to remain on staff for the next few months to ensure a smooth transition of the company's financial and administrative functions.

"We are extremely pleased to have Rick join our team," said Michael Hsing, chief executive officer of MPS. "His successful track record in global financial structuring at several leading public semiconductor companies is a perfect match for our needs as an emerging high-performance analog and mixed-signal semiconductor company. We expect Rick's extensive financial and operational expertise to prove invaluable to MPS, as we continue to expand our operations and facilities worldwide."

Mr. Neely has more than 24 years of financial and operations management experience in the semiconductor and electronic design automation (EDA) industries, as well as start-up company environments. He was most recently chief financial officer of NuCORE Technology, a developer of leading-edge digital and analog imaging devices for digital still and video cameras.

"I am very excited to join MPS at this stage in its development as a world-class analog and mixed-signal semiconductor company," said Mr. Neely. "MPS combines a highly experienced application and design team with a unique process technology to deliver highly integrated, energy-efficient devices that meet precise customer requirements. The growing demand for MPS solutions is reflected in its rapid revenue growth rate. I look forward to using my semiconductor experience to help MPS continue on this development path."

Prior to working at NuCORE, Mr. Neely was the principal of his own consulting practice. He has also served as chief financial officer of Alventive, chief financial officer and Interim chief executive officer of Beyond.com, vice president of Finance and Operations at Synopsys, and vice president and corporate controller of Heartport.

**News Release**

Los Gatos, September 2005

For immediate release

**Monolithic Power Systems**

983 University Avenue, Building A,

Los Gatos, CA 95032 USA

T: 408 357 6600, F: 408 357 6601

[www.monolithicpower.com](http://www.monolithicpower.com)

Most notably, Mr. Neely spent 16 years, from 1980 to 1996, with Advanced Micro Devices (AMD) in a variety of senior financial management positions worldwide, as the company's revenues grew from \$200 million to \$2.5 billion. He holds an MBA degree from the University of Chicago and an undergraduate degree in Economics from Whitman College.

**About Monolithic Power**

Monolithic Power Systems, Inc. (MPS) designs, develops and markets proprietary, advanced analog and mixed-signal semiconductors for large and high-growth markets. The company's integrated circuits (ICs) are used in a variety of electronic products, such as notebook computers, flat panel displays, cellular handsets, digital cameras, wireless local area network (LAN) access points, home entertainment systems, and personal digital assistants (PDAs). MPS utilizes a fabless business model, manufacturing its ICs through foundry partners that employ the company's proprietary process technology. MPS is based in Los Gatos, California, and through MPS International maintains international sales offices in Taiwan, China, Japan, and Korea.

**Forward-Looking Statements**

This press release includes forward-looking statements that involve risks and uncertainties, including statements concerning the continued expansion of our operations and facilities, growing demand for our products, and revenue growth rate. These statements are only predictions based on our current expectations and projections about future events. Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause our actual results, level of activity, performance, or achievements to differ materially from the results, level of activity, performance, or achievements expressed or implied by the forward-looking statements. In this regard, you should specifically consider the risks identified in our most recent Quarterly Report on Form 10-Q, in the section entitled, "Risk Factors," including the risks, uncertainties and cost of litigation, and the risks related to fluctuations in our operating results from quarter to quarter and year to year.

**Contact**

Tim Christoffersen

(408) 357-6759

## MONOLITHIC POWER SYSTEMS, INC.

## EMPLOYMENT AGREEMENT

This Employment Agreement (this "**Agreement**") by and between Rick Neely (the "**Chief Financial Officer,**" or "**CFO**") and Monolithic Power Systems, Inc. (the "**Company**"), is entered into as of August 17, 2005 (the "**Effective Date**").

WHEREAS, subject to the Company's satisfaction of the result of the CFO's background check and the commencement of the "Hire Date" as defined in paragraph 2 below, the Company desires to employ the CFO and the CFO desires to accept employment with the Company on the terms and conditions set forth below;

NOW, THEREFORE, the parties hereto agree as follows:

1. Certain Definitions. For purposes of this Agreement:

(a) "**Cause**" means (i) the CFO's failure to perform the duties or responsibilities of his employment, in any material respect, as reasonably required or directed by the Board of Directors of the Company (the "**Board**") or the Chief Executive Officer (the "**CEO**") and the President, (or the relevant supervising officer, manager or board of directors of a successor company), which failure is not cured within thirty (30) days following notice to the CFO of the poor performance which notice describes in reasonable detail the poor performance; (ii) the CFO personally engaging in illegal conduct that is detrimental to the Company; (iii) the CFO being convicted of a felony; or (iv) the CFO committing a material act of dishonesty, fraud or misappropriation of property.

(b) "**Good Reason**" means, without the CFO's consent, (i) a reduction by the Company in the base salary of the CFO as in effect immediately prior to such reduction, except where a substantially equivalent percentage reduction in base salary is applied to all other officers of the Company; (ii) a material reduction by the Company in the kind or level of employee benefits to which the CFO is entitled immediately prior to such reduction with the result that the CFO's overall benefits package is significantly reduced, except where a substantially equivalent reduction in benefits is applied to all other officers of the Company; (iii) a material, adverse change in the CFO's title, authority, responsibilities or duties, as measured against his title, authority, responsibilities or duties immediately prior to such change; or (iv) the relocation of the CFO's place of work to a facility or a location more than fifty (50) miles from the CFO's then-present work location.

(c) "**Disability**" means the CFO's inability to substantially perform the CFO's duties as required by the CFO's employment with or services to the Company as the result of the CFO's incapacity due to physical or mental illness.

(d) "**Change of Control**" means any of the following that occurs with respect to the Company if the stockholders of the Company immediately before such transaction do not retain

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immediately after the transaction, in substantially the same proportions as their ownership of shares of the Company's voting stock immediately before the transaction, direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the outstanding voting stock of the Company or the corporation or corporations to which the assets of the Company are transferred:

- (i) the direct or indirect sale or exchange in a single or series of related transactions by the Company or the stockholders of the Company of more than fifty percent (50%) of the voting stock of the Company;
- (ii) a merger or a consolidation in which the Company is a party; or
- (iii) the sale, exchange, or transfer of all or substantially all of the assets of the Company.

2. Employment and Duties. The CFO shall be appointed as Chief Financial Officer of the Company and report to the Company as of September 6, 2005 ("Hire Date"). The CFO shall report to the Chief Executive Officer (CEO) and President, and shall assume and discharge such responsibilities as are mutually agreed upon by the CFO and the CEO or the Board, and consistent with such office and position. The CFO shall perform faithfully the duties assigned to him to the best of his ability.

3. Compensation.

(a) In consideration of the CFO's services, the CFO shall be paid a base salary at the rate of \$230,000 per year during the period of employment (the "**Base Salary**"), to be paid in installments in accordance with the Company's standard payroll practices. This Base Salary shall be reviewed for increases at least annually by the Compensation Committee on the same basis as the Compensation Committee shall review the compensation of other executive officers of the Company, but such increases are not guaranteed.

(b) The CFO shall be granted an option under the Company's 2004 Incentive Stock Option Plan entitling him to purchase 200,000 shares of the Company's Common Stock (the "**ISO**"), as set forth more fully in the Stock Option Agreement therefor.

(c) The CFO shall participate in the Company bonus plan. Executive's annual target bonus will be payable upon achievement of personal and company specific performance objectives established by the Board, CEO or the Compensation Committee of the Board.

4. At-Will Employment. The Company and the CFO acknowledge that the CFO's employment is and shall continue at all times to be at-will, as defined under applicable law. If the CFO's employment terminates for any reason, the CFO shall not be entitled to any payments, benefits, damages, awards or compensation other than as provided by this Agreement, or as may otherwise be available in accordance with the Company's established employee plans and policies or other written agreements with the CFO at the time of termination.

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5. Benefits. The CFO, together with his spouse and dependent children, if any, shall be permitted, to the extent eligible, to participate at the Company's expense in any group medical, dental, life insurance and disability insurance plans, or similar benefit plans of the Company that are available to other executive officers in each case pursuant to the terms and conditions of each such plan or program. The CFO shall also be entitled to fifteen days of paid time off (PTO) annually.

6. Termination for Cause and Voluntary Termination without Good Reason. In the event that the CFO resigns from the Company without Good Reason, or the Company terminates the CFO's employment for Cause, the CFO shall not receive any compensation or benefits under this Agreement on account of such termination, except for obligations accrued at such time. The CFO's rights under any applicable Company benefit plans upon such termination shall be determined under the provisions of the respective benefit plans.

7. Termination without Cause and Voluntary Termination with Good Reason. Subject to Section 10 below, if the Company terminates the CFO's employment without Cause, or the CFO resigns from the Company for Good Reason, then the CFO shall receive severance payments and partial acceleration of the vesting of the ISO (together the "Severance Benefits") pursuant to sub-sections 7(a) and (b) below:

(a) Severance Payments. After the date of such termination, the Company shall continue to pay the CFO at a rate based on his then Base Salary and target annual bonus, in installments in accordance with the Company's standard payroll practices, and will provide the CFO and his dependents full medical benefits, for a period of six (6) months after the date of such termination; provided; however, such payments and benefits shall terminate immediately upon the date of the CFO's commencement of new employment with another company, and the CFO shall provide the Company with written notice of his acceptance of new employment within three (3) days thereof. In the event such termination occurs within one (1) year following a Change of Control, then such payments and benefits shall continue for a period of one (1) year after the date of such termination.

(b) Vesting Acceleration. Effective upon such termination, the CFO shall receive accelerated vesting equivalent to six (6) months of service beyond the date of his termination with respect to the shares subject to the ISO and any other options granted to the CFO; provided, however, that in the event such termination occurs within one (1) year following a Change of Control, then seventy five percent (75%) of the remaining shares subject to the ISO and any other options granted to the CFO shall become vested in full and the period during which the CFO is permitted to exercise such options shall be extended for the full term of such options, all as set forth more fully in the Stock Option Agreements therefor.

8. Death. In the event of the CFO's death, except for obligations accrued at such time, the Company shall have no obligation to pay or provide any compensation or benefits under this Agreement. The CFO's rights under the Company's benefit plans in the event of the CFO's death shall be determined under the provisions of such benefit plans.



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9. Disability. In the event of the CFO's Disability, except for obligations that have accrued prior to the CFO's Disability, no compensation or benefits will be paid or provided to the CFO under this Agreement. The CFO's rights under the Company's benefit plans shall be determined under the provisions of such benefit plans.

10. Conditional Nature of Severance Benefits.

(a) Noncompete. CFO acknowledges that the nature of the Company's business is such that if CFO were to become employed by, or substantially involved in, the business of a direct competitor of the Company during the six (6) months following the termination of CFO's employment with the Company, it would be very difficult for CFO not to rely on or use the Company's trade secrets and confidential information. Thus, to avoid the likely disclosure of the Company's trade secrets and confidential information, CFO agrees and acknowledges that CFO's right to receive the Severance Benefits set forth above (to the extent Executive is otherwise entitled to such Severance Benefits) shall be conditioned upon CFO not directly engaging in (whether as an employee, consultant, agent, proprietor, principal, partner, stockholder, corporate officer, director or otherwise), nor having participation in the financing, operation, management or control of, any person, firm, corporation or business that directly competes with the Company. "Direct Competitor" shall be defined as a semiconductor company whose primary revenue is derived from analog products that are sold into the same customer, application, and end product base as the Company and would be considered direct competitors by an independent person. Upon any breach of this Section 10 or Section 13 below, all Severance Benefits to which the CFO may be entitled, if any, pursuant to this Agreement shall immediately cease.

11. Other Activities. The CFO shall devote substantially all of his working time and efforts during the Company's normal business hours to the business and affairs of the Company and its subsidiaries and to the diligent and faithful performance of the duties and responsibilities duly assigned to him pursuant to this Agreement, except for vacations, holidays and sickness. However, the CFO may devote a reasonable amount of his time to civic, community, or charitable activities and, with the prior written approval of the Company, to serve as a director of other corporations and to other types of business or public activities not expressly mentioned in this paragraph.

12. Proprietary Information. During the period of employment and thereafter, the CFO shall not, without the prior written consent of the Company, disclose or use for any purpose (except in the course of his employment under this Agreement and in furtherance of the business of the Company or any of its affiliates or subsidiaries) any confidential information or proprietary data of the Company. The CFO agrees to execute the Company's form of Proprietary Information Agreement, which is attached hereto as Exhibit A and incorporated herein by reference.

13. Covenant Not to Solicit. Beginning with the date of the CFO's termination and until one (1) year thereafter, the CFO agrees that he will not:

(i) solicit, encourage, or take any other action which is intended to induce any other employee of the Company to terminate his employment with the Company, or

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(ii) interfere in any manner with the contractual or employment relationship between the Company and any employee of the Company.

14. Tax Provisions. In the event that the benefits provided for in the Agreement, when aggregated with any other payments or benefits received by the CFO, would (i) constitute "parachute payments" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "**Code**"), and (ii) would be subject to the excise tax imposed by Section 4999 of the Code (the "**Excise Tax**"), then the CFO's benefits hereunder shall be either

(a) delivered in full, or

(b) delivered as to such lesser extent which would result in no portion of such benefits being subject to the Excise Tax,

whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the Excise Tax, results in the receipt by the CFO on an after-tax basis, of the greatest amount of benefits, notwithstanding that all or some portion of such benefits may be taxable under Section 4999 of the Code. Unless the Company and the CFO otherwise agree in writing, any determination required under this paragraph shall be made in writing by the Company's independent public accountants (the "**Accountants**") whose determination shall be conclusive and binding upon the CFO and the Company for all purposes. For purposes of making the calculations required by this paragraph, the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company and the CFO shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this paragraph.

15. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California applicable to agreements made and to be performed entirely within such state, without regard to principles of conflicts of laws.

16. Integration. This Agreement, any written agreements or other documents evidencing matters referred to herein and any written Company existing plans that are referenced herein represent the entire agreement and understanding between the parties as to the subject matter hereof and thereof and supersede all prior or contemporaneous agreements as to the subject matter hereof and thereof, whether written or oral.

17. Notices. Notices and all other communications contemplated by this Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by U.S. registered or certified mail, return receipt requested and postage prepaid. In the case of the CFO, mailed notices shall be addressed to him at the home address that he most recently communicated to the Company in writing. In the case of the Company, mailed notices shall be addressed to its corporate headquarters, and all notices shall be directed to the attention of its CEO.

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18. Waiver etc. No waiver, alteration, or modification, if any, of the provisions of this Agreement shall be binding unless in writing and signed by duly authorized representatives of the parties hereto. If either party should waive any breach of any provisions of this Agreement, such party shall not thereby be deemed to have waived any preceding or succeeding breach of the same or any other provision of this Agreement.

19. Severability. If any term of this Agreement is held by a court of competent jurisdiction to be invalid, void or unenforceable, then the remainder of the terms of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

20. Counterparts. This Agreement may be executed in counterparts, which together will constitute one instrument.

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IN WITNESS WHEREOF, the Parties have executed this Agreement on the respective dates set forth below.

**“Company”**

Dated: September 6, 2005

By: /s/ MICHAEL HSING

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Name: Michael Hsing  
Title: Chief Executive Officer

**“CFO”**

Dated: September 6, 2005

By: /s/ C. RICHARD NEELY, JR.

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Name: C. Richard Neely, Jr.

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EXHIBIT A

PROPRIETARY INFORMATION AGREEMENT

Employee has nothing to declare.