

CHARTER FOR THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

OF

MONOLITHIC POWER SYSTEMS, INC.

(Amended and Adopted on February 1, 2005)

1. 1. PURPOSE

The purpose of the Audit Committee of the Board of Directors (the "**Board**") of Monolithic Power Systems, Inc. (the "**Company**") shall be to:

- provide oversight of the Company's accounting and financial reporting processes and the audit of the Company's financial statements;
- Appoint independent auditors to audit the Company's financial statements;
- assist the Board in the oversight of: (i) the integrity of the Company's financial statements; (ii) the Company's compliance with legal and regulatory requirements; (iii) the independent auditor's qualifications, independence and performance; and (iv) the Company's internal accounting and financial controls; and
- provide to the Board such information and materials as it may deem necessary to make the Board aware of financial matters requiring the attention of the Board.

In addition, the Audit Committee will undertake those specific duties and responsibilities listed below and such other duties as the Board may from time to time prescribe.

2. 2. MEMBERSHIP AND ORGANIZATION

Composition. The Audit Committee members, including the Chair, will be appointed by the Board on the recommendation of the Nominating/Corporate Governance Committee. Audit Committee members may be removed from the Audit Committee, with or without cause, by the Board. The Audit Committee will consist of at least three (3) members of the Board; provided, that if at any time there is a vacancy on the Audit Committee and the remaining members meet all membership requirements, then the Audit Committee may consist of two members until the earlier of the Company's next annual stockholders meeting or one year from the occurrence of the vacancy. Members of the Audit Committee must meet the following criteria (as well as any criteria required by the Securities and Exchange Commission (the "**SEC**")) and rules adopted by the SEC (the "**SEC Rules**"):

- each member must satisfy the requirements for independence set out in: (i) Rule 4200(a)(15) of the Audit Committee requirements of the Nasdaq Stock Market, Inc. Marketplace Rules (the "**Nasdaq Rules**"); and (ii) the criteria provided in Rule 10A-3(b)(1) of the Securities and Exchange Act of 1934 (the "Exchange Act") or under any other applicable SEC Rules.
- each member must not have participated in the preparation of the financial statements of the Company or any current subsidiary of the Company at any time during the past three (3) years;
- each member will be able to read and understand fundamental financial statements, in accordance with the Audit Committee requirements of the Nasdaq Rules; and
- members of the Audit Committee are not required to be engaged in the accounting and auditing profession and, consequently, some members may not be expert in financial matters, or in matters involving auditing or accounting. However, at least one member will have past employment experience in finance or accounting, requisite professional certification in accounting, or other comparable experience or background which results in the individual's financial sophistication, including a current or past position as a principal financial officer or other senior officer with financial oversight responsibilities. In addition, either at least one member will qualify as an "audit committee financial expert", under SEC rules and regulations or the Company shall disclose in its periodic reports required pursuant to the Exchange Act the reasons why at least one member of the Audit Committee is not an "audit committee financial expert."

Meetings and Procedures. The Chair (or in his or her absence, a member designated by the Chair) shall preside at each meeting of the Audit Committee and set the agendas for Audit Committee meetings. The Audit Committee

will meet at least once during each fiscal quarter and more frequently as the Audit Committee deems desirable. . The Audit Committee may establish its own meeting schedule, notice and conduct of its meetings. The Audit Committee will meet separately, and periodically, with the management (which shall include the Company's Chief Executive Officer, Chief Financial Officer and General Counsel each, individually and independently), with the internal auditors and with the independent auditor of the Company, at such times as it deems appropriate, but not less than quarterly.

All non-management directors that are not members of the Audit Committee may attend and observe meetings of the Audit Committee, but shall not participate in any discussion or deliberation unless invited to do so by the Audit Committee, and in any event shall not be entitled to vote. The Audit Committee may, at its discretion, include in its meetings members of the Company's management, representatives of the independent auditor, the internal auditor, any other financial personnel employed or retained by the Company or any other persons whose presence the Audit Committee believes to be necessary or appropriate. Notwithstanding the foregoing, the Audit Committee may also exclude from its meetings any persons it deems appropriate, including, but not limited to, any non-management director that is not a member of the Audit Committee.

The Audit Committee may retain any independent counsel, experts or advisors (accounting, financial or otherwise) that the Audit Committee believes to be necessary or appropriate. The Audit Committee may also utilize the services of the Company's regular legal counsel or other advisors to the Company. The Company shall provide for appropriate funding, as determined by the Audit Committee, for payment of compensation to the independent auditor for the purpose of rendering or issuing an audit report or performing other audit, review or attest services, for payment of compensation to any advisors employed by the Audit Committee and for ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties. The Audit Committee may conduct or authorize investigations into any matters within the scope of the powers and responsibilities delegated to the Audit Committee.

The Audit Committee will maintain written minutes of its meetings, which minutes will be filed with the minutes of the meetings of the Board.

Compensation. Members of the Audit Committee may receive cash fees, if any, for their service as Audit Committee members as may be determined by the Board. Members of the Audit Committee may not receive any compensation from the Company except the fees that they receive for service as a member of the Board or any committee thereof. The members of the Audit Committee shall receive reimbursement of the reasonable travel expense incurred in associated with attending the Audit Committee meetings.

3. POWER AND RESPONSIBILITIES

The power and responsibilities of the Audit Committee shall include:

Internal Audit

- **Appointment.** The Audit Committee shall review the appointment and replacement of the internal auditor.
- **Separate Meetings with the Internal Auditor.** The Audit Committee shall meet periodically with the Company's internal auditor to discuss the responsibilities, budget and staffing of the Company's internal audit function and any issues that the internal auditor believes warrant the Audit Committee attention. The Audit Committee shall discuss with the internal auditor any significant reports to management prepared by the internal auditor and any responses from management.

Annual Financial Statements and Annual Audit

- **Meetings with Management, the Independent Auditor and the Internal Auditor.**
- meet with management, the independent auditor and the internal auditor in connection with each annual audit to discuss the scope of the audit, the procedures to be followed and the staffing of the audit.
- review and discuss with management and the independent auditor: (i) major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or

application of accounting principles, and major issues as to the adequacy of the Company's internal controls and any special audit steps adopted in light of material control deficiencies; (ii) any analyses prepared by management or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including analyses of the effects of alternative GAAP methods on the Company's financial statements; and (iii) the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the Company's financial statements.

- review and discuss the annual audited financial statements with management and the independent auditor, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Separate Meetings with the Independent Auditor.

- review with the independent auditor any problems or difficulties the independent auditor may have encountered during the course of the audit work, including any restrictions on the scope of activities or access to required information or any significant disagreements with management and management's responses to such matters. Among the items that the Audit Committee should consider reviewing with the Independent Auditor are: (i) any accounting adjustments that were noted or proposed by the auditor but were "passed" (as immaterial or otherwise); (ii) any communications between the audit team and the independent auditor's national office respecting auditing or accounting issues presented by the engagement; and (iii) any "management" or "internal control" letter issued, or proposed to be issued, by the independent auditor to the Company. The Audit Committee shall obtain from the independent auditor assurances that Section 10A(b) of the Exchange Act has not been implicated, *i.e.*, that whether an illegal act (whether or not material) has occurred or may occur.
- The Audit Committee shall discuss with the independent auditor the report that such auditor is required to make to the Audit Committee regarding: (i) all accounting policies and practices to be used that the independent auditor identifies as critical; (ii) all alternative treatments within GAAP for policies and practices related to material items that have been discussed among management and the independent auditor, including the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor; and (iii) all other material written communications between the independent auditor and management of the Company, such as any management letter, management representation letter, reports on observations and recommendations on internal controls, independent auditor's engagement letter, independent auditor's independence letter, schedule of unadjusted audit differences and a listing of adjustments and reclassifications not recorded, if any.
- discuss with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61, "Communication with Audit Committees," as then in effect.

Recommendation to Include Financial Statements in Annual Report.

- based on the disclosures received from the independent auditor regarding its independence and discussions with the auditor regarding such independence, determine whether to recommend to the Board that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year subject to the audit.

Quarterly Financial Statements

- ***Meetings with Management, the Independent Auditor and the Internal Auditor.*** The Audit Committee shall review and discuss the quarterly financial statements with management, the independent auditor and the internal auditor, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations."
- reviewing before release the unaudited quarterly operating results in the Company's quarterly earnings release;
- reviewing the Company's policies relating to the avoidance of conflicts of interests as well as internal control policies and procedures relating to officers' use of expense accounts, perquisites and other corporate assets;
- reviewing the Company's policies, documentation and testing procedures to ensure they are in compliance with the rules of Sarbanes Oxley Act;
- reviewing the Company's policies regarding information technology and management information systems;
- ***Independent Auditors***
- appointing, compensating, retaining and overseeing the work of the independent auditor (including resolving disagreements between management and the independent auditor regarding financial reporting) for the purpose

of preparing or issuing an audit report or performing other audit, review or attest services for the Company, and the independent auditor shall report directly to the Audit Committee.

- reviewing, at least annually, the independence and the quality control procedures and the experience and the qualifications of the independent auditor's senior personnel that are providing audit services to the Company, including: (i) the Audit Committee shall obtain and review a report prepared by the independent auditor describing (a) the auditing firm's internal quality-control procedures and (b) any material issues raised by the most recent internal quality-control review, or peer review, of the auditing firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the auditing firm, and any steps taken to deal with any such issues; (ii) the Audit Committee shall ensure that the independent auditor prepare and deliver, at least annually, a written statement delineating all relationships between the independent auditor and the Company, consistent with Independence Standards Board Standard 1. The Audit Committee shall actively engage in a dialogue with the independent auditor with respect to any disclosed relationships or services that, in the view of the Audit Committee, may impact the objectivity and independence of the independent auditor. If the Audit Committee determines that further inquiry is advisable, the Audit Committee shall take appropriate action in response to the independent auditor's report to satisfy itself of the auditor's independence. (iii) The Audit Committee shall confirm with the independent auditor that the independent auditor is in compliance with the partner rotation requirements established by the SEC. (iv) The Audit Committee shall consider whether the Company should adopt a rotation of the annual audit among independent auditing firms and (v) the Audit Committee shall, if applicable, consider whether the independent auditor's provision of any permitted information technology services or other non-audit services to the Company is compatible with maintaining the independence of the independent auditor.
- pre-approving, explicitly, the engagement of audit and permissible non-audit services provided to the Company by the independent auditor, except where pre-approval of audit and permissible non-audit services is not required under i) pre-approval policies and procedures established by the Audit Committee, provided, the Audit Committee is informed of each service provided and such policies and procedures do not include delegation of the Audit Committee's responsibilities, or ii) other available exceptions under applicable SEC Rules. The Audit Committee may delegate to one (1) or more designated members of the Audit Committee the authority to pre-approve audit and permissible non-audit services, provided such pre-approvals are presented to the Audit Committee at a subsequent meeting

Other Powers and Responsibilities

- discuss with management and the independent auditor the Company's earnings press releases (with particular focus on any "pro forma" or "adjusted" non-GAAP information), as well as financial information and earnings guidance provided to the public. The Audit Committee's discussion in this regard may be general in nature (i.e., discussion of the types of information to be disclosed and the type of presentation to be made) and need to take place in advance of each earnings release or each instance in which the Company may provide earnings guidance.
- review all related party transactions on an ongoing basis and all such transactions must be approved by the Audit Committee.
- discuss with management and the independent auditor any correspondence from or with regulators or governmental agencies, any employee complaints or any published reports that raise material issues regarding the Company's financial statements, financial reporting process, accounting policies or internal audit function.
- discuss with the Company's General Counsel or outside counsel any legal matters brought to the Audit Committee's attention that could reasonably be expected to have a material impact on the Company's financial statements.
- request assurances from management, the independent auditor and the Company's internal auditors that the Company's foreign subsidiaries and foreign affiliated entities, if any, are in conformity with applicable legal requirements, including disclosure of affiliated party transactions.
- discuss with management the Company's policies with respect to risk assessment and risk management. The Audit Committee shall discuss with management the Company's significant financial risk exposures and the actions management has taken to limit, monitor or control such exposures.
- set clear hiring policies for employees or former employees of the Company's independent auditor.
- establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters. The Audit Committee shall also establish procedures for the confidential and anonymous submission by employees regarding questionable accounting or auditing matters.
- provide the Company with the Report of the Audit Committee with respect to the audited financial statements required by Item 306 of Reg. S-K, for inclusion in each of the Company's annual proxy statements.

- the Audit Committee, through its Chair, shall report regularly to, and review with, the Board any issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance and independence of the Company's independent auditor, the performance of the Company's internal audit function or any other matter the Audit Committee determines is necessary or advisable to report to the Board.
- perform, at least annually, an evaluation of the performance of the Audit Committee and its members, including a review of the Audit Committee's compliance with this Charter.
- review and reassess, at least annually, this Charter and submit any recommended changes to the Board for its consideration.
- oversee compliance with SEC Rules for disclosure of the independent auditor's services;
- review management's monitoring of compliance with the Foreign Corrupt Practices Act;
- review the Company's code of ethics for its principal executive and senior financial officers.