



**MICROCHIP TECHNOLOGY INCORPORATED**  
2355 West Chandler Boulevard, Chandler, Arizona 85224-6199

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**  
**August 25, 2014**

**TIME:** 9:00 a.m. Pacific Time

**PLACE:** Microchip Technology Incorporated  
San Jose Facility  
450 Holger Way  
San Jose, CA 95134

- ITEMS OF BUSINESS:**
- (1) The election of each of Steve Sanghi, Matthew W. Chapman, L.B. Day, Esther Johnson and Wade F. Meyercord to our Board of Directors to serve for the ensuing year and until their successors are elected and qualified.
  - (2) To ratify the appointment of Ernst & Young LLP as the independent registered public accounting firm of Microchip for the fiscal year ending March 31, 2015.
  - (3) To amend Microchip's 2001 Employee Stock Purchase Plan to provide for a plan term ending on August 31, 2024.
  - (4) To amend Microchip's 1994 International Employee Stock Purchase Plan to extend the plan term by ten years ending on November 30, 2024.
  - (5) To hold an advisory (non-binding) vote regarding the compensation of our named executives.
  - (6) To transact such other business as may properly come before the annual meeting or any adjournment(s) thereof.

The Microchip Board of Directors recommends that you vote for each of the foregoing items.

**RECORD DATE:** Holders of Microchip common stock of record at the close of business on July 1, 2014 are entitled to vote at the annual meeting.

**ANNUAL REPORT:** Microchip's fiscal 2014 Annual Report, which is not a part of the proxy soliciting material, is enclosed.

**PROXY:** It is important that your shares be represented and voted at the annual meeting. You can vote your shares by completing and returning the proxy card sent to you. Stockholders may have a choice of voting their shares over the Internet or by telephone. If Internet or telephone voting is available to you, voting instructions are printed on the proxy card sent to you. You can revoke your proxy at any time prior to its exercise at the annual meeting by following the instructions in the accompanying proxy statement.

*Kim van Herk*

Kim van Herk  
Secretary

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting  
of Stockholders to be Held on August 25, 2014**

The Microchip Notice of Annual Meeting, Proxy Statement and Annual Report on Form 10-K for the fiscal year ended March 31, 2014 are available at [www.microchip.com/annual\\_reports](http://www.microchip.com/annual_reports).

Chandler, Arizona  
July 18, 2014

TABLE OF CONTENTS

**Page**

<u>PROXY STATEMENT</u>	<u>1</u>
<u>THE BOARD OF DIRECTORS</u>	<u>4</u>
<u>CERTAIN TRANSACTIONS</u>	<u>9</u>
<u>SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE</u>	<u>9</u>
<u>PROPOSAL ONE - ELECTION OF DIRECTORS</u>	<u>10</u>
<u>PROPOSAL TWO - RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	<u>12</u>
<u>PROPOSAL THREE - APPROVAL OF AMENDED 2001 EMPLOYEE STOCK PURCHASE PLAN</u>	<u>14</u>
<u>PROPOSAL FOUR - APPROVAL OF AMENDED 1994 INTERNATIONAL EMPLOYEE STOCK PURCHASE PLAN</u>	<u>18</u>
<u>PROPOSAL FIVE - APPROVAL OF EXECUTIVE COMPENSATION</u>	<u>21</u>
<u>SECURITY OWNERSHIP OF PRINCIPAL STOCKHOLDERS, DIRECTORS AND EXECUTIVE OFFICERS</u>	<u>22</u>
<u>EXECUTIVE COMPENSATION - COMPENSATION DISCUSSION AND ANALYSIS</u>	<u>24</u>
<u>COMPENSATION OF NAMED EXECUTIVE OFFICERS</u>	<u>35</u>
<u>EQUITY COMPENSATION PLAN INFORMATION</u>	<u>43</u>
<u>CODE OF ETHICS</u>	<u>45</u>
<u>OTHER MATTERS</u>	<u>45</u>
<u>APPENDIX A</u>	<u>A-1</u>
<u>APPENDIX B</u>	<u>B-1</u>

This page intentionally left blank.



**MICROCHIP TECHNOLOGY INCORPORATED**

**2355 West Chandler Boulevard**

**Chandler, Arizona 85224-6199**

**PROXY STATEMENT**

You are cordially invited to attend our annual meeting on Monday, August 25, 2014, beginning at 9:00 a.m., Pacific Time. The annual meeting will be held at our San Jose facility located at 450 Holger Way, San Jose, CA 95134.

We are providing these proxy materials in connection with the solicitation by the Board of Directors (the "Board") of Microchip Technology Incorporated ("Microchip") of proxies to be voted at Microchip's 2014 annual meeting of stockholders and at any adjournment(s) thereof.

Our fiscal year begins on April 1 and ends on March 31. References in this proxy statement to fiscal 2015 refer to the 12-month period from April 1, 2014 through March 31, 2015; references to fiscal 2014 refer to the 12-month period from April 1, 2013 through March 31, 2014; and references to fiscal 2013 refer to the 12-month period from April 1, 2012 through March 31, 2013.

We anticipate first mailing this proxy statement and accompanying form of proxy on July 18, 2014 to holders of record of Microchip's common stock on July 1, 2014 (the "Record Date").

**PROXIES AND VOTING PROCEDURES**

**YOUR VOTE IS IMPORTANT.** Because many stockholders cannot attend the annual meeting in person, it is necessary that a large number of stockholders be represented by proxy. Stockholders may have a choice of voting over the Internet, by using a toll-free telephone number or by completing a proxy card and mailing it in the postage-paid envelope provided. Please refer to your proxy card or the information forwarded by your bank, broker or other holder of record to see which options are available to you. Under Delaware law, stockholders may submit proxies electronically. Please be aware that if you vote over the Internet, you may incur costs such as telephone and Internet access charges for which you will be responsible.

You can revoke your proxy at any time before it is exercised by timely delivery of a properly executed, later-dated proxy (including an Internet or telephone vote if these options are available to you) or by voting by ballot at the annual meeting.

The method by which you vote will in no way limit your right to vote at the annual meeting if you later decide to attend in person. If your shares are held in the name of a bank, broker or other holder of record, you must obtain a proxy, executed in your favor, from the holder of record, to be able to vote at the annual meeting.

All shares entitled to vote and represented by properly completed proxies received prior to the annual meeting and not revoked will be voted at the annual meeting in accordance with the instructions on such proxies. **IF YOU DO NOT INDICATE HOW YOUR SHARES SHOULD BE VOTED ON A MATTER, THE SHARES REPRESENTED BY YOUR PROPERLY COMPLETED PROXY WILL BE VOTED AS OUR BOARD OF DIRECTORS RECOMMENDS.**

If any other matters are properly presented at the annual meeting for consideration, including, among other things, consideration of a motion to adjourn the annual meeting to another time or place, the persons named as proxies and acting thereunder will have discretion to vote on those matters according to their best judgment to the same extent as the person delivering the proxy would be entitled to vote. At the date this proxy statement went to press, we did not anticipate that any other matters would be raised at the annual meeting.

### **Stockholders Entitled to Vote**

Stockholders of record at the close of business on the Record Date, July 1, 2014, are entitled to notice of and to vote at the annual meeting. Each share is entitled to one vote on each of the five director nominees and one vote on each other matter properly brought before the annual meeting. On the Record Date, there were 200,401,106 shares of our common stock issued and outstanding.

In accordance with Delaware law, a list of stockholders entitled to vote at the annual meeting will be available at the annual meeting on August 25, 2014, and for 10 days prior to the annual meeting at 2355 West Chandler Boulevard, Chandler, Arizona, between the hours of 9:00 a.m. and 4:30 p.m., Mountain Standard Time.

### **Required Vote**

#### *Quorum, Abstentions and Broker Non-Votes*

The presence, in person or by proxy, of the holders of a majority of the shares entitled to vote at the annual meeting is necessary to constitute a quorum at the annual meeting. Abstentions and broker "non-votes" are counted as present and entitled to vote for purposes of determining a quorum. A broker "non-vote" occurs when a nominee holding shares for a beneficial owner (i.e., in "street name") does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item and has not received instructions from the beneficial owner. Under the rules of the New York Stock Exchange (NYSE), which apply to NYSE member brokers trading in non-NYSE stock, brokers have discretionary authority to vote shares on certain routine matters if customer instructions are not provided. Proposal Two to be considered at the annual meeting may be treated as a routine matter. Consequently, if you do not return a proxy card, your broker may have discretion to vote your shares on such matter.

#### *Election of Directors (Proposal One)*

A nominee for director shall be elected to the board of directors if the votes cast for such nominee's election exceed the votes cast against such nominee's election. For this purpose, votes cast shall exclude abstentions, withheld votes or broker non-votes with respect to that director's election. Notwithstanding the immediately preceding sentence, in the event of a contested election of directors, directors shall be elected by the vote of a plurality of the votes cast. A contested election shall mean any election of directors in which the number of candidates for election as director exceeds the number of directors to be elected. If directors are to be elected by a plurality of the votes cast, stockholders shall not be permitted to vote against a nominee.

#### *Ratification of Independent Registered Public Accounting Firm (Proposal Two)*

The affirmative vote of the holders of a majority of the shares of common stock present in person or represented by proxy and entitled to vote at the annual meeting is required for ratification of the appointment of Ernst & Young LLP as the independent registered public accounting firm of Microchip for the fiscal year ending March 31, 2015. Abstentions will have the same effect as voting against this proposal. Broker "non-votes" are not counted for purposes of approving the ratification of our accounting firm, and thus will not affect the outcome of the voting on such proposal.

#### *Amendment of 2001 Employee Stock Purchase Plan (Proposal Three)*

The affirmative vote of the holders of a majority of the shares of common stock present in person or represented by proxy and entitled to vote at the annual meeting is required to adopt the amendment and restatement of our 2001 Employee Stock Purchase Plan as described in Proposal Three. Abstentions will have the same effect as voting against this proposal. Broker "non-votes" are not counted for purposes of approving our amended and restated 2001 Employee Stock Purchase Plan, and thus will not affect the outcome of the voting on such proposal.

#### *Amendment of 1994 International Employee Stock Purchase Plan (Proposal Four)*

The affirmative vote of the holders of a majority of the shares of common stock present in person or represented by proxy and entitled to vote at the annual meeting is required to adopt the amendment and restatement of our 1994 International Employee Stock Purchase Plan as described in Proposal Four. Abstentions will have the same effect as voting against this proposal. Broker "non-votes" are not counted for purposes of approving our amended and restated 1994 International Employee Stock Purchase Plan, and thus will not affect the outcome of the voting on such proposal.

#### *Advisory Vote Regarding the Compensation of our Named Executives (Proposal Five)*

The affirmative vote of the holders of a majority of the shares of common stock present in person or represented by proxy and entitled to vote at the annual meeting is required to approve, on an advisory (non-binding) basis, the compensation of our named executive officers as disclosed in this proxy statement in accordance with the rules of the Securities and Exchange Commission (the "SEC"). Abstentions will have the same effect as voting against this proposal. Broker "non-votes" are not counted for purposes of approving, on an advisory basis, the compensation of our named executive officers, and thus will not affect the outcome of the voting on such proposal.

#### **Electronic Access to Proxy Statement and Annual Report**

This proxy statement and our fiscal 2014 Annual Report are available at [www.microchip.com/annual\\_reports](http://www.microchip.com/annual_reports).

We will post our future proxy statements and annual reports on Form 10-K on our website as soon as reasonably practicable after they are electronically filed with the SEC. All such filings on our website are available free of charge. The information on our website is **not** incorporated into this proxy statement. Our Internet address is [www.microchip.com](http://www.microchip.com).

#### **Cost of Proxy Solicitation**

Microchip will pay its costs of soliciting proxies including the cost of any proxy solicitor if a proxy solicitor is engaged. Proxies may be solicited on behalf of Microchip by its directors, officers or employees in person or by telephone, facsimile or other electronic means. We may also reimburse brokerage firms and other custodians, nominees and fiduciaries for their expenses incurred in sending proxies and proxy materials to beneficial owners of Microchip common stock.

## THE BOARD OF DIRECTORS

### Meetings of the Board of Directors

In October 2013, our Board of Directors was increased from five to six directors and Ms. Johnson was appointed to the newly created seat on the Board. Our Board of Directors met seven times in fiscal 2014. Each director attended at least 75% of the aggregate of (i) the total number of meetings of the Board of Directors held during fiscal 2014 during such time as such person was a director and (ii) the total number of meetings held by all committees of the Board of Directors on which he or she served during fiscal 2014 during such time as such person was a director. The Board of Directors has a practice of meeting in executive session on a periodic basis without management or management directors (i.e., Mr. Sanghi) present. The Board of Directors has determined that each of Mr. Chapman, Mr. Day, Mr. Hugo-Martinez, Ms. Johnson and Mr. Meyercord is an independent director as defined by applicable SEC rules and NASDAQ listing standards.

### Board Leadership Structure

The Board of Directors believes that Microchip's Chief Executive Officer, Steve Sanghi, is best situated to serve as Chairman because he is the director most familiar with Microchip's business and industry, and most capable of effectively identifying strategic priorities and leading the discussion and execution of strategy. The Board's independent directors have different perspectives and roles in strategic development. In particular, Microchip's independent directors bring experience, oversight and expertise from outside the company and the industry, while the Chief Executive Officer brings company-specific experience and industry expertise. The Board of Directors believes that the combined role of Chairman and Chief Executive Officer promotes strategy development and execution, and facilitates information flow between management and the Board of Directors, which are essential to effective governance. Microchip does not have a lead independent director.

The Board of Directors and the Board committees oversee risk management in a number of ways. The Audit Committee oversees the management of financial and accounting related risks as an integral part of its duties. Similarly, the Compensation Committee considers risk management when setting the compensation policies and programs for Microchip's executive officers. The Board of Directors and the Audit Committee regularly receive reports on various risk-related items including risks related to manufacturing operations, intellectual property, taxes, products and employees. The Board and the Audit Committee also receive periodic reports on Microchip's efforts to manage such risks through safety measures, insurance or self-insurance. The Board of Directors believes that the leadership structure described above facilitates the Board's oversight of risk management because it allows the Board, working through its committees, to participate actively in the oversight of management's actions.

### Communications from Stockholders

Stockholders may communicate with the Board of Directors or individual members of the Board of Directors, provided that all such communication is submitted in writing to the attention of the Secretary at Microchip Technology Incorporated, 2355 West Chandler Boulevard, Chandler, Arizona 85224-6199, who will then forward such communication to the appropriate director or directors.

### Committees of the Board of Directors

The following table lists our three Board committees, the directors who served on them and the number of committee meetings held in fiscal 2014:



## Membership on Board Committees in Fiscal 2014

Name	Audit	Compensation	Nominating and Governance
Mr. Chapman	C		●
Mr. Day	●*	●	C
Mr. Hugo-Martinez	**		**
Mr. Meyercord	●	C	●
Meetings held in fiscal 2014	9	9	3

C = *Chair*

● = *Member*

\* = *Served on such committee beginning August 16, 2013*

\*\* = *Served on such committee until August 16, 2013*

### *Audit Committee*

The responsibilities of our Audit Committee are to appoint, compensate, retain and oversee Microchip's independent registered public accounting firm, oversee the accounting and financial reporting processes of Microchip and audits of its financial statements, and provide the Board of Directors with the results of such monitoring. These responsibilities are further described in the committee charter. A copy of the Audit Committee charter is available at the About Us/Corporate Responsibility section under Ethics and Conduct on [www.microchip.com](http://www.microchip.com).

Our Board of Directors has determined that all members of the Audit Committee are independent directors as defined by applicable SEC rules and NASDAQ listing standards. The Board of Directors has also determined that each of Mr. Chapman, Mr. Day, and Mr. Meyercord meet the requirements for being an "audit committee financial expert" as defined by applicable SEC rules.

In fiscal 2005, our Board and our Audit Committee adopted a policy with respect to (i) the receipt, retention and treatment of complaints received by us regarding questionable accounting, internal accounting controls or auditing matters; (ii) the confidential, anonymous submission by our employees of concerns regarding questionable accounting, internal accounting controls or auditing matters; and (iii) the prohibition of harassment, discrimination or retaliation arising from submitting concerns regarding questionable accounting, internal accounting controls or auditing matters or participating in an investigation regarding questionable accounting, internal accounting controls or auditing matters. In fiscal 2012, our Board and our Audit Committee approved an amended policy to include matters regarding violations of federal or state securities laws, or the commission of bribery. This policy, called "*Reporting Legal Non-Compliance*," was created in accordance with applicable SEC rules and NASDAQ listing requirements. A copy of this policy is available at the About Us/Corporate Responsibility section under Ethics and Conduct on [www.microchip.com](http://www.microchip.com).

### *Compensation Committee*

Our Compensation Committee has oversight responsibility for the compensation and benefit programs for our executive officers and other employees, and for administering our equity incentive and employee stock purchase plans adopted by our Board of Directors. The responsibilities of our Compensation Committee are further described in the committee charter which was amended and restated as of May 17, 2013. The committee charter is available at the About Us/Corporate Information/Investors Information section under Mission Statement/Corporate Governance on [www.microchip.com](http://www.microchip.com).

The Board of Directors has determined that all members of our Compensation Committee are independent directors as defined by applicable SEC rules, NASDAQ listing standards and other requirements. For more information on our Compensation Committee, please refer to the "*Compensation Discussion and Analysis*" at page 24.

## *Nominating and Governance Committee*

Our Nominating and Governance Committee has the responsibility to help ensure that our Board is properly constituted to meet its fiduciary obligations to our stockholders and Microchip and that we have and follow appropriate governance standards. In so doing, the Nominating and Governance Committee identifies and recommends director candidates, develops and recommends governance principles, and recommends director nominees to serve on committees of the Board of Directors. The responsibilities of our Nominating and Governance Committee are further described in the committee charter, as amended and restated as of May 19, 2014, which is available at the About Us/Corporate Responsibility section under Ethics and Conduct on [www.microchip.com](http://www.microchip.com). The Board of Directors has determined that all members of the Nominating and Governance Committee are independent directors as defined by applicable SEC rules and NASDAQ listing standards.

When considering a candidate for a director position, the Nominating and Governance Committee looks for demonstrated character, judgment, relevant business, functional and industry experience, and a high degree of skill. The Nominating and Governance Committee believes it is important that the members of the Board of Directors represent diverse viewpoints. Accordingly, the Nominating and Governance Committee considers issues of diversity in identifying and evaluating director nominees, including differences in education, professional experience, viewpoints, technical skills, individual expertise, ethnicity and gender. The Nominating and Governance Committee evaluates director nominees recommended by a stockholder in the same manner as it would any other nominee. The Nominating and Governance Committee will consider nominees recommended by stockholders provided such recommendations are made in accordance with procedures described in this proxy statement under "*Requirements, Including Deadlines, for Receipt of Stockholder Proposals for the 2015 Annual Meeting of Stockholders; Discretionary Authority to Vote on Stockholder Proposals*" at page 45. We do not pay any third party to identify or assist in identifying or evaluating potential nominees for director.

### **Attendance at the Annual Meeting of Stockholders**

All directors are encouraged, but not required, to attend our annual meeting of stockholders. All directors attended our 2013 annual meeting of stockholders.

## **REPORT OF THE AUDIT COMMITTEE (\*)**

Our Board of Directors has adopted a written charter setting out the purposes and responsibilities of the Audit Committee. The Board of Directors and the Audit Committee review and assess the adequacy of the charter on an annual basis. A copy of the Audit Committee Charter is available at the About Us/Corporate Responsibility section under Ethics and Conduct on [www.microchip.com](http://www.microchip.com).

Each of the directors who serves on the Audit Committee meets the independence and experience requirements of the SEC rules and NASDAQ listing standards. This means that the Microchip Board of Directors has determined that no member of the Audit Committee has a relationship with Microchip that may interfere with such member's independence from Microchip and its management, and that all members have the required knowledge and experience to perform their duties as committee members.

We have received from Ernst & Young LLP the written disclosure and the letter required by Rule 3526 of the Public Company Accounting Oversight Board (*Communication with Audit Committees Concerning Independence*) and have discussed with Ernst & Young LLP their independence from Microchip. We also discussed with Ernst & Young LLP all matters required to be discussed by Public Company Accounting Oversight Board (PCAOB) standards. We have considered whether and determined that the provision of the non-audit services rendered to us by Ernst & Young LLP during fiscal 2014 was compatible with maintaining the independence of Ernst & Young LLP.

We have reviewed and discussed with management the audited annual financial statements included in Microchip's Annual Report on Form 10-K for the fiscal year ended March 31, 2014 and filed with the SEC, as well as the unaudited financial statements filed with Microchip's quarterly reports on Form 10-Q. We also met with both management and Ernst & Young LLP to discuss those financial statements.

Based on these reviews and discussions, we recommended to the Board of Directors that Microchip's audited financial statements be included in Microchip's Annual Report on Form 10-K for the fiscal year ended March 31, 2014 for filing with the SEC.

By the Audit Committee of the Board of Directors:

Matthew W. Chapman (Chairman)

L.B. Day

Wade F. Meyercord

---

(\*) The Report of the Audit Committee is not "soliciting" material and is not deemed "filed" with the SEC, and is not incorporated by reference into any filings of Microchip under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date of this proxy statement and irrespective of any general incorporation language contained in such filings.

## **Director Compensation**

### *Procedures Regarding Director Compensation*

The Board of Directors sets non-employee director compensation. Microchip does not pay employee directors for services provided as a member of the Board of Directors. Our program of cash and equity compensation for non-employee directors is designed to achieve the following goals: compensation should fairly pay directors for work required for a company of Microchip's size and scope; compensation should align directors' interests with the long-term interests of stockholders; compensation should be competitive so as to attract and retain qualified non-employee directors; and the structure of the compensation should be simple, transparent and easy for stockholders to understand. Non-employee director compensation is typically reviewed once per year to assess whether any adjustment is needed to further such goals. The Board of Directors has not used outside consultants in setting non-employee director compensation.

### *Director Fees*

Effective May 10, 2011, non-employee directors receive an annual retainer of \$63,000, paid in quarterly installments, and \$3,000 for each meeting attended in person. In the fourth quarter of fiscal 2013, our non-employee directors agreed to a voluntary 5% reduction in the retainer payment and meeting fees to match the 5% voluntary pay reduction that was in place across Microchip. This voluntary pay reduction was reduced to 2.5% on May 15, 2013 and then to 0% as of July 1, 2013. A payment of \$3,206 was made on October 21, 2013 to those non-employee directors who had been members of the Board and voluntarily taken the decrease in pay. A payment of this type was also made to the Microchip employees who had participated in the voluntary pay reduction to thank them for their participation in the salary reduction program in the prior quarters. Directors do not receive any additional compensation for telephonic meetings of the Board of Directors, for meetings of committees of the Board, or for serving as a committee chair.

### *Equity Compensation*

Under the terms of our 2004 Equity Incentive Plan, each non-employee director is automatically granted:

- upon the date that the individual is first appointed or elected to the Board of Directors as a non-employee director, that number of restricted stock units ("RSUs") equal to \$160,000 (based on the fair market value of our common stock on the grant date) which shall vest in equal 25% annual installments on each of the four anniversaries of the tenth business day of the second month of our fiscal quarter in which the grant is made; and

- upon the date of our annual meeting, provided that the individual has served as a non-employee director for at least three months on that date and has been elected by the stockholders to serve as a member of the Board of Directors at that annual meeting, that number of RSUs equal to \$84,000 (based on the fair market value of our common stock on the grant date) which shall vest in equal 50% annual installments on each of the two anniversaries of the tenth business day of the second month of our fiscal quarter in which the grant is made.

All vesting of the above grants is contingent upon the non-employee director maintaining his or her continued status as a non-employee director through the applicable vesting date.

In accordance with the foregoing, on August 16, 2013, each of Mr. Chapman, Mr. Day, Mr. Hugo-Martinez and Mr. Meyercord was granted 2,126 RSUs. On October 1, 2013, Ms. Johnson was granted 3,970 RSUs in connection with her appointment to the Board.

The following table details the total compensation for Microchip's non-employee directors for fiscal 2014.

#### DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash	Stock Awards <sup>(1)</sup>	Option Awards	Non-Equity Incentive Plan Compensation	All Other Compensation	Total
Steve Sanghi <sup>(2)</sup>	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Matthew W. Chapman	74,616	77,875	—	—	—	152,491
L.B. Day	77,541	77,875	—	—	—	155,416
Albert J. Hugo-Martinez	77,541	77,875	—	—	—	155,416
Esther L. Johnson <sup>(3)</sup>	37,500	139,188	—	—	—	176,688
Wade F. Meyercord	77,541	77,875	—	—	—	155,416

<sup>(1)</sup> These stock awards were RSUs with a fair value on the grant date of \$36.63 per share for all directors except that the fair value on the grant date of the award to Ms. Johnson was \$35.06 per share. The market value on the grant date was \$39.51 per share with an aggregate market value of the award of approximately \$84,000 for the August 16, 2013 grants to Messrs. Chapman, Day, Hugo-Martinez and Meyercord and was \$40.30 per share with an aggregate market value of approximately \$160,000 for the October 1, 2013 grant to Ms. Johnson.

<sup>(2)</sup> Mr. Sanghi, our Chairman of the Board, President and Chief Executive Officer, does not receive any additional compensation for his services as a member of the Board of Directors.

<sup>(3)</sup> Ms. Johnson was appointed to the Board on October 1, 2013.

#### Compensation Committee Interlocks and Insider Participation

The Compensation Committee is currently comprised of Mr. Meyercord (Chair) and Mr. Day. Each such person is an independent director. Neither Mr. Day nor Mr. Meyercord had any related-party transaction with Microchip during fiscal 2014 other than compensation for service as a director. In addition, neither of such directors has a relationship that would constitute a compensation committee interlock under applicable SEC rules. During fiscal 2014, no Microchip executive officer served on the compensation committee (or equivalent) or the board of directors of another entity whose executive officer(s) served either on Microchip's Compensation Committee or Board of Directors.

## **CERTAIN TRANSACTIONS**

During fiscal 2014, Microchip had no related-party transactions within the meaning of applicable SEC rules.

Pursuant to its charter, the Audit Committee reviews issues involving potential conflicts of interest and reviews and approves all related-party transactions as contemplated by NASDAQ and SEC rules and regulations. The Audit Committee may consult with the Board of Directors regarding certain conflict of interest matters that do not involve a member of the Board.

## **SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) and related rules under the Securities Exchange Act of 1934 require our directors, executive officers and stockholders holding more than 10% of our common stock to file reports of holdings and transactions in Microchip stock with the SEC and to furnish us with copies of all Section 16(a) forms they file. Based solely on our review of the copies of such forms received by us during fiscal 2014, and written representations from our directors and executive officers that no other reports were required, we believe that all Section 16(a) filing requirements applicable to our directors, executive officers and stockholders holding more than 10% of our common stock were met for fiscal 2014, except for the following: Mr. Little filed one late Form 4 in May 2013 with respect to one transaction, and Messrs. Bjornholt, Drehobl, Lambert, Little, Moorthy, Sanghi and Simoncic each filed a Form 4 one day late in March 2014 with respect to one transaction related to a purchase of shares under our 2001 Employee Stock Purchase Plan.

## PROPOSAL ONE

### ELECTION OF DIRECTORS

The Board currently consists of six directors: Steve Sanghi, Matthew W. Chapman, L.B. Day, Albert J. Hugo-Martinez, Esther L. Johnson and Wade F. Meyercord. A board of five directors will be elected at the annual meeting, and proxies cannot be voted for more than five nominees. Immediately following the annual meeting, the authorized number of directors will be decreased to five. Unless proxy cards are otherwise marked, the persons named in the proxy card will vote such proxy for the election of the nominees named below. Each of the nominees is currently serving as a director and has agreed to continue serving if re-elected. If any of the nominees becomes unable or declines to serve as a director at the time of the annual meeting, the persons named in the proxy card will vote such proxy for any nominee designated by the current Board of Directors to fill the vacancy. We do not expect that any of the nominees will be unable or will decline to serve as a director.

Our Board of Directors has determined that each of the following nominees for director is an independent director as defined by applicable SEC rules and NASDAQ listing standards: Mr. Chapman, Mr. Day, Ms. Johnson and Mr. Meyercord.

The term of office of each person who is elected as a director at the annual meeting will continue until the 2015 annual meeting of stockholders and until a successor has been elected and qualified.

#### **Required Vote; Recommendation**

A nominee for director in an uncontested election shall be elected to the Board of Directors if the votes cast for such nominee's election exceed the votes cast against such nominee's election (with votes cast excluding abstentions, withheld notes or broker non-votes).

**The Board of Directors recommends that stockholders vote FOR the nominees listed below.**

#### **Information on Nominees for Director (as of June 30, 2014)**

<b>Name</b>	<b>Age</b>	<b>Position(s) Held</b>
Steve Sanghi	58	Chairman, President and CEO
Matthew W. Chapman	63	Director
L.B. Day	69	Director
Esther L. Johnson	62	Director
Wade F. Meyercord	73	Director

*Steve Sanghi* is currently, and has been since August 1990, a director and President of Microchip Technology Incorporated. Since October 1991, he has served as CEO of Microchip and since October 1993, as Chairman of the Board of Directors of Microchip. From May 2004 through March 2014, when Xyratex Ltd. was acquired by Seagate Technology plc., he was a member of the Board of Directors of Xyratex Ltd., a publicly held U.K. company that specializes in storage and network technology. In May 2007, Mr. Sanghi was appointed to the Board of Directors of FIRST Organization, a not-for-profit public charity founded in 1989 to develop young people's interest in science and technology. Mr. Sanghi was elected to the Board of Directors of Hittite Microwave Corporation in October 2013, a privately held semiconductor company.

The Board of Directors concluded that Mr. Sanghi should be nominated to serve as a director since he has served as CEO of Microchip for over 20 years and has provided very strong leadership to Microchip over this period. The Board of Directors believes that Mr. Sanghi's management skills have been instrumental to Microchip's extraordinary growth and profitability over the past 20 years and to the strong position Microchip has attained in its key markets.

*Matthew W. Chapman* has served as a director of Microchip since May 1997. Since December 2006, he has served as President and CEO of Northwest Evaluation Association, a not-for-profit education service organization providing computer adaptive testing for millions of students throughout the United States. In his career, Mr. Chapman has served as CEO and

Chairman of Concentrex Incorporated, a publicly held company specializing in supplying software solutions and service to U.S. financial institutions. Mr. Chapman also serves on the Board of Directors of the Oregon Business Association and the All Hands Raised Foundation, Knowledge Alliance and on the Board of Regents of the University of Portland.

The Board of Directors concluded that Mr. Chapman should be nominated to serve as a director due to his significant CEO level experience at several corporations. The Board of Directors also recognizes Mr. Chapman's experience in financial matters and that his background establishes him as an audit committee financial expert under applicable rules and makes him well suited to serve on the Board of Directors' nominating and governance committee.

*L.B. Day* has served as a director of Microchip since December 1994. Mr. Day serves as President of L.B. Day & Company, Inc., a consulting firm whose parent company he co-founded in 1977, which provides strategic planning, strategic marketing and organization design services to the elite of the technology world. He has written on strategic planning and is involved with competitive factor assessment in the semiconductor and other technology market segments, geared to helping client organizations incorporate competitive factor assessment findings into their strategic plans. He has served as a board member or as an advisor to many public and private boards.

The Board of Directors concluded that Mr. Day should be nominated to serve as a director due to his significant experience in corporate management and strategic matters. In particular, through his consulting practice, Mr. Day has been a key strategic advisor to a number of large public corporations. The Board of Directors also recognizes Mr. Day's experience in financial matters and that his background establishes him as an audit committee financial expert under applicable rules. The Board of Directors believes that Mr. Day's background makes him well suited to serve on the Board of Directors' nominating and governance committee and compensation committee.

*Esther L. Johnson* has served as a director of Microchip since October 2013. From April 2007 until her April 2012 retirement, Ms. Johnson served as the Vice President and General Manager of Carrier Electronics, a provider of high technology heating, air-conditioning and refrigeration solutions, and a part of United Technology Corporation, a publicly held company that provides high technology products and services to the aerospace and building systems industries. Prior to her position as Vice President and General Manager, since 1983, Ms. Johnson held a variety of other management positions with Carrier Electronics, including Director of Operations and Global Supply Chain Manager. Ms. Johnson was instrumental in Carrier being recognized by Industry Week as one of the "Top 10 Factories in North America." She has served as a board member on multiple private company boards.

The Board of Directors concluded that Ms. Johnson should be nominated to serve as a director due to her significant executive level experience in the technology industry. The Board of Directors also recognizes the knowledge and experience Ms. Johnson has gained through her service on the boards of various private companies.

*Wade F. Meyercord* has served as a director of Microchip since June 1999. Since October 2002, he has served as President of Meyercord & Associates, Inc., a privately held management consulting firm specializing in executive compensation matters and stock plan consulting for technology companies, a position he previously held part time beginning in 1987. Mr. Meyercord served as a member of the Board of Directors of Endwave Corporation, a publicly held company, from March 2004 until it was acquired in 2011. Mr. Meyercord served as a member of the Board of Directors of California Micro Devices Corporation, a publicly held company, from January 1993 to October 2009 and Magma Design Automation, Inc., a publicly held company, from January 2004 to June 2005.

The Board of Directors concluded that Mr. Meyercord should be nominated to serve as a director due to his significant experience as a senior executive and board member of a number of companies in the technology industry. Mr. Meyercord gained further industry experience through his consulting practice. The Board of Directors believes that Mr. Meyercord's background makes him well suited to serve on the Board of Directors' nominating and governance committee and compensation committee. The Board of Directors also recognizes his experience in financial matters and that his background establishes him as an audit committee financial expert under applicable rules.

## PROPOSAL TWO

### RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of our Board of Directors has appointed Ernst & Young LLP, independent registered public accounting firm, to audit our consolidated financial statements for the fiscal year ending March 31, 2015. Ernst & Young LLP has audited our financial statements since the fiscal year ended March 31, 2002 and has served as our independent registered public accounting firm since June 2001. The partner in charge of our audit is rotated every five years. Other partners and non-partner personnel are rotated on a periodic basis as required.

We anticipate that a representative of Ernst & Young LLP will be present at the annual meeting, will have the opportunity to make a statement if he or she desires and will be available to respond to appropriate questions. Stockholder ratification of the appointment of Ernst & Young LLP is not required by our Bylaws or applicable law. However, our Board of Directors chose to submit such appointment to our stockholders for ratification. In the event of a negative vote on such ratification, the Audit Committee will reconsider its selection.

#### **Fees Paid to Independent Registered Public Accounting Firm**

##### *Audit Fees*

This category includes fees associated with our annual audit, the reviews of our quarterly reports on Form 10-Q, and statutory audits required internationally. This category also includes advice on audit and accounting matters that arose during, or as a result of, the audit or the review of our interim financial statements, statutory audits and the assistance with review of our SEC registration statements. This category also included fees associated with the audit of our internal control over financial reporting required by Section 404 of the Sarbanes-Oxley Act of 2002. The aggregate fees billed or to be billed by Ernst & Young LLP in each of the last two fiscal years for such services were approximately \$1,845,000 for fiscal 2014 and \$2,275,000 for fiscal 2013. Our audit fees in fiscal 2013 were significantly higher than our audit fees in fiscal 2014 due to our acquisition of Standard Microsystems Corporation, including procedures performed by Ernst & Young LLP in connection with the testing of our allocation of the purchase price of this acquisition.

##### *Audit-Related Fees*

This category includes fees associated with employee benefit plan audits, internal control reviews, accounting consultations and attestation services that are not required by statute or regulation. The aggregate fees billed or to be billed by Ernst & Young LLP in each of the last two fiscal years for such services were no fees for fiscal 2014 and \$55,000 for fiscal 2013.

##### *Tax Fees*

This category includes fees associated with tax return preparation, tax advice and tax planning. The aggregate fees billed or to be billed by Ernst & Young LLP in each of the last two fiscal years for such services were approximately \$452,000 for fiscal 2014 and \$540,000 for fiscal 2013.

##### *All Other Fees*

This category includes fees for support and advisory services not related to audit services or tax services. There were no such fees in fiscal 2014 or fiscal 2013.

Our Audit Committee pre-approves all audit and permissible non-audit services provided by our independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services. The Audit Committee has adopted a policy for the pre-approval of services provided by our independent registered public accounting firm. Under the policy, pre-approval is generally provided for up to one year, and any pre-approval is detailed as to the particular service or category of services and is subject to a specific budget or limit. The Audit Committee



may also pre-approve particular services on a case-by-case basis. The Chairman of the Audit Committee has the delegated authority from the Audit Committee to pre-approve a specified level of services, and such pre-approvals are then communicated to the full Audit Committee at its next scheduled meeting. During fiscal 2014, all audit and non-audit services rendered by Ernst & Young LLP were approved in accordance with our pre-approval policy.

Our Audit Committee has determined that the non-audit services rendered by Ernst & Young LLP during fiscal 2014 and fiscal 2013 were compatible with maintaining the independence of Ernst & Young LLP.

**Required Vote; Recommendation**

The affirmative vote of a majority of the votes cast on the proposal at the Annual Meeting is required to approve the ratification of the appointment of Ernst & Young LLP as the independent registered public accounting firm of Microchip for the fiscal year ending March 31, 2015. Abstentions will have the same effect as a vote against this proposal.

**Upon the recommendation of our Audit Committee, our Board of Directors unanimously recommends that stockholders vote "FOR" Proposal Two, the ratification of our independent registered public accounting firm, as described in the Proxy Statement.**

## PROPOSAL THREE

### APPROVAL OF AMENDED 2001 EMPLOYEE STOCK PURCHASE PLAN

At the annual meeting, stockholders are being asked to approve our 2001 Employee Stock Purchase Plan ("ESPP") as amended and restated to add a plan term ending August 31, 2024. No other material changes are being made to the ESPP. We are making this change to conform the ESPP to current best practices and allow us to continue to use the ESPP to assist us in recruiting, retaining and motivating qualified personnel who help us achieve our business goals, including creating long-term value for stockholders. Our ESPP is intended to offer an important incentive by allowing employees to purchase shares of our common stock. Employees are allowed to purchase our common stock under the ESPP at a price equal to 85% of the lower of the fair market value on either the opening or closing date of the respective offering period.

Currently, a maximum of 5,636,158 shares may be issued under the ESPP, plus an automatic increase each January 1 during the term of the ESPP equal to the lesser of (i) 1,500,000 shares, (ii) one-half of one percent (0.5%) of the then outstanding shares of our common stock, or (iii) such lesser amount as approved by our Board of Directors. Stockholder approval of the ESPP will constitute reapproval of the automatic share increase provision, previously approved by our stockholders effective January 1, 2005. The Board did not approve an automatic increase in the share reserve under the ESPP for either 2013 or 2014.

Without stockholder approval of the ESPP, we believe our ability to attract and retain the individuals necessary to increase long-term stockholder value will be limited. We believe that the approval of the ESPP is important to our continued success.

The Board of Directors has approved the ESPP as amended, subject to the approval of our stockholders at the annual meeting.

#### **Description of the ESPP**

The following paragraphs provide a summary of the principal features of the ESPP and its operation. However, this summary is not a complete description of all of the provisions of the ESPP, and is qualified in its entirety by the specific language of the ESPP. A copy of the ESPP is provided as Appendix A to this proxy statement.

#### *Purpose and Background*

The purpose of the ESPP is to provide eligible employees of Microchip and participating subsidiaries with the opportunity to purchase shares of common stock through payroll deductions at a discounted purchase price. The ESPP was originally adopted by the Board of Directors in May 2001 and approved by stockholders at our 2001 annual meeting. Stockholders approved an amendment to the ESPP at our 2003 annual meeting to reserve an additional 975,000 shares under the ESPP. Stockholders approved an amendment to the ESPP to add the annual automatic "evergreen" share reserve increase beginning January 1, 2005.

#### *Administration*

The ESPP is administered by a committee made up of members of the Board of Directors which is currently the Compensation Committee (the "Committee"). The Committee has full power to interpret the ESPP, and its decisions will be final and binding upon all participants.

#### *Eligibility*

Generally, all employees of Microchip or any of the subsidiaries designated by the Committee will be eligible to participate in the ESPP. However, no employee who normally works less than 20 hours per week or five months in a calendar year is eligible to participate. Also, no employee will be eligible to participate in the ESPP if, immediately after the grant of an option to purchase stock under the ESPP, that employee would own 5% of either the voting power or the value of the common stock. No employee's rights to purchase the common stock pursuant to the ESPP may accrue at a rate that exceeds \$25,000 per

calendar year. As of June 1, 2014, approximately 2,662 employees are eligible to participate in the ESPP. Non-employee directors are not eligible to participate in the ESPP.

#### *Participation and Purchases*

Under the ESPP a participant must authorize payroll deductions, which may not exceed 10% of their eligible compensation. Generally, when an employee terminates employment with Microchip or any designated subsidiary, the employee's right to participate in the ESPP terminates. The ESPP provides for offering periods of up to 24 months. Each offering period will include one or more purchase periods. The duration of each offering period and purchase period will be determined by the Committee. The ESPP is currently implemented by a series of offering periods beginning on the first business day of March and the first business day of September of each year, and each offering period consists of one or more six-month purchase periods. For example, the series of offering periods beginning in 2014 will include a twenty-four (24) month offering period beginning the first business day in March 2014, followed by an eighteen (18) month offering period beginning the first business day in September 2014, followed by a twelve (12) month offering period beginning the first business day in March 2015, and followed by a six (6) month offering period beginning on the first business day in September 2015.

The first day of each offering period is referred to as an entry date. Eligible employees participate in the ESPP through accumulated payroll deductions. At the end of each approximately six-month purchase period, these accumulated payroll deductions are used to purchase shares of common stock at a price per share equal to the lower of 85% of the closing price of a share of common stock on (1) the relevant entry date or (2) the relevant purchase date, whichever is less. It is expected that purchase dates under the ESPP will be the first business day of March and the first business day of September of each year. The ESPP also provides that no participant may purchase more than 7,500 shares of common stock in any one purchase period. This limitation may be changed by the Committee.

#### *Withdrawal*

If a participant chooses to withdraw from a purchase period, the participant may elect to have all accumulated payroll deductions refunded or have the accumulated payroll deductions used to purchase common stock on the next purchase date. The Committee may also establish rules limiting the frequency with which participants may withdraw and may establish a waiting period for participants wishing to re-authorize payroll deductions.

#### *Termination of Employment*

Termination of a participant's employment other than by reason of death or disability, immediately cancels his or her option and participation in the ESPP. If this occurs, the payroll deductions credited to the participant's account will be returned without interest to him or her. If a participant dies, or terminates employment due to disability, at the election of the participant (or if applicable the participant's estate), his or her accumulated payroll deductions will be used to purchase shares on the next purchase date or the accumulated payroll deductions will be refunded to the participant or his estate.

#### *Non-transferability*

Rights to purchase shares of common stock and any other rights and interests under the ESPP may not be assigned, transferred, sold or otherwise disposed of and may not be subject to the claims of creditors or liable to attachment, execution or other legal process.

#### *Certain Transactions*

In the event of any stock split, stock dividend, spin-off, reclassification, recapitalization or other similar event affecting the common stock, adjustments may be made in the number of shares of stock subject to the ESPP, the number and kind of shares of stock to be purchased pursuant to each option and the price per share of common stock covered by each option. Any such adjustment will be made by the Committee, whose determination shall be final. In the event of a proposed sale of all or substantially all of the assets of Microchip or the merger or consolidation of Microchip with another company, each option will be assumed by, or an equivalent option substituted, by the successor company or an affiliate. If the successor

company or affiliate refuses to assume or substitute for the option, the next purchase date will be automatically accelerated to the date immediately before the proposed sale or merger.

#### *Amendment and Termination*

The Committee may amend, suspend or terminate the ESPP or any part of the ESPP at any time and for any reason. If the ESPP is terminated, the Committee may determine that all outstanding rights to purchase shares under the ESPP terminate immediately, upon completion of the next purchase date (which may be adjusted to occur sooner than originally scheduled), or in accordance with their terms. If options are terminated prior to expiration, then all amounts credited to participants that have not been used to purchase shares of common stock will be returned, without interest (unless otherwise required by applicable law), as soon as administratively practicable. Unless terminated earlier, as amended, the ESPP will expire on August 31, 2024.

#### **Number of Shares Purchased by Certain Individuals and Groups**

Participation in the ESPP is voluntary and dependent on each eligible employee's election to participate and his or her determination as to the level of payroll deductions. Further, the number of shares that may be purchased under the ESPP is determined, in part, by the price of our common stock on the first and last day of each offering period or purchase period, as applicable. Accordingly, the actual number of shares that may be purchased by any individual is not determinable. For illustrative purposes only, the following table sets forth (a) the number of shares of common stock that were purchased during fiscal 2014 under the ESPP, and (b) the weighted average per share purchase price paid for such shares, for each of our named executive officers, all current executive officers as a group, and all other employees who participated in the ESPP as a group.

Name of Individual or Identity of Group and Position	Number of Shares Purchased (#)	Weighted Average Purchase Price Per Share (\$)
Steve Sanghi <i>President and CEO</i>	725	29.2570
Ganesh Moorthy <i>Chief Operating Officer</i>	939	29.2570
Mitchell R. Little <i>Vice President, Worldwide Sales and Applications</i>	333	29.2570
Stephen V. Drehobl <i>Vice President, MCU8 and Technology Development Division</i>	999	29.2570
J. Eric Bjornholt <i>Vice President and CFO</i>	917	29.2570
All current executive officers as a group	5,888	29.2570
All non-employee directors as a group <sup>(1)</sup>	—	—
All other employees (including all current officers who are not executive officers) as a group	545,566	29.5626

<sup>(1)</sup> Non-employee directors are not eligible to participate in the ESPP.

#### **U.S. Federal Income Tax Consequences**

Based on management's understanding of current U.S. federal income tax laws, the tax consequences of the purchase of shares under the ESPP are as follows.

The ESPP is intended to be an employee stock purchase plan within the meaning of Section 423 of the Internal Revenue Code. Under an employee stock purchase plan, which so qualifies, no taxable income will be recognized by a participant, and no deductions will be allowable to Microchip, upon either the grant or the exercise of the purchase rights. Taxable income will not be recognized until there is a sale or other disposition of the shares acquired under the ESPP or in the event the participant should die while still owning the purchased shares.

If the participant sells or otherwise disposes of the purchased shares within two (2) years after the start date of the offering period in which the shares were acquired or within one (1) year after the actual purchase date of those shares, then the participant generally will recognize ordinary income in the year of sale or disposition equal to the amount by which the fair market value of the shares on the purchase date exceeded the purchase price paid for those shares, and Microchip will be entitled to an income tax deduction, for the taxable year in which such disposition occurs equal in amount to such excess. The amount of this ordinary income will be added to the participant's basis in the shares, and any resulting gain or loss recognized upon the sale or disposition will be a capital gain or loss. If the shares have been held for more than one (1) year since the date of purchase, the gain or loss will be long-term.

If the participant sells or disposes of the purchased shares more than two (2) years after the start date of the offering period in which the shares were acquired and more than one (1) year after the actual semiannual purchase date of those shares, then the participant generally will recognize ordinary income in the year of sale or disposition equal to the lesser of (a) the amount by which the fair market value of the shares on the sale or disposition date exceeded the purchase price paid for those shares, or (b) 15% of the fair market value of the shares on the start date of that offering period. Any additional gain upon the disposition will be taxed as a long-term capital gain. Alternatively, if the fair market value of the shares on the date of the sale or disposition is less than the purchase price, there will be no ordinary income and any loss recognized will be a long-term capital loss. Microchip will not be entitled to an income tax deduction with respect to such disposition.

If the participant still owns the purchased shares at the time of death, the lesser of (i) the amount by which the fair market value of the shares on the date of death exceeds the purchase price or (ii) 15% of the fair market value of the shares on the start date of the offering period in which those shares were acquired will constitute ordinary income in the year of death.

#### **Summary**

The Board of Directors believes that it is in the best interests of Microchip and its stockholders to continue to provide employees with the opportunity to acquire an ownership interest in Microchip through their participation in the ESPP and thereby encourage them to remain in Microchip's employ and more closely align their interests with those of our stockholders.

#### **Required Vote; Recommendation**

The affirmative vote of a majority of the votes cast on the proposal at the Annual Meeting is required to approve the the amended 2001 Employee Stock Purchase Plan. Abstentions will have the same effect as a vote against this proposal.

**Our Board of Directors unanimously recommends voting "FOR" Proposal Three, the approval of the Amended 2001 Employee Stock Purchase Plan, as described in this Proxy Statement.**

## PROPOSAL FOUR

### APPROVAL OF AMENDED 1994 INTERNATIONAL EMPLOYEE STOCK PURCHASE PLAN

At the annual meeting, stockholders are being asked to approve the amendment and restatement of our 1994 International Employee Stock Purchase Plan ("IESPP") to extend the term of the IESPP for an additional ten years through November 30, 2024. No other material changes are being made to the IESPP.

Stockholder approval of the amendment will allow us to continue to use the IESPP to assist us in recruiting, retaining and motivating qualified personnel who help us achieve our business goals, including creating long-term value for stockholders. Our IESPP is intended to offer an important incentive by allowing employees of participating foreign subsidiaries to purchase shares of our common stock. Employees are allowed to purchase our common stock under the IESPP at a price equal to 85% of the lower of the fair market value on either the opening or closing date of the respective purchase period.

Currently, our IESPP is scheduled to expire on November 30, 2014. Without stockholder approval of the amended and restated IESPP, we believe our ability to attract and retain the individuals necessary to increase long-term stockholder value will be limited. We believe that the approval of the amendment is important to our continued success. If stockholders do not approve an extension of the term of the IESPP, the IESPP's goals of recruiting, retaining and motivating talented employees will be more difficult to meet.

The Board of Directors has approved the amended IESPP, subject to the approval of our stockholders at the annual meeting.

#### **Description of the IESPP**

The following paragraphs provide a summary of the principal features of the IESPP and its operation. However, this summary is not a complete description of all the provisions of the IESPP, and is qualified in its entirety by the specific language of the IESPP. A copy of the IESPP is provided as Appendix B to this proxy statement.

#### *Purpose and Background*

The purpose of the IESPP is to provide eligible employees of Microchip's participating non-U.S. subsidiaries with the opportunity to purchase shares of common stock through payroll deductions at a discounted purchase price. The IESPP was originally adopted by the Board of Directors in June 1994 and stockholders approved the reservation of an additional 100,000 shares under the IESPP at the 2004 annual meeting. There are 670,007 shares of common stock currently reserved for issuance under the IESPP plus an automatic increase each January 1 during the term of the plan of one tenth of one percent (0.1%) of the then outstanding shares of our common stock. The Board did not approve an automatic increase in the share reserve in either 2013 or 2014.

#### *Administration*

Each foreign subsidiary of Microchip that is authorized to participate under the IESPP has the responsibility for administering the IESPP as it relates to the eligible employees of that subsidiary. The Board of Directors appoints a committee to administer the IESPP at that foreign subsidiary. The committee is comprised of two or more members of senior management of the foreign subsidiary. Each committee has full power to interpret the IESPP, and make final decisions that are binding upon participants at that foreign subsidiary.

#### *Eligibility*

Generally, all non-U.S. citizens employed by a participating foreign subsidiary of Microchip who work outside of the U.S. are eligible to participate in the IESPP. However, no employee who normally works less than 20 hours per week or five months in a calendar year is eligible to participate. Non-employee Directors are not eligible to participate in the IESPP.

### *Participation and Purchases*

Under the IESPP a participant must authorize payroll deductions, which may not exceed 10% of their eligible compensation. Generally, when an employee terminates employment with Microchip or any designated subsidiary, the employee's right to participate in the IESPP terminates. The IESPP provides for successive six-month purchase periods until such time as (1) the maximum number of shares of common stock available for issuance under the IESPP has been purchased, or (2) the IESPP has been earlier terminated according to its terms.

Eligible employees participate in the IESPP through accumulated payroll deductions. At the end of each approximately six-month purchase period, these accumulated payroll deductions are used to purchase shares of common stock at a purchase price equal to eighty five percent (85%) of the lower of (1) the fair market value per share on the start date of that purchase period, or (2) the fair market value per share on the last U.S. business day of that purchase period. Currently, purchase dates under the IESPP are the first business day of June and the first business day of December of each year. The IESPP also provides that no participant may purchase more than 1,899 shares of common stock in any one purchase period. This limitation may be changed by the committee only upon ratification by the Board of Directors.

### *Termination of Employment*

Termination of a participant's employment other than by reason of death or disability immediately cancels his or her option and participation in the IESPP. If this occurs, the payroll deductions credited to the participant's account will be returned without interest to him or her. If a participant dies, or terminates employment due to disability, at the election of the participant (or if applicable the participant's estate), his or her accumulated payroll deductions will be used to purchase shares on the next purchase date or the accumulated payroll deductions will be refunded to the participant or his or her estate.

### *Non-transferability*

Rights to purchase shares of common stock and any other rights and interests under the ESPP may not be assigned, transferred, sold or otherwise disposed of and may not be subject to the claims of creditors or liable to attachment, execution or other legal process.

### *Certain Transactions*

In the event of any stock split, stock dividend, recapitalization or other similar event affecting the common stock, adjustments may be made in the number of shares of stock subject to the IESPP, the number and kind of shares of stock to be purchased pursuant to each option and the price per share of common stock covered by each option. Any such adjustment will be made by the Board of Directors, whose determination shall be final. In the event of a proposed sale of all or substantially all of the assets of Microchip or the merger or consolidation of Microchip with another company, then all payroll deductions for the purchase period in which such acquisition occurs will automatically be converted into U.S. Dollars immediately prior to the effective date of the acquisition or merger and applied to the purchase of common stock. The purchase price for shares will be equal to 85% of the lesser of (1) the market price of the common stock on the first day of the purchase period, or (2) the market price of the common stock immediately prior to the acquisition.

### *Amendment and Termination*

Generally, the Board of Directors may terminate or amend the IESPP with respect to one or more foreign subsidiaries following the end of any purchase period. The IESPP will continue until all of the shares authorized for the IESPP are sold, unless terminated sooner by the Board of Directors.

### *Withdrawal*

If a participant chooses to withdraw from a purchase period, the participant may elect to have all accumulated payroll deductions refunded or have the accumulated payroll deductions used to purchase common stock on the next purchase date. The committee may also establish rules limiting the frequency with which participants may withdraw and may establish a waiting period for participants wishing to re-authorize payroll deductions.

### *Income Tax Consequences*

Income tax implications of participation in the IESPP differ depending on the particular laws applicable in the country in which the foreign subsidiary is located.

### *Plan Benefits*

Participation in the IESPP is voluntary. Because benefits under the IESPP depend on employees' elections to participate and the fair market value of the common stock at various future dates, it is not possible to determine the benefits that will be received by employees. None of Microchip's executive officers participate in the IESPP. The group of non-executive employees who participated in the IESPP during fiscal 2014 purchased 120,855 shares under the IESPP with a benefit dollar value of \$1,408,238. This is calculated as the fair market value per share of the common stock on the date of purchase, minus the purchase price per share of common stock under the IESPP.

### **Summary**

The Board of Directors believes that it is in the best interests of Microchip and its stockholders to continue to provide employees with the opportunity to acquire an ownership interest in Microchip through their participation in the IESPP and thereby encourage them to remain in Microchip's employ and more closely align their interests with those of our stockholders.

### **Required Vote; Recommendation**

The affirmative vote of a majority of the votes cast on the proposal at the Annual Meeting is required to approve the the amended 1994 International Employee Stock Purchase Plan. Abstentions will have the same effect as a vote against this proposal.

**Our Board of Directors unanimously recommends voting "FOR" Proposal Four, the approval of the Amended 1994 International Employee Stock Purchase Plan, as described in this Proxy Statement.**



## PROPOSAL FIVE

### APPROVAL OF EXECUTIVE COMPENSATION

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, enables our stockholders to vote to approve, on an advisory (non-binding) basis, the compensation of our named executive officers as disclosed in this Proxy Statement in accordance with the SEC's rules (commonly referred to as a "Say-on-Pay").

As described under the heading "Executive Compensation — Compensation Discussion and Analysis," our executive compensation program is a comprehensive package designed to motivate our executive officers to achieve our corporate objectives and is intended to be competitive and allow us to attract and retain highly qualified executive officers. We believe that the various elements of our executive compensation program work together to promote our goal of ensuring that total compensation should be related to both our performance and individual performance.

Stockholders are urged to read the "Compensation Discussion and Analysis" section of this Proxy Statement, beginning on page 24, which discusses how our executive compensation policies implement our compensation philosophy, and the "Compensation of Named Executive Officers" section of this Proxy Statement, which contains tabular information and narrative discussion about the compensation of our named executive officers. These sections provide additional details about our executive compensation programs, including information about fiscal 2014 compensation of our named executive officers. The Compensation Committee and our Board of Directors believe that these policies are effective in implementing our compensation philosophy and in achieving our goals.

We are asking our stockholders to indicate their support for our executive compensation as described in this Proxy Statement. This Say-on-Pay proposal gives our stockholders the opportunity to express their views on our named executive officers' compensation. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers and the philosophy, policies and practices described in this Proxy Statement. Accordingly, we are asking our stockholders to approve, on an advisory basis, the compensation of the named executive officers, as disclosed in this Proxy Statement pursuant to the compensation disclosure rules of the SEC, including the Compensation Discussion and Analysis, the Summary Compensation Table and the other related tables and disclosures.

The Say-on-Pay vote is advisory, and therefore not binding on us, the Compensation Committee or our Board of Directors. However, our Board of Directors and our Compensation Committee value the opinions of our stockholders and to the extent there is any significant vote against the named executive officer compensation as disclosed in this Proxy Statement, we will consider our stockholders' concerns and the Compensation Committee will evaluate whether any actions are necessary to address those concerns. Our current policy is to provide stockholders with an opportunity to approve the compensation of our named executive officers each year at our annual meeting of stockholders. It is expected that the next such vote will occur at our 2015 annual meeting.

#### **Required Vote; Recommendation**

The affirmative vote of a majority of the votes cast on the proposal at the Annual Meeting is required to approve the compensation of our named executive officers on an advisory (non-binding) basis. Abstentions will have the same effect as a vote against this proposal.

**Our Board of Directors unanimously recommends voting "FOR" Proposal Five, the approval, on an advisory (non-binding) basis, of the compensation of our named executive officers, as described in this Proxy Statement.**

**SECURITY OWNERSHIP OF PRINCIPAL STOCKHOLDERS,  
DIRECTORS AND EXECUTIVE OFFICERS**

The following table sets forth information concerning the beneficial ownership of our common stock as of May 23, 2014 for: (a) each director, (b) our CEO, our CFO and the three other most highly compensated executive officers named in the Summary Compensation Table, (c) all directors and executive officers as a group, and (d) each person who is known to us to own beneficially more than 5% of our common stock. Except as otherwise indicated in the footnotes to this table, and subject to applicable community property laws and joint tenancies, the persons named in this table have sole voting and investment power with respect to all shares of common stock held by such person:

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned <sup>(1)</sup>	Percent of Common Stock <sup>(1)</sup>
Massachusetts Financial Services Company <sup>(2)</sup>	21,224,944	10.6
The Vanguard Group, Inc. <sup>(3)</sup>	13,167,760	6.6
BlackRock, Inc. <sup>(4)</sup>	12,890,956	6.4
Wells Fargo & Co. <sup>(5)</sup>	10,742,366	5.4
Steve Sanghi <sup>(6)</sup>	5,136,546	2.6
Matthew W. Chapman <sup>(7)</sup>	45,763	*
L.B. Day <sup>(8)</sup>	20,126	*
Esther L. Johnson	—	*
Albert J. Hugo-Martinez <sup>(9)</sup>	11,500	*
Wade F. Meyercord <sup>(10)</sup>	44,297	*
J. Eric Bjornholt <sup>(11)</sup>	12,258	*
Stephen V. Drehobl	12,503	*
Mitchell R. Little	8,600	*
Ganesh Moorthy <sup>(12)</sup>	138,675	*
All directors and executive officers as a group (11 people) <sup>(13)</sup>	5,743,741	2.9

\* Less than 1% of the outstanding shares of common stock as of May 23, 2014. Common Stock shares outstanding at May 23, 2014 were 200,291,129.

<sup>(1)</sup> For each individual and group included in the table, the number of shares beneficially owned includes shares of common stock issuable to the identified individual or group pursuant to stock options that are exercisable within 60 days of May 23, 2014. There are no stock purchase rights or RSUs that will vest within 60 days of May 23, 2014. In calculating the percentage of ownership of each individual or group, share amounts that are attributable to options that are exercisable within 60 days of May 23, 2014 are deemed to be outstanding for the purpose of calculating the percentage of shares of common stock owned by such individual or group but are not deemed to be outstanding for the purpose of calculating the percentage of shares of common stock owned by any other individual or group.

<sup>(2)</sup> Address is 111 Huntington Avenue, Boston, MA 02199. All information is based solely on the Schedule 13G filed by Massachusetts Financial Services Company ("MFS") dated February 13, 2014, with the exception of the percentage of common stock held, which is based on shares outstanding at May 23, 2014. Such Schedule 13G indicates that (i) MFS has sole power to dispose of and direct the disposition of the common stock; and (ii) MFS is deemed to be the beneficial owner of 21,224,944 shares as a result of acting as investment adviser to various investment companies registered under Section 8 of the Investment Company Act of 1940.

- (3) Address is 100 Vanguard Boulevard, Malvern, PA 19355. All information is based solely on the Schedule 13G filed by The Vanguard Group, Inc. dated February 11, 2014, with the exception of the percentage of common stock held which is based on shares outstanding at May 23, 2014. Such Schedule 13G indicates that The Vanguard Group, Inc. (i) has sole power to dispose of 12,868,575 shares of common stock and shared power to dispose of 299,185 shares of common stock; (ii) has sole voting power over 324,117 shares of common stock and (iii) is deemed to be the beneficial owner of 13,167,760 shares as a result of acting as investment adviser to various investment companies registered under Section 8 of the Investment Company Act of 1940.
- (4) Address is 40 East 52<sup>nd</sup> Street, New York, NY 10022. All information is based solely on the Schedule 13G filed by BlackRock, Inc. dated February 10, 2014, with the exception of the percentage of common stock held which is based on shares outstanding at May 23, 2014. Such Schedule 13G indicates that BlackRock, Inc. (i) has sole power to dispose of and direct the disposition of the common stock; and (ii) BlackRock, Inc. is deemed to be the beneficial owner of 12,890,956 shares as a result of acting as investment adviser to various investment companies registered under Section 8 of the Investment Company Act of 1940.
- (5) Address is 420 Montgomery Street, San Francisco, CA 94104. All information is based solely on the Schedule 13G filed by Wells Fargo & Co. dated January 27, 2014, with the exception of the percentage of common stock held which is based on shares outstanding at May 23, 2014. Such Schedule 13G indicates that Wells Fargo & Co. (i) has sole power to dispose of 68,985 shares of common stock and shared power to dispose of 10,655,864 shares of common stock; (ii) has sole voting power over 68,985 shares of common stock and shared voting power over 10,358,903 shares of common stock and (iii) is deemed to be the beneficial owner of 10,742,366 shares as a result of acting as investment adviser to various investment companies registered under Section 8 of the Investment Company Act of 1940.
- (6) Includes 1,954,610 shares held of record by The Sanghi Family Trust (the "Family Trust") and 3,036,936 shares held of record by The Sanghi Family Limited Partnership (the "Family Limited Partnership"). Steve Sanghi and Maria T. Sanghi are the sole trustees of the Family Trust. The Family Trust is the sole member of the Sanghi LLC which is the sole general partner of the Family Limited Partnership, and 145,000 shares issuable upon exercise of options that are exercisable within 60 days of May 23, 2014. There are no stock purchase rights or RSUs that will vest within 60 days of May 23, 2014.
- (7) Includes 262 shares held in Testamentary Trust of Regan Chapman and 135 shares held by Mr. Chapman's children, and 18,000 shares issuable upon exercise of options that are exercisable within 60 days of May 23, 2014. There are no stock purchase rights or RSUs that will vest within 60 days of May 23, 2014.
- (8) Includes 18,000 shares issuable upon exercise of options that are exercisable within 60 days of May 23, 2014. There are no stock purchase rights or RSUs that will vest within 60 days of May 23, 2014.
- (9) Includes 11,500 shares held of record by Albert J. Hugo-Martinez and S. Gay Hugo-Martinez as trustees. There are no shares issuable upon exercise of options that are exercisable within 60 days of May 23, 2014. There are no stock purchase rights or RSUs that will vest within 60 days of May 23, 2014.
- (10) Includes 18,297 shares held of record by Wade F. Meyercord and Phyllis Meyercord as trustees, and 26,000 shares issuable upon exercise of options that are exercisable within 60 days of May 23, 2014. There are no stock purchase rights or RSUs that will vest within 60 days of May 23, 2014.
- (11) Includes 12,258 shares held of record by J. Eric Bjornholt and Lynn Bjornholt as trustees. There are no stock purchase rights or RSUs that will vest within 60 days of May 23, 2014.
- (12) Includes 138,675 shares held of record by Ganesh Moorthy and Hema Moorthy as trustees. There are no shares issuable upon exercise of options that are exercisable within 60 days of May 23, 2014. There are no stock purchase rights or RSUs that will vest within 60 days of May 23, 2014.
- (13) Includes an aggregate of 207,000 shares issuable upon exercise of options that are exercisable within 60 days of May 23, 2014. There are no stock purchase rights or RSUs that will vest within 60 days of May 23, 2014.

## EXECUTIVE COMPENSATION

### COMPENSATION DISCUSSION AND ANALYSIS

#### *Overview of the Compensation Program*

The Compensation Committee of our Board of Directors, presently comprised of Mr. Day and Mr. Meyercord, reviews the performance of our executive officers and makes compensation decisions regarding our executive officers. Our policies for setting compensation for each of our named executive officers (CEO, CFO, and our three other most highly paid executive officers) are the same as those for the rest of our executive officers. Our compensation program is a comprehensive package designed to motivate the executive officers to achieve our corporate objectives and is intended to be competitive and allow us to attract and retain highly qualified executive officers. In general, the types of compensation and benefits provided to our executive officers are similar to those provided to most other Microchip employees, and include salary, cash bonuses, RSUs, and other benefits described below.

#### *Our Executive Compensation Policy and Objectives*

Our compensation policy for executive officers, including our named executive officers, and key employees is based on a "pay-for-performance" philosophy. This "pay-for-performance" philosophy emphasizes variable compensation, primarily by placing a large portion of pay at risk. We believe that this philosophy meets the following objectives:

- rewards performance that may contribute to increased stockholder value,
- attracts, retains, motivates and rewards individuals with competitive compensation opportunities,
- aligns an executive officer's total compensation with our business objectives,
- fosters a team environment among our management that focuses their energy on achieving our financial and business objectives consistent with Microchip's "guiding values,"
- balances short-term and long-term strategic goals, and
- builds and encourages ownership of our common stock.

Decisions regarding cash and equity compensation also include subjective determinations and consideration of various factors with the weight given to a particular factor varying from time to time and in various individual cases, such as an executive officer's experience in the industry and the perceived value of the executive officer's position to Microchip as a whole.

We believe that the overall compensation levels for our executive officers, including our named executive officers, in fiscal 2014 were consistent with our "pay-for-performance" philosophy and were commensurate with our fiscal 2014 performance.

#### *Executive Compensation Process*

On an annual basis, the Compensation Committee evaluates and establishes the compensation of our executive officers, including the named executive officers. The Compensation Committee seeks input from Mr. Sanghi when discussing the performance of, and compensation levels for, the executive officers other than himself. Mr. Sanghi does not participate in deliberations relating to his own compensation.

The Compensation Committee designs our executive compensation program to be competitive with those of other companies in the semiconductor or related industries that are similar to us in number of employees, revenue and capitalization. The Compensation Committee determines appropriate levels of compensation for each executive officer based on their level of responsibility within the organization, performance, and overall contribution. After such determination, the Compensation Committee makes allocations between long-term and short-term as well as the cash and non-cash elements of compensation.

Microchip's financial and business objectives, the salaries of executive officers in similar positions with comparable companies and individual performance are considered in making these determinations. If compensation information is reviewed for other companies, it is obtained from published materials such as proxy statements, and information gathered from such companies directly. We do not engage consultants to conduct such review process for us or utilize a specific peer group.

The executive officer compensation process begins with consideration of Microchip's overall budget for employee compensation. The Compensation Committee considers the budgeted salary data and individual executive officer salary increases are determined with the goal of keeping the executive officer salary increase within the budgeted range for all other employees. In setting annual salaries for executive officers, the Compensation Committee also considers relevant industry data but does not target any overall industry percentage level or peer group average.

Microchip's compensation budget is created as part of its annual and quarterly operating plan processes under which business and financial objectives are initially developed by our executive officers, in conjunction with their respective operating units, and then discussed with and approved by our CEO. These objectives are then reviewed by our Board of Directors and the Board of Directors sets the overall financial and business objectives for Microchip on which incentive compensation is based.

The Compensation Committee sets the compensation of our Chairman, CEO and President, Mr. Sanghi, in the same manner as each of our other executive officers. In particular, the Compensation Committee considers Mr. Sanghi's level of responsibility, performance, and overall contribution to the results of the organization. The Compensation Committee also considers the compensation of CEOs of other companies in the semiconductor or related industries that are similar to us in number of employees, revenue and capitalization. Mr. Sanghi primarily participates in the same cash incentive, equity incentive and benefit programs as our other executive officers. For example, his compensation is subject to the same performance metrics as our other executive officers under our EMICP program. The Compensation Committee recognizes that Mr. Sanghi's total compensation package is significantly higher than that of our other executive officers and the Compensation Committee believes this is appropriate in consideration of Mr. Sanghi's superior leadership of Microchip over a long period of time. In particular, the Compensation Committee believes that Mr. Sanghi's leadership has been key to the substantial revenue and profitability growth, strong market position and substantial increase in the market value of Microchip since taking Microchip public in 1993, and to leading Microchip's strong performance relative to others in the industry over a number of years.

For fiscal 2014, the Compensation Committee reviewed and approved the total compensation package of all of our executive officers, including the elements of compensation discussed below, and determined the amounts to be reasonable and competitive.

At our last annual meeting of stockholders held in August 2013, our stockholders approved an advisory (non-binding) proposal concerning our executive compensation program with approximately 96% of the votes cast in favor of the proposal. The Compensation Committee considered the results of this vote in establishing the compensation program for fiscal 2015.

#### *Elements of Compensation*

Our executive compensation program is currently comprised of four major elements:

- annual base salary,
- incentive cash bonuses,
- equity compensation, and
- compensation and employee benefits generally available to all of our employees.

The retirement benefits and other benefits offered to our executive officers are largely the same as those we provide to a broad base of employees. While our executive officers' level of participation in our management incentive compensation plans and equity incentive plans is typically higher than for our non-executive employees, based on the officers' level of responsibility and industry experience, the plans in which our executive officers are eligible to participate are very similar to

those for our other employees. The Compensation Committee reviews each element of compensation separately and total compensation as a whole, other than those benefits which are available to all employees. The Compensation Committee determines the appropriate mix of elements to meet our compensation objectives and to help ensure that we remain competitive with the compensation practices in our industry.

Although our executive officers are entitled to certain severance and change of control benefits (as described below), the Compensation Committee does not consider such benefits to be elements of compensation for purposes of annual compensation reviews because such benefits may never be paid.

*Base Salaries.* We review the base salaries of our executive officers each year. When setting base salaries, we review the business and financial objectives for Microchip as a whole, as well as the objectives for each of the individual officers relative to their respective areas of responsibility. In particular, we consider our overall revenue growth and revenue growth in our strategic product lines, non-GAAP gross margins, non-GAAP operating expenses, non-GAAP net income per diluted share, cash generation, expected capital expenditures and other financial considerations in setting our budgets for salaries. We also consider the individual performance of our named executive officers including the officer's level of responsibility, performance, overall contribution to the results of the organization, the officer's base salary relative to the salaries of our other officers, salary relative to comparable positions in the industry, the officer's overall compensation including incentive cash bonuses and equity compensation and the officer's performance relative to expectations. We do not assign any specific weight to any such factor but consider such factors as a whole for each executive. This review encompasses the objectives for both the immediately preceding fiscal year and the upcoming fiscal year. For fiscal 2014, Microchip did not conduct an annual focal review process for executive or non-executive employees, and employee salary reviews were conducted on a quarterly basis. Also, the budget for salary increases was established each quarter, with any increases determined each quarter on a discretionary basis based on the performance reviews of the employees.

After consideration of the factors described above, the base salaries for our named executive officers other than our CEO were increased by an average of approximately 1.9% over the course of fiscal 2014. Our CEO's base salary did not increase compared to the prior fiscal year. The budget for salary increases for our U.S. employee base over the course of fiscal 2014 was 1.3%. Due to uncertain economic and industry conditions, in the third quarter of fiscal 2013, Microchip asked its employees, including executives, to participate in a voluntary 5% pay reduction program. As economic and industry conditions improved, the voluntary pay reduction amount was reduced to 2.5% in March 2013 and to 0% in July 2013. Each of our executives participated in the voluntary salary reduction program. During fiscal 2014, the Compensation Committee approved certain additional awards under the DMICP and ECBP to those employees, including executives, who participated in the salary reduction program.

*Incentive Cash Bonuses.* The Compensation Committee sets performance goals which, if met, result in quarterly payments to our executive officers under the EMICP. Executive officers may also receive quarterly payments under the DMICP. The Compensation Committee establishes performance goals which it believes are challenging, require a high level of performance and motivate participants to drive stockholder value, but which goals are expected to be achievable in the context of business conditions anticipated at the time the goals are set. When setting the performance goals, the Compensation Committee places more emphasis on the overall expected financial performance of Microchip rather than on the achievement of any one individual goal. The Compensation Committee believes that this focus on the overall payout incentivizes outstanding performance across the corporation and drives the overall financial success of the corporation. The Compensation Committee uses the DMICP to help achieve the overall objectives of the performance bonus program.

The performance metrics under the EMICP are determined by the Compensation Committee at the beginning of each quarter so that such compensation may qualify as performance-based compensation within the meaning of Rule 162(m) under the Internal Revenue Code. The metrics may be based on either GAAP or non-GAAP financial results at the discretion of the Compensation Committee. The Compensation Committee typically uses non-GAAP information when setting the targets because it believes such targets are more useful in understanding our operating results due to the exclusion of non-cash, non-recurring and other special charges. Except for the earnings per share metric which changes each quarter, each of the

performance metrics is typically the same for each quarter of the fiscal year (or longer). The table below sets forth the performance metrics under the EMICP for each quarter of fiscal 2014:

Performance Metric	Target Quarterly Measurement for Q1 thru Q4 FY14	Target % of Bonus	Actual Results							
			Q1 FY14 Perf.	Q1 FY14 Bonus Payout %	Q2 FY14 Perf.	Q2 FY14 Bonus Payout %	Q3 FY14 Perf.	Q3 FY14 Bonus Payout %	Q4 FY14 Perf.	Q4 FY14 Bonus Payout %
Total sequential revenue growth	2.5%	10	7.59	30.36	6.46	25.84	(2.10)	(8.40)	2.28	9.12
High performance microcontroller sequential revenue growth	6.5%	4	14.58	8.97	14.92	9.18	(2.09)	(1.29)	13.27	8.17
Analog sequential revenue growth	3.5%	4	6.23	7.12	5.08	5.81	(0.38)	0.43	(1.32)	(1.51)
Licensing sequential revenue growth	3.0%	3	2.07	2.07	10.25	10.25	(3.03)	(3.03)	(3.80)	(3.80)
Gross margin percentage (non-GAAP)	57.5%	15	58.03	16.99	59.01	20.67	59.00	20.63	59.30	21.75
Operating expenses as a percentage of sales (non-GAAP)	28.5%	15	27.49	20.05	27.22	21.41	27.09	22.05	26.57	24.65
Operating income as a percentage of sales (non-GAAP)	28.3%	15	30.54	20.60	31.79	23.73	31.91	24.03	32.73	26.08
Earnings per share (quarterly) (non-GAAP)	<sup>(1)</sup>	14	57.20	36.72	63.21	34.12	60.91	17.02	63.66	19.69
EMICP Total	N/A	80	N/A	142.88	N/A	151.00	N/A	71.44	N/A	104.15
DMICP Total	Discretionary	20	N/A	47.12 <sup>(2)</sup>	N/A	40.00 <sup>(3)</sup>	N/A	28.56 <sup>(4)</sup>	N/A	35.85 <sup>(5)</sup>

(1) The EMICP quarterly non-GAAP earnings per share (EPS) targets for the first, second, third and fourth quarters of fiscal 2014 were \$0.46, \$0.52, \$0.59 and \$0.60, respectively.

(2) The DMICP was 7.12% of the target, with an additional 40% DMICP payout for all personnel that participated in the voluntary salary reduction program.

(3) The DMICP was 0% of the target, with an additional 40% DMICP payout for all personnel that participated in the voluntary salary reduction program.

(4) The DMICP was 3.56% of the target, with an additional 25% DMICP payout for all personnel that participated in the voluntary salary reduction program.

(5) The DMICP was 10.85% of the target, with an additional 25% DMICP payout for all personnel that participated in the voluntary salary reduction program.

The total amount payable to each executive under the EMICP and the DMICP is based on a percentage of his base salary at the beginning of the quarter. The participation percentage for each executive is determined at the beginning of the fiscal year based on the executive's base salary at that time and typically stays at the same level for each quarter of the fiscal year. However, the Compensation Committee may change the participation level of an executive each quarter to reflect changes in the performance or responsibilities of the executive or other factors. The dollar amount of the target bonus for each executive is based on assumed achievement of all performance metrics under the EMICP (as disclosed in the table above) and payment of 20% as a discretionary award under the DMICP (as disclosed in the table above). The aggregate budgeted bonus pool under the various management incentive compensation plans is calculated by multiplying each eligible executive officer's bonus target percentage by his base salary. In fiscal 2014, the quarterly payments under the EMICP for our named executive officers were targeted at an aggregate of approximately \$1,361,020 for all such officers as a group. In fiscal 2014, the quarterly payments under the DMICP for our named executive officers were targeted at an aggregate of approximately \$340,255 for all such officers as a group. Bonuses under the EMICP are subject to a maximum award of \$2,500,000 per individual per performance period (which can be a fiscal quarter, a fiscal year or a longer period not exceeding five fiscal years); however, all awards to date have been substantially less than such maximum amount.

The actual awards under the EMICP are based on our actual quarterly financial performance compared to the performance metrics and the actual awards under the DMICP are determined in the discretion of our Compensation Committee and can be significantly higher or lower than the 20% target. The actual awards are calculated by multiplying the overall award percentage payout for the quarter by the applicable percentage of the executive's salary at the end of the fiscal quarter that the award relates to. Thus, if an executive's salary or participation percentage changes during the year, up or down, this would affect his actual bonus payment during the fiscal year. For fiscal 2014, the specific total bonus percentages under both the EMICP and DMICP for each of our named executive officers was as follows: for Mr. Sanghi it was 200% of his salary for the associated quarter; for Mr. Moorthy it was 61% of his salary; for Mr. Little it was 46% of his salary; for Mr. Drehoobl it was 45% of his salary; and for Mr. Bjornholt it was 32% of his salary. These bonus percentages did not change from the percentages used for fiscal 2013.

As indicated in the above table, for each of the quarters of fiscal 2014, 3.0% of the quarterly EMICP payment was based on Microchip's Licensing Division achieving total sequential revenue growth of 3.0%. Accordingly, if Microchip's Licensing Division's sequential revenue growth for a quarter was 3.0%, then each executive would be paid the corresponding 3.0% of his EMICP target bonus amount for that quarter. If Microchip's Licensing Division's revenue growth for a quarter was 1.5%, then each executive would be paid a corresponding 1.5% of his target bonus amount for the quarter (i.e., 1/2 of the 3.0%) and if Microchip's Licensing Division's revenue growth for a quarter was 6.0%, then each executive would be paid a corresponding 6.0% of his target bonus amount for the quarter (i.e., 6/3 of the 3.0%). A similar methodology is applied each quarter to each of the performance metrics listed in the above tables.

As set forth in the above table, during fiscal 2014, consistent with our "pay-for-performance" philosophy, our CEO and other executive officers received bonuses under the EMICP for each quarter of fiscal 2014. Payments were also made under the DMICP for each quarter of fiscal 2014. Applying the award percentages to each named executive officer's participation level in the plans, for fiscal 2014, the total bonus payments under the EMICP and the DMICP for our named executive officers, other than our CEO, ranged from \$100,508 to \$271,392. In fiscal 2014, Mr. Sanghi earned an aggregate EMICP bonus of \$1,410,358, and an aggregate DMICP bonus of \$455,066. Please see footnote 4 to the Summary Compensation Table on page 35 of this Proxy Statement which sets forth the actual amount of the EMICP and DMICP awards for each named executive officer for fiscal 2014. The differences in the levels of compensation under these programs for the various executive officers are based upon their relative contribution, performance, experience, and responsibility level within the organization.

*Equity Compensation.* Equity compensation, such as RSUs, constitutes a significant portion of our incentive compensation program because we believe that executive officers and key employees should hold a long-term equity stake in Microchip to align their collective interests with the interests of our stockholders. Accordingly, in fiscal 2014, equity grants in the form of RSUs were a significant portion of our executive officers' total compensation package.



We typically make equity compensation grants to executive officers and key employees in connection with their initial employment, and we also typically make quarterly evergreen grants of equity to incentivize employees on a continuing basis as their initial equity awards vest. In setting the amount of the equity compensation grants, the estimated value of the grants is considered, as well as the intrinsic value of the outstanding equity compensation held by the executive officer, both the unvested retention value and the vested amount. In setting these amounts and any performance goals, the Compensation Committee uses its judgment after considering the effect of the overall RSU amounts and the percentage of RSUs granted to executive officers in connection with the overall financial results and performance of Microchip.

The evergreen grants of RSUs for fiscal 2014 were awarded with vesting subject to meeting specified performance goals related to achieving certain levels of operating expenses or income over a specified time frame. Specifically, with respect to the RSU awards made in April 2013, the performance goal was related to achieving non-GAAP operating expenses for the three months ended June 30, 2013 of \$150 million or less; with an achievement of \$130 million of non-GAAP operating expenses necessary for full vesting of the award. Based on the actual operating expenses for such period, these awards will vest at 100%. With respect to the awards made in July 2013, the performance goal was related to achieving non-GAAP operating income for the three months ended September 30, 2013 of \$110 million or more; with an achievement of \$130 million of non-GAAP operating income necessary for full vesting of the award. Based on the actual operating income for such period, these awards will vest at 100%. With respect to the awards made in October 2013, the performance goal was related to achieving non-GAAP operating income for the three months ended December 31, 2013 of \$115 million or more, with an achievement of \$135 million of non-GAAP operating income necessary for full vesting of the award. Based on the actual operating expenses for such period, these awards will vest at 100%. With respect to the awards made in January 2014, the performance goal was related to achieving non-GAAP operating income for the three months ended March 31, 2014 of \$120 million or more, with an achievement of \$140 million of non-GAAP operating income necessary for full vesting of the award. Based on the actual operating expenses for such period, these awards will vest at 100%. With respect to the performance goals for the RSU grants, the goals exclude the impact of any acquisitions completed by Microchip during the performance period. In addition to the performance-based vesting requirements, the vesting of each of the foregoing RSU awards is subject to the continued service of the officer on the vesting date which is approximately four years from the grant date.

In addition to our regular quarterly evergreen grants, a special performance-based RSU grant was made on February 4, 2013 to further incentivize our officers to improve our non-GAAP earnings per share and enhance stockholder value. The performance-based goal for this grant was related to achieving non-GAAP quarterly earnings per share of \$0.63 or greater. These awards did not vest in fiscal 2013, but vested in full on November 15, 2013.

Grants of RSUs may also be made in connection with promotions, other changes in responsibilities or in recognition of other individual or Microchip developments or achievements. Grants of RSUs in fiscal 2014 typically were scheduled to vest approximately four years from the grant date. RSUs do not have a purchase price and therefore have immediate value to recipients upon vesting. On March 31, 2014, approximately 52% of our employees worldwide were eligible to receive RSUs under our 2004 Equity Incentive Plan. Since the middle of fiscal 2006, RSUs have been the principal equity compensation vehicle for Microchip executive officers and key employees.

In granting equity compensation awards to executive officers, we consider numerous factors, including:

- the individual's position, experience, and responsibilities,
- the individual's future potential to influence our mid- and long-term growth,
- the vesting schedule of the awards, and
- the number and value of awards previously granted.

We do not separately target the equity element of our executive officer compensation programs at a specific percentage of overall compensation. However, overall total compensation is structured to be competitive so that we can attract and retain executive officers. In setting equity award levels, we also take into consideration the impact of the equity-based awards on the dilution of our stockholders' ownership interests in our common stock.

The Compensation Committee grants RSUs to executive officers and current employees on a quarterly basis in an attempt to more evenly record stock-based compensation expense. Grants of RSUs to new employees (other than executives) are made once per month by the Employee Committee at a meeting of such committee. Grants of RSUs to any new executive officer would be made at the first meeting of the Compensation Committee following the election of such officer. Microchip does not have any program, plan or practice to time grants of RSUs in coordination with the release of material non-public information. Microchip does not time, nor do we plan to time, the release of material non-public information for the purposes of affecting the value of executive compensation.

See the table under "*Grants of Plan-Based Awards for Fiscal Year Ended March 31, 2014*" at page 37 for information regarding RSUs granted during fiscal 2014 to our named executive officers.

*Stock Ownership Guidelines for Key Employees and Directors.* To help ensure alignment of the interests of our management and Board of Directors with those of our stockholders, we have put in place a stock holding policy that applies to each member of our management and Board of Directors. This policy was proposed by our Nominating and Governance Committee and ratified by our Board of Directors in October 2003. Under this policy, effective April 1, 2004, each of our directors, executive officers, vice presidents and internal director-level employees must maintain a specified minimum level of ownership of our stock during their tenure in their respective office or position. During fiscal 2014, all of our executive officers and directors were in compliance with the terms of such policy.

Microchip's insider trading policy prohibits executive officers from speculating in Microchip stock, which includes a prohibition on short selling, buying and selling options (including writing covered calls) or hedging or any type of arrangement that has a similar economic effect.

*Other Compensation and Employee Benefits Generally Available to All Employees.* We maintain compensation and employee benefits that are generally available to all Microchip employees, including:

- our employee stock purchase plan,
- medical, dental, vision, employee assistance program, flexible spending, and disability insurance,
- life insurance benefits,
- a 401(k) retirement savings plan,
- an employee cash bonus plan, and
- vacation and paid time off.

Since these programs are generally available to all employees, these forms of compensation are not independently evaluated by the Compensation Committee in connection with the annual determination of executive officer compensation.

*Employee Stock Purchase Plan.* Our 2001 Employee Stock Purchase Plan is a Section 423 qualified employee stock purchase plan that allows all U.S. employees the opportunity to purchase our common stock through payroll deduction at 85% of the fair market value at the lower of the price as of the opening of the two-year offering period or at the end of any six-month purchase period. A significant portion of our international employees have the ability to participate in our 1994 International Employee Stock Purchase Plan that allows them the opportunity to purchase our common stock through payroll deduction at 85% of the fair market value at the lower of the price as of the opening or the end of any six-month offering period.

*Medical, Dental, Vision, Employee Assistance Program, Flexible Spending, Disability Insurance and Accidental Death and Dismemberment.* We make medical, dental, vision, employee assistance program, flexible spending, and disability insurance generally available to all of our employees through our active benefit plans. Under these generally available plans, our named executive officers are eligible to receive between \$1,000 and \$7,500 per month in long-term disability coverage depending on which plan they elect. Short-term disability coverage is provided which allows for 100% of base salary to be paid for six months in the event of disability. Accidental death and dismemberment insurance, which is generally available to our U.S. employees, is provided by Microchip to our executives with a benefit of one times the executive's annual salary. Since all of our U.S. employees participate in these plans on a non-discriminatory basis, the value of these benefits to our named executive officers is not required to be included in the Summary Compensation Table on page 35 pursuant to SEC rules and regulations.

*Life Insurance.* In fiscal 2014, we provided life insurance coverage to our named executive officers in the amount up to one and a half times the executive's annual salary (up to a maximum of \$500,000). The named executive officers may purchase supplemental life insurance at their own expense.

*401(k).* We maintain a 401(k) plan for the benefit of all of our U.S. employees to allow our employees to save for retirement. We contribute to our 401(k) plan each year based on our profitability during the year, subject to maximum contributions and other rules prescribed by Federal law governing such plans. Our named executive officers are permitted to participate in the plans to the same extent as our other U.S. employees. Our Compensation Committee approved discretionary matching contributions for the first and second quarters of fiscal 2014 equal to \$0.50 for each dollar contributed by the employee for the first 4% of their salary contributions. For the third quarter of fiscal 2014, our Compensation Committee approved discretionary matching contributions equal to \$0.375 for each dollar contributed by the employee for the first 4% of their salary contributions. For the fourth quarter of fiscal 2014, our Compensation Committee approved discretionary matching contributions equal to \$0.60 for each dollar contributed by the employee for the first 4% of their salary contributions. There are no required matching contributions under the plan.

*Employee Cash Bonus Plan.* All of our employees worldwide participate in our Employee Cash Bonus Plan or ECBP. The ECBP is a discretionary bonus plan designed to allow our full-time employees, not just our executive officers, to share in the success of the company. The target bonus under the ECBP is 2.5 days of base salary per quarter, or on an annual basis, two weeks of annual base salary which may be granted by the Compensation Committee if certain Microchip operating profitability objectives are achieved. Under the ECBP, the Compensation Committee can set the eligibility requirements and targets and has discretion to pay more or less than the stated target. Additionally, the Compensation Committee determined that an additional ten hours of pay could be awarded to employees who had outstanding performance in the quarter, as determined by management. Other eligibility terms also apply, such as an attendance requirement and a performance requirement.

The pay-out under the ECBP is approved by the Compensation Committee based on our actual quarterly operating results. For the first and second quarters of fiscal 2014, bonus awards were paid out in each of the quarters at 140% of target for all employees, with up to an additional 50% of target for those employees who participated in the voluntary salary reduction program, and up to an additional 50% of target for a select group of employees with outstanding performance during the quarter. For the third quarter of fiscal 2014, bonus awards were paid out at 70% of the target for all employees, with an additional 25% of target for those employees who participated in the voluntary salary reduction program, and up to an additional 50% of target for a select group of employees with outstanding performance during the quarter. For the fourth quarter of fiscal 2014, bonus awards were paid out at 110% of target, with an additional 25% of target for those employees who participated in our voluntary salary reduction program, and up to an additional 50% of target for a select group of employees with outstanding performance during the quarter. Under the ECBP, for fiscal 2014, our named executive officers other than our CEO received total payments ranging from \$12,863 to \$18,885 and our CEO received \$35,228.

*Vacation and Paid Time-Off Benefits.* We provide vacation and other paid holidays to all of our employees, including our named executive officers. We believe our vacation and holidays are comparable to others in the industry.

*Non-Qualified Deferred Compensation Plan.* We maintain a non-qualified deferred compensation plan for certain employees, including our named executive officers, who receive compensation in excess of the 401(k) contribution limits imposed under the Internal Revenue Code and desire to defer more compensation than they would otherwise be permitted under a tax-qualified retirement plan, such as our 401(k) plan. Microchip does not make contributions to this non-qualified deferred compensation plan. This plan allows our executive officers to make pre-tax contributions to this plan which would be fully taxed to the executive officers after the executive officer's termination of employment with Microchip.

We do not have pension plans or other retirement plans for our named executive officers or our other U.S. employees.

*Employment Contracts, Termination of Employment and Change of Control Arrangements* We do not have employment contracts with our CEO, CFO or any of our executive officers, nor agreements to pay severance on involuntary termination (other than as stated in the change of control agreements below) or upon retirement. Our CEO, CFO, and our executive officers have entered into change of control agreements with us.

The change of control agreements were designed to help ensure the continued services of our key executive officers in the event that a change of control of the company is effected, and to assist our key executive officers in transitioning from the company if as a result of a change of control, they lose their positions. We believe that the benefits provided by these agreements help to ensure that our management team will be incentivized to remain employed with Microchip during a change of control. Capitalized terms used herein and not defined shall have the meanings set forth in the change of control agreements. Additionally, our 2004 Equity Incentive Plan has a change of control provision which provides that any successor company shall assume each outstanding award or provide an equivalent substitute award; however, if the successor fails to do so, vesting of awards shall accelerate. The Compensation Committee considered prevalent market practices in determining the severance amounts and the basis for selecting the events triggering payment in the agreements.

With respect to our CEO, CFO and VP of Worldwide Sales, if the executive officer's employment terminates for reasons other than Cause within the Change of Control Period, the executive officer will be entitled to receive severance benefits consisting of the following primary components:

- a one-time payment of his base salary in effect immediately prior to the Change of Control or termination date, whichever is greater, for the following periods: (1) in the case of the CEO, two years; (2) in the case of the CFO and the VP of Worldwide Sales, one year;
- a one-time payment of his bonuses for which he was or would have been eligible in the year in which the Change of Control occurred or for the year in which termination occurred, whichever is greater, for the following periods: (1) in the case of the CEO, two years; (2) in the case of the CFO and the VP of Worldwide Sales, one year;
- a continuation of medical and dental benefits (subject to any required employee contributions) for the following periods: (1) in the case of the CEO, two years; (2) in the case of the CFO and VP of Worldwide Sales, one year; provided in each case that such benefits would cease sooner if and when the executive officer becomes covered by the plans of another employer; and
- a payment to cover any excise tax that may be due under Section 4999 of the Code, if the payments provided for in the change of control agreement constitute "parachute payments" under Section 280G of the Code and the value of such payments is more than three times the executive officer's "base amount" as defined by Section 280G(b)(3) of the Code.

With respect to our CEO, the CFO and the VP of Worldwide Sales, immediately prior to a Change of Control (regardless of whether the executive officer's employment terminates), all equity compensation held by the executive officer shall become fully vested.

With respect to our executive officers other than the CEO, the CFO and the VP of Worldwide Sales, if the executive officer terminates his employment for Good Reason, or the executive's employment is terminated for reasons other than Cause within the Change of Control Period, the executive officer will be entitled to receive severance benefits consisting of the following primary components:

- a one-time payment of his base salary in effect immediately prior to the Change of Control or termination date, whichever is greater, for one year,
- a one-time payment of his bonuses for which he was or would have been eligible in the year in which the Change of Control occurred or for the year in which termination occurred, whichever is greater, for one year,
- a continuation of medical and dental benefits (subject to any required employee contributions) for one year (provided in each case that such benefits would cease sooner if and when the executive officer becomes covered by the plans of another employer), and
- a payment to cover any excise tax that may be due under Section 4999 of the Code, if the payments provided for in the change of control agreement constitute "parachute payments" under Section 280G of the Code and the value of such payments is more than three times the executive officer's "base amount" as defined by Section 280G(b)(3) of the Code.

With respect to our executive officers other than the CEO, the CFO and the VP of Worldwide Sales, immediately upon termination during the Change of Control Period other than for Cause, all equity compensation held by the executive officer shall become fully vested.

The following table sets forth the aggregate dollar value of payments, to the extent calculable, in the event of a termination of a named executive officer on March 31, 2014, the last business day of our last completed fiscal year.

Name	Salary	Bonus	Equity Compensation Due to Accelerated Vesting <sup>(1)</sup>	Tax Gross-up on Change of Control <sup>(2)</sup>	Continuation of Certain Benefits <sup>(3)</sup>
Steve Sanghi <sup>(4)</sup>	\$ 1,220,228	\$ 2,487,388	\$ 20,290,645	\$ —	2 years
Ganesh Moorthy <sup>(5)</sup>	295,402	191,557	7,711,807	—	1 year
Mitchell R. Little <sup>(5)</sup>	280,373	139,756	4,003,530	—	1 year
Stephen V. Drehobl <sup>(5)</sup>	233,657	114,133	4,327,390	—	1 year
J. Eric Bjornholt <sup>(5)</sup>	208,544	74,755	2,537,154	—	1 year

- (1) Value represents the gain our named executive officers would receive, calculated as the amount of unvested RSUs multiplied by our stock price on March 31, 2014.
- (2) This payment covers any excise tax that may be payable under Section 4999 of the Code if the payments provided for under the change of control agreement constitute "parachute payments" under Section 280G of the Code and the value of the payments is more than three times the executive officer's "base amount" as defined by Section 280G(b)(3) of the Code.
- (3) Benefits continued under the change of control agreements are limited to company-paid medical, dental, vision and life insurance coverage at the same level of coverage the executive was provided immediately prior to termination of employment with Microchip. Amounts are not determinable at this time and are dependent on each executive officer's individual circumstances.
- (4) The change of control payment includes an amount equal to twice the annual salary of the executive plus a bonus equal to two times the targeted annual amount payable to such executive under our management incentive compensation plans (EMICP and DMICP) and ECBP.
- (5) The change of control payment includes an amount equal to one times the annual salary of the executive plus a bonus equal to the targeted annual amounts payable to such executive under our management incentive compensation plans (EMICP and DMICP) and ECBP.

#### *Performance-Based Compensation and Financial Restatement*

To date, Microchip has not experienced a financial restatement and has not considered or implemented a policy regarding retroactive adjustments to any cash or equity-based incentive compensation paid to its executive officers and other employees where such payments were predicated upon the achievement of certain financial results that would subsequently be the subject of a restatement.

#### *Tax Deductibility*

Section 162(m) of the Code disallows a corporate income tax deduction for executive compensation paid to our named executive officers in excess of \$1,000,000 per year, unless that income meets permitted exceptions. In order to enhance our ability to obtain tax deductions for executive compensation, our stockholders have approved our EMICP. This allows us to seek to have such compensation under our EMICP qualify as performance-based compensation under Section 162(m). Additionally, our 2004 Equity Incentive Plan allows for the granting of performance-based awards such as RSUs. To the extent that we grant awards with such performance-based limitations, we would expect them to qualify as performance-based awards for purposes of 162(m).

To maintain flexibility in compensating Microchip's executive officers in a manner designed to promote varying corporate goals, it is not the policy of the Compensation Committee that executive compensation must be tax deductible. We intend to review the deductibility of executive officer compensation from time to time to determine whether any additional actions are advisable to obtain deductibility.

*Conclusion*

We believe that our executive team provided outstanding service to Microchip in fiscal 2014. We will work to assure that the executive compensation programs continue to meet Microchip's strategic goals as well as the overall objectives of the compensation program.

**COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION <sup>(\*)</sup>**

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis section of this proxy statement required by Item 402(b) of Regulation S-K with management and, based on such review and discussion, the Compensation Committee recommended to our Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement.

By the Compensation Committee of the Board of Directors:

Wade F. Meyercord (Chair)

---

L.B. Day

<sup>(\*)</sup> The Compensation Committee Report on executive compensation is not "soliciting" material and is not deemed "filed" with the SEC, and is not incorporated by reference into any filings of Microchip 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 contained in such filings.

## COMPENSATION OF NAMED EXECUTIVE OFFICERS

### SUMMARY COMPENSATION TABLE

The following table lists the annual compensation for our CEO, our CFO and our three other most highly compensated executive officers (referred to as the "named executive officers") earned in the last three fiscal years:

Name and Principal Position	Year	Salary <sup>(1)</sup>	Bonus <sup>(2)</sup>	Stock Awards <sup>(3)</sup>	Non-Equity Incentive Plan Compensation <sup>(4)</sup>	Change in Pension Value and Non-Qualified Deferred Compensation Earnings <sup>(5)</sup>	All Other Compensation <sup>(6)</sup>	Total
Steve Sanghi, President and CEO	2014	\$604,834	\$35,228	\$3,254,225	\$1,865,424	—	\$7,599	\$5,767,310
	2013	595,647	10,105	3,223,353	755,077	—	5,251	4,589,433
	2012	590,002	5,696	4,941,248	669,471	—	3,763	6,210,180
Ganesh Moorthy, COO	2014	290,137	18,186	1,317,155	271,392	—	6,432	1,903,302
	2013	281,686	4,773	1,248,919	108,786	—	3,245	1,647,409
	2012	279,596	2,690	1,235,085	84,926	—	3,213	1,605,510
Mitchell R. Little, VP, Worldwide Sales and Applications	2014	277,947	18,885	639,218	197,166	—	8,051	1,141,267
	2013	274,192	4,644	638,879	79,808	—	4,885	1,002,408
	2012	273,332	2,630	665,603	62,608	—	4,196	1,008,369
Stephen V. Drehobl, VP, MCU8 and Technology Development Division	2014	228,178	14,839	736,066	157,719	—	5,222	1,142,024
	2013	222,144	3,776	732,280	63,477	—	2,684	1,024,361
	2012	215,169	2,073	676,537	45,049	—	2,690	941,518
J. Eric Bjornholt, VP and CFO	2014	205,413	12,863	464,896	100,508	—	4,282	787,962
	2013	198,861	3,370	426,383	40,288	—	2,074	670,976
	2012	197,169	1,899	390,623	31,452	—	2,129	623,272

<sup>(1)</sup> Represents the base salary earned by each executive officer in the specified fiscal year.

<sup>(2)</sup> Represents bonuses earned by each executive officer in the specified fiscal year under our ECBP.

<sup>(3)</sup> Represents the aggregate grant date fair value of awards of RSUs made in the specified fiscal year computed in accordance with ASC 718 *Compensation - Stock Compensation*. For information on the valuation assumptions made with respect to the grants of RSUs in fiscal 2014, please refer to Note 19, "Equity Incentive Plans" to Microchip's audited financial statements for the fiscal year ended March 31, 2014 included in our Annual Report on Form 10-K filed with the SEC on May 30, 2014.

<sup>(4)</sup> Represents the aggregate amount of bonuses earned by each executive officer in the specified fiscal year under our EMICP and DMICP. Each executive officer received the following payments under each of such plans in the specified fiscal year:

Named Executive Officer	Year	EMICP	DMICP
Steve Sanghi	2014	\$1,410,358	\$455,066
	2013	645,960	109,117
	2012	529,111	140,360
Ganesh Moorthy	2014	205,122	66,270
	2013	93,065	15,721
	2012	76,230	8,696
Mitchell R. Little	2014	149,067	48,098
	2013	68,275	11,533
	2012	56,197	6,411
Stephen V. Drehobl	2014	119,233	38,486
	2013	54,304	9,173
	2012	40,436	4,613
J. Eric Bjornholt	2014	75,965	24,543
	2013	34,466	5,822
	2012	28,231	3,221

- (5) Any contributions under our non-qualified deferred compensation plan are invested at the discretion of the executive officer and there are no above-market or preferential earnings on such amounts made or provided by Microchip.
- (6) Consists of company-matching contributions under our 401(k) retirement savings plan and the full dollar value of premiums paid by Microchip for life insurance for the benefit of the named executive officer in the amounts shown below:

Named Executive Officer	Year	401(k)	Life Insurance
Steve Sanghi	2014	\$5,921	\$1,677
	2013	3,574	1,677
	2012	2,129	1,634
Ganesh Moorthy	2014	5,535	897
	2013	2,348	897
	2012	2,281	932
Mitchell R. Little	2014	5,477	2,574
	2013	2,311	2,574
	2012	2,285	1,911
Stephen V. Drehobl	2014	4,414	808
	2013	1,902	782
	2012	1,908	782
J. Eric Bjornholt	2014	3,972	310
	2013	1,775	299
	2012	1,824	305

#### Grants of Plan-Based Awards During Fiscal 2014

The following table sets forth information with respect to our EMICP, our DMICP, and our ECBP, as well as RSUs granted to our named executive officers under our 2004 Equity Incentive Plan, including the grant date fair value of the RSUs. Amounts listed in the "Estimated Future Payouts Under Non-Equity Incentive Plan Awards" column are annual targets based on the salaries of the named executive officers at the end of fiscal 2014. Actual payments for our bonus plans in fiscal 2014 are reflected in the Summary Compensation Table above. Equity awards in the table below were granted in fiscal 2014.



**GRANTS OF PLAN-BASED AWARDS**  
**For Fiscal Year Ended March 31, 2014**

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#) <sup>(2)</sup>	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards (\$) <sup>(3)</sup>
		Threshold (\$) <sup>(1)</sup>	Target (\$)	Maximum (\$) <sup>(1)</sup>				
Steve Sanghi	4/1/2013	—	—	—	25,673	—	—	800,484
	7/1/2013	—	—	—	25,261	—	—	811,383
	10/1/2013	—	—	—	23,424	—	—	821,245
	1/2/2014	—	—	—	21,372	—	—	821,112
	—	—	976,183 <sup>(4)</sup>	—	—	—	—	—
	—	—	244,046 <sup>(5)</sup>	—	—	—	—	—
	—	—	23,466	—	—	—	—	—
Ganesh Moorthy	4/1/2013	—	—	—	10,391	—	—	323,991
	7/1/2013	—	—	—	10,225	—	—	328,427
	10/1/2013	—	—	—	9,481	—	—	332,404
	1/2/2014	—	—	—	8,650	—	—	332,333
	—	—	144,156 <sup>(4)</sup>	—	—	—	—	—
	—	—	36,039 <sup>(5)</sup>	—	—	—	—	—
	—	—	11,362	—	—	—	—	—
Mitchell R. Little	4/1/2013	—	—	—	5,043	—	—	157,241
	7/1/2013	—	—	—	4,962	—	—	159,379
	10/1/2013	—	—	—	4,601	—	—	161,311
	1/2/2014	—	—	—	4,198	—	—	161,287
	—	—	103,177 <sup>(4)</sup>	—	—	—	—	—
	—	—	25,794 <sup>(5)</sup>	—	—	—	—	—
	—	—	10,784	—	—	—	—	—
Stephen V. Drehobl	4/1/2013	—	—	—	5,807	—	—	181,062
	7/1/2013	—	—	—	5,714	—	—	183,534
	10/1/2013	—	—	—	5,298	—	—	185,748
	1/2/2014	—	—	—	4,834	—	—	185,722
	—	—	84,117 <sup>(4)</sup>	—	—	—	—	—
	—	—	21,029 <sup>(5)</sup>	—	—	—	—	—
	—	—	8,987	—	—	—	—	—
J. Eric Bjornholt	4/1/2013	—	—	—	3,668	—	—	114,368
	7/1/2013	—	—	—	3,609	—	—	115,921
	10/1/2013	—	—	—	3,346	—	—	117,311
	1/2/2014	—	—	—	3,053	—	—	117,296
	—	—	53,387 <sup>(4)</sup>	—	—	—	—	—
	—	—	13,347 <sup>(5)</sup>	—	—	—	—	—
	—	—	8,021	—	—	—	—	—

<sup>(1)</sup> Individual awards under our EMICP, DMICP and ECBP are made quarterly and are not stated in terms of a threshold or maximum amount for an award period. The EMICP does provide that the maximum amount payable to any participant is \$2.5 million for any performance period (which can be a fiscal quarter, a fiscal year or a longer period not exceeding five fiscal years).

<sup>(2)</sup> Represents RSUs granted under Microchip's 2004 Equity Incentive Plan.

(3) This column shows the full grant date fair value of RSU awards granted to the named executives in fiscal 2014. Generally, the full grant date fair value is the amount that Microchip would expense in its financial statements over the award's vesting schedule.

(4) This annual target represents the portion of the executive officer's base salary (as measured at the end of fiscal 2014) targeted for estimated future payout in fiscal 2015 under Microchip's EMICP.

(5) This annual target represents the portion of the executive officer's base salary (as measured at the end of fiscal 2014) targeted for estimated future payout in fiscal 2015 under Microchip's DMICP.

### **Summary Compensation Table and Grants of Awards Table Discussion**

Based on the data in the Summary Compensation Table, the level of salary, bonus, non-equity incentive plan compensation, and other compensation in proportion to total compensation ranged from approximately 30.8% to 44.0% for our named executive officers in fiscal 2014. See the "Compensation Discussion and Analysis" section of this proxy statement for further discussion of overall compensation and how compensation is determined.

We do not have employment contracts with our named executive officers, nor agreements to pay severance on involuntary termination (other than as stated in the change of control agreements discussed above under the heading "Employment Contracts, Termination of Employment and Change of Control Arrangements") or retirement.

For a discussion of the material terms of the awards listed in the Grants of Awards Table, see our discussion of the equity awards and incentive cash bonuses in the "Compensation Discussion and Analysis" section of this proxy statement under the headings "Incentive Cash Bonuses," "Equity Compensation," and "Employee Cash Bonus Plan."

Microchip has not repriced any stock options or made any material modifications to any equity-based awards during the last fiscal year.

### Outstanding Equity Awards at Fiscal 2014 Year End

Name	Option Awards			Stock Awards	
	Number of Securities Underlying Unexercised Options (#) Exercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested <sup>(19)</sup> (\$)
Steve Sanghi	145,000 <sup>(1)</sup>	25.29	4/1/2015	25,607 <sup>(2)</sup>	1,222,990
	—	—	—	25,995 <sup>(3)</sup>	1,241,521
	—	—	—	22,958 <sup>(4)</sup>	1,096,474
	—	—	—	22,612 <sup>(5)</sup>	1,079,949
	—	—	—	14,000 <sup>(6)</sup>	668,640
	—	—	—	24,894 <sup>(7)</sup>	1,188,937
	—	—	—	24,901 <sup>(8)</sup>	1,189,272
	—	—	—	31,022 <sup>(9)</sup>	1,481,611
	—	—	—	26,398 <sup>(10)</sup>	1,260,768
	—	—	—	25,295 <sup>(11)</sup>	1,208,089
	—	—	—	28,771 <sup>(12)</sup>	1,374,103
	—	—	—	28,693 <sup>(13)</sup>	1,370,378
	—	—	—	27,970 <sup>(14)</sup>	1,335,847
	—	—	—	25,673 <sup>(15)</sup>	1,226,142
	—	—	—	25,261 <sup>(16)</sup>	1,206,465
	—	—	—	23,424 <sup>(17)</sup>	1,118,730
	—	—	—	21,372 <sup>(18)</sup>	1,020,727
Ganesh Moorthy	—	—	—	10,609 <sup>(2)</sup>	506,686
	—	—	—	10,769 <sup>(3)</sup>	514,327
	—	—	—	9,511 <sup>(4)</sup>	454,245
	—	—	—	9,368 <sup>(5)</sup>	447,416
	—	—	—	9,187 <sup>(7)</sup>	438,771
	—	—	—	9,190 <sup>(8)</sup>	438,914
	—	—	—	11,449 <sup>(9)</sup>	546,804
	—	—	—	9,742 <sup>(10)</sup>	465,278
	—	—	—	9,335 <sup>(11)</sup>	445,840
	—	—	—	11,303 <sup>(12)</sup>	539,831
	—	—	—	11,272 <sup>(13)</sup>	538,351
	—	—	—	10,988 <sup>(14)</sup>	524,787
	—	—	—	10,391 <sup>(15)</sup>	496,274
	—	—	—	10,225 <sup>(16)</sup>	488,346
	—	—	—	9,481 <sup>(17)</sup>	452,813
	—	—	—	8,650 <sup>(18)</sup>	413,124
	Mitchell R. Little	—	—	—	5,853 <sup>(2)</sup>
—		—	—	5,942 <sup>(3)</sup>	283,790
—		—	—	5,248 <sup>(4)</sup>	250,644
—		—	—	5,168 <sup>(5)</sup>	246,824
—		—	—	4,890 <sup>(7)</sup>	233,546
—		—	—	4,891 <sup>(8)</sup>	233,594
—		—	—	6,094 <sup>(9)</sup>	291,049
—		—	—	5,185 <sup>(10)</sup>	247,636
—		—	—	4,969 <sup>(11)</sup>	237,319
—		—	—	5,652 <sup>(12)</sup>	269,940
—		—	—	5,636 <sup>(13)</sup>	269,175
—		—	—	5,494 <sup>(14)</sup>	262,393
—		—	—	5,043 <sup>(15)</sup>	240,854
—		—	—	4,962 <sup>(16)</sup>	236,985
—		—	—	4,601 <sup>(17)</sup>	219,744
—		—	—	4,198 <sup>(18)</sup>	200,496

## Outstanding Equity Awards at Fiscal 2014 Year End

Name	Option Awards			Stock Awards	
	Number of Securities Underlying Unexercised Options (#) Exercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested <sup>(19)</sup> (\$)
Stephen V. Drehobl	—	—	—	5,853 <sup>(2)</sup>	279,539
	—	—	—	5,942 <sup>(3)</sup>	283,790
	—	—	—	5,248 <sup>(4)</sup>	250,644
	—	—	—	5,168 <sup>(5)</sup>	246,824
	—	—	—	5,038 <sup>(7)</sup>	240,615
	—	—	—	5,039 <sup>(8)</sup>	240,663
	—	—	—	6,278 <sup>(9)</sup>	299,837
	—	—	—	5,342 <sup>(10)</sup>	255,134
	—	—	—	5,721 <sup>(11)</sup>	273,235
	—	—	—	6,508 <sup>(12)</sup>	310,822
	—	—	—	6,490 <sup>(13)</sup>	309,962
	—	—	—	6,327 <sup>(14)</sup>	302,178
	—	—	—	5,807 <sup>(15)</sup>	277,342
	—	—	—	5,714 <sup>(16)</sup>	272,901
	—	—	—	5,298 <sup>(17)</sup>	253,032
	—	—	—	4,834 <sup>(18)</sup>	230,872
	J. Eric Bjornholt	—	—	—	3,292 <sup>(2)</sup>
—		—	—	3,342 <sup>(3)</sup>	159,614
—		—	—	2,952 <sup>(4)</sup>	140,988
—		—	—	2,907 <sup>(5)</sup>	138,838
—		—	—	2,815 <sup>(7)</sup>	134,444
—		—	—	2,816 <sup>(8)</sup>	134,492
—		—	—	3,508 <sup>(9)</sup>	167,542
—		—	—	3,300 <sup>(10)</sup>	157,608
—		—	—	3,162 <sup>(11)</sup>	151,017
—		—	—	3,596 <sup>(12)</sup>	171,745
—		—	—	3,928 <sup>(13)</sup>	187,601
—		—	—	3,829 <sup>(14)</sup>	182,873
—		—	—	3,668 <sup>(15)</sup>	175,184
—		—	—	3,609 <sup>(16)</sup>	172,366
—		—	—	3,346 <sup>(17)</sup>	159,805
—		—	—	3,053 <sup>(18)</sup>	145,811

(1) This option is fully vested.

(2) The award vested in full on May 15, 2014.

(3) The award vests in full on August 15, 2014, subject to continued service on such date.

(4) The award vests in full on November 15, 2014, subject to continued service on such date.

(5) The award vests in full on February 15, 2015, subject to continued service on such date.

(6) The award vests quarterly over four quarters commencing on May 15, 2014, subject to continued service on such dates.

(7) The award vests in full on May 15, 2015, subject to continued service on such date.

(8) The award vests in full on August 15, 2015, subject to continued service on such date.

(9) The award vests in full on November 15, 2015, subject to continued service on such date.

(10) The award vests in full on February 15, 2016, subject to continued service on such date.

(11) The award vests in full on May 15, 2016, subject to continued service on such date.

(12) The award vests in full on August 15, 2016, subject to continued service on such date.

(13) The award vests in full on November 15, 2016, subject to continued service on such date.

(14) The award vests in full on February 15, 2017, subject to continued service on such date.

(15) The award vests in full on May 15, 2017, subject to continued service on such date.

(16) The award vests in full on August 15, 2017, subject to continued service on such date.

(17) The award vests in full on November 15, 2017, subject to continued service on such date.

(18) The award vests in full on February 15, 2018, subject to continued service on such date.

(19) Represents the number of RSUs multiplied by \$47.76, the closing price of our common stock on March 31, 2014.

## OPTION EXERCISES AND STOCK VESTED

For Fiscal Year Ended March 31, 2014

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Steve Sanghi, President and CEO	23,400	226,746	33,400	1,205,740
	70,249	768,524	3,500	131,705
	50,000	481,500	3,500	137,935
	50,000	821,305	31,683	1,248,627
	7,800	127,923	718	31,312
	9,263	152,032	3,500	152,635
	27,937	458,192	28,570	1,245,938
	10,000	162,088	3,500	159,250
	45,000	876,672	24,712	1,124,396
	50,000	962,145	—	—
	50,000	967,880	—	—
Ganesh Moorthy, COO	5,000	70,853	12,406	447,857
	25,000	373,430	11,768	463,777
	40,000	566,820	339	14,784
	17,141	305,987	11,428	498,375
	2,859	50,636	9,885	449,768
	20,000	389,206	—	—
Mitchell R. Little, VP Worldwide Sales and Applications	—	—	7,634	275,587
	—	—	7,242	285,407
	—	—	330	14,391
	—	—	6,530	284,773
	—	—	5,649	257,030
Stephen V. Drehobl, VP, MCU8 and Technology Development Division	—	—	6,680	241,148
	—	—	6,337	249,741
	—	—	268	11,687
	—	—	5,714	249,188
	—	—	5,295	240,923
J. Eric Bjornholt, VP and CFO	—	—	3,817	137,794
	—	—	3,621	142,704
	—	—	239	10,423
	—	—	3,673	160,180
	—	—	3,177	144,554

### Non-Qualified Deferred Compensation for Fiscal Year 2014

All of our U.S. employees in director-level and above positions, including our executive officers, are eligible to defer a portion of their salary and cash bonuses into our Non-Qualified Deferred Compensation Plan, or the Deferred Compensation Plan. Pursuant to the Deferred Compensation Plan, eligible employees can defer up to 50% of their base salary and/or cash bonuses. In general, deferral elections are made prior to January of each year for amounts to be earned in the upcoming year. Participants may invest amounts in various funds available under the Deferred Compensation Plan (in general, any of those funds traded on a nationally recognized exchange). Plan earnings are calculated by reference to actual earnings of mutual funds or other securities chosen by individual participants.

Except for a change in control or certain unforeseeable emergencies (as defined under the Deferred Compensation Plan), benefits under the plan will not be distributed until a "distribution event" has occurred. The distribution event occurs upon termination of employment.

We incur incidental expenses for administration of the Deferred Compensation Plan, and the receipt of any tax benefit we might obtain based on payment of a participant's compensation is delayed until funds (including earnings or losses on the amounts invested pursuant to the plan) are eventually distributed. We do not pay any additional compensation or guarantee minimum returns to any participant in the Deferred Compensation Plan.

The following table shows the non-qualified deferred compensation activity for each named executive officer for the fiscal year ended March 31, 2014.

**NON-QUALIFIED DEFERRED COMPENSATION**

Name	Executive Contributions in Last FY <sup>(1)</sup>	Company Contributions in Last FY	Aggregate Earnings in Last FY <sup>(1)</sup>	Aggregate Withdrawals/ Distributions	Aggregate Balance at Last FYE <sup>(1)</sup>
Steve Sanghi	—	—	—	—	—
Ganesh Moorthy	—	—	31,755	—	163,735
Mitchell R. Little	—	—	—	—	—
Stephen V. Drehobl	137,777	—	27,299	—	242,932
J. Eric Bjornholt	22,037	—	16,267	—	149,061

<sup>(1)</sup> The executive contribution amounts shown in the table were previously reported in the "Summary Compensation Table" as salary and/or bonus for fiscal 2014 or prior fiscal years. The earnings amounts shown in the table were not previously reported for fiscal 2014 or prior years under applicable SEC rules as such earnings were not under a defined benefit or actuarial pension plan and there were no above-market or preferential earnings on such amounts made or provided by Microchip.

## EQUITY COMPENSATION PLAN INFORMATION

The table below provides information about our common stock that, as of March 31, 2014, may be issued upon the vesting of RSUs and the exercise of options and rights under the following equity compensation plans (which are all of our equity compensation plans; provided, however, that new equity awards or stock purchase rights may only be issued under the Microchip 2004 Equity Incentive Plan, the Microchip 1994 International Employee Stock Purchase Plan and the Microchip 2001 Employee Stock Purchase Plan):

- Microchip 1994 International Employee Stock Purchase Plan (the "IESPP"),
- Microchip 1997 Nonstatutory Stock Option Plan,
- Microchip 2001 Employee Stock Purchase Plan,
- Microchip 2004 Equity Incentive Plan,
- SMSC 2002 Inducement Stock Option Plan,
- SMSC 2003 Inducement Stock Option Plan,
- SMSC 2004 Inducement Stock Option Plan,
- SMSC 2005 Inducement Stock Option and Restricted Stock Plan,
- SMSC 2009 Long Term Incentive Plan (the "LTIP"), and
- Microchip Technology Incorporated 2012 Inducement Award Plan (the "2012 Inducement Plan").

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options and vesting of RSUs	(b) Weighted average exercise price of outstanding options <sup>(1)</sup>	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity Compensation Plans Approved by Stockholders <sup>(2)</sup>	5,848,504 <sup>(3)</sup>	\$27.78	18,334,951 <sup>(4)</sup>
Equity Compensation Plans Not Approved by Stockholders	255,141 <sup>(5)</sup>	\$19.59	—
Total	6,103,645	\$24.75 <sup>(6)</sup>	18,334,951

<sup>(1)</sup> The weighted average exercise price does not take into account the shares issuable upon vesting of outstanding RSUs, which have no exercise price.

<sup>(2)</sup> Beginning January 1, 2005, the shares authorized for issuance under our 2001 Employee Stock Purchase Plan, or the ESPP, are subject to an annual automatic increase equal to the lesser of (i) 1,500,000 shares, (ii) one-half of one percent (0.5%) of the then outstanding shares of our common stock, or (iii) such lesser amount as is approved by our Board of Directors. Upon the approval of our Board of Directors, there were no shares added under the ESPP on January 1, 2014 based on the automatic increase provision. Beginning January 1, 2007, the shares authorized for issuance under our 1994 International Employee Stock Purchase Plan, or the IESPP, are subject to an annual automatic increase of equal to one-tenth of one percent (0.10%) of the then outstanding shares of our common stock. Upon the approval of our Board of Directors, there were no shares added under the IESPP on January 1, 2014 based on the automatic increase provision.

<sup>(3)</sup> As of March 31, 2014, includes 5,463,694 shares issuable upon the vesting of RSUs granted under our 2004 Equity Incentive Plan, and 384,810 shares issuable upon the exercise of outstanding options granted under our 2004 Equity Incentive Plan.

<sup>(4)</sup> As of March 31, 2014, includes 12,028,786 shares remaining available for future issuance under our 2004 Equity Incentive Plan, of which 9,900,000 shares were approved for addition to the 2004 Equity Incentive Plan by our stockholders at our 2012 annual meeting of stockholders. The remaining balance represents shares available for purchase under the IESPP and the ESPP.

- <sup>(5)</sup> As of March 31, 2014, includes 7,094 shares subject to outstanding options under our 1997 Nonstatutory Stock Option Plan and 114,386 shares subject to outstanding SARs under the 2012 Inducement Plan. No additional awards may be granted under such plans. Also, includes 113,988 shares subject to outstanding awards under 2009 LTIP; 14,405 shares subject to outstanding options under the 2005 Inducement Plan; 3,399 shares subject to outstanding options under the 2004 Inducement Plan; 1,643 shares subject to outstanding options under the 2003 Inducement Plan; and 226 shares subject to outstanding options under the 2002 Inducement Plan. These inducement plans were all adopted by SMSC prior to our acquisition of SMSC in August 2012, and no additional options or other awards may be granted under such plans.
- <sup>(6)</sup> As of March 31, 2014, there were a total of 573,611 shares subject to outstanding options, with a weighted average price of \$24.75 per share and a weighted average term of 2.64 years.

## **Equity Compensation Plans Not Approved by Stockholders**

### *Microchip Technology Incorporated 1997 Nonstatutory Stock Option Plan*

In November 1997, our Board of Directors approved the Microchip 1997 Nonstatutory Stock Option Plan (the "1997 Plan"). Under our 1997 Plan, nonqualified stock options were granted to employees who were not officers or directors of Microchip and to our consultants. The 1997 Plan was not submitted to our stockholders for approval because doing so was not required under applicable rules and regulations in effect at the time the plan was initially adopted or when it was amended.

The expiration date, maximum number of shares purchasable, and other provisions of options granted under the 1997 Plan, including vesting provisions, were established at the time of grant by either the Compensation Committee or the Employee Committee appointed by the Board of Directors, provided that the exercise price of an option could not be less than the fair market value of our common stock on the date of grant and no option could have a term of more than 10 years. If Microchip is acquired by merger, consolidation or asset sale, each outstanding option that is not assumed by the successor corporation or otherwise replaced with a comparable option will automatically accelerate and vest in full. In connection with a change of control of Microchip by tender offer or proxy contest for board membership, our Board of Directors can accelerate the vesting of outstanding options. Our Board of Directors or Compensation Committee may amend or terminate the 1997 Plan without stockholder approval, but no amendment or termination of the 1997 Plan may adversely affect any award previously granted under the 1997 Plan without the written consent of the stock option holder.

### *Microchip Technology Incorporated 2012 Inducement Award Plan*

In August 2012, our Board of Directors approved the 2012 Inducement Plan. Under our 2012 Inducement Plan, SARs were granted to certain employees of SMSC as an inducement for them to enter employment with Microchip. The 2012 Inducement Plan was not submitted to our stockholders for approval because doing so was not required under applicable rules and regulations in effect at the time the plan was adopted.

The expiration date and other provisions of awards granted under the 2012 Inducement Plan, including vesting provisions, were established at the time of grant by the Compensation Committee. No SAR may have a term of more than 10 years. If Microchip is acquired by merger, consolidation or asset sale, or there is a nomination and election of 50% or more of all members of the Board within a 36-month period whose election is without recommendation of the Board, then each outstanding SAR may be terminated at the discretion of any committee appointed by the Board upon notice to the award holder. Our Board of Directors may amend or terminate the 2012 Inducement Plan without stockholder approval, but no amendment of the 2012 Inducement Plan may adversely affect any award previously granted under the 2012 Inducement Plan without the written consent of the SAR holder.



## CODE OF ETHICS

In May, 2004, our Board of Directors adopted a code of ethics for our directors, officers (including our chief executive officer and chief financial officer), and employees. A copy of the code of ethics, as amended to date, is available on our website at the About Us/Corporate Responsibility section under Ethics and Conduct on [www.microchip.com](http://www.microchip.com).

We intend to post on our website any amendment to, or waiver from, a provision of our code of ethics within four business days following the date of such amendment or waiver or such other time period required by SEC rules.

## OTHER MATTERS

### **Other Matters to be Presented at the Annual Meeting**

At the date this proxy statement went to press, we did not anticipate that any other matters would be raised at the annual meeting.

### **Requirements, Including Deadlines, for Receipt of Stockholder Proposals for the 2015 Annual Meeting of Stockholders; Discretionary Authority to Vote on Stockholder Proposals**

Under SEC rules, if a stockholder wants us to include a proposal in our proxy statement and form of proxy for our 2015 annual meeting, our Secretary must receive the proposal at our principal executive offices by March 19, 2015. Stockholders interested in submitting such a proposal are advised to contact knowledgeable counsel with regard to the detailed requirements of applicable securities laws. The submission of a stockholder proposal does not guarantee that it will be included in our proxy statement.

Under our Bylaws, stockholders must follow certain procedures to nominate a person for election as a director or to introduce an item of business at our annual meeting. Under these procedures, stockholders must submit the proposed nominee or item of business by delivering a notice addressed to our Secretary at our principal executive offices. We must receive notice as follows:

- Normally we must receive notice of a stockholder's intention to introduce a nomination or proposed item of business for an annual meeting not less than 90 days before the first anniversary of the date on which we first mailed our proxy statement to stockholders in connection with the previous year's annual meeting of stockholders. Accordingly, a stockholder who intends to submit a nomination or proposal for our 2015 annual meeting must do so no later than April 18, 2015.
- However, if we hold our 2015 annual meeting on a date that is not within 30 days before or after the anniversary date of our 2014 annual meeting, we must receive the notice no later than the close of business on the later of the 90<sup>th</sup> day prior to our 2015 annual meeting or the 10<sup>th</sup> day following the day on which public announcement of the date of such annual meeting is first made.
- A stockholder's submission must include certain specified information concerning the proposal or nominee, as the case may be, and information as to the stockholder's ownership of our common stock. Proposals or nominations not meeting these requirements will not be considered at our 2015 annual meeting.
- If a stockholder does not comply with the requirements of this advance notice provision, the proxies may exercise discretionary voting authority under proxies it solicits to vote in accordance with its best judgment on any such proposal or nomination submitted by a stockholder.

To make any submission or to obtain additional information as to the proper form and content of submissions, stockholders should contact our Secretary in writing at 2355 West Chandler Boulevard, Chandler, Arizona 85224-6199.

## **Householding of Annual Meeting Materials**

Some brokers and other nominee record holders may be participating in the practice of "householding" proxy statements and annual reports. This means that only one copy of our proxy statement and annual report may have been sent to multiple stockholders in a stockholder's household. Additionally, you may have notified us that multiple stockholders share an address and thus you requested to receive only one copy of our proxy statement and annual report. While our proxy statement and 2014 Annual Report are available online (see "*Electronic Access to Proxy Statement and Annual Report*" on page 3), we will promptly deliver a separate copy of either document to any stockholder who contacts our investor relations department at 480-792-7761 or by mail addressed to Investor Relations, Microchip Technology Incorporated, 2355 West Chandler Boulevard, Chandler, Arizona 85224-6199, requesting such copies. If a stockholder is receiving multiple copies of our proxy statement and annual report at the stockholder's household and would like to receive a single copy of the proxy statement and annual report for a stockholder's household in the future, stockholders should contact their broker, or other nominee record holder to request mailing of a single copy of the proxy statement and annual report. Stockholders receiving multiple copies of these documents directly from us, and who would like to receive single copies in the future, should contact our investor relations department to make such a request.

## **Date of Proxy Statement**

The date of this proxy statement is July 18, 2014.

## APPENDIX A

### MICROCHIP TECHNOLOGY INCORPORATED

#### 2001 EMPLOYEE STOCK PURCHASE PLAN

##### As Amended Through May 19, 2014 (subject to stockholder approval)

The following constitute the provisions of the 2001 Employee Stock Purchase Plan of Microchip Technology Incorporated, as amended through May 19, 2014.

1. Purpose. The purpose of the Plan is to provide employees of the Company and one or more of its Corporate Affiliates an opportunity to purchase Common Stock of the Company through accumulated payroll deductions. It is the intention of the Company to have the Plan qualify as an "Employee Stock Purchase Plan" under Section 423 of the Code. The provisions of the Plan, accordingly, shall be construed so as to extend and limit participation in a uniform and nondiscriminatory basis consistent with the requirements of Section 423.

2. Definitions.

(a) "Administrator" shall mean the Committee designated by the Board to administer the Plan pursuant to Section 14.

(b) "Board" shall mean the Board of Directors of the Company.

(c) "Change of Control" shall mean the occurrence of any of the following events:

(i) a merger or other reorganization in which the Company will not be the surviving corporation (other than a reorganization effected primarily to change the State in which the Company is incorporated); or

(ii) the consummation of the sale or disposition by the Company of all or substantially all of the Company's assets; or

(iii) a reverse merger in which the Company is the surviving corporation but in which more than fifty percent (50%) of the Company's outstanding voting stock is transferred to a person or persons different from those who held the stock immediately prior to such merger.

(d) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(e) "Committee" means a committee of the Board appointed by the Board in accordance with Section 14 hereof.

(f) "Common Stock" shall mean the common stock of the Company, par value \$0.001.

(g) "Company" shall mean Microchip Technology Incorporated, a Delaware corporation.

(h) "Compensation" shall mean the following items paid to an Eligible Employee by the Company and/or one or more Corporate Affiliates during such individual's period of participation in the Plan: (i) regular base salary, and (ii) any pre-tax contributions made by the Eligible Employees to any Code Section 401(k) plan, any Code Section 125 Plan, any unfunded non-qualified deferred compensation plan described in Sections 201(2), 301(a)(3) or 401(a)(1) of ERISA, and (iii) all overtime payments, bonuses, commissions, profit-sharing distributions and other incentive type payments. There shall be excluded any contributions (except 401(k) and 125 contributions) made on the Eligible Employee's behalf by the Company or Corporate Affiliate.

(i) “Corporate Affiliate” shall mean any parent or subsidiary of the Company (as defined in Section 424 of the Code) which is incorporated in the United States, including any parent or subsidiary corporation which becomes such after the Effective Date.

(j) “Effective Date” shall mean March 1, 2002.

(k) “Eligible Employee” shall mean any individual who is a common law employee of any Participating Company and whose customary employment with the Participating Company is at least 20 hours per week and more than five (5) months in any calendar year. For purposes of the Plan, the employment relationship shall be treated as continuing intact while the individual is on sick leave or other leave of absence approved by the Company. Where the period of leave exceeds 90 days and the individual's right to reemployment is not guaranteed either by statute or in writing signed by a duly authorized officer of the Company, the employment relationship shall be deemed to have terminated on the 91st day of such leave.

(l) “Entry Date” shall mean the first Trading Day of any Offering Period. An Entry Date occurs on the first Trading Day in March or September.

(m) “ERISA” shall mean the Employee Retirement Income Security of 1974, as amended.

(n) “Exercise Date” shall mean the first Trading Day of March and September.

(o) “Fair Market Value” shall mean the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system on the date of determination, as reported in *The Wall Street Journal* or such other source as the Board deems reliable; provided, however, that if there is no closing sales price (or closing bid price, if applicable) for such date, then the closing sales price (or closing bid price, if applicable) for the next day for which such quotation exists.

(p) “Offering Periods” shall mean a period of time during which an option granted pursuant to the Plan may be exercised. The Plan shall be implemented by a series of Offering Periods (“Series of Offering Periods”). Each Series of Offering Periods shall contain four (4) Offering Periods. The first Offering Period in the Series shall commence on the first Trading Day on or after March 1, 2002, and shall end on the first Trading Day on or after March 1, 2004 (the “Last Day of the Series”). The second Offering Period in the Series shall commence on the next following Entry Date, shall last approximately 18 months and shall end on the Last Day of the Series. The third Offering Period in the Series shall commence on the next following Entry Date, shall last approximately 12 months and shall end on the Last Day of the Series. The fourth Offering Period in the Series shall commence on the next following Entry Date, shall last approximately six (6) months and shall end on the Last Day of the Series. A new Series of Offering Periods shall commence on the Last Day of the Series. The duration and timing of Offering Periods may be changed pursuant to Section 20 of this Plan.

(q) “Participating Company” shall mean the Company and such Corporate Affiliates as may be designated from time to time by the Board to extend the benefits of the Plan to their Eligible Employees.

(r) “Plan” shall mean this Employee Stock Purchase Plan.

(s) “Purchase Period” shall mean the approximately six (6) month period commencing on one Exercise Date and ending with the next Exercise Date, except that the first Purchase Period of any Offering Period shall commence on the first Entry Date and end with the next Exercise Date.

(t) “Purchase Price” shall mean 85% of the Fair Market Value of a share of Common Stock on the Entry Date or on the Exercise Date, whichever is lower; provided, however, that the Purchase Price may be adjusted by the Administrator pursuant to Section 20.

(u) “Trading Day” shall mean a day on which national stock exchanges and the Nasdaq System are open for trading.

### 3. Eligibility.

(a) Generally. Any Eligible Employee on a given Entry Date shall be eligible to participate in the Plan.

(b) Limitations. Any provisions of the Plan to the contrary notwithstanding, no Eligible Employee shall be granted an option under the Plan (i) to the extent that, immediately after the grant, such Eligible Employee (or any other person whose stock would be attributed to such Eligible Employee pursuant to Section 424(d) of the Code) would own capital stock of

the Company and/or hold outstanding options to purchase such stock possessing five percent (5%) or more of the total combined voting power or value of all classes of the capital stock of the Company or of any Subsidiary, or (ii) to the extent that his or her rights to purchase stock under all employee stock purchase plans of the Company and its subsidiaries accrues at a rate which exceeds \$25,000.00 worth of stock (determined at the fair market value of the shares at the time such option is granted) for each calendar year in which such option is outstanding at any time.

4. Offering Periods. The Plan shall be implemented by a series of Offering Periods (“Series of Offering Periods”). Each Series of Offering Periods shall contain four (4) Offering Periods. The first Offering Period in the Series shall commence on the first Trading Day on or after March 1, 2002, and shall end on the first Trading Day on or after March 1, 2004 (the “Last Day of the Series”). The second Offering Period in the Series shall commence on the next following Entry Date, shall last approximately 18 months and shall end on the Last Day of the Series. The third Offering Period in the Series shall commence on the next following Entry Date, shall last approximately 12 months and shall end on the Last Day of the Series. The fourth Offering Period in the Series shall commence on the next following Entry Date, shall last approximately six (6) months and shall end on the Last Day of the Series. A new Series of Offering Periods shall commence on the Last Day of the Series. The duration and timing of Offering Periods may be changed pursuant to Section 20 of this Plan.

5. Participation. An Eligible Employee may become a participant in the Plan by enrolling via E\*Trade or completing a subscription agreement authorizing payroll deductions in the form of Exhibit A to this Plan and filing it with the Company's stock plan administrator, on a date determined by such administrator, which shall be no later than five (5) Trading Days prior to the applicable Entry Date.

6. Payroll Deductions.

(a) At the time a participant enrolls via E\*Trade or files his or her subscription agreement, he or she shall elect to have payroll deductions made on each pay day during the Offering Period in any multiple of one-percent (1%), but not exceeding ten-percent (10%) of the Compensation which he or she receives during each Purchase Period; provided, however, that should a payday occur on an Exercise Date, a participant shall have the payroll deductions made on such day applied to his or her account under the new Offering Period or Purchase Period, as the case may be. A participant's elections via E\*Trade enrollment or a subscription agreement shall remain in effect for successive Offering Periods unless terminated as provided in Section 10 hereof.

(b) Payroll deductions for a participant shall commence on the first payday following the Entry Date and shall end on the last payday in the Offering Period to which such authorization is applicable, unless sooner terminated by the participant as provided in Section 10 hereof. All payroll deductions made for a participant shall be credited to his or her account under the Plan and shall be withheld in whole percentages only. A participant may not make any additional payments into such account.

(c) A participant may discontinue his or her participation in the Plan as provided in Section 10 hereof, or may decrease (but not increase) the rate of his or her payroll deductions during the Offering Period by changing deductions via E\*Trade or completing or filing with the Company a new subscription agreement authorizing a change in payroll deduction rate. No more than one (1) such reduction shall be allowed in any Purchase Period. A participant may only increase the rate of his or her payroll deductions beginning with the next Offering Period which lasts 24 months. The change in rate shall be effective as soon as administratively practicable.

(d) Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 3(b) hereof, a participant's payroll deductions may be decreased to zero percent (0%) at any time during a Purchase Period. Payroll deductions shall recommence at the rate provided in such participant's E\*Trade elections or subscription agreement at the beginning of the first Purchase Period which is scheduled to end in the following calendar year, unless terminated by the participant as provided in Section 10 hereof.

(e) At the time the option is exercised, in whole or in part, or at the time some or all of the Company's Common Stock issued under the Plan is disposed of, the participant must make adequate provision for the Company's federal, state, or other tax withholding obligations, if any, which arise upon the exercise of the option or the disposition of the Common Stock. At any time, the Company may, but shall not be obligated to, withhold from the participant's compensation the amount necessary for the Company to meet applicable withholding obligations, including any withholding required to make available to the Company any tax deductions or benefits attributable to sale or early disposition of Common Stock by the Eligible Employee.

7. Grant of Option. On the Entry Date of each Offering Period, each Eligible Employee participating in such Offering Period shall be granted an option to purchase on each Exercise Date during such Offering Period (at the applicable

Purchase Price) up to a number of shares of the Company's Common Stock determined by dividing such Eligible Employee's payroll deductions accumulated prior to such Exercise Date and retained in the Participant's account as of the Exercise Date by the applicable Purchase Price; provided that in no event shall an Eligible Employee be permitted to purchase during each Purchase Period more than 7,500 shares of the Company's Common Stock (subject to any adjustment pursuant to Section 19), and provided further that such purchase shall be subject to the limitations set forth in Sections 3(b) and 6 hereof. The Eligible Employee may accept the grant of such option by enrolling via E\*Trade or turning in a completed Subscription Agreement (attached hereto as Exhibit A) to the stock plan administrator, on a date determined by such administrator, which shall be no later than five (5) Trading Days prior to an applicable Entry Date. The Administrator may, for future Offering Periods, increase or decrease, in its absolute discretion, the maximum number of shares of the Company's Common Stock an Eligible Employee may purchase during each Purchase Period of such Offering Period. Exercise of the option shall occur as provided in Section 8 hereof, unless the participant has withdrawn pursuant to Section 10 hereof. The option shall expire on the last day of the Offering Period.

8. Exercise of Option.

(a) Unless a participant withdraws from the Plan as provided in Section 10 hereof, his or her option for the purchase of shares shall be exercised automatically on the Exercise Date, and the maximum number of full shares subject to option shall be purchased for such participant at the applicable Purchase Price with the accumulated payroll deductions in his or her account. No fractional shares shall be purchased; any payroll deductions accumulated in a participant's account which are not sufficient to purchase a full share shall be retained in the participant's account for the subsequent Purchase Period or Offering Period, subject to earlier withdrawal by the participant as provided in Section 10 hereof. Any other funds left over in a participant's account after the Exercise Date shall be returned to the participant. During a participant's lifetime, a participant's option to purchase shares hereunder is exercisable only by him or her.

(b) If the Administrator determines that, on a given Exercise Date, the number of shares with respect to which options are to be exercised may exceed (i) the number of shares of Common Stock that were available for sale under the Plan on the Entry Date of the applicable Offering Period, or (ii) the number of shares available for sale under the Plan on such Exercise Date, the Administrator may in its sole discretion (x) provide that the Company shall make a pro rata allocation of the shares of Common Stock available for purchase on such Entry Date or Exercise Date, as applicable, in as uniform a manner as shall be practicable and as it shall determine in its sole discretion to be equitable among all participants exercising options to purchase Common Stock on such Exercise Date, and continue all Offering Periods then in effect, or (y) provide that the Company shall make a pro rata allocation of the shares available for purchase on such Entry Date or Exercise Date, as applicable, in as uniform a manner as shall be practicable and as it shall determine in its sole discretion to be equitable among all participants exercising options to purchase Common Stock on such Exercise Date, and terminate any or all Offering Periods then in effect pursuant to Section 20 hereof. The Company may make pro rata allocation of the shares available on the Entry Date of any applicable Offering Period pursuant to the preceding sentence, notwithstanding any authorization of additional shares for issuance under the Plan by the Company's shareholders subsequent to such Entry Date.

9. Delivery. As soon as reasonably practicable after each Exercise Date on which a purchase of shares occurs, the Company shall arrange the delivery to each participant the shares purchased upon exercise of his or her option in a form determined by the Administrator.

10. Withdrawal.

(a) At any time prior to the last five (5) Trading Days of a Purchase Period, a participant may withdraw from the Plan by giving written notice to the Company in the form of Exhibit A to this Plan. The participant shall elect to either have (i) all of the participant's payroll deductions credited to his or her account used to purchase shares at the next Exercise Date or (ii) all payroll deductions credited to his or her account refunded. In neither event will any further payroll deductions for the purchase of shares be made for such Offering Period. If a participant withdraws from an Offering Period, the participant may not re-enroll in the Plan until the next Offering Period which lasts 24 months, and payroll deductions shall not resume at the beginning of such Offering Period unless the participant re-enrolls in the Plan via E\*Trade or delivers to the Company a new subscription agreement in a manner provided for in Section 5.

(b) A participant's withdrawal from an Offering Period shall not have any effect upon his or her eligibility to participate in any similar plan which may hereafter be adopted by the Company.

11. Termination of Employment. In the event a participant ceases to be an Eligible Employee of the Company or any Participating Company (other than as a result of death or Permanent Disability), any payroll deductions credited to such participant's account during the Offering Period but not yet used to purchase shares under the Plan shall be returned to such participant and such participant's option shall be automatically terminated. In the event a participant ceases to be an Employee

of the Company or any Participating Company as a result of death or Permanent Disability, then such participant (or personal representative of the estate of the deceased participant) may elect at any time prior to the last five (5) Trading Days of a Purchase Period in which such termination occurs, to (i) have all of such participant's payroll deductions for such Purchase Period refunded to the Participant or (ii) have all such payroll deductions used to purchase the Company's common stock on the Exercise Date following such termination.

12. Interest. No interest shall accrue on the payroll deductions of a participant in the Plan.

13. Stock.

(a) Subject to adjustment upon changes in capitalization of the Company as provided in Section 19 hereof, the number of shares of the Company's Common Stock which shall be made available for sale under the Plan shall be 3,275,000 shares, plus up to 150,000 remaining unissued shares available as of the Effective Date under the Company's previous ESPP, and plus beginning January 1, 2005, and each January 1 thereafter during the term of the Plan, an automatic annual increase in shares reserved of the lesser of (i) 1,500,000 shares, (ii) one half of one percent (0.5%) of the then outstanding shares of our common stock, or (iii) such lesser amount as is approved by our Board of Directors; provided, however, that the shares under the Company's previous ESPP shall not be available for issuance under the Plan to the extent that such reservation would, in the opinion of the Company's independent auditors, result in a compensation expense to the Company under either EITF 97-12 or ASC 718.

(b) Until the shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), a participant shall only have the rights of an unsecured creditor with respect to such shares, and no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to such shares.

(c) Shares to be delivered to a participant under the Plan shall be held in a brokerage account in street name.

14. Administration. The Administrator shall administer the Plan and shall have full and exclusive discretionary authority to construe, interpret and apply the terms of the Plan, to determine eligibility and to adjudicate all disputed claims filed under the Plan. Every finding, decision and determination made by the Administrator shall, to the full extent permitted by law, be final and binding upon all parties.

15. Designation of Beneficiary.

(a) A participant may file a written designation of a beneficiary who is to receive any payroll deductions, if any, from the participant's account under the Plan in the event of such participant's death subsequent to an Exercise Date on which the option is exercised but prior to delivery to such participant of such payroll deductions. In addition, a participant may file a written designation of a beneficiary who is to receive any payroll deductions from the participant's account under the Plan in the event of such participant's death prior to exercise of the option. If a participant is married and the designated beneficiary is not the spouse, spousal consent shall be required for such designation to be effective.

(b) Such designation of beneficiary may be changed by the participant at any time by written notice. In the event of the death of a participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such participant's death, the Company shall deliver such payroll deductions to the executor or administrator of the estate of the participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such payroll deductions to the spouse or to any one or more dependents or relatives of the participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

(c) All beneficiary designations shall be in such form and manner as the Administrator may designate from time to time.

16. Transferability. Neither payroll deductions credited to a participant's account nor any rights with regard to the exercise of an option or to receive shares under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution or as provided in Section 15 hereof) by the participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds from an Offering Period in accordance with Section 10 hereof.

17. Use of Funds. All payroll deductions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions. Until shares are issued, participants shall only have the rights of an unsecured creditor.

18. Reports. Individual accounts shall be maintained for each participant in the Plan. Statements of account shall be given to participating Eligible Employees at least annually, which statements shall set forth the amounts of payroll deductions, the Purchase Price, the number of shares purchased and the remaining cash balance, if any.

19. Adjustments Upon Changes in Capitalization, Dissolution, Liquidation, Merger or Change of Control.

(a) Changes in Capitalization. Subject to any required action by the shareholders of the Company, the maximum number of shares of the Company's Common Stock which shall be made available for sale under the Plan, the maximum number of shares each participant may purchase each Purchase Period (pursuant to Section 7), as well as the price per share and the number of shares of Common Stock covered by each option under the Plan which has not yet been exercised shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other change in the number of shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Administrator, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an option.

(b) Change in Control. In the event of a Change of Control, each outstanding option shall be assumed or an equivalent option substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the option, any Purchase Periods then in progress shall be shortened by setting a New Exercise Date and any Offering Periods then in progress shall end on the New Exercise Date. The New Exercise Date shall be before the date of the Company's proposed Change of Control. The Administrator shall notify each participant in writing, at least 10 business days prior to the New Exercise Date, that the Exercise Date for the participant's option has been changed to the New Exercise Date and that the participant's option shall be exercised automatically on the New Exercise Date, unless prior to such date the participant has withdrawn from the Offering Period as provided in Section 10 hereof.

20. Amendment or Termination.

(a) The Administrator may at any time and for any reason terminate or amend the Plan. Except as otherwise provided in the Plan, no such termination can affect options previously granted, provided that an Offering Period may be terminated by the Administrator on any Exercise Date if the Administrator determines that the termination of the Offering Period or the Plan is in the best interests of the Company and its shareholders. Except as provided in Section 19 and this Section 20 hereof, no amendment may make any change in any option theretofore granted which adversely affects the rights of any participant. To the extent necessary to comply with Section 423 of the Code (or any successor rule or provision or any other applicable law, regulation or stock exchange rule), the Company shall obtain shareholder approval in such a manner and to such a degree as required.

(b) Without shareholder consent and without regard to whether any participant rights may be considered to have been "adversely affected," the Administrator shall be entitled to change the Offering Periods, limit the frequency and/or number of changes in the amount withheld during an Offering Period, establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, permit payroll withholding in excess of the amount designated by a participant in order to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Common Stock for each participant properly correspond with amounts withheld from the participant's Compensation, and establish such other limitations or procedures as the Administrator determines in its sole discretion advisable which are consistent with the Plan.

(c) In the event the Administrator determines that the ongoing operation of the Plan may result in unfavorable financial accounting consequences, the Board may, in its discretion and, to the extent necessary or desirable, modify or amend the Plan to reduce or eliminate such accounting consequence including, but not limited to:

(i) increasing the Purchase Price for any Offering Period including an Offering Period underway at the time of the change in Purchase Price;

(ii) shortening any Offering Period so that Offering Period ends on a new Exercise Date, including an Offering Period underway at the time of the Board action; and

(iii) allocating shares.



Such modifications or amendments shall not require stockholder approval or the consent of any Plan participants.

21. Notices. All notices or other communications by a participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form and manner specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

22. Conditions Upon Issuance of Shares. Shares shall not be issued with respect to an option unless the exercise of such option and the issuance and delivery of such shares pursuant thereto shall comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an option, the Company may require the person exercising such option to represent and warrant at the time of any such exercise that the shares are being purchased only for investment and without any present intention to sell or distribute such shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned applicable provisions of law.

23. Term of Plan. The Plan, as amended through May 19, 2014, shall continue in effect until August 31, 2024, unless sooner terminated under Section 20 hereof.

24. Automatic Transfer to Low Price Offering Period. To the extent permitted by any applicable laws, regulations, or stock exchange rules if the Fair Market Value of the Common Stock on any Exercise Date in an Offering Period is lower than the Fair Market Value of the Common Stock on the Entry Date of such Offering Period, then all participants in such Offering Period shall be automatically withdrawn from such Offering Period immediately after the exercise of their option on such Exercise Date and automatically re-enrolled in the immediately following Offering Period.

This page intentionally left blank.

## APPENDIX B

### MICROCHIP TECHNOLOGY INCORPORATED

#### 1994 INTERNATIONAL EMPLOYEE STOCK PURCHASE PLAN

As Amended through May 19, 2014 (subject to stockholder approval)

#### I. PURPOSE

This 1994 International Employee Stock Purchase Plan ("Plan") is hereby established by Microchip Technology Incorporated, a Delaware corporation ("Microchip"), in order to provide eligible employees of foreign Microchip subsidiaries with the opportunity to acquire a proprietary interest in Microchip through the purchase of shares of Microchip common stock at periodic intervals with their accumulated payroll deductions.

#### II. DEFINITIONS

For purposes of administration of the Plan, the following terms shall have the meanings indicated:

"Common Stock" means shares of Microchip common stock, par value \$0.001 per share.

"Earnings" means regular base salary plus such additional items of compensation as the Plan Administrator may deem appropriate.

"Effective Date" means June 1, 1994. A list of the participating Foreign Subsidiaries is hereto attached as Schedule A. For any other Foreign Subsidiary, the effective date shall be determined by the Microchip Board of Directors or the Employee Committee of the Board of Directors prior to the time such Foreign Subsidiary is to become a participating company in the Plan.

"Eligible Employee" means any person who is engaged, on a regularly-scheduled basis, in the rendition of personal services outside the U.S. as an employee of a Foreign Subsidiary subject to the control and direction of that Foreign Subsidiary as to both the work to be performed and the manner and method of performance.

"Entry Date" shall mean the first Trading Day of any Purchase Period. An Entry Date occurs on the first Trading Day in December or June.

"Foreign Subsidiary" means any non-U.S. Microchip subsidiary which elects, with the approval of the Microchip Board of Directors or the Employee Committee of the Board of Directors, to extend the benefits of this Plan to its Eligible Employees. The Foreign Subsidiaries participating in the Plan are listed on attached Schedule A.

"Participant" means any Eligible Employee of a Foreign Subsidiary who is actively participating in the Plan.

"Purchase Period" means the first U.S. business day of December to the last U.S. business day of May and from the first U.S. business day of June to the last U.S. business day of November; provided that Purchase Periods commencing after June, 2014 shall run from the first U.S. business day of December to the first U.S. business day of June and from the first U.S. business day in June to the first U.S. business day of December.

"Service" means the period during which an individual performs services as an Eligible Employee and shall be measured from his or her hire date, whether that date is before or after the Effective Date of the Plan.

"Trading Day" shall mean a day on which national stock exchanges and the Nasdaq System are open for trading.

### **III. ADMINISTRATION**

Each Foreign Subsidiary shall have responsibility for the administration of the Plan with respect to its Eligible Employees. Accordingly, the Plan shall, as to each Foreign Subsidiary, be separately administered by a plan administrator comprised of two or more Members of the Board of Directors, the Employee Committee of the Board of Directors, or a designee as may be appointed by either of them from time to time ("Plan Administrator"). The Plan Administrator shall have full authority to administer the Plan, including authority to interpret and construe any provision of the Plan and to adopt such rules and regulations for administering the Plan as it may deem necessary. Decisions of the Plan Administrator shall be subject to ratification by the Microchip Board of Directors and, when so ratified, shall be final and binding on all parties who have an interest in the Plan.

### **IV. PURCHASE PERIODS**

A. Shares of Common Stock shall be offered for purchase under the Plan through a series of successive purchase periods until such time as (i) the maximum number of shares of Common Stock available for issuance under the Plan shall have been purchased or (ii) the Plan shall have been sooner terminated in accordance with Article VIII.

B. The Plan shall be implemented in a series of successive purchase periods, each to be of a duration of six (6) months. The initial purchase period will begin on June 1, 1994 and end on the last U.S. business day in November 1994. Subsequent purchase periods shall run from the first U.S. business day of December to the last U.S. business day of May and from the first U.S. business day of June to the last U.S. business day of November; provided that purchase periods commencing after June, 2014 shall run from the first U.S. business day of December to the first U.S. business day of June and from the first U.S. business day of June to the first U.S. business day of December.

C. No purchase period shall commence under the Plan, nor shall any shares of Common Stock be issued hereunder, until such time as (i) the Plan shall have been approved by the Microchip Board of Directors and (ii) Microchip shall have complied with all applicable requirements of the Securities Act of 1933 (as amended), all applicable listing requirements of any securities exchange on which shares of the Common Stock are listed and all other applicable statutory and regulatory requirements.

D. The Participant shall be granted a separate purchase right for each purchase period in which he/she participates. The purchase right shall be granted on the start date of the purchase period and shall be automatically exercised on the last U.S. business day of that purchase period.

E. The acquisition of Common Stock through plan participation for any purchase period shall neither limit nor require the acquisition of Common Stock by the Participant in any subsequent purchase period.

### **V. ELIGIBILITY AND PARTICIPATION**

A. Any Eligible Employee on a given Entry Date shall be eligible to participate in the Plan.

B. Each Eligible Employee of each Foreign Subsidiary participating in the Plan may join the Plan in accordance with the following provisions:

- An individual who is an Eligible Employee on a given Entry Date may enter that purchase period on such Entry Date, provided he/she enrolls in the purchase period on or before such Entry Date in accordance with Section V.C below. Should any such Eligible Employee not enter the purchase period on or before the given Entry Date, then he/she may not subsequently join that particular purchase period on any later date.

- An individual who is an Eligible Employee but was not employed on a given Entry Date may not participate in that purchase period but will be eligible to join the Plan on the next Entry Date thereafter provided that he or she is then an Eligible Employee.

C. To participate for a particular purchase period, the Eligible Employee must complete the enrollment forms prescribed by the Plan Administrator (including a purchase agreement and a payroll deduction authorization) and file such forms with the Plan Administrator (or its designate) at least five U.S. business days before the start date of that purchase period.

D. The payroll deduction authorized by the Participant shall be collected under the Plan in the currency in which paid by the Foreign Subsidiary and may be any multiple of one percent (1%) of the Earnings paid to the Participant during each purchase period, up to a maximum of ten percent (10%). Any changes or fluctuations in the exchange rate at which the currency collected from the Participant through such payroll deductions is converted into U.S. Dollars on each purchase date under the Plan shall be borne solely by the Participant. The deduction rate so authorized shall continue in effect for the entire purchase period and for each successive purchase period, except to the extent such rate is changed in accordance with the following guidelines:

- The Participant may, at any time during the purchase period, reduce his/her rate of payroll deduction. Such reduction shall become effective as soon as possible after filing of the requisite reduction form with the Plan Administrator (or its designate), but the Participant may not effect more than one such reduction during the same purchase period.

- The Participant may, prior to the start date of any subsequent purchase period, increase or decrease the rate of his/her payroll deduction by filing the appropriate form with the Plan Administrator (or its designate). The new rate (which may not exceed the ten percent (10%) maximum) shall become effective as of the start date of the new six (6)-month purchase period.

Payroll deductions will automatically cease upon the termination of the Participant's purchase right in accordance with the applicable provisions of Section VII below.

## **VI. STOCK SUBJECT TO PLAN**

A. The Common Stock purchasable under the Plan shall, solely in the discretion of the Microchip Board, be made available from authorized but unissued shares of Common Stock or from shares of Common Stock reacquired by Microchip, including shares of Common Stock purchased on the open market. The total number of shares reserved under the Plan prior to January 2007 is 348,593<sup>1</sup> shares, plus beginning January 1, 2007, and each January 1 thereafter during the term of the Plan, an automatic annual increase in shares reserved of one tenth of one percent (0.1%) of the then outstanding shares of Microchip Common Stock<sup>2</sup>. The total number of shares which may be issued under the Plan shall not exceed the number reserved.

---

<sup>1</sup>Adjusted to reflect: (i) the three-for-two stock split of the outstanding Common Stock effected in November 1994; (ii) the three-for-two stock split of the outstanding Common Stock effected in January 1997; (iii) the 10,000 share increase authorized by the Board of Directors on April 25 1997; (iv) the three-for-two stock split of the outstanding Common Stock effected in January 2000; (v) the three-for-two stock split of the outstanding Common Stock effected in September 2000; (vi) the three-for-two stock split of the outstanding Common Stock effected in May 2002; (vii) the 25,000 share increase authorized by the Board of Directors on March 3, 2003; and (viii) the 100,000 share increase authorized by the Board of Directors on August 20, 2004.

<sup>2</sup>(i) On February 13, 2007 the Board of Directors authorized the automatic 216,038 share increase; (ii) on February 11, 2008, the Board of Directors authorized the automatic 189,013 share increase; (iii) on February 27, 2009 the Board of Directors authorized the automatic 182,046 share increase; (iv) on February 22, 2010 the Board of Directors authorized the automatic 184,234 share increase; (v) on February 18, 2011 the Board of Directors authorized the automatic 188,306 share increase, and (vi) on February 13, 2012 the Board of Directors authorized the automatic 192,054 share increase. There was no share increase in 2013 and 2014.

B. In the event any change is made to the outstanding Common Stock by reason of any stock dividend, stock split, combination of shares or other change affecting such outstanding Common Stock as a class without Microchip's receipt of consideration, appropriate adjustments shall be made by the Microchip Board of Directors to (i) the class and maximum number of securities issuable over the term of the Plan, (ii) the class and maximum number of securities purchasable per Participant during any one purchase period and (iii) the class and number of securities and the price per share in effect under each purchase right at the time outstanding under the Plan. Such adjustments shall be designed to preclude the dilution or enlargement of rights and benefits under the Plan.

## VII. PURCHASE RIGHTS

An Eligible Employee who participates in the Plan for a particular purchase period shall have the right to purchase shares of Common Stock upon the terms and conditions set forth below and shall execute a purchase agreement incorporating such terms and conditions and such other provisions (not inconsistent with the Plan) as the Plan Administrator may deem advisable.

Purchase Price. Common Stock shall be issuable at the end of each purchase period at a purchase price equal to eighty-five percent (85%) of the lower of (i) the fair market value per share on the start date of that purchase period or (ii) the fair market value per share on the last U.S. business day of that purchase period.

Valuation. The fair market value per share of Common Stock on any relevant date under the Plan shall be the closing selling price per share of Common Stock on that date, as officially quoted on the Nasdaq Global Select Market. If there is no quoted selling price for such date, then the closing selling price per share of Common Stock on the next day for which there does exist such a quotation shall be determinative of fair market value.

### Number of Purchasable Shares.

- The number of shares purchasable per Participant during each purchase period shall be determined as follows: first, the payroll deductions in the currency in which collected from the Participant during that purchase period shall be converted into U.S. Dollars on the last U.S. business day of the purchase period at the exchange rate in effect on that day; then, the U.S. Dollar amount calculated for the Participant on the basis of such exchange rate shall be divided by the purchase price in effect for such period to determine the number of whole shares of Common Stock purchasable on the Participant's behalf for that purchase period.

- However, no Participant may, during any one purchase period, purchase more than one thousand eight hundred ninety-nine (1,899) shares of Common Stock.

- And any provisions of the Plan to the contrary notwithstanding, no Participant shall be granted an option under the Plan (i) to the extent that, immediately after the grant, such Participant (or any other person whose stock would be attributed to such Participant) would own capital stock of Microchip and/or hold outstanding options to purchase such stock possessing five percent (5%) or more of the total combined voting power or value of all classes of the capital stock of Microchip or of any Subsidiary, or (ii) to the extent that his or her rights to purchase stock under all employee stock purchase plans of Microchip and its subsidiaries accrues at a rate which exceeds \$25,000.00 worth of stock (determined at the fair market value of the shares at the time such option is granted) for each calendar year in which such option is outstanding at any time.

Payment. Payment for the Common Stock purchased under the Plan shall be effected by means of the Participant's authorized payroll deductions in the currency in which paid by the Foreign Subsidiary. Such deductions shall begin with the first full payroll period beginning with or immediately following the start date of the purchase period and shall (unless sooner terminated by the Participant) continue through the pay day ending with or immediately prior to the last day of such purchase period. The amounts so collected shall be credited to the Participant's book account under the Plan, but no interest shall be paid on the balance from time to time outstanding in such account. The amounts collected from a Participant may be commingled with the general assets of the Foreign Subsidiary or Microchip and may be used for general corporate purposes. However, all purchases of Common Stock under the Plan shall be made in U.S. Dollars on the basis of the exchange rate in effect on the last day of each purchase period.

Termination of Purchase Right. The following provisions shall govern the termination of outstanding purchase rights:

- A Participant may, at any time prior to the last five (5) business days of the Foreign Subsidiary falling within the purchase period, terminate his/her outstanding purchase right by filing the prescribed notification form with the Plan Administrator. No further payroll deductions shall be collected from the Participant with respect to the terminated purchase right, and any payroll deductions collected for the purchase period in which such termination occurs shall, at the Participant's election, be immediately refunded in the currency in which paid by the Foreign Subsidiary or held for the purchase of shares at the end of such purchase period. If no such election is made at the time the termination notice is filed, then the Participant's payroll deductions shall be refunded as soon as possible after the termination date of his/her purchase right.

- The termination of such purchase right shall be irrevocable, and the Participant may not subsequently rejoin the purchase period for which the terminated purchase right was granted. In order to resume participation in any subsequent purchase period, such individual must re-enroll in the Plan (by making a timely filing of a new purchase agreement and payroll deduction authorization) on or before the date he/she is first eligible to join the new purchase period.

- If the Participant ceases to remain an Eligible Employee while his/her purchase right is outstanding, then such purchase right shall immediately terminate, and the payroll deductions collected from such Participant for the purchase period shall be promptly refunded in the currency in which paid by the Foreign Subsidiary to the Participant. However, should the Participant's cessation of Eligible Employee status occur by reason of death or permanent disability, then such individual (or the personal representative of a deceased Participant) shall have the following election, exercisable up until the last day of the purchase period:

- to withdraw all of the Participant's payroll deductions for such purchase period, in the currency in which paid by the Foreign Subsidiary, or

- to have such funds held for the purchase of shares at the end of the purchase period.

If no such election is made, then such funds shall be refunded as soon as possible after the end of the purchase period. In no event, however, may any payroll deductions be made on the Participant's behalf following his/her cessation of Eligible Employee status.

Stock Purchase. Shares of Common Stock shall automatically be purchased on behalf of each Participant (other than Participants whose payroll deductions have previously been refunded in accordance with the Termination of Purchase Right provisions above) on the last U.S. business day of each purchase period. The purchase shall be effected as follows: first, each Participant's payroll deductions for that purchase period (together with any carryover deductions from the preceding purchase period) shall be converted from the currency in which paid by the Foreign Subsidiary into U.S. Dollars at the exchange rate in effect on the purchase date, and then the amount of U.S. Dollars calculated for each Participant on the basis of such exchange rate shall be applied to the purchase of whole shares of Common Stock (subject to the limitation on the maximum number of purchasable shares set forth above) at the purchase price in effect for such purchase period. Any payroll deductions not applied to such purchase because they are not sufficient to purchase a whole share shall be held for the purchase of Common Stock in the next purchase period. However, any payroll deductions not applied to the purchase of Common Stock by reason of the limitation on the maximum number of shares purchasable by the Participant during the purchase period shall be promptly refunded to the Participant in the currency in which paid by the Foreign Subsidiary.

Proration of Purchase Rights. Should the total number of shares of Common Stock which are to be purchased pursuant to outstanding purchase rights on any particular date exceed the number of shares then available for issuance under the Plan, the Plan Administrator shall make a pro-rata allocation of the available shares on a uniform and nondiscriminatory basis, and the payroll deductions of each Participant, to the extent in excess of the aggregate purchase price payable for the Common Stock pro-rated to such individual, shall be refunded to such Participant in the currency in which paid by the Foreign Subsidiary.

Rights as Stockholder. A Participant shall have no stockholder rights with respect to the shares subject to his/her outstanding purchase right until the shares are actually purchased on the Participant's behalf in accordance with the applicable provisions of the Plan. No adjustments shall be made for dividends, distributions or other rights for which the record date is prior to the date of such purchase.

A Participant shall be entitled to receive, as soon as practicable after the end of each purchase period, a stock certificate (as evidenced by the appropriate entry on the books of Microchip or of a duly authorized transfer agent of Microchip) for the number of shares purchased on the Participant's behalf. Such certificate will be issued in "street name" for immediate deposit in a designated brokerage account. Until the stock certificate evidencing such Shares is issued no right to vote or receive dividends or any other rights as a stockholder shall exist. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued.

Assignability. No purchase right granted under the Plan shall be assignable or transferable by the Participant other than by will or by the laws of descent and distribution following the Participant's death, and during the Participant's lifetime the purchase right shall be exercisable only by the Participant.

Change in Ownership. Should any of the following transactions (a "Corporate Transaction") occur during the purchase period:

- (i) a merger or other reorganization in which Microchip will not be the surviving corporation (other than a reorganization effected primarily to change the State in which Microchip is incorporated), or
- (ii) a sale of all or substantially all of Microchip's assets in liquidation or dissolution of Microchip, or
- (iii) a reverse merger in which Microchip is the surviving corporation but in which more than fifty percent (50%) of Microchip's outstanding voting stock is transferred to person or persons different from those who held the stock immediately prior to such merger, then all outstanding purchase rights under the Plan shall automatically be exercised immediately prior to the effective date of such Corporate Transaction by applying the payroll deductions of each Participant for the purchase period in which such Corporate Transaction occurs to the purchase of whole shares of Common Stock at eighty-five percent (85%) of the lower of (i) the fair market value of the Common Stock on the start date of the purchase period in which such Corporate Transaction occurs or (ii) the fair market value of the Common Stock immediately prior to the effective date of such Corporate Transaction. Payroll deductions shall be converted from the currency in which paid by the Foreign Subsidiary into U.S. Dollars on the basis of the exchange rate in effect on the purchase date, and the applicable share limitation of Article VII shall continue to apply to each such purchase. Should Microchip sell or otherwise dispose of its ownership interest in any Foreign Subsidiary participating in the Plan, whether through merger or sale of all or substantially all of the assets or outstanding capital stock of that Foreign Subsidiary, then a similar exercise of outstanding purchase rights shall be effected immediately prior to the effective date of such disposition, but only to the extent those purchase rights are attributable to the employees of such Foreign Subsidiary.

Microchip shall use its best efforts to provide at least ten (10) days advance written notice of the occurrence of any such Corporate Transaction, and the Participants shall, following the receipt of such notice, have the right to terminate their outstanding purchase rights in accordance with the applicable provisions of this Article VII.

## **VIII. AMENDMENT AND TERMINATION**

The Plan has been established voluntarily by Microchip. The Microchip Board of Directors may alter, amend, suspend or discontinue the Plan with respect to one or more Foreign Subsidiaries following the end of any purchase period. The Microchip Board may also terminate the Plan in its entirety immediately following the end of any purchase period. In such event, no further purchase rights shall thereafter be granted or exercised, and no further payroll deductions shall thereafter be collected, under the Plan.

## **IX. GENERAL PROVISIONS**

A. The Plan shall become effective on the designated effective date for each Foreign Subsidiary, provided Microchip shall have complied with all applicable requirements of the Securities Act of 1933 (as amended), all applicable listing requirements of any securities exchange on which shares of the Common Stock are listed and all other applicable requirements established by law or regulation.

B. The Plan shall terminate upon the earlier of (i) November 30, 2024 or (ii) the date on which all shares available for issuance under the Plan shall have been sold pursuant to purchase rights exercised under the Plan.

C. All costs and expenses incurred in the administration of the Plan shall be paid by the Foreign Subsidiary.



D. Neither the action of Microchip or the Foreign Subsidiary in establishing the Plan, nor any action taken under the Plan by the Microchip Board or the Plan Administrator, nor any provision of the Plan itself shall constitute any form of employment contract, be construed so as to grant any person the right to remain in the employ of the Foreign Subsidiary for any period of specific duration, and except where expressly prohibited by applicable law such person's employment may be terminated at any time, with or without cause.

E. Participation in the Plan is voluntary and occasional and does not create any contractual or other right to participate in the Plan in the future, or benefits in lieu of participation in the Plan, even if the Participant has continually participated in the Plan in the past.

F. Participation in the Plan does not constitute normal or expected salary or compensation for any purposes, including but not limited to, calculating any severance, resignation, termination, redundancy, end of service payments, bonuses, long-term service awards, pension or retirement benefits or similar payments and in no event should be considered as compensation for, or relating in any way to past services for Microchip or the Foreign Subsidiary.

G. Microchip, Foreign Subsidiaries and the Plan Administrator must collect, use, and transfer personal data of Participants as described in this subsection in order to administer the Plan. By participating in the Plan, the Participant is consenting to the collection, transfer and use of personal data as generally described in this subsection except where requiring such consent is expressly prohibited by local law.

(i) Microchip and its Foreign Subsidiaries hold certain personal information about the Participant, including, but not limited to, name, home address and telephone number, date of birth, social insurance number, salary, nationality, job title, any Shares of Common Stock or directorships held in Microchip, details of all participation in the Plan or other entitlement to Shares, for the purpose of managing and administering the Plan ("Data").

(ii) Microchip and/or its Foreign Subsidiaries will transfer Data among themselves as necessary for the purposes of implementation, administration, and management of Participant's participation in the Plan, and that Microchip and/or its Foreign Subsidiaries may each further transfer Data to identified third parties assisting them in the implementation, administration, and management of the Plan ("Data Recipients").

(iii) These Data Recipients may be located in Participant's country of residence or elsewhere, such as the United States. By participating under this Plan, the Participant authorizes the Data Recipients to receive, possess, use, retain, and transfer Data in electronic or other form, for the purposes of implementing, administering, and managing Participant's participation in the Plan, including any transfer of such Data, as may be required for Plan administration and/or the subsequent holding of Shares on Participant's behalf, to a broker or third party with whom the Shares acquired on purchase may be deposited.

(iv) Participant may, at any time, review the Data, request that any necessary amendments be made to it, or withdraw Participant's consent herein in writing by contacting Microchip. Withdrawing consent may affect Participant's ability to participate in the Plan.

This page intentionally left blank.

## SCHEDULE A

### LIST OF FOREIGN SUBSIDIARIES PARTICIPATING IN THE INTERNATIONAL EMPLOYEE STOCK PURCHASE PLAN Amended through May 19, 2014

**Australia** – Microchip Technology Australia PTY Ltd.

**Australia** – Hi-Tech Software PTY Ltd

**Austria** – Microchip Technology Austria GmbH

**Belgium** – Eqcologic NV

**Canada** – Microchip Technology Canada Inc

**China** – SST China Ltd.

**China** – Microchip Technology Trading (Shanghai) Co., Ltd.

**Denmark** – Microchip Technology Nordic ApS

**France** – Microchip Technology Sarl

**Germany** – K2L GmbH & Co. KG

**Germany** – Microchip Technology GmbH

**Germany** – Microchip Technology Germany II GmbH & Co. KG

**Germany** – Microchip Technology Germany GmbH

**Hong Kong** – Microchip Technology Hong Kong Ltd.

**Hong Kong** – Supertex, Limited

**Hungary** – Microchip Technology Hungary Kft.

**India** – Microchip Technology (India) Private Limited

**Ireland** – Microchip Technology Ireland Limited

**Israel** – Microchip Technology Israel Ltd

**Italy** – Microchip Technology SRL

**Japan** – Microchip Technology Japan K.K.

**Korea** – Microchip Technology Korea Ltd.

**Malaysia** – Arizona Microchip Technology (Malaysia) Sdn Bhd

**Mexico** – Microchip Technology Mexico, S.DE R.L. DE C.V.

**Netherlands** – Microchip Technology (Netherlands) Europe B.V.

**Philippines** – MTI Advanced Test Development Corporation

**Philippines** – Microchip Technology (Philippines) Corporation

**Poland** – Microchip Technology Sp. z o.o.

**Romania** – Microchip Technology SRL

**Singapore** – Microchip Technology Singapore Pte Ltd.

**Singapore** – Wireless Sound Solutions Pte Ltd.

**Spain** – Microchip Technology S.L.

**Sweden** – Microchip Technology Sweden AB

**Sweden** – SMSC Sweden

**Switzerland** – Microchip Technology Switzerland S.A.

**Taiwan** – Microchip Technology (Barbados) II Inc. – Taiwan Branch

**Taiwan** – SST Taiwan Ltd. – HsinChu Office

**Thailand** – Arizona Microchip Technology (Thailand) Ltd.

**United Kingdom** – Microchip Limited

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

FORM 10-K

(Mark One)

Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended March 31, 2014

OR

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-21184



**MICROCHIP TECHNOLOGY INCORPORATED**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**

(State or Other Jurisdiction of Incorporation or Organization)

**86-0629024**

(IRS Employer Identification No.)

**2355 W. Chandler Blvd., Chandler, AZ 85224-6199**  
(Address of Principal Executive Offices, Including Zip Code)

**(480) 792-7200**  
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, \$0.001 Par Value Per Share	NASDAQ® Global Market

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  Yes  No

Indicate by checkmark 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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§232.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of Form 10-K or any amendment to this Form 10-K.

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a 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

Aggregate market value of the voting and non-voting common equity held by non-affiliates as of September 30, 2013 based upon the closing price of the common stock as reported by the NASDAQ Global Market on such date was approximately **\$7,760,827,527**.

Number of shares of Common Stock, \$0.001 par value, outstanding as of May 23, 2014: 200,291,129 shares

Documents Incorporated by Reference

<u>Document</u>	Part of Form 10-K
Proxy Statement for the 2014 Annual Meeting of Stockholders	III

**MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES**

**FORM 10-K**

**TABLE OF CONTENTS**

	<u>Page</u>	
<b>PART I</b>		
<u>Item 1.</u>	<u>Business</u>	<u>3</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>11</u>
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u>	<u>22</u>
<u>Item 2.</u>	<u>Properties</u>	<u>22</u>
<u>Item 3.</u>	<u>Legal Proceedings</u>	<u>23</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	<u>23</u>
<b>PART II</b>		
<u>Item 5.</u>	<u>Market for Registrant's Common Equity and Related Stockholder Matters</u>	<u>23</u>
<u>Item 6.</u>	<u>Selected Financial Data</u>	<u>25</u>
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>27</u>
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>43</u>
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	<u>43</u>
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>43</u>
<u>Item 9A.</u>	<u>Controls and Procedures</u>	<u>43</u>
<u>Item 9B.</u>	<u>Other Information</u>	<u>46</u>
<b>PART III</b>		
<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	<u>46</u>
<u>Item 11.</u>	<u>Executive Compensation</u>	<u>46</u>
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>47</u>
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>47</u>
<u>Item 14.</u>	<u>Principal Accountant Fees and Services</u>	<u>47</u>
<b>PART IV</b>		
<u>Item 15.</u>	<u>Exhibits and Financial Statement Schedules</u>	<u>48</u>
	<u>Signatures</u>	<u>49</u>

## PART I

*This Form 10-K contains certain forward-looking statements that involve risks and uncertainties, including statements regarding our strategy and future financial performance and those statements identified under "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Note Regarding Forward-looking Statements." Our actual results could differ materially from the results described in these forward-looking statements as a result of certain factors including those set forth under "Item 1A – Risk Factors," beginning below at page 11, and elsewhere in this Form 10-K. Although we believe that the matters reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on these forward-looking statements. We disclaim any obligation to update information contained in any forward-looking statement.*

### Item 1. BUSINESS

We develop, manufacture and sell specialized semiconductor products used by our customers for a wide variety of embedded control applications. Our product portfolio comprises general purpose and specialized 8-bit, 16-bit, and 32-bit microcontrollers, a broad spectrum of high-performance linear, mixed-signal, power management, thermal management, RF, safety, security, wired connectivity and wireless connectivity devices, as well as serial EEPROMs, Serial Flash memories, Parallel Flash memories and serial SRAM memories. We also license Flash-IP solutions that are incorporated in a broad range of products. Our synergistic product portfolio targets thousands of applications worldwide and a growing demand for high-performance designs in the automotive, communications, computing, consumer and industrial control markets. Our quality systems are ISO/TS16949 (2009 version) certified.

Microchip Technology Incorporated was incorporated in Delaware in 1989. In this Form 10-K, "we," "us," and "our" each refers to Microchip Technology Incorporated and its subsidiaries. Our executive offices are located at 2355 West Chandler Boulevard, Chandler, Arizona 85224-6199 and our telephone number is (480) 792-7200.

Our Internet address is [www.microchip.com](http://www.microchip.com). We post the following filings on our website as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission:

- our annual report on Form 10-K
- our quarterly reports on Form 10-Q
- our current reports on Form 8-K
- our proxy statement
- any amendments to the above-listed reports filed or furnished pursuant to Sections 13(a) or 15(d) of the Securities Exchange Act of 1934

All of our SEC filings on our website are available free of charge. The information on our website is **not** incorporated into this Form 10-K.

### Recent Developments

On April 1, 2014, we closed our acquisition of Supertex, Inc. Upon the closing of the acquisition, each share of common stock of Supertex was canceled and automatically converted into the right to receive \$33.00 in cash without interest and less any applicable withholding taxes. The amount of cash we paid for the acquisition, net of cash and short-term investments from Supertex of approximately \$155.8 million, was approximately \$234.2 million. We financed the transaction using borrowings under our existing credit agreement. Supertex is a leader in high voltage analog and mixed-signal products for the medical, lighting and industrial control markets. Supertex is headquartered in Sunnyvale, California and has offices, manufacturing and research facilities in California and Hong Kong.



## Industry Background

Competitive pressures require manufacturers of a wide variety of products to expand product functionality and provide differentiation while maintaining or reducing cost. To address these requirements, manufacturers often use integrated circuit-based embedded control systems that enable them to:

- differentiate their products
- replace less efficient electromechanical control devices
- reduce the number of components in their system
- add product functionality
- reduce the system level energy consumption
- decrease time to market for their products
- significantly reduce product cost

Embedded control systems have been incorporated into thousands of products and subassemblies in a wide variety of applications and markets worldwide, including:

- automotive comfort, safety, information and entertainment applications
- remote control devices, including garage door openers
- handheld tools
- large and small home appliances
- portable computers and accessories
- robotics
- energy monitoring
- thermostats
- motor controls
- security systems
- smoke and carbon monoxide detectors
- consumer electronics
- power supplies
- applications needing touch buttons, touch screens and graphical user interfaces
- medical instruments

Embedded control systems typically incorporate a microcontroller as the principal active, and sometimes sole, component. A microcontroller is a self-contained computer-on-a-chip consisting of a central processing unit, often with on board non-volatile program memory, random access memory for data storage and various analog and digital input/output peripheral capabilities. In addition to the microcontroller, a complete embedded control system incorporates application-specific software, various analog, mixed-signal and connectivity products and non-volatile memory components such as EEPROMs and Flash memory.

The increasing demand for embedded control has made the market for microcontrollers one of the significant segments of the semiconductor market at approximately \$15 billion in calendar year 2013. Microcontrollers are primarily available in 8-bit through 32-bit architectures. 8-bit microcontrollers remain very cost-effective for a wide range of high-volume embedded control applications and, as a result, continue to represent a significant portion of the overall microcontroller market. 16-bit and 32-bit microcontrollers provide higher performance and functionality, and are generally found in more complex embedded control applications. The analog and mixed-signal segment of the semiconductor market is very large at approximately \$40 billion in calendar year 2013, and this market is fragmented into a large number of sub segments.

## Our Products

Our strategic focus is on embedded control solutions, including:

- general purpose and specialized microcontrollers
- development tools and related software
- analog and mixed signal products
- connectivity products
- memory products
- technology licensing

We provide highly cost-effective embedded control solutions that also offer the advantages of small size, high performance, extreme low power, wide voltage range operation, mixed signal integration, and ease of development, thus enabling timely and cost-effective integration of our solutions by our customers in their end products.

### *Microcontrollers*

We offer a broad family of proprietary general purpose microcontroller products marketed under the PIC<sup>®</sup> brand name. We believe that our PIC product family is a price/performance leader in the worldwide microcontroller market. We have shipped over 13 billion PIC microcontrollers to customers worldwide since their introduction in 1990. We also offer specialized microcontrollers for automotive networking, computing, wireless communication and wireless audio applications. With over 1,100 microcontrollers in our product portfolio, we target the 8-bit, 16-bit, and 32-bit microcontroller markets.

We have used our manufacturing experience and design and process technology to bring additional enhancements and manufacturing efficiencies to the development and production of our PIC family of microcontroller products. Our extensive experience base has enabled us to develop our small footprint, flexible, extreme low power, low-cost user programmability feature by incorporating non-volatile memory, such as Flash, EEPROM and EPROM memory, into the microcontroller, and to be a leader in reprogrammable microcontroller product offerings.

### *Development Tools*

We offer a comprehensive set of low-cost and easy-to-learn application development tools. These tools enable system designers to quickly and easily program PIC microcontrollers for specific applications and, we believe, are a key factor for facilitating design wins.

Our family of development tools for our PIC products range from entry-level systems, which include an assembler and programmer or in-circuit debugging hardware, to fully configured systems that provide in-circuit emulation capability. Customers moving from entry-level designs to those requiring real-time emulation are able to preserve their investment in learning and tools as they migrate to future PIC devices since all of our PIC development tools share the same integrated development environment.

Many independent companies also develop and market application development tools that support our standard microcontroller product architecture. Currently, there are approximately 200 third-party tool suppliers worldwide whose products support our proprietary microcontroller architecture.

We believe that familiarity with and adoption of both our and third-party development tools by an increasing number of product designers will be an important factor in the future selection of our embedded control products. These development tools allow design engineers to develop thousands of application-specific products from our standard microcontrollers. To date, we have shipped over 1.6 million development tools.

### *Analog, Interface and Mixed Signal Products*

Our analog, interface and mixed signal products consist of several families with over 1,100 power management, linear, mixed-signal, thermal management, RF Linear drivers, safety and security, USB, ethernet, wireless and other interface products.

We market and sell our analog, interface and mixed signal products into our microcontroller customer base, to customers who use microcontrollers from other suppliers and to customers who use other products that may not fit our traditional microcontroller and memory products customer base. We market these, and all of our products, based on an application segment approach targeted to provide customers with application solutions.

### *Memory Products*

Our memory products consist of serial electrically erasable programmable read-only memory (referred to as Serial EEPROMs), Serial Flash memories, Parallel Flash memories and Serial SRAM memories. Serial EEPROMs, Serial Flash memories and Serial SRAM have a very low I/O pin requirement, permitting production of very small footprint devices. We sell our memory products primarily into the embedded control market, complementing our microcontroller offerings.

## *Technology Licensing*

Our technology licensing business includes license fees and royalties associated with technology licenses for the use of our SuperFlash<sup>®</sup> embedded flash and Smartbits<sup>®</sup> one time programmable NVM technologies. We also generate fees for engineering services related to these technologies. We license our NVM technologies to foundries, integrated device manufacturers and design partners throughout the world for use in the manufacture of their advanced microcontroller products, gate array, RF and analog products that require embedded non-volatile memory.

## **Manufacturing**

Our manufacturing operations include wafer fabrication, wafer probe, assembly and test. The ownership of a substantial portion of our manufacturing resources is an important component of our business strategy, enabling us to maintain a high level of manufacturing control, resulting in us being one of the lowest cost producers in the embedded control industry. By owning wafer fabrication facilities and our assembly and test operations, and by employing statistical techniques (statistical process control, designed experiments and wafer level monitoring), we have been able to achieve and maintain high production yields. Direct control over manufacturing resources allows us to shorten our design and production cycles. This control also allows us to capture the wafer manufacturing and a portion of the assembly and testing profit margin. We do outsource a significant portion of our manufacturing requirements to third parties and the amount of our outsourced manufacturing has increased due to our acquisitions of companies that outsource all or substantial portions of their manufacturing.

Our manufacturing facilities are located in:

- Tempe, Arizona (Fab 2)
- Gresham, Oregon (Fab 4)
- Chandler, Arizona (wafer probe)
- Bangkok, Thailand (wafer probe, assembly and test)

### *Wafer Fabrication*

Fab 2 currently produces 8-inch wafers and supports manufacturing processes from 0.35 microns to 5.0 microns. During fiscal 2014, in response to uncertain global economic conditions and our inventory position, we decided to operate Fab 2 below normal capacity levels, which we typically consider to be in the range of 90% to 95% of the actual capacity of the installed equipment. Fab 2's capacity to support more advanced technologies was increased during fiscal 2014 by making process improvements, upgrading existing equipment, and adding equipment.

Fab 4 currently produces 8-inch wafers using predominantly 0.22 microns to 0.5 microns manufacturing processes and is capable of supporting technologies below 0.18 microns. Similar to Fab 2, Fab 4 operated below normal capacity levels during fiscal 2014. A significant amount of additional clean room capacity and equipment in Fab 4 can be brought on line in the future to support incremental wafer fabrication capacity needs. We believe the combined capacity of Fab 2 and Fab 4 will provide sufficient capacity to allow us to respond to increases in future demand over the next several years with modest incremental capital expenditures.

We continue to transition products to more advanced process technologies to reduce future manufacturing costs. We believe that our ability to successfully transition to more advanced process technologies is important for us to remain competitive.

We have, in recent years, outsourced a larger portion of our wafer production requirements to third-party wafer foundries to augment our internal manufacturing capabilities. As a result of our recent acquisitions, we have become more reliant on outside wafer foundries for our wafer fabrication requirements. In fiscal 2014, approximately 38% of our sales came from products that were produced at outside wafer foundries.

### *Wafer Probe, Assembly and Test*

We perform wafer probe, product assembly and testing at our facilities located near Bangkok, Thailand. We also perform a limited amount of wafer probe at our Chandler, Arizona facility. During fiscal 2014, approximately 51% of our assembly requirements were being performed in our Thailand facilities and approximately 86% of our test requirements were performed in our Thailand facilities. We use third-party assembly and test contractors in several Asian countries for the balance of our assembly and test requirements.

## *General Matters Impacting Our Manufacturing Operations*

Due to the high fixed costs inherent in semiconductor manufacturing, consistently high manufacturing yields have significant positive effects on our gross profit and overall operating results. Our continuous focus on manufacturing productivity has allowed us to maintain excellent manufacturing yields at our facilities. Our manufacturing yields are primarily driven by a comprehensive implementation of statistical process control, extensive employee training and our effective use of our manufacturing facilities and equipment. Maintenance of manufacturing productivity and yields are important factors in the achievement of our operating results. The manufacture of integrated circuits, particularly non-volatile, erasable CMOS memory and logic devices, such as those that we produce, are complex processes. These processes are sensitive to a wide variety of factors, including the level of contaminants in the manufacturing environment, impurities in the materials used and the performance of our manufacturing personnel and equipment. As is typical in the semiconductor industry, we have from time to time experienced lower than anticipated manufacturing yields. Our operating results will suffer if we are unable to maintain yields at approximately the current levels.

Historically, we have relied on our ability to respond quickly to customer orders as part of our competitive strategy, resulting in customers placing orders with relatively short delivery schedules. In order to respond to such requirements, we have historically maintained a significant work-in-process and finished goods inventory.

At the end of fiscal 2014, we owned identifiable long-lived assets (consisting of property, plant and equipment) in the U.S. with a carrying value, net of accumulated depreciation, of \$311.9 million and \$220.1 million in other countries, including \$179.1 million in Thailand. At the end of fiscal 2013, we owned identifiable long-lived assets in the U.S. with a carrying value, net of accumulated depreciation, of \$325.3 million and \$189.2 million in other countries, including \$171.1 million in Thailand. At the end of fiscal 2012, we owned identifiable long-lived assets in the U.S. with a carrying value, net of accumulated depreciation, of \$314.3 million and \$202.3 million in other countries, including \$186.1 million in Thailand.

We have many suppliers of raw materials and subcontractors which provide our various materials and service needs. We generally seek to have multiple sources of supply for our raw materials and services, but, in some cases, we may rely on a single or limited number of suppliers. In such event, we have plans to reduce the exposure that would result from a disruption in supply.

## **Research and Development (R&D)**

We are committed to continuing our investment in new and enhanced products, including development systems, and in our design and manufacturing process technologies. We believe these investments are significant factors in maintaining our competitive position. Our current R&D activities focus on the development of general purpose and specialized microcontrollers, Serial EEPROM memory, NOR FLASH memory, Embedded FLASH technologies, connectivity products, analog, interface and mixed signal products, development systems, user interface products, software and application-specific software libraries. We are also developing design, assembly, test and process technologies to enable new products and innovative features as well as achieve further cost reductions and performance improvements in existing products.

In fiscal 2014, our R&D expenses were \$305.0 million, compared to \$254.7 million in fiscal 2013 and \$182.7 million in fiscal 2012. R&D expenses included share-based compensation expense of \$24.6 million in fiscal 2014, \$22.2 million in fiscal 2013 and \$14.7 million in fiscal 2012.

## **Sales and Distribution**

### *General*

We market and sell our products worldwide primarily through a network of direct sales personnel and distributors.

Our direct sales force focuses on a wide variety of strategic accounts in three geographical markets: the Americas, Europe and Asia. We currently maintain sales and technical support centers in major metropolitan areas in all three geographic markets. We believe that a strong technical service presence is essential to the continued development of the embedded control market. Many of our field sales engineers (FSEs), field application engineers (FAEs), and sales management have technical degrees or backgrounds and have been previously employed in high technology environments. We believe that the technical knowledge of our sales force is a key competitive advantage in the sale of our products. The primary mission of our FAE team is to provide technical assistance to customers and to conduct periodic training sessions for the balance of our sales team. FAEs also frequently conduct technical seminars and workshops in major cities around the world.

Our licensing division has dedicated sales, technology, design, product, test and reliability personnel that support the requirements of our licensees.

### *Distribution*

Our distributors focus primarily on servicing the product requirements of a broad base of diverse customers. We believe that distributors provide an effective means of reaching this broad and diverse customer base. We believe that customers recognize us for our products and brand name and use distributors as an effective supply channel.

In each of fiscal 2014 and fiscal 2013, we derived 53% of our net sales through distributors and 47% of our net sales from customers serviced directly by us. In fiscal 2012, we derived 59% of our net sales through distributors and 41% of our net sales from customers serviced directly by us. Future Electronics, one of our distributors, accounted for approximately 10% of our net sales in fiscal 2012. No other distributor or end customer accounted for more than 10% of our net sales in fiscal 2014, fiscal 2013 or fiscal 2012.

We do not have long-term agreements with our distributors and we, or our distributors, may each terminate our relationship with little or no advanced notice. The loss of, or the disruption in the operations of, one or more of our distributors could reduce our future net sales in a given quarter and could result in an increase in inventory returns.

### **Sales by Geography**

Sales by geography for fiscal 2014, fiscal 2013 and fiscal 2012 were as follows (dollars in thousands):

	Year Ended March 31,					
	2014	%	2013	%	2012	%
Americas	\$ 365,609	18.9	\$ 313,574	19.8	\$ 290,392	21.0
Europe	411,531	21.3	344,398	21.8	319,881	23.1
Asia	1,154,077	59.8	923,651	58.4	772,903	55.9
Total Sales	<u>\$ 1,931,217</u>	<u>100.0</u>	<u>\$ 1,581,623</u>	<u>100.0</u>	<u>\$ 1,383,176</u>	<u>100.0</u>

Sales to foreign customers accounted for approximately 84% of our net sales in fiscal 2014, approximately 83% of our net sales in fiscal 2013 and approximately 82% of our net sales in fiscal 2012. Our sales to foreign customers have been predominately in Asia and Europe, which we attribute to the manufacturing strength in those areas for automotive, communications, computing, consumer and industrial control products. Americas' sales include sales to customers in the U.S., Canada, Central America and South America.

Sales to customers in China, including Hong Kong, accounted for approximately 29% of our net sales in fiscal 2014, approximately 27% of our net sales in fiscal 2013 and approximately 24% of our net sales in fiscal 2012. Sales to customers in Taiwan accounted for approximately 13% of our net sales in each of fiscal 2014 and fiscal 2013 and approximately 15% of our net sales in fiscal 2012. We did not have sales into any other foreign countries that exceeded 10% of our net sales during fiscal 2014, fiscal 2013 or fiscal 2012.

Our international sales are substantially all U.S. dollar denominated. Although foreign sales are subject to certain government export restrictions, we have not experienced any material difficulties to date as a result of export restrictions.

The semiconductor industry is characterized by seasonality and wide fluctuations of supply and demand. Since a significant portion of our revenue is from consumer markets and international sales, our business is subject to seasonally lower revenues in the third and fourth quarters of our fiscal year. However, in recent periods, changes in global economic and semiconductor industry conditions have had a more significant impact on our results than seasonality, and has made it difficult to assess the impact of seasonal factors on our business.

### **Backlog**

As of April 30, 2014, our backlog was approximately \$813.1 million, compared to \$611.0 million as of April 30, 2013. Our backlog includes all purchase orders scheduled for delivery within the subsequent 12 months.

We primarily produce standard products that can be shipped from inventory within a relatively short time after we receive an order. Our business and, to a large extent, that of the entire semiconductor industry, is characterized by short-term orders and shipment schedules. Orders constituting our current backlog are subject to changes in delivery schedules, or to cancellation at the customer's option without significant penalty. Thus, while backlog is useful for scheduling production, backlog as of any particular date may not be a reliable measure of sales for any future period.

## **Competition**

The semiconductor industry is intensely competitive and has been characterized by price erosion and rapid technological change. We compete with major domestic and international semiconductor companies, many of which have greater market recognition and greater financial, technical, marketing, distribution and other resources than we have with which to pursue engineering, manufacturing, marketing and distribution of their products. We also compete with a number of companies that we believe have copied, cloned, pirated or reverse engineered our proprietary product lines in such countries as China, Korea and Taiwan. We are continuing to take actions to vigorously and aggressively defend and protect our intellectual property on a worldwide basis.

We currently compete principally on the basis of the technical innovation and performance of our embedded control products, including the following product characteristics:

- performance
- analog, digital and mixed signal functionality and level of functional integration
- memory density
- low power consumption
- reliability
- packaging alternatives
- complete development tool chain

We believe that other important competitive factors in the embedded control market include:

- ease of use
- functionality of application development systems
- dependable delivery, quality and availability
- technical and innovative service and support
- time to market
- price

We believe that we compete favorably with other companies on all of these factors, but we may be unable to compete successfully in the future, which could harm our business.

## **Patents, Licenses and Trademarks**

We maintain a portfolio of U.S. and foreign patents, expiring on various dates between 2014 and 2031. We also have numerous additional U.S. and foreign patent applications pending. We do not expect that the expiration of any particular patent will have a material impact on our business. While we intend to continue to seek patents on our technology and manufacturing processes, we believe that our continued success depends primarily on the technological skills and innovative capabilities of our personnel and our ability to rapidly commercialize new and enhanced products, rather than on our patents. Our existing and new patents, trademarks and copyrights that issue may not be of sufficient scope or strength to provide meaningful intellectual property protection or any commercial advantage to us. Pursuing violations of our intellectual property rights on a worldwide basis is a complex business area involving patent law, trademark law, copyright law and the laws of certain foreign countries do not protect our intellectual property rights to the same extent as the laws of the U.S.

We have entered into certain intellectual property licenses and cross-licenses with other companies related to semiconductor products and manufacturing processes. As is typical in the semiconductor industry, we and our customers have from time to time received, and may in the future receive, communications from third parties asserting patent or other intellectual property rights on certain of our products or technologies. We investigate all such notices and respond as we believe is appropriate. Based on industry practice, we believe that in most cases we can obtain necessary licenses or other rights on commercially reasonable terms, but we cannot assure that all licenses would be on acceptable terms, that litigation would not ensue or that damages for any past infringement would not be assessed. Litigation, which could result in substantial costs to us and require significant attention from management, may be necessary to enforce our patents or other intellectual

property rights, or to defend us against claimed infringement of the rights of others. The failure to obtain necessary licenses or other rights, or litigation arising out of infringement claims, could harm our business.

## Environmental Regulation

We must comply with many different federal, state, local and foreign governmental regulations related to the use, storage, discharge and disposal of certain chemicals and gases used in our manufacturing processes. Our facilities have been designed to comply with these regulations and we believe that our activities are conducted in material compliance with such regulations. Any changes in such regulations or in their enforcement could require us to acquire costly equipment or to incur other significant expenses to comply with environmental regulations. Any failure by us to adequately control the storage, use, discharge and disposal of regulated substances could result in significant future liabilities.

Increasing public attention has been focused on the environmental impact of electronic manufacturing operations. While we have not experienced any materially adverse effects on our operations from recently adopted environmental regulations, our business and results of operations could suffer if for any reason we fail to control the storage or use of, or to adequately restrict the discharge or disposal of, hazardous substances under present or future environmental regulations.

## Employees

As of March 31, 2014, we had 8,604 employees. None of our employees are represented by a labor organization. We have never had a work stoppage and believe that our employee relations are good.

## Executive Officers of the Registrant

The following sets forth certain information regarding our executive officers as of April 30, 2014:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Steve Sanghi	58	Chairman of the Board, President and Chief Executive Officer
Ganesh Moorthy	54	Chief Operating Officer
J. Eric Bjornholt	43	Vice President, Chief Financial Officer
Stephen V. Drehobl	52	Vice President, MCU8 and Technology Development Division
David S. Lambert	62	Vice President, Fab Operations
Mitchell R. Little	62	Vice President, Worldwide Sales and Applications
Richard J. Simoncic	50	Vice President, Analog and Interface Products Division

*Mr. Sanghi* has been President since August 1990, CEO since October 1991, and Chairman of the Board since October 1993. He has served as a director since August 1990. Mr. Sanghi holds an M.S. degree in Electrical and Computer Engineering from the University of Massachusetts and a B.S. degree in Electronics and Communication from Punjab University, India. Since May 2004, he has been a member of the Board of Directors of Xyratex Ltd., a storage and network technology company. Since May 2007, he has been a member of the Board of Directors of FIRST (For Inspiration and Recognition of Science and Technology). Mr. Sanghi was elected to the Board of Directors of Hittite Microwave Corporation in October 2013.

*Mr. Moorthy* has served as Chief Operating Officer since June 2009, as Executive Vice President since October 2006 and as a Vice President in various roles since he joined Microchip in 2001. Prior to this time, he served in various executive capacities with other semiconductor companies. Mr. Moorthy holds an M.B.A. in Marketing from National University, a B.S. degree in Electrical Engineering from the University of Washington and a B.S. degree in Physics from the University of Mumbai, India. Mr. Moorthy was elected to the Board of Directors of Rogers Corporation in July 2013.

*Mr. Bjornholt* has served as Vice President of Finance since 2008 and as Chief Financial Officer since January 2009. He has served in various financial management capacities since he joined Microchip in 1995. Mr. Bjornholt holds a Master's degree in Taxation from Arizona State University and a B.S. degree in Accounting from the University of Arizona.

*Mr. Drehobl* has served as Vice President of the MCU8 and Technology Development Division since July 2001. He has been employed by Microchip since August 1989 and has served as a Vice President in various roles since February 1997. Mr. Drehobl holds a Bachelor of Technology degree from the University of Dayton.

*Mr. Lambert* has served as Vice President, Fab Operations since November 1993. From 1991 to November 1993, he served as Director of Manufacturing Engineering, and from 1989 to 1991, he served as Engineering Manager of Fab Operations. Mr. Lambert holds a B.S. degree in Chemical Engineering from the University of Cincinnati.

*Mr. Little* has served as Vice President, Worldwide Sales and Applications since July 2000. He has been employed by Microchip since 1989 and has served as a Vice President in various roles since September 1993. Mr. Little holds a B.S. degree in Engineering Technology from United Electronics Institute.

*Mr. Simoncic* has served as Vice President, Analog and Interface Products Division since September 1999. From October 1995 to September 1999, he served as Vice President in various roles. Joining Microchip in 1990, Mr. Simoncic held various roles in Design, Device/Yield Engineering and Quality Systems. Mr. Simoncic holds a B.S. degree in Electrical Engineering Technology from DeVry Institute of Technology.

## **Item 1A. RISK FACTORS**

When evaluating Microchip and its business, you should give careful consideration to the factors listed below, in addition to the information provided elsewhere in this Form 10-K and in other documents that we file with the Securities and Exchange Commission.

***Our operating results are impacted by global economic conditions and may fluctuate in the future due to a number of factors that could reduce our net sales and profitability.***

Our operating results are affected by a wide variety of factors that could reduce our net sales and profitability, many of which are beyond our control. Some of the factors that may affect our operating results include:

- general economic, industry or political conditions in the U.S. or internationally;
- changes in demand or market acceptance of our products and products of our customers, and market fluctuations in the industries into which such products are sold;
- changes in utilization of our manufacturing capacity and fluctuations in manufacturing yields;
- our ability to secure sufficient wafer foundry, assembly and testing capacity;
- the mix of inventory we hold and our ability to satisfy orders from our inventory;
- levels of inventories held by our customers;
- risk of excess and obsolete inventories;
- changes or fluctuations in customer order patterns and seasonality;
- our ability to realize the expected benefits of our acquisitions;
- changes in tax regulations and policies in the U.S. and other countries in which we do business;
- competitive developments including pricing pressures;
- unauthorized copying of our products resulting in pricing pressure and loss of sales;
- availability of raw materials and equipment;
- the level of orders that are received and can be shipped in a quarter;
- the level of sell-through of our products through distribution;
- fluctuations in the mix of products;
- announcements of significant acquisitions;
- disruptions in our business or our customers' businesses due to terrorist activity, armed conflict, war, worldwide oil prices and supply, public health concerns, natural disasters or disruptions in the transportation system;
- constrained availability from other electronic suppliers impacting our customers' ability to ship their products, which in turn may adversely impact our sales to those customers;
- costs and outcomes of any current or future tax audits or any litigation involving intellectual property, customers or other issues;
- fluctuations in commodity prices; and
- property damage or other losses, whether or not covered by insurance.



We believe that period-to-period comparisons of our operating results are not necessarily meaningful and that you should not rely upon any such comparisons as indications of our future performance. In future periods, our operating results may fall below our public guidance or the expectations of public market analysts and investors, which would likely have a negative effect on the price of our common stock. Adverse global economic conditions, the subsequent economic recovery and uncertainty surrounding the strength of such recovery have caused our operating results to fluctuate significantly and make comparability between periods less meaningful.

***Our operating results will suffer if we ineffectively utilize our manufacturing capacity or fail to maintain manufacturing yields.***

The manufacture and assembly of integrated circuits, particularly non-volatile, erasable CMOS memory and logic devices such as those that we produce, are complex processes. These processes are sensitive to a wide variety of factors, including the level of contaminants in the manufacturing environment, impurities in the materials used, the performance of our wafer fabrication and assembly and test personnel and equipment, and other quality issues. As is typical in the semiconductor industry, we have from time to time experienced lower than anticipated manufacturing yields. Our operating results will suffer if we are unable to maintain yields at approximately the current levels. This could include delays in the recognition of revenue, loss of revenue or future orders, and customer-imposed penalties for failure to meet contractual shipment deadlines. Our operating results are also adversely affected when we operate at less than optimal capacity. For example, in the third quarter of fiscal 2012, we reduced wafer starts in both Fab 2 and Fab 4 to help control inventory balances in response to a slowdown in global economic conditions. We continued with the reduced level of wafer starts through the first quarter of fiscal 2013. These actions had a negative impact on our gross profit. We further reduced the wafer starts in our fabs in late September 2012 and again during the quarter ended December 31, 2012 which continued to negatively impact our gross profit through the March 2013 quarter. We increased wafer starts modestly throughout fiscal 2014 but were still below what we consider normal capacity levels.

***We are dependent on orders that are received and shipped in the same quarter and therefore have limited visibility to future product shipments.***

Our net sales in any given quarter depend upon a combination of shipments from backlog, and customer orders that are both received and shipped in that same quarter, which we refer to as turns orders. We measure turns orders at the beginning of a quarter based on the orders needed to meet the shipment targets that we set entering the quarter. Historically, we have relied on our ability to respond quickly to customer orders as part of our competitive strategy, resulting in customers placing orders with relatively short delivery schedules. Shorter lead times generally mean that turns orders as a percentage of our business are relatively high in any particular quarter and reduce our backlog visibility on future product shipments. Turns orders correlate to overall semiconductor industry conditions and product lead times. Because turns orders are difficult to predict, varying levels of turns orders make it more difficult to forecast net sales. As a significant portion of our products are manufactured at foundries, foundry lead times may affect our ability to satisfy certain turns orders. If we do not achieve a sufficient level of turns orders in a particular quarter relative to our revenue targets, our revenue and operating results will likely suffer.

***Intense competition in the markets we serve may lead to pricing pressures, reduced sales of our products or reduced market share.***

The semiconductor industry is intensely competitive and has been characterized by price erosion and rapid technological change. We compete with major domestic and international semiconductor companies, many of which have greater market recognition and substantially greater financial, technical, marketing, distribution and other resources than we do. We may be unable to compete successfully in the future, which could harm our business. Our ability to compete successfully depends on a number of factors both within and outside our control, including, but not limited to:

- the quality, performance, reliability, features, ease of use, pricing and diversity of our products;
- our success in designing and manufacturing new products including those implementing new technologies;
- the rate at which customers incorporate our products into their own applications and the success of such applications;
- the rate at which the markets that we serve redesign and change their own products;
- changes in demand in the markets that we serve and the overall rate of growth or contraction of such markets, including but not limited to the automotive, personal computing and consumer electronics markets;
- product introductions by our competitors;
- the number, nature and success of our competitors in a given market;
- our ability to obtain adequate foundry and assembly and test capacity and supplies of raw materials and other supplies at acceptable prices;

- our ability to protect our products and processes by effective utilization of intellectual property rights;
- our ability to remain price competitive against companies that have copied our proprietary product lines, especially in countries where intellectual property rights protection is difficult to achieve and maintain;
- our ability to address the needs of our customers; and
- general market and economic conditions.

Historically, average selling prices in the semiconductor industry decrease over the life of any particular product. The overall average selling prices of our microcontroller and proprietary analog, interface and mixed signal products have remained relatively constant, while average selling prices of our memory and non-proprietary analog, interface and mixed signal products have declined over time.

We have experienced, and expect to continue to experience, modest pricing declines in certain of our more mature proprietary product lines, primarily due to competitive conditions. We have been able to moderate average selling price declines in many of our proprietary product lines by continuing to introduce new products with more features and higher prices. However, there can be no assurance that we will be able to do so in the future. We have experienced in the past, and expect to continue to experience in the future, varying degrees of competitive pricing pressures in our memory and non-proprietary analog products. We may be unable to maintain average selling prices for our products as a result of increased pricing pressure in the future, which could adversely impact our operating results.

***We are dependent on wafer foundries and other contractors to perform key manufacturing functions for us, and our licensees of our SuperFlash technology also rely on foundries and other contractors.***

We rely on outside wafer foundries for a significant portion of our wafer fabrication needs. We also use several contractors located in Asia for a portion of the assembly and testing of our products. Our reliance on third party contractors and foundries increased as a result of our acquisition of SMSC in August 2012 and will increase further as a result of our acquisition of Supertex in April 2014. Although we own the majority of our manufacturing resources, the disruption or termination of any of our contractors could harm our business and operating results.

Our use of third parties somewhat reduces our control over the subcontracted portions of our business. Our future operating results could suffer if any contractor were to experience financial, operational or production difficulties or situations when demand exceeds capacity, or if they were unable to maintain manufacturing yields, assembly and test yields and costs at approximately their current levels, or if they were to experience political upheaval or infrastructure disruption. If these third parties are unable or unwilling to timely deliver products or services conforming to our quality standards, we may not be able to qualify additional manufacturing sources for our products in a timely manner or at all, or on terms favorable to us. Additionally, these subcontractors could abandon fabrication processes that are important to us, or fail to adopt advanced manufacturing technologies that we desire to control costs. In any such event, we could experience an interruption in production, an increase in manufacturing and production costs or a decline in product reliability, and our business and operating results could be adversely affected. Further, use of subcontractors increases opportunities for potential misappropriation of our intellectual property.

Certain of our SuperFlash technology licensees also rely on outside wafer foundries for wafer fabrication services. If our licensees were to experience any disruption in supply from wafer foundries, this would reduce the revenue we receive in our technology licensing business and would harm our operating results.

***Our business is dependent on selling through distributors.***

Sales through distributors accounted for approximately 53% of our net sales in each of fiscal 2014 and fiscal 2013. We do not have long-term agreements with our distributors and we and our distributors may each terminate our relationship with little or no advance notice.

Any future adverse conditions in the U.S. or global economies or in the U.S. or global credit markets could materially impact the operations of our distributors. Any deterioration in the financial condition of our distributors or any disruption in the operations of our distributors could adversely impact the flow of our products to our end customers and adversely impact our results of operation. In addition, during an industry or economic downturn, it is possible there will be an oversupply of products and a decrease in sell-through of our products by our distributors which could reduce our net sales in a given period and result in an increase in inventory returns. Violations of the Foreign Corrupt Practices Act, or similar laws, by our distributors or other channel partners could have a material adverse impact on our business.

***Our success depends on our ability to introduce new products on a timely basis.***

Our future operating results depend on our ability to develop and timely introduce new products that compete effectively on the basis of price and performance and which address customer requirements. The success of our new product introductions depends on various factors, including, but not limited to:

- proper new product selection;
- timely completion and introduction of new product designs;
- procurement of licenses for intellectual property rights from third parties under commercially reasonable terms;
- timely filing and protection of intellectual property rights for new product designs;
- availability of development and support tools and collateral literature that make complex new products easy for engineers to understand and use; and
- market acceptance of our customers' end products.

Because our products are complex, we have experienced delays from time to time in completing new product development. In addition, our new products may not receive or maintain substantial market acceptance. We may be unable to timely design, develop and introduce competitive products, which could adversely impact our future operating results.

Our success also depends upon our ability to develop and implement new design and process technologies. Semiconductor design and process technologies are subject to rapid technological change and require significant R&D expenditures. We and other companies in the industry have, from time to time, experienced difficulties in effecting transitions to advanced process technologies and, consequently, have suffered reduced manufacturing yields or delays in product deliveries. Our future operating results could be adversely affected if any transition to future process technologies is substantially delayed or inefficiently implemented.

***Our technology licensing business exposes us to various risks.***

Our technology licensing business is based on our SuperFlash technology. The success of our licensing business will depend on the continued market acceptance of this technology and on our ability to further develop and enhance such technology and to introduce new technologies in the future. To be successful, any such technology must be able to be repeatably implemented by licensees, provide satisfactory yield rates, address licensee and customer requirements, and perform competitively. The success of our technology licensing business depends on various other factors, including, but not limited to:

- proper identification of licensee requirements;
- timely development and introduction of new or enhanced technology;
- our ability to protect our intellectual property rights for our licensed technology;
- our ability to limit our liability and indemnification obligations to licensees;
- availability of sufficient development and support services to assist licensees in their design and manufacture of products integrating our technology;
- availability of foundry licensees with sufficient capacity to support OEM production; and
- market acceptance of our customers' end products.

Because our SuperFlash technology is complex, there may be delays from time to time in developing and enhancing such technology. There can be no assurance that our existing or any enhanced or new technology will achieve or maintain substantial market acceptance. Our licensees may experience disruptions in production or lower than expected production levels which would adversely affect the revenue that we receive from them. Our technology license agreements generally include an indemnification clause that indemnifies the licensee against liability and damages (including legal defense costs) arising from intellectual property matters. We could be exposed to substantial liability for claims or damages related to intellectual property matters or indemnification claims. Any claim, with or without merit, could result in significant legal fees and require significant attention from our management. Any of the foregoing issues may adversely impact the success of our licensing business and adversely affect our future operating results.

***Our operating results may be impacted by both seasonality and the wide fluctuations of supply and demand in the semiconductor industry.***

The semiconductor industry is characterized by seasonality and wide fluctuations of supply and demand. Since a significant portion of our revenue is from consumer markets and international sales, our business is subject to seasonally lower revenues in the third and fourth quarters of our fiscal year. However, broad fluctuations in our overall business in recent

periods and changes in semiconductor industry and global economic conditions have had a more significant impact on our results than seasonality, and have made it difficult to assess the impact of seasonal factors on our business. The industry has also experienced significant economic downturns, characterized by diminished product demand and production over-capacity. We have sought to reduce our exposure to this industry cyclically by selling proprietary products, that cannot be easily or quickly replaced, to a geographically diverse customer base across a broad range of market segments. However, we have experienced substantial period-to-period fluctuations in operating results and expect, in the future, to experience period-to-period fluctuations in operating results due to general industry or economic conditions.

***We may not fully realize the anticipated benefits of our completed or future acquisitions or divestitures.***

We have acquired, and expect in the future to acquire, additional businesses that we believe will complement or augment our existing businesses. In this regard, in April 2014, we completed our acquisition of Supertex; and in August 2012, we completed our acquisition of SMSC. The integration process for our acquisitions may be complex, costly and time consuming and include unanticipated issues, expenses and liabilities. We may not be able to successfully or profitably integrate, operate, maintain and manage any newly acquired operations or employees. We may not be able to maintain uniform standards, procedures and policies and we may be unable to realize the expected synergies and cost savings from the integration. There may be increased risk due to integrating financial reporting and internal control systems. We may have difficulty in developing, manufacturing and marketing the products of a newly acquired company, or in growing the business at the rate we anticipate. Following an acquisition, we may not achieve the revenue or net income levels that justify the acquisition. We may suffer loss of key employees, customers and strategic partners of acquired companies and it may be difficult to implement our corporate culture at acquired companies. We may be subject to claims from terminated employees, shareholders of acquired companies and other third parties related to the transaction. Acquisitions may also result in one-time charges (such as acquisition-related expenses, write-offs, restructuring charges, or future impairment of goodwill), contingent liabilities, adverse tax consequences, additional stock-based compensation expense and other charges that adversely affect our operating results. Additionally, we may fund acquisitions of new businesses or strategic alliances by utilizing cash, borrowings under our credit agreement, raising debt, issuing shares of common stock, or other mechanisms.

Further, if we decide to sell assets or a business, we may encounter difficulty in finding or completing divestiture opportunities or alternative exit strategies on acceptable terms or in a timely manner. These circumstances could delay the accomplishment of our strategic objectives or cause us to incur additional expenses with respect to a business that we want to dispose of, or we may dispose of a business at a price or on terms that are less favorable than we had anticipated. Even following a divestiture, we may be contractually obligated with respect to certain continuing obligations to customers, vendors or other third parties and such obligations may have a material adverse impact on our results of operation and financial condition.

In addition to acquisitions, we have in the past, and expect in the future, to enter into joint development agreements or other business or strategic relationships with other companies. These transactions are subject to a number of risks similar to those we face with our acquisitions including our ability to realize the expected benefits of any such transaction, to successfully market and sell any products resulting from such transactions or to successfully integrate any technology developed through such transactions.

***We may lose sales if our suppliers of raw materials and equipment fail to meet our needs.***

Our semiconductor manufacturing operations require raw and processed materials and equipment that must meet exacting standards. We generally have more than one source for these supplies, but there are only a limited number of suppliers capable of delivering various materials and equipment that meet our standards. The materials and equipment necessary for our business could become more difficult to obtain as worldwide use of semiconductors in product applications increases. Additionally, consolidation in our supply chain due to mergers and acquisitions may reduce the number of suppliers or change the relationships that we have with our suppliers. This could impair sourcing flexibility or increase costs. We have experienced supply shortages from time to time in the past, and on occasion our suppliers have told us they need more time than expected to fill our orders or that they will no longer support certain equipment with updates or spare and replacement parts. An interruption of any materials or equipment sources, or the lack of supplier support for a particular piece of equipment, could harm our business.

***We are exposed to various risks related to legal proceedings or claims.***

We are currently, and in the future may be, involved in legal proceedings or claims regarding patent infringement, other intellectual property rights, contracts and other matters. As is typical in the semiconductor industry, we receive notifications from customers or licensees from time to time who believe that we owe them indemnification or other obligations related to

infringement claims made against us, our customers or our licensees by third parties. These legal proceedings and claims, even if meritless, could result in substantial cost to us and divert our resources. If we are not able to resolve a claim, settle a matter, obtain necessary licenses on commercially reasonable terms, reengineer our products or processes to avoid infringement, and/or successfully prosecute or defend our position, we could incur uninsured liability in any of them, be required to take an appropriate charge to operations, be enjoined from selling a material portion of our products or using certain processes, suffer a reduction or elimination in the value of our inventories, and our business, financial condition or results of operations could be harmed.

It is also possible that from time to time we may be subject to claims related to the manufacture, performance or use of our products. These claims may be due to injuries or environmental exposures related to manufacturing, a product's nonconformance to our specifications, or specifications agreed upon with the customer, changes in our manufacturing processes, or unexpected customer system issues due to the integration of our products or insufficient design or testing by our customers. We could incur significant expenses related to such matters, including, but not limited to:

- costs related to writing off the value of our inventory of nonconforming products;
- recalling nonconforming products;
- providing support services, product replacements, or modifications to products and the defense of such claims;
- diversion of resources from other projects;
- lost revenue or a delay in the recognition of revenue due to cancellation of orders and unpaid receivables;
- customer imposed fines or penalties for failure to meet contractual requirements; and
- a requirement to pay damages.

Because the systems into which our products are integrated have a higher cost of goods than the products we sell, our expenses and damages may be significantly higher than the sales and profits we received from the products involved. While we specifically exclude consequential damages in our standard terms and conditions, certain of our contracts may not exclude such liabilities. Further, our ability to avoid such liabilities may be limited by applicable law. We do have liability insurance which covers certain damages arising out of product defects, but we do not expect that insurance will cover all claims or be of a sufficient amount to fully protect against such claims. Costs or payments we may make in connection with these customer claims may adversely affect the results of our operations.

Further, we sell to customers in industries such as automotive, aerospace, and medical, where failure of the systems in which our products are integrated could cause damage to property or persons. We may be subject to claims if our products, or the integration of our products, cause system failures. We will face increased exposure to claims if there are substantial increases in either the volume of our sales into these applications or the frequency of system failures integrating our products.

***Failure to adequately protect our intellectual property could result in lost revenue or market opportunities.***

Our ability to obtain patents, licenses and other intellectual property rights covering our products and manufacturing processes is important for our success. To that end, we have acquired certain patents and patent licenses and intend to continue to seek patents on our technology and manufacturing processes. The process of seeking patent protection can be long and expensive, and patents may not be issued from currently pending or future applications. In addition, our existing and new patents, trademarks and copyrights that issue may not have sufficient scope or strength to provide meaningful protection or commercial advantage to us. We may be subject to, or may ourselves initiate, interference proceedings in the U.S. Patent and Trademark Office, patent offices of a foreign country or U.S. or foreign courts, which can require significant financial and management resources. In addition, the laws of certain foreign countries do not protect our intellectual property rights to the same extent as the laws of the U.S. Infringement of our intellectual property rights by a third party could result in uncompensated lost market and revenue opportunities for us. Although we continue to vigorously and aggressively defend and protect our intellectual property on a worldwide basis, there can be no assurance that we will be successful in our endeavors.

***Our operating results may be adversely impacted if economic conditions impact the financial viability of our licensees, customers, distributors, or suppliers.***

We regularly review the financial performance of our licensees, customers, distributors and suppliers. However, any downturn in global economic conditions may adversely impact the financial viability of our licensees, customers, distributors or suppliers. The financial failure of a large licensee, customer or distributor, an important supplier, or a group thereof, could have an adverse impact on our operating results and could result in our not being able to collect our accounts receivable balances, higher reserves for doubtful accounts, write-offs for accounts receivable, and higher operating costs as a percentage of revenues.

***We do not typically have long-term contracts with our customers, but where we do, certain terms of such contracts expose us to risks and liabilities.***

We do not typically enter into long-term contracts with our customers and we cannot be certain about future order levels from our customers. When we do enter into customer contracts, the contract is generally cancelable at the convenience of the customer. Even though we had approximately 84,000 customers and our ten largest direct customers made up approximately 10% of our total revenue for fiscal 2014, cancellation of customer contracts could have an adverse impact on our revenue and profits.

We have entered into contracts with certain customers that differ from our standard terms of sale. Further, as a result of our acquisitions of SMSC and Supertex, we inherited certain customer contracts that differ from our standard terms of sale. For several of the significant markets that we sell into, such as the automotive and personal computer markets, our current or potential customers may possess significant leverage over us in negotiating the terms and conditions of supply as a result of their market size and position. For example, under certain contracts we may commit to supply specific quantities of products on scheduled delivery dates, or agree to extend our obligations for certain liabilities such as warranties or indemnification for quality issues or claims of intellectual property infringement. If we are unable to supply the customer as required under the contract, the customer may incur additional production costs, lost revenues due to subsequent delays in their own manufacturing schedule, or quality-related issues. We may be liable for the customer's costs, expenses and damages associated with their claims and we may be obligated to defend the customer against claims of intellectual property infringement and pay the associated legal fees. While we try to limit the number of contracts that we sign which contain such special provisions, manage the risks underlying such liabilities, and set caps on our liability exposure, sometimes we may not be able to do so. In order to win important designs, avoid losing business to competitors, maintain existing business, or be permitted to bid on new business, we have been, and may in the future be, forced to agree to uncapped liability for such items as intellectual property infringement or confidentiality. Such provisions expose us to risk of liability far exceeding the purchase price of the products we sell under such contracts, the lifetime revenues we receive from such products, or various forms of potential consequential damages. These significant additional risks could result in a material adverse impact on our results of operation and financial condition.

***We must attract and retain qualified personnel to be successful, and competition for qualified personnel can be intense.***

Our success depends upon the efforts and abilities of our senior management, engineering, manufacturing and other personnel. The competition for qualified engineering and management personnel can be intense. We may be unsuccessful in retaining our existing key personnel or in attracting and retaining additional key personnel that we require. The loss of the services of one or more of our key personnel or the inability to add key personnel could harm our business. The loss of, or any inability to attract personnel, even if not key personnel, if experienced in sufficient numbers could harm our business. We have no employment agreements with any member of our senior management team.

***Business interruptions to our operations or the operations of our key vendors, subcontractors, licensees or customers, whether due to natural disasters or other events, could harm our business.***

Operations at any of our facilities, at the facilities of any of our wafer fabrication or assembly and test subcontractors, or at any of our significant vendors or customers may be disrupted for reasons beyond our control. These reasons may include work stoppages, power loss, incidents of terrorism or security risk, political instability, public health issues, telecommunications, transportation or other infrastructure failure, radioactive contamination, fire, earthquake, floods, volcanic eruptions or other natural disasters. We have taken steps to mitigate the impact of some of these events should they occur; however, we cannot be certain that our actions will be effective to avoid a significant impact on our business in the event of a disaster or other business interruption.

In particular, Thailand has experienced periods of severe flooding in recent years; however, our facilities in Thailand have continued to operate normally. There can be no assurance that any future flooding in Thailand would not have a material adverse impact on our operations. If operations at any of our facilities, or our subcontractors' facilities are interrupted, we may not be able to shift production to other facilities on a timely basis, and we may need to spend significant amounts to repair or replace our facilities and equipment. If we experienced business interruptions, we would likely experience delays in shipments of products to our customers and alternate sources for production may be unavailable on acceptable terms. This could result in reduced revenues and profits and the cancellation of orders or loss of customers. Although we maintain business interruption insurance, such insurance will likely not be enough to compensate us for any losses that may occur and any losses or damages incurred by us as a result of business interruptions could significantly harm our business.

Additionally, as described above, operations at our customers and licensees may be disrupted for a number of reasons. In the event of customer disruptions, sales of our products may decline and our revenue, profitability and financial condition could suffer. Likewise, if our licensees are unable to manufacture and ship products incorporating our technology, or if there is a decrease in product demand due to a business disruption, our royalty revenue may decline as our licenses are based on per unit royalties.

***We are highly dependent on foreign sales and operations, which exposes us to foreign political and economic risks.***

Sales to foreign customers account for a substantial portion of our net sales. During fiscal 2014, approximately 84% of our net sales were made to foreign customers, including 29% in China. During fiscal 2013, approximately 83% of our net sales were made to foreign customers, including 27% in China. A strong position in the Chinese market is a key component of our global growth strategy. The market for integrated circuit products in China is highly competitive, and both international and domestic competitors are aggressively seeking to increase their market share. Increased competition in the China market may make it difficult for us to achieve our desired sales volumes in China. We purchase a substantial portion of our raw materials and equipment from foreign suppliers. In addition, we own product assembly and testing facilities near Bangkok, Thailand, which is currently experiencing political instability, and has experienced periods of political instability in the past. From time to time, Thailand has also experienced periods of severe flooding. There can be no assurance that any future flooding in Thailand would not have a material adverse impact on our operations. We use various foreign contractors for a significant portion of our assembly and testing and wafer fabrication requirements. Substantially all of our finished goods inventory is maintained in Thailand.

Our reliance on foreign operations, foreign suppliers, maintenance of substantially all of our finished goods inventory at foreign locations and significant foreign sales exposes us to foreign political and economic risks, including, but not limited to:

- political, social and economic instability;
- economic uncertainty in the worldwide markets served by us;
- public health conditions;
- trade restrictions and changes in tariffs;
- import and export license requirements and restrictions;
- changes in rules and laws related to taxes, environmental, health and safety, technical standards and consumer protection in various jurisdictions;
- difficulties in staffing and managing international operations;
- employment regulations;
- disruptions in international transport or delivery;
- difficulties in collecting receivables and longer payment cycles;
- currency fluctuations and foreign exchange regulations; and
- potentially adverse tax consequences.

If any of these risks materialize, or are worse than we anticipate, our sales could decrease and our operating results could suffer.

***Fluctuations in foreign currency exchange rates could adversely impact our operating results.***

We use forward currency exchange contracts in an attempt to reduce the adverse earnings impact from the effect of exchange rate fluctuations on our non-U.S. dollar net balance sheet exposures. Nevertheless, in periods when the U.S. dollar significantly fluctuates in relation to the non-U.S. currencies in which we transact business, the value of our non-U.S. dollar transactions can have an adverse effect on our results of operations and financial condition. In particular, in periods when a foreign currency significantly declines in value in relation to the U.S. dollar, such as past declines in the Euro relative to the U.S. dollar, customers transacting in that foreign currency may find it more difficult to fulfill their previously committed contractual obligations or to undertake new obligations to make payments or purchase products. In periods when the U.S. dollar is significantly declining in relation to the British pound, Euro and Thai baht, the operational costs in our European and Thailand subsidiaries are adversely affected.

***Interruptions in our information technology systems could adversely affect our business.***

We rely on the efficient and uninterrupted operation of complex information technology systems and networks to operate our business. Any significant disruption to our systems or networks, including, but not limited to, new system implementations, computer viruses, security breaches, facility issues, natural disasters, terrorism, war, telecommunication failures or energy blackouts could have a material adverse impact on our operations, sales and operating results. Such disruption could result in a loss of our intellectual property or the release of sensitive competitive information or supplier, customer or employee personal data. Any loss of such information could harm our competitive position, result in a loss of customer confidence, and cause us to incur significant costs to remedy the damages caused by the disruptions or security breaches. Additionally, failure to properly manage the collection, handling, transfer or disposal of personal data of employees and customers may result in regulatory penalties, enforcement actions, remediation obligations, litigation, fines and other sanctions.

From time to time, we have experienced verifiable attacks on our data, attempts to breach our security and attempts to introduce malicious software into our IT systems; however, such attacks have not previously resulted in any material damage to us. Were future attacks successful, we may be unaware of the incident, its magnitude, or its effects until significant harm is done. In recent years, we have implemented improvements to our protective measures which are not limited to the following: firewalls, antivirus measures, patches, log monitors, routine backups with offsite retention of storage media, system audits, data partitioning and routine password modifications. There can be no assurance that such system improvements will be sufficient to prevent or limit the damage from any future cyber attack or disruptions. Any such attack or disruption could result in additional costs related to rebuilding of internal systems, defending litigation, responding to regulatory actions, or paying damages. Such attacks or disruption could have a material adverse impact on our business, operations and financial results.

Third-party service providers, such as wafer foundries, assembly and test contractors, distributors, credit card processors and other vendors have access to certain portions of our and our customers' sensitive data. In the event that these service providers do not properly safeguard the data that they hold, security breaches and loss of data could result. Any such loss of data by our third-party service providers could negatively impact our business, operations and financial results, as well as our relationship with our customers.

***The occurrence of events for which we are self-insured, or which exceed our insurance limits, may adversely affect our profitability and liquidity.***

We have insurance contracts with independent insurance companies related to many different types of risk; however, we self-insure for some potentially significant risks and obligations. In these circumstances, we believe that it is more cost effective for us to self-insure certain risks than to pay the high premium costs. The risks and exposures that we self-insure include, but are not limited to certain property, product defects, employment risks, political risks, and intellectual property matters. Should there be a loss or adverse judgment or other decision in an area for which we are self-insured, then our financial condition, results of operations and liquidity may be adversely affected.

***We are subject to stringent environmental and other regulations, which may force us to incur significant expenses.***

We must comply with many federal, state, local and foreign governmental regulations related to the use, storage, discharge and disposal of toxic, volatile or otherwise hazardous substances used in our products and manufacturing processes. Our failure to comply with applicable regulations could result in fines, suspension of production, cessation of operations or future liabilities. Such environmental regulations have required us in the past, and could require us in the future to buy costly equipment or to incur significant expenses to comply with such regulations. Our failure to control the use of, or adequately restrict the discharge of, hazardous substances could impact the health of our employees and others and could impact our ability to operate. Such failure could also restrict our ability to ship certain products to certain countries, require us to modify our operations logistics, or require us to incur other significant costs and expenses. There is a continuing expansion in environmental laws with a focus on reducing or eliminating hazardous substances and substances of high concern in electronic products and shipping materials. These and other future environmental regulations could require us to reengineer certain of our existing products and may make it more expensive for us to manufacture, sell and ship our products. In addition, the number and complexity of laws focused on the energy efficiency of electronic products and accessories, the recycling of electronic products, and the reduction in quantity and the recycling of packing materials have expanded significantly. It may be difficult for us to timely comply with these laws and we may not have sufficient quantities of compliant products to meet customers' needs, thereby adversely impacting our sales and profitability. We may also have to write off inventory in the event that we hold unsaleable inventory as a result of changes to regulations or customer requirements. We expect these risks and trends to continue. In addition, we anticipate increased customer requirements to meet voluntary criteria related to the reduction or elimination of substances of high concern in our products and energy efficiency measures. These requirements may increase our own costs, as well as those passed on to us by our supply chain.



***Customer demands for us to implement business practices that are more stringent than legal requirements may reduce our revenue opportunities or cause us to incur higher costs.***

Some of our customers and potential customers are requiring that we implement operating practices that are more stringent than what is required by applicable laws with respect to workplace and labor requirements, the type of materials we use in our products, environmental matters or other items. To comply with such requirements, we may have to pass these same operating practices on to our suppliers. Our suppliers may refuse to implement these operating practices, or may charge us more for complying with them. The cost to implement such practices may cause us to incur higher costs and reduce our profitability, and if we choose not to implement such practices, such customers may disqualify us as a supplier, resulting in decreased revenue opportunities. Developing, administering, monitoring and auditing these customer-requested practices at our own sites and those in our supply chain will increase our costs and may require that we hire more personnel.

***Customer demands and new regulations related to conflict-free minerals may force us to incur additional expenses.***

As required by the Dodd-Frank Wall Street Reform and Consumer Protection Act, in August 2012, the SEC released new disclosure and reporting requirements regarding the use of “conflict” minerals mined from the Democratic Republic of Congo and adjoining countries in products, necessary to the functionality or production of products, whether or not these products are manufactured by third parties. We must file a report on Form SD with the SEC regarding such matters by June 2, 2014 and on an annual basis thereafter. Other countries are considering similar regulations. As we implement these new requirements, if it is determined that we are using other than conflict-free minerals, customers may demand us to change the sourcing of minerals used in the manufacture of semiconductor devices (including our products), even if the costs for compliant minerals significantly increases and availability is limited. If we make changes to materials and/or suppliers, there will likely be costs associated with qualifying new suppliers and production capacity and quality could be negatively impacted. There will likely be additional costs associated with complying with these new disclosure requirements, such as costs related to determining the source of any conflict minerals used in our products. Also, since our supply chain is complex, we may face reputational challenges if we are unable to sufficiently verify the origins for all metals used in our products through the procedures we may implement. We may also encounter challenges to satisfy those customers who require that all of the components of our products are certified as conflict free. If we are not able to meet customer requirements, customers may choose to disqualify us as a supplier and we may have to write off inventory in the event that it cannot be sold.

***Regulatory authorities in jurisdictions into which we ship our products could levy fines or restrict our ability to export products.***

A significant portion of our sales are made outside of the U.S. through the exporting and re-exporting of products. In addition to local jurisdictions' export regulations, our U.S.-manufactured products or products based on U.S. technology are subject to U.S. laws and regulations governing international trade and exports, including, but not limited to the Foreign Corrupt Practices Act, Export Administration Regulations (EAR), and trade sanctions against embargoed countries and destinations administered by the U.S. Department of the Treasury, Office of Foreign Assets Control (OFAC). Licenses or proper license exceptions are required for the shipment of our products to certain countries. A determination by the U.S. or foreign government that we have failed to comply with these or other export regulations or anti-bribery regulations can result in penalties which may include denial of export privileges, fines, civil or criminal penalties, and seizure of products. Such penalties could have a material adverse effect on our business, sales and earnings. Further, a change in these laws and regulations could restrict our ability to export to previously permitted countries, customers, distributors or other third parties. Any one or more of these sanctions or a change in laws or regulations could have a material adverse effect on our business, financial condition and results of operations.

***The outcome of currently ongoing and future examinations of our income tax returns by the IRS could have an adverse effect on our results of operations.***

We are subject to examination of our income tax returns by the IRS and other tax authorities for fiscal 2011 and later. Microchip and SMSC are currently under IRS audit for fiscal 2011 and 2012. We are subject to certain income tax examinations in foreign jurisdictions for fiscal 2006 and later. 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 continuing examinations will not have an adverse effect on our future operating results.

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

The market price of our common stock has fluctuated significantly in the past and is likely to fluctuate in the future. The future trading price of our common stock could be subject to wide fluctuations in response to a variety of factors, many of which are beyond our control, including, but not limited to:

- quarterly variations in our operating results or the operating results of other technology companies;
- general conditions in the semiconductor industry;
- global economic and financial conditions;
- changes in analysts' estimates of our financial performance or buy/sell recommendations;
- changes in our financial guidance or our failure to meet such guidance;
- any acquisitions we pursue or complete; and
- actual or anticipated announcements of technical innovations or new products by us or our competitors.

In addition, the stock market has from time to time experienced significant price and volume fluctuations that have affected the market prices for many companies and that often have been unrelated to the operating performance of such companies. These broad market fluctuations and other factors have harmed and may harm the market price of our common stock. Some or all of the foregoing factors could also cause the market price of our convertible debentures to decline or fluctuate substantially.

***We may in the future incur impairments to goodwill or long-lived assets.***

We review our long-lived assets, including goodwill and other intangible assets, for impairment annually in the fourth fiscal quarter or whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. Factors that may be considered in assessing whether goodwill or intangible assets may not be recoverable include a decline in our stock price or market capitalization, reduced estimates of future cash flows and slower growth rates in our industry. Our valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and to rely heavily on projections of future operating performance. Because we operate in highly competitive environments, projections of our future operating results and cash flows may vary significantly from our actual results. No goodwill or material long-lived asset impairment charges were recorded in fiscal 2013 or fiscal 2014.

***Our financial condition and results of operations could be adversely affected if we do not effectively manage our current or future debt.***

In June 2013, we entered into a \$2.0 billion credit agreement. At March 31, 2014, we had \$650.0 million in outstanding borrowings under such credit agreement. In December 2007, we sold \$1.15 billion of principal value 2.125% junior subordinated convertible debentures. As a result of such transactions, we have a substantially greater amount of debt than we had maintained in the past. Our maintenance of substantial levels of debt could adversely affect our ability to take advantage of corporate opportunities and could adversely affect our financial condition and results of operations. We may need or desire to refinance all or a portion of our loans under our credit agreement, our debentures or any other future indebtedness and there can be no assurance that we will be able to refinance any of our indebtedness on commercially reasonable terms, if at all.

***Conversion of our debentures will dilute the ownership interest of existing stockholders, including holders who had previously converted their debentures.***

The conversion of some or all of our outstanding debentures will dilute the ownership interest of existing stockholders to the extent we deliver common stock upon conversion of the debentures. Upon conversion, we may satisfy our conversion obligation by delivering cash, shares of common stock or any combination, at our option. If upon conversion we elect to deliver cash for the lesser of the conversion value and principal amount of the debentures, we would pay the holder the cash value of the applicable number of shares of our common stock. Upon conversion, we intend to satisfy the lesser of the principal amount or the conversion value of the debentures in cash. If the conversion value of a debenture exceeds the principal amount of the debenture, we may also elect to deliver cash in lieu of common stock for the conversion value in excess of the one thousand dollars principal amount (i.e., the conversion spread). There would be no adjustment to the numerator in the net income per common share computation for the cash settled portion of the debentures as that portion of the debt instrument will always be settled in cash. The conversion spread will be included in the denominator for the computation of diluted net income per common share. Any sales in the public market of any common stock issuable upon conversion of our debentures could adversely affect prevailing market prices of our common stock. In addition, the existence of the debentures may encourage short selling by market participants because the conversion of the debentures could be used to satisfy short positions, or anticipated conversion of the debentures into shares of our common stock could depress the price of our common stock.

***Our reported financial results may be adversely affected by new accounting pronouncements or changes in existing accounting standards and practices.***

We prepare our financial statements in conformity with accounting principles generally accepted in the U.S. These accounting principles are subject to interpretation or changes by the FASB and the SEC. New accounting pronouncements and varying interpretations of accounting standards and practices have occurred in the past and are expected to occur in the future. New accounting pronouncements or a change in the interpretation of existing accounting standards or practices may have a significant effect on our reported financial results and may even affect our reporting of transactions completed before the change is announced or effective.

***Potential U.S. tax legislation regarding our foreign earnings could materially and adversely impact our business and financial results.***

Currently, a majority of our revenue is generated from customers located outside the U.S., and a substantial portion of our assets, including employees, are located outside the U.S. Present U.S. income taxes and foreign withholding taxes have not been provided on undistributed earnings for certain of our non-U.S. subsidiaries, because such earnings are intended to be indefinitely reinvested in the operations of those subsidiaries. In recent years, there have been a number of initiatives proposed by the Obama administration and members of Congress regarding the tax treatment of such undistributed earnings. If adopted, certain of these initiatives would substantially reduce our ability to defer U.S. taxes including repealing the deferral of U.S. taxation of foreign earnings, eliminating utilization of or substantially reducing our ability to claim foreign tax credits, and eliminating various tax deductions until foreign earnings are repatriated to the U.S. Changes in tax law such as these proposals could have a material negative impact on our financial position and results of operations.

***Climate change regulations and sustained adverse climate change pose regulatory and physical risks that could harm our results of operations or affect the way we conduct business.***

Climate change regulations could require us to limit emissions, change our manufacturing processes, obtain substitute materials which may cost more or be less available, increase our investment in control technology for greenhouse gas emissions, fund offset projects or undertake other costly activities. These regulations could significantly increase our costs and restrict our manufacturing operations by virtue of requirements for new equipment. New permits may be required for our current operations, or expansions thereof. Failure to timely receive permits could result in fines, suspension of production, or cessation of operations at one or more facilities. In addition, restrictions on carbon dioxide or other greenhouse gas emissions could result in significant costs such as higher energy costs, and utility companies passing down carbon taxes, emission cap and trade programs and renewable portfolio standards. The cost of complying, or of failing to comply, with these and other climate change and emissions regulations could have an adverse effect on our operating results.

Further, any sustained adverse change in climate could have a direct adverse economic impact on us, such as water and power shortages, higher costs of water or energy to control the temperature of our facilities. Certain of our operations are located in arid or tropical regions, such as Thailand and Arizona. Some environmental experts predict that these regions may become vulnerable to storms, severe floods and droughts due to climate change. While we maintain business recovery plans that are intended to allow us to recover from natural disasters or other events that can interrupt business, we cannot be certain that our plans will protect us from all such disasters or events.

**Item 1B. UNRESOLVED STAFF COMMENTS**

None.

**Item 2. PROPERTIES**

At March 31, 2014, we owned the facilities described below:

<b>Location</b>	<b>Approximate Total Sq. Ft.</b>	<b>Uses</b>
Chandler, Arizona	415,000	Executive and Administrative Offices; Wafer Probe; R&D Center; Sales and Marketing; and Computer and Service Functions
Tempe, Arizona	379,000	Wafer Fabrication (Fab 2); R&D Center; Administrative Offices; and Warehousing
Gresham, Oregon	826,500	Wafer Fabrication (Fab 4); R&D Center; Administrative Offices; and Warehousing
Chacherngsao, Thailand	489,000	Assembly and Test; Wafer Probe; Sample Center; Warehousing; and Administrative Offices
Chacherngsao, Thailand	215,000	Assembly and Test
Bangalore, India	232,000	Research and Development; Marketing Support and Administrative Offices

In addition to the facilities we own, we lease several research and development facilities and sales offices in North America, Europe and Asia. Our aggregate monthly rental payment for our leased facilities is approximately \$1.4 million.

We currently believe that our existing facilities are suitable and will be adequate to meet our requirements for at least the next 12 months.

See page 37 for a discussion of the capacity utilization of our manufacturing facilities.

**Item 3. LEGAL PROCEEDINGS**

In the ordinary course of our business, we are involved in a limited number of legal actions, both as plaintiff and defendant, and could incur uninsured liability in any one or more of them. We also periodically receive notification from various third parties alleging infringement of patents, intellectual property rights or other matters. With respect to these pending legal actions to which we are a party, although the outcome of these actions are generally not determinable, we believe that the ultimate resolution of these matters will not harm our business and will not have a material adverse effect on our financial position, cash flows or results of operations. Litigation relating to the semiconductor industry is not uncommon, and we are, and from time to time have been, subject to such litigation. No assurances can be given with respect to the extent or outcome of any such litigation in the future.

**Item 4. MINE SAFETY DISCLOSURES**

Not applicable.

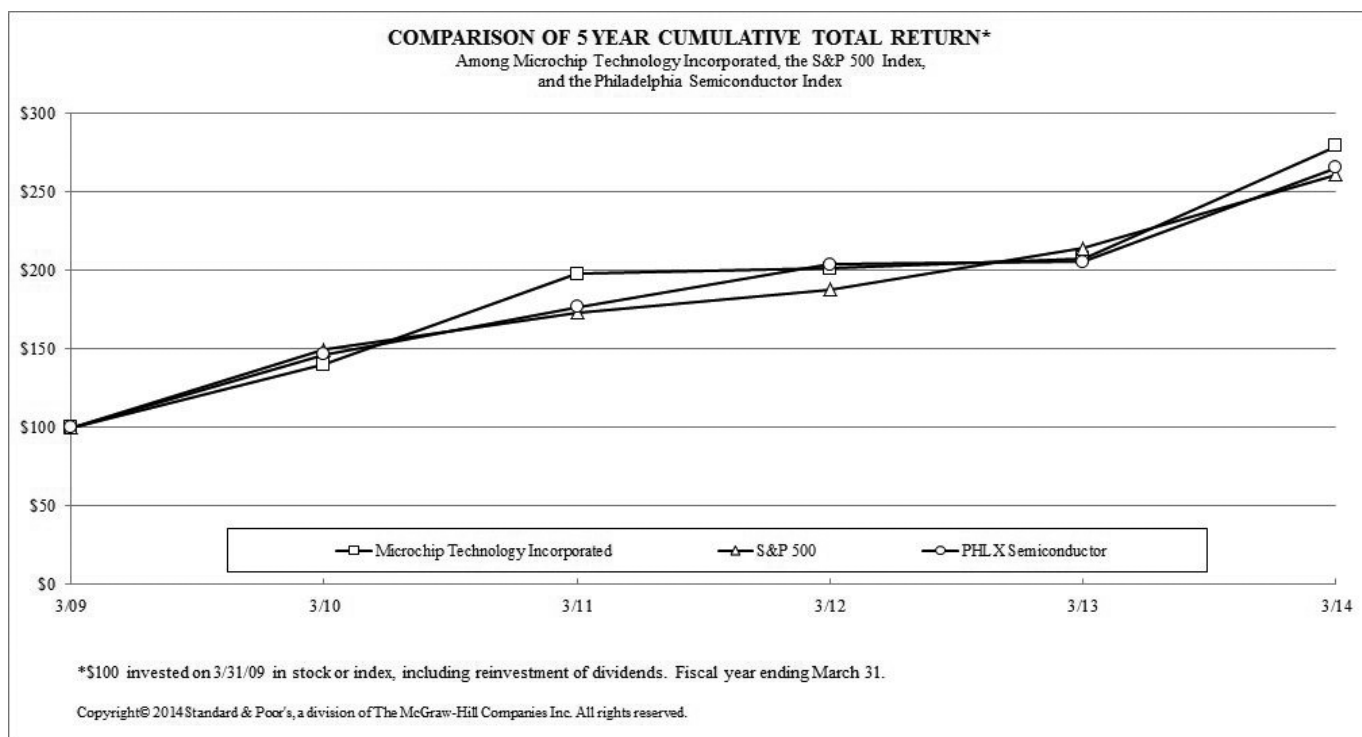
**PART II****Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

Our common stock is traded on the NASDAQ Global Market under the symbol "MCHP." Our common stock has been quoted on such market since our initial public offering on March 19, 1993. The following table sets forth the quarterly high and low closing prices of our common stock as reported by NASDAQ for our last two fiscal years.

<b>Fiscal 2014</b>	<b>High</b>	<b>Low</b>	<b>Fiscal 2013</b>	<b>High</b>	<b>Low</b>
First Quarter	\$38.04	\$34.23	First Quarter	\$37.32	\$30.40
Second Quarter	\$41.69	\$37.37	Second Quarter	\$35.73	\$31.03
Third Quarter	\$44.75	\$38.82	Third Quarter	\$33.37	\$29.37
Fourth Quarter	\$48.09	\$43.61	Fourth Quarter	\$37.32	\$32.58

## Stock Price Performance Graph

The following graph and table show a comparison of the five-year cumulative total stockholder return, calculated on a dividend reinvestment basis, for Microchip Technology Incorporated, the Standard & Poor's (S&P) 500 Stock Index, and the Philadelphia Semiconductor Index.



	Cumulative Total Return					
	March 2009	March 2010	March 2011	March 2012	March 2013	March 2014
Microchip Technology Incorporated	100.00	140.26	197.81	201.31	207.56	279.12
S&P 500 Stock Index	100.00	149.77	173.20	187.99	214.24	261.06
Philadelphia Semiconductor Index	100.00	146.56	176.56	203.78	205.73	265.65

Data acquired by Research Data Group, Inc. ([www.researchdatagroup.com](http://www.researchdatagroup.com))

On May 23, 2014, there were approximately 297 holders of record of our common stock. This figure does not reflect beneficial ownership of shares held in nominee names.

We have been declaring and paying quarterly cash dividends on our common stock since the third quarter of fiscal 2003. Our total cash dividends paid were \$281.2 million, \$273.8 million and \$266.2 million in fiscal 2014, fiscal 2013 and fiscal 2012, respectively. The following table sets forth our quarterly cash dividends per common share and the total amount of the dividend payment for each quarter in fiscal 2014 and fiscal 2013 (amounts in thousands, except per share amounts):

<b>Fiscal 2014</b>	<b>Dividends per Common Share</b>	<b>Aggregate Amount of Dividend Payment</b>	<b>Fiscal 2013</b>	<b>Dividends per Common Share</b>	<b>Aggregate Amount of Dividend Payment</b>
First Quarter	\$ 0.3535	\$ 69,682	First Quarter	\$ 0.3500	\$ 67,748
Second Quarter	0.3540	70,086	Second Quarter	0.3510	68,147
Third Quarter	0.3545	70,554	Third Quarter	0.3520	68,697
Fourth Quarter	0.3550	70,882	Fourth Quarter	0.3530	69,230

On May 6, 2014, we declared a quarterly cash dividend of \$0.3555 per share, which will be paid on June 3, 2014 to stockholders of record on May 21, 2014 and the total amount of such dividend is expected to be approximately \$71.1 million. Our Board of Directors is free to change our dividend practices at any time and to increase or decrease the dividend paid, or not to pay a dividend, on our common stock on the basis of our results of operations, financial condition, cash requirements and future prospects, and other factors deemed relevant by our Board of Directors. Our current intent is to provide for ongoing quarterly cash dividends depending upon market conditions and our results of operations.

Please refer to "Item 12 - Security Ownership Of Certain Beneficial Owners And Management And Related Stockholder Matters," at page 47 below, for the information required by Item 201(d) of Regulation S-K with respect to securities authorized for issuance under our equity compensation plans at March 31, 2014.

#### **Item 6. SELECTED FINANCIAL DATA**

You should read the following selected consolidated financial data for the five-year period ended March 31, 2014 in conjunction with our consolidated financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Items 7 and 8 of this Form 10-K. Our consolidated statements of income data for each of the years in the three-year period ended March 31, 2014, and the balance sheet data as of March 31, 2014 and 2013, are derived from our audited consolidated financial statements, included in Item 8 of this Form 10-K. The statement of income data for the years ended March 31, 2011 and 2010 and balance sheet data as of March 31, 2012, 2011 and 2010 have been derived from our audited consolidated financial statements not included herein (in the tables below all amounts are in thousands, except per share data).

## Statement of Income Data:

	Year ended March 31,				
	2014	2013	2012	2011	2010
Net sales	\$ 1,931,217	\$ 1,581,623	\$ 1,383,176	\$ 1,487,205	\$ 947,729
Cost of sales	802,474	743,164	583,882	605,954	412,092
Research and development	305,043	254,723	182,650	170,607	120,823
Selling, general and administrative	267,278	261,471	208,328	222,184	166,338
Amortization of acquired intangible assets	94,534	111,537	10,963	12,412	2,279
Special charges, net <sup>(1)</sup>	3,024	32,175	837	1,865	1,238
Operating income	458,864	178,553	396,516	474,183	244,959
(Losses) gains on equity method investments	(177)	(617)	(195)	157	—
Interest income	16,485	15,560	17,992	16,002	15,325
Interest expense	(48,716)	(40,915)	(34,266)	(31,521)	(31,150)
Other income (expense), net	5,898	(404)	(352)	1,877	8,679
Income from continuing operations before income taxes	432,354	152,177	379,695	460,698	237,813
Income tax provision	37,073	24,788	42,990	31,531	20,808
Net income from continuing operations	\$ 395,281	\$ 127,389	\$ 336,705	\$ 429,167	\$ 217,005
Basic net income per common share – continuing operations	\$ 1.99	\$ 0.65	\$ 1.76	\$ 2.29	\$ 1.18
Diluted net income per common share – continuing operations	\$ 1.82	\$ 0.62	\$ 1.65	\$ 2.20	\$ 1.16
Dividends declared per common share	\$ 1.417	\$ 1.406	\$ 1.390	\$ 1.374	\$ 1.359
Basic common shares outstanding	198,291	194,595	191,283	187,066	183,642
Diluted common shares outstanding	217,630	205,776	203,519	194,715	187,339

## Balance Sheet Data:

	March 31,				
	2014	2013	2012	2011	2010
Working capital	\$ 1,633,320	\$ 1,894,759	\$ 1,767,988	\$ 1,434,667	\$ 1,407,579
Total assets	4,067,630	3,851,405	3,083,776	2,968,058	2,516,313
Long-term obligations, less current portion	1,003,258	983,385	355,050	347,334	340,672
Stockholders' equity	2,135,461	1,933,470	1,990,673	1,812,438	1,533,380

<sup>(1)</sup> Discussions of the special charges for the fiscal years ended March 31, 2014, 2013 and 2012 are contained in Note 4 to our consolidated financial statements. An explanation of the special charges for the fiscal years ended March 31, 2011 and 2010 is provided below.

The following table presents a summary of special charges for the five-year period ended March 31, 2014:

	March 31,				
	2014	2013	2012	2011 <sup>(1)</sup>	2010 <sup>(2)</sup>
Acquisition related expenses	\$ 1,654	\$ 16,259	\$ 340	\$ 1,865	\$ —
Legal settlement	—	11,516	—	—	—
Adjustment to contingent consideration	1,370	4,400	(1,000)	—	—
Patent licenses	—	—	1,497	—	1,238
<b>Totals</b>	<b>\$ 3,024</b>	<b>\$ 32,175</b>	<b>\$ 837</b>	<b>\$ 1,865</b>	<b>\$ 1,238</b>

<sup>(1)</sup> During fiscal 2011, we incurred \$1.9 million of severance-related and office closure costs associated with our acquisition of SST.

<sup>(2)</sup> During the first quarter of fiscal 2010, we agreed to the terms of a patent license with an unrelated third party and signed an agreement on July 9, 2009. The patent license settled alleged infringement claims. The total payment made to the third-party in July 2009 was \$1.4 million, \$1.2 million of which was expensed in the first quarter of fiscal 2010 and the remaining \$0.2 million was recorded as a prepaid royalty that was amortized over the remaining life of the patents, which expired in June 2010.

## **Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **Note Regarding Forward-looking Statements**

This report, including "Item 1 – Business," "Item 1A – Risk Factors," and "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations," contains certain forward-looking statements that involve risks and uncertainties, including statements regarding our strategy, financial performance and revenue sources. We use words such as "anticipate," "believe," "plan," "expect," "estimate," "future," "continue," "intend" and similar expressions to identify forward-looking statements. These forward-looking statements include, without limitation, statements regarding the following:

- The effects that adverse global economic conditions and fluctuations in the global credit and equity markets may have on our financial condition and results of operations;
- The effects and amount of competitive pricing pressure on our product lines;
- Our ability to moderate future average selling price declines;
- The effect of product mix, capacity utilization, yields, fixed cost absorption, competition and economic conditions on gross margin;
- The amount of, and changes in, demand for our products and those of our customers;
- Our expectation that in the future we will acquire additional business that we believe will complement our existing businesses;
- Our expectation that in the future we will enter into joint development agreements or other business or strategic relationships with other companies;
- The level of orders that will be received and shipped within a quarter;
- Our expectation that our inventory levels will decrease between 7 and 11 days in the June 2014 quarter compared to the March 2014 quarter and that it will allow us to maintain competitive lead times, provide strong delivery performance to our customers and keep our fiscal 2015 capital expenditures at relatively low levels;
- The effect that distributor and customer inventory holding patterns will have on us;
- Our belief that customers recognize our products and brand name and use distributors as an effective supply channel;
- Our belief that deferred cost of sales are recorded at their approximate carrying value and will have low risk of material impairment;
- Our belief that our direct sales personnel combined with our distributors provide an effective means of reaching our customer base;
- Our ability to increase the proprietary portion of our analog, interface and mixed signal product lines and the effect of such an increase;
- Our belief that our processes afford us both cost-effective designs in existing and derivative products and greater functionality in new product designs;
- The impact of any supply disruption we may experience;



- Our ability to effectively utilize our facilities at appropriate capacity levels and anticipated costs;
- That we adjust capacity utilization to respond to actual and anticipated business and industry-related conditions;
- That our existing facilities will provide sufficient capacity to respond to increases in demand with modest incremental capital expenditures;
- That manufacturing costs will be reduced by transition to advanced process technologies;
- Our ability to maintain manufacturing yields;
- Continuing our investments in new and enhanced products;
- The cost effectiveness of using our own assembly and test operations;
- Our anticipated level of capital expenditures;
- Continuation and amount of quarterly cash dividends;
- The sufficiency of our existing sources of liquidity to finance anticipated capital expenditures and otherwise meet our anticipated cash requirements, and the effects that our contractual obligations are expected to have on them;
- The impact of seasonality on our business;
- The accuracy of our estimates used in valuing employee equity awards;
- That the resolution of legal actions will not have a material effect on our business, and the accuracy of our assessment of the probability of loss and range of potential loss;
- The recoverability of our deferred tax assets;
- The adequacy of our tax reserves to offset any potential tax liabilities, having the appropriate support for our income tax positions and the accuracy of our estimated tax rate;
- Our belief that the expiration of any tax holidays will not have a material impact on our overall tax expense or effective tax rate;
- Our belief that the estimates used in preparing our consolidated financial statements are reasonable;
- Our belief that recently issued accounting pronouncements listed in this document will not have a significant impact on our consolidated financial statements;
- The accuracy of our estimates of the useful life and values of our property, assets and other liabilities;
- The adequacy of our patent strategy, and our belief that the impact of the expiration of any particular patent will not have a material effect on our business;
- Our actions to vigorously and aggressively defend and protect our intellectual property on a worldwide basis;
- Our ability to obtain patents and intellectual property licenses and minimize the effects of litigation;
- The level of risk we are exposed to for product liability or indemnification claims;
- The effect of fluctuations in market interest rates on our income and/or cash flows;
- The effect of fluctuations in currency rates;
- Our belief that any unrealized losses represent an other-than-temporary impairment based on our evaluation of available evidence and our intent to hold these investments until these assets are no longer impaired;
- That a significant portion of our future cash generation will be in our foreign subsidiaries;
- Our intention to satisfy the lesser of the principal amount or the conversion value of our debenture in cash;
- Our intention to indefinitely reinvest undistributed earnings of certain non-US subsidiaries in those subsidiaries;
- Our intent to maintain a high-quality investment portfolio that preserves principal, meets liquidity needs, avoids inappropriate concentrations and delivers an appropriate yield; and
- Our ability to collect accounts receivable.

Our actual results could differ materially from the results anticipated in these forward-looking statements as a result of certain factors including those set forth in "Item 1A – Risk Factors," and elsewhere in this Form 10-K. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on these forward-looking statements. We disclaim any obligation to update information contained in any forward-looking statement.

## **Introduction**

The following discussion should be read in conjunction with the consolidated financial statements and the related notes that appear elsewhere in this document, as well as with other sections of this Annual Report on Form 10-K, including "Item 1 – Business;" "Item 6 – Selected Financial Data;" and "Item 8 – Financial Statements and Supplementary Data."

We begin our Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) with a summary of our overall business strategy to give the reader an overview of the goals of our business and the overall direction of our business and products. This is followed by a discussion of the Critical Accounting Policies and Estimates that we believe are important to understanding the assumptions and judgments incorporated in our reported financial results. In the next section, beginning at page 34, we discuss our Results of Operations for fiscal 2014 compared to fiscal 2013, and for fiscal 2013 compared to fiscal 2012. We then provide an analysis of changes in our balance sheet and cash flows, and discuss our financial

commitments in the sections titled "Liquidity and Capital Resources," "Contractual Obligations" and "Off-Balance Sheet Arrangements."

## Strategy

Our goal is to be a worldwide leader in providing specialized semiconductor products for a wide variety of embedded control applications. Our strategic focus is on the embedded control market, which includes microcontrollers, high-performance analog, interface and mixed signal devices, power management and thermal management devices, connectivity devices, interface devices, Serial EEPROMs, SuperFlash memory products, our patented KeeLoq<sup>®</sup> security devices and Flash IP solutions. We provide highly cost-effective embedded control products that also offer the advantages of small size, high performance, low voltage/power operation and ease of development, enabling timely and cost-effective embedded control product integration by our customers. We license our SuperFlash technology to wafer foundries, integrated device manufacturers and design partners throughout the world for use in the manufacture of their advanced microcontroller products.

We sell our products to a broad base of domestic and international customers across a variety of industries. The principal markets that we serve include consumer, automotive, industrial, office automation and telecommunications. Our business is subject to fluctuations based on economic conditions within these markets.

Our manufacturing operations include wafer fabrication, wafer probe and assembly and test. The ownership of a substantial portion of our manufacturing resources is an important component of our business strategy, enabling us to maintain a high level of manufacturing control resulting in us being one of the lowest cost producers in the embedded control industry. By owning wafer fabrication facilities and our assembly and test operations, and by employing statistical process control techniques, we have been able to achieve and maintain high production yields. Direct control over manufacturing resources allows us to shorten our design and production cycles. This control also allows us to capture a portion of the wafer manufacturing and the assembly and test profit margin. We do outsource a significant portion of our manufacturing requirements to third parties.

We employ proprietary design and manufacturing processes in developing our embedded control products. We believe our processes afford us both cost-effective designs in existing and derivative products and greater functionality in new product designs. While many of our competitors develop and optimize separate processes for their logic and memory product lines, we use a common process technology for both microcontroller and non-volatile memory products. This allows us to more fully leverage our process research and development costs and to deliver new products to market more rapidly. Our engineers utilize advanced computer-aided design (CAD) tools and software to perform circuit design, simulation and layout, and our in-house photomask and wafer fabrication facilities enable us to rapidly verify design techniques by processing test wafers quickly and efficiently.

We are committed to continuing our investment in new and enhanced products, including development systems, and in our design and manufacturing process technologies. We believe these investments are significant factors in maintaining our competitive position. Our current research and development activities focus on the design of new microcontrollers, digital signal controllers, memory, analog and mixed-signal products, Flash-IP systems, new development systems, software and application-specific software libraries. We are also developing new design and process technologies to achieve further cost reductions and performance improvements in our products.

We market and sell our products worldwide primarily through a network of direct sales personnel and distributors. Our distributors focus primarily on servicing the product and technical support requirements of a broad base of diverse customers. We believe that our direct sales personnel combined with our distributors provide an effective means of reaching this broad and diverse customer base. Our direct sales force focuses primarily on major strategic accounts in three geographical markets: the Americas, Europe and Asia. We currently maintain sales and support centers in major metropolitan areas in North America, Europe and Asia. We believe that a strong technical service presence is essential to the continued development of the embedded control market. Many of our field sales engineers (FSEs), field application engineers (FAEs), and sales management personnel have technical degrees and have been previously employed in an engineering environment. We believe that the technical knowledge of our sales force is a key competitive advantage in the sale of our products. The primary mission of our FAE team is to provide technical assistance to strategic accounts and to conduct periodic training sessions for FSEs and distributor sales teams. FAEs also frequently conduct technical seminars for our customers in major cities around the world, and work closely with our distributors to provide technical assistance and end-user support.

## Critical Accounting Policies and Estimates

### *General*

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. We review the accounting policies we use in reporting our financial results on a regular basis. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent liabilities. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, business combinations, share-based compensation, inventories, income taxes, junior subordinated convertible debentures 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 judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Our results may differ from these estimates due to actual outcomes being different from those on which we based our assumptions. We review these estimates and judgments on an ongoing basis. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements. We also have other policies that we consider key accounting policies, such as our policy regarding revenue recognition to original equipment manufacturers (OEMs); however, we do not believe these policies require us to make estimates or judgments that are as difficult or subjective as our policies described below.

### *Revenue Recognition – Distributors*

Our distributors worldwide generally have broad price protection and product return rights, so we defer revenue recognition until the distributor sells the product to their customer. Revenue is recognized when the distributor sells the product to an end-user, at which time the sales price becomes fixed or determinable. Revenue is not recognized upon shipment to our distributors since, due to discounts from list price as well as price protection rights, the sales price is not substantially fixed or determinable at that time. At the time of shipment to these distributors, we record a trade receivable for the selling price as there is a legally enforceable right to payment, relieve inventory for the carrying value of goods shipped since legal title has passed to the distributor, and record the gross margin in deferred income on shipments to distributors on our consolidated balance sheets.

Deferred income on shipments to distributors effectively represents the gross margin on the sale to the distributor; however, the amount of gross margin that we recognize in future periods could be less than the deferred margin as a result of credits granted to distributors on specifically identified products and customers to allow the distributors to earn a competitive gross margin on the sale of our products to their end customers and price protection concessions related to market pricing conditions.

We sell the majority of the items in our product catalog to our distributors worldwide at a uniform list price. However, distributors resell our products to end customers at a very broad range of individually negotiated price points. The majority of our distributors' resales require a reduction from the original list price paid. Often, under these circumstances, we remit back to the distributor a portion of their original purchase price after the resale transaction is completed in the form of a credit against the distributors' outstanding accounts receivable balance. The credits are on a per unit basis and are not given to the distributor until they provide information to us regarding the sale to their end customer. The price reductions vary significantly based on the customer, product, quantity ordered, geographic location and other factors and discounts to a price less than our cost have historically been rare. The effect of granting these credits establishes the net selling price to our distributors for the product and results in the net revenue recognized by us when the product is sold by the distributors to their end customers. Thus, a portion of the "deferred income on shipments to distributors" balance represents the amount of distributors' original purchase price that will be credited back to the distributor in the future. The wide range and variability of negotiated price concessions granted to distributors does not allow us to accurately estimate the portion of the balance in the deferred income on shipments to distributors account that will be credited back to the distributors. Therefore, we do not reduce deferred income on shipments to distributors or accounts receivable by anticipated future concessions; rather, price concessions are typically recorded against deferred income on shipments to distributors and accounts receivable when incurred, which is generally at the time the distributor sells the product. At March 31, 2014, we had approximately \$222.8 million of deferred revenue and \$75.0 million in deferred cost of sales recognized as \$147.8 million of deferred income on shipments to distributors. At March 31, 2013, we

had approximately \$201.8 million of deferred revenue and \$62.8 million in deferred cost of sales recognized as \$139.0 million of deferred income on shipments to distributors. The deferred income on shipments to distributors that will ultimately be recognized in our income statement will be lower than the amount reflected on the balance sheet due to additional price credits to be granted to the distributors when the product is sold to their customers. These additional price credits historically have resulted in the deferred income approximating the overall gross margins that we recognize in the distribution channel of our business.

Distributor advances, reflected as a reduction of deferred income on shipments to distributors on our consolidated balance sheets, totaled \$92.8 million at March 31, 2014 and \$70.1 million at March 31, 2013. On sales to distributors, our payment terms generally require the distributor to settle amounts owed to us for an amount in excess of their ultimate cost. The sales price to our distributors may be higher than the amount that the distributors will ultimately owe us because distributors often negotiate price reductions after purchasing products from us and such reductions are often significant. It is our practice to apply these negotiated price discounts to future purchases, requiring the distributor to settle receivable balances, on a current basis, generally within 30 days, for amounts originally invoiced. This practice has an adverse impact on the working capital of our distributors. As such, we have entered into agreements with certain distributors whereby we advance cash to the distributors to reduce the distributor's working capital requirements. These advances are reconciled at least on a quarterly basis and are estimated based on the amount of ending inventory as reported by the distributor multiplied by a negotiated percentage. Such advances have no impact on our revenue recognition or our consolidated statements of income. We process discounts taken by distributors against our deferred income on shipments to distributors' balance and true-up the advanced amounts generally after the end of each completed fiscal quarter. The terms of these advances are set forth in binding legal agreements and are unsecured, bear no interest on unsettled balances and are due upon demand. The agreements governing these advances can be canceled by us at any time.

We reduce product pricing through price protection based on market conditions, competitive considerations and other factors. Price protection is granted to distributors on the inventory they have on hand at the date the price protection is offered. When we reduce the price of our products, it allows the distributor to claim a credit against its outstanding accounts receivable balances based on the new price of the inventory it has on hand as of the date of the price reduction. There is no immediate revenue impact from the price protection, as it is reflected as a reduction of the deferred income on shipments to distributors' balance.

Products returned by distributors and subsequently scrapped have historically been immaterial to our consolidated results of operations. We routinely evaluate the risk of impairment of the deferred cost of sales component of the deferred income on shipments to distributors account. Because of the historically immaterial amounts of inventory that have been scrapped, and historically rare instances where discounts given to a distributor result in a price less than our cost, we believe the deferred costs are recorded at their approximate carrying value.

#### *Business Combinations*

All of our business combinations are accounted for at fair value under the acquisition method of accounting. Under the acquisition method of accounting, (i) acquisition-related costs, except for those costs incurred to issue debt or equity securities, will be expensed in the period incurred; (ii) non-controlling interests will be valued at fair value at the acquisition date; (iii) in-process research and development will be recorded at fair value as an intangible asset at the acquisition date and amortized once the technology reaches technological feasibility; (iv) restructuring costs associated with a business combination will be expensed subsequent to the acquisition date; and (v) changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date will be recognized through income tax expense or directly in contributed capital. The measurement of the fair value of assets acquired and liabilities assumed requires significant judgment. The valuation of intangible assets and acquired investments, in particular, requires that we use valuation techniques such as the income approach. The income approach includes the use of a discounted cash flow model, which includes discounted cash flow scenarios and requires the following significant estimates: revenue, expenses, capital spending and other costs, and discount rates based on the respective risks of the cash flows. The valuation of non-marketable equity investments acquired also takes into account variables such as conditions reflected in the capital markets, recent financing activity by the investees, the investees' capital structure and the terms of the investees' issued interests.

### *Share-based Compensation*

We measure at fair value and recognize compensation expense for all share-based payment awards, including grants of employee stock options, restricted stock units (RSUs) and employee stock purchase rights, to be recognized in our financial statements based on their respective grant date fair values. Total share-based compensation in fiscal 2014 was \$53.8 million, of which \$46.4 million was reflected in operating expenses. Total share-based compensation included in cost of sales in fiscal 2014 was \$7.3 million. Total share-based compensation included in our inventory balance was \$5.7 million at March 31, 2014.

Determining the appropriate fair-value model and calculating the fair value of share-based awards at the date of grant requires judgment. The fair value of our RSUs is based on the fair market value of our common stock on the date of grant discounted for expected future dividends. We use the Black-Scholes option pricing model to estimate the fair value of employee stock options and rights to purchase shares under our employee stock purchase plans. Option pricing models, including the Black-Scholes model, require the use of input assumptions, including expected volatility, expected life, expected dividend rate, and expected risk-free rate of return. We use a blend of historical and implied volatility based on options freely traded in the open market as we believe this is most reflective of market conditions and a better indicator of expected volatility than using purely historical volatility. The expected life of the awards is based on historical and other economic data trended into the future. The risk-free interest rate assumption is based on observed interest rates appropriate for the terms of our awards. The dividend yield assumption is based on our history and expectation of future dividend payouts. We estimate the number of share-based awards that will be forfeited due to employee turnover. Quarterly changes in the estimated forfeiture rate can have a significant effect on reported share-based compensation, as the impact on prior period amortization for all unvested awards is recognized in the period the forfeiture estimate is changed. If the actual forfeiture rate is higher or lower than the estimated forfeiture rate, then an adjustment is made to increase or decrease the estimated forfeiture rate, which will result in a decrease or increase to the expense recognized in our financial statements. If forfeiture adjustments are made, they would affect our gross margin, research and development expenses, and selling, general, and administrative expenses. The effect of forfeiture adjustments in fiscal 2014 was immaterial.

We evaluate the assumptions used to value our awards on a quarterly basis. If factors change and we employ different assumptions, share-based compensation expense may differ significantly from what we have recorded in the past. If there are any modifications or cancellations of the underlying unvested securities, we may be required to accelerate, increase or cancel any remaining unearned share-based compensation expense. Future share-based compensation expense and unearned share-based compensation will increase to the extent that we grant additional equity awards to employees or we assume unvested equity awards in connection with acquisitions.

### *Inventories*

Inventories are valued at the lower of cost or market using the first-in, first-out method. We write down our inventory for estimated obsolescence or unmarketable inventory in an amount equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those we projected, additional inventory write-downs may be required. Inventory impairment charges establish a new cost basis for inventory and charges are not subsequently reversed to income even if circumstances later suggest that increased carrying amounts are recoverable. In estimating our inventory obsolescence, we primarily evaluate estimates of demand over a 12-month period and record impairment charges for inventory on hand in excess of the estimated 12-month demand. Estimates for projected 12-month demand are generally based on the average shipments of the prior three-month period, which are then annualized to adjust for any potential seasonality in our business. The estimated 12-month demand is compared to our most recently developed sales forecast to further reconcile the 12-month demand estimate. Management reviews and adjusts the estimates as appropriate based on specific situations. For example, demand can be adjusted up for new products for which historic sales are not representative of future demand. Alternatively, demand can be adjusted down to the extent any existing products are being replaced or discontinued.

In periods where our production levels are substantially below our normal operating capacity, the reduced production levels of our manufacturing facilities are charged directly to cost of sales. As a result of decreased production in our wafer fabrication facilities, approximately \$19.0 million, \$31.7 million and \$6.7 million was charged directly to cost of sales in fiscal 2014, fiscal 2013 and fiscal 2012, respectively.

## *Income Taxes*

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheets. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income within the relevant jurisdiction and to the extent we believe that recovery is not likely, we must establish a valuation allowance. We have provided valuation allowances for certain of our deferred tax assets, including state net operating loss carryforwards, foreign tax credits and state tax credits, where it is more likely than not that some portion, or all of such assets, will not be realized. At March 31, 2014, the valuation allowances totaled \$93.8 million. Should we determine that we would not be able to realize all or part of our net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made. At March 31, 2014, our deferred tax asset, net of valuation allowances, was \$238.2 million.

Various taxing authorities in the U.S. and other countries in which we do business scrutinize the tax structures employed by businesses. Companies of our size and complexity are regularly audited by the taxing authorities in the jurisdictions in which they conduct significant operations. Microchip and SMSC are currently under IRS audit for fiscal years 2011 and 2012. We recognize liabilities for anticipated tax audit issues in the U.S. and other tax jurisdictions based on our estimate of whether, and the extent to which, additional tax payments are probable. We believe that we maintain adequate tax reserves to offset any potential tax liabilities that may arise upon these and other pending audits in the U.S. and other countries in which we do business. If such amounts ultimately prove to be unnecessary, the resulting reversal of such reserves would result in tax benefits being recorded in the period the reserves are no longer deemed necessary. If such amounts ultimately prove to be less than an ultimate assessment, a future charge to expense would be recorded in the period in which the assessment is determined.

## *Junior Subordinated Convertible Debentures*

We separately account for the liability and equity components of our junior subordinated convertible debentures in a manner that reflects our nonconvertible debt (unsecured debt) borrowing rate when interest cost is recognized. This results in a bifurcation of a component of the debt, classification of that component in equity and the accretion of the resulting discount on the debt to be recognized as part of interest expense in our consolidated statements of income. Lastly, we include the dilutive effect of the shares of our common stock issuable upon conversion of the outstanding junior subordinated convertible debentures in our diluted income per share calculation regardless of whether the market price trigger or other contingent conversion feature has been met. We apply the treasury stock method as we have the intent and have adopted an accounting policy to settle the principal amount of the junior subordinated convertible debentures in cash. This method results in incremental dilutive shares when the average fair value of our common stock for a reporting period exceeds the conversion price per share, which was \$25.87 at March 31, 2014, and adjusts as dividends are recorded in the future.

## *Contingencies*

In the ordinary course of our business, we are involved in a limited number of legal actions, both as plaintiff and defendant, and could incur uninsured liability in any one or more of them. We also periodically receive notifications from various third parties alleging infringement of patents, intellectual property rights or other matters. With respect to pending legal actions to which we are a party, although the outcomes of these actions are not generally determinable, we believe that the ultimate resolution of these matters will not have a material adverse effect on our financial position, cash flows or results of operations. Litigation relating to the semiconductor industry is not uncommon, and we are, and from time to time have been, subject to such litigation. No assurances can be given with respect to the extent or outcome of any such litigation in the future.

## Results of Operations

The following table sets forth certain operational data as a percentage of net sales for the years indicated:

	Year Ended March 31,		
	2014	2013	2012
Net sales	100.0%	100.0%	100.0%
Cost of sales	41.6	47.0	42.2
Gross profit	58.4	53.0	57.8
Research and development	15.8	16.1	13.2
Selling, general and administrative	13.8	16.5	15.0
Amortization of acquired intangible assets	4.9	7.1	0.8
Special charges	0.1	2.0	0.1
Operating income	23.8%	11.3%	28.7%

### Net Sales

We operate in two industry segments and engage primarily in the design, development, manufacture and sale of semiconductor products as well as the licensing of Flash intellectual property. We sell our products to distributors and original equipment manufacturers, referred to as OEMs, in a broad range of markets, perform ongoing credit evaluations of our customers and generally require no collateral. In certain circumstances, a customer's financial condition may require collateral, and, in such cases, the collateral would be typically provided by letters of credit.

Our net sales of \$1,931.2 million in fiscal 2014 increased by \$349.6 million, or 22.1%, over fiscal 2013, and our net sales of \$1,581.6 million in fiscal 2013 increased by \$198.4 million, or 14.4%, from fiscal 2012. The increase in net sales in fiscal 2014 over fiscal 2013 was due primarily to general economic and semiconductor industry conditions and market share gains. The increase in net sales in fiscal 2014 over fiscal 2013 was also impacted by our acquisition of SMSC on August 2, 2012. The increase in net sales in fiscal 2013 over fiscal 2012 was due primarily to our acquisition of SMSC offset in part by adverse general economic and semiconductor industry conditions. Average selling prices for our semiconductor products were up approximately 4% in fiscal 2014 over fiscal 2013 and were up approximately 5% in fiscal 2013 over fiscal 2012. The number of units of our semiconductor products sold was up approximately 17% in fiscal 2014 over fiscal 2013 and up approximately 10% in fiscal 2013 over fiscal 2012. The average selling prices and the unit volumes of our sales are impacted by the mix of our products sold and overall semiconductor market conditions. Key factors impacting the amount of net sales during the last three fiscal years include:

- global economic conditions in the markets we serve;
- semiconductor industry conditions;
- our acquisition of SMSC in the second quarter of fiscal 2013;
- inventory holding patterns of our customers;
- increasing semiconductor content in our customers' products;
- customers' increasing needs for the flexibility offered by our programmable solutions;
- our new product offerings that have increased our served available market; and
- continued market share gains in the segments of the markets we address.

Net sales by product line for fiscal 2014, 2013 and 2012 were as follows (dollars in thousands):

	Year Ended March 31,					
	2014	%	2013	%	2012	%
Microcontrollers	\$ 1,260,988	65.3	\$ 1,035,514	65.5	\$ 928,509	67.1
Analog, interface and mixed signal products	428,088	22.2	307,723	19.4	171,165	12.4
Memory products	134,624	7.0	142,557	9.0	179,217	13.0
Technology licensing	94,578	4.9	83,803	5.3	87,001	6.3
Other	12,939	0.6	12,026	0.8	17,284	1.2
Total net sales	\$ 1,931,217	100.0	\$ 1,581,623	100.0	\$ 1,383,176	100.0

## Microcontrollers

Our microcontroller product line represents the largest component of our total net sales. Microcontrollers and associated application development systems accounted for approximately 65.3% of our total net sales in fiscal 2014, approximately 65.5% of our total net sales in fiscal 2013 and 67.1% of our total net sales in fiscal 2012.

Net sales of our microcontroller products increased approximately 21.8% in fiscal 2014 compared to fiscal 2013, and increased approximately 11.5% in fiscal 2013 compared to fiscal 2012. The increase in net sales in fiscal 2014 compared to fiscal 2013 resulted primarily from market share gains and general economic and semiconductor industry conditions in the end markets we serve including the consumer, automotive, industrial control, communications and computing markets. The increase in net sales in fiscal 2013 compared to fiscal 2012 resulted primarily from our acquisition of SMSC and market share gains which offset weak general economic and semiconductor industry conditions.

Historically, average selling prices in the semiconductor industry decrease over the life of any particular product. The overall average selling prices of our microcontroller products have remained relatively constant over time due to the proprietary nature of these products. We have experienced, and expect to continue to experience, moderate pricing pressure in certain microcontroller product lines, primarily due to competitive conditions. We have in the past been able to, and expect in the future to be able to, moderate average selling price declines in our microcontroller product lines by introducing new products with more features and higher prices. We may be unable to maintain average selling prices for our microcontroller products as a result of increased pricing pressure in the future, which could adversely affect our operating results.

## Analog, Interface and Mixed Signal Products

Sales of our analog, interface and mixed signal products accounted for approximately 22.2% of our total net sales in fiscal 2014, approximately 19.4% of our total net sales in fiscal 2013 and approximately 12.4% of our total net sales in fiscal 2012.

Net sales of our analog, interface and mixed signal products increased approximately 39.1% in fiscal 2014 compared to fiscal 2013 and increased approximately 79.8% in fiscal 2013 compared to fiscal 2012. The increase in net sales in fiscal 2014 compared to fiscal 2013 was driven primarily by general economic and semiconductor industry conditions and market share gains achieved within the analog, interface and mixed signal market. The increase in net sales in fiscal 2013 compared to fiscal 2012 was driven primarily by our acquisition of SMSC and market share gains achieved within the analog, interface and mixed signal market.

Analog, interface and mixed signal products can be proprietary or non-proprietary in nature. Currently, we consider more than 80% of our analog, interface and mixed signal product mix to be proprietary in nature, where prices are relatively stable, similar to the pricing stability experienced in our microcontroller products. The non-proprietary portion of our analog, interface and mixed signal business will experience price fluctuations, driven primarily by the current supply and demand for those products. We may be unable to maintain the average selling prices of our analog, interface and mixed signal products as a result of increased pricing pressure in the future, which could adversely affect our operating results. We anticipate the proprietary portion of our analog, interface and mixed signal products will increase over time.

## Memory Products

Sales of our memory products accounted for approximately 7.0% of our total net sales in fiscal 2014, approximately 9.0% of our total net sales in fiscal 2013 and approximately 13.0% of our total net sales in fiscal 2012.

Net sales of our memory products decreased approximately 5.6% in fiscal 2014 compared to fiscal 2013, and decreased approximately 20.5% in fiscal 2013 compared to fiscal 2012. The decreases in memory product net sales in fiscal 2014 compared to fiscal 2013 and in fiscal 2013 compared to fiscal 2012 were driven primarily by adverse customer demand conditions within the Serial EEPROM and Flash memory markets.

Memory product pricing has historically been cyclical in nature, with steep price declines followed by periods of relative price stability, driven by changes in industry capacity at different stages of the business cycle. We have experienced, and expect to continue to experience, varying degrees of competitive pricing pressures in our memory products. We may be unable to maintain the average selling prices of our memory products as a result of increased pricing pressure in the future, which could adversely affect our operating results.



## Technology Licensing

Technology licensing revenue includes a combination of royalties associated with licenses for the use of our SuperFlash technology and fees for engineering services. Technology licensing accounted for approximately 4.9% of our total net sales in fiscal 2014, approximately 5.3% of our total net sales in fiscal 2013 and approximately 6.3% of our total net sales in fiscal 2012.

Net sales related to our technology licensing increased approximately 12.9% in fiscal 2014 compared to fiscal 2013 and decreased approximately 3.7% in fiscal 2013 compared to fiscal 2012. The increase in technology licensing net sales in fiscal 2014 compared to fiscal 2013 was driven primarily by the adoption of our technology by more manufacturers of semiconductors as well as semiconductor industry and global economic conditions. The decrease in technology licensing net sales in fiscal 2013 compared to fiscal 2012 was due primarily to adverse semiconductor industry and global economic conditions.

## Other

Revenue from assembly and test subcontracting services accounted for approximately 0.6% of our total net sales in fiscal 2014, approximately 0.8% of our total net sales in fiscal 2013 and approximately 1.2% of our total net sales in fiscal 2012.

## Distribution

Distributors accounted for approximately 53% of our net sales in each of fiscal 2014 and fiscal 2013 and approximately 59% of our net sales in fiscal 2012. The decrease in distributor net sales as a percentage of our total net sales in fiscal 2014 and fiscal 2013 compared to fiscal 2012 was driven primarily by our acquisition of SMSC which makes a larger percentage of its net sales to OEM customers rather than through distributors.

Our two largest distributors together accounted for approximately 14% of our net sales in fiscal 2014, approximately 13% of our net sales in fiscal 2013 and approximately 14% of our net sales in fiscal 2012. One of our distributors, Future Electronics, accounted for approximately 10% of our net sales in fiscal 2012. No other distributor accounted for more than 10% of our net sales in fiscal 2014, fiscal 2013 or fiscal 2012.

Generally, we do not have long-term agreements with our distributors and we, or our distributors, may terminate our relationship with each other with little or no advanced notice. The loss of, or the disruption in the operations of, one or more of our distributors could reduce our future net sales in a given quarter and could result in an increase in inventory returns.

At March 31, 2014, our distributors maintained 33 days of inventory of our products compared to 30 days at March 31, 2013 and 31 days at March 31, 2012. Over the past three fiscal years, the days of inventory maintained by our distributors have fluctuated between approximately 27 days and 47 days. We do not believe that inventory holding patterns at our distributors will materially impact our net sales, due to the fact that we recognize revenue based on sell-through for all of our distributors.

## Net Sales by Geography

Net sales by geography for fiscal 2014, 2013 and 2012 were as follows (dollars in thousands):

	Year Ended March 31,					
	2014	%	2013	%	2012	%
Americas	\$ 365,609	18.9	\$ 313,574	19.8	\$ 290,392	21.0
Europe	411,531	21.3	344,398	21.8	319,881	23.1
Asia	1,154,077	59.8	923,651	58.4	772,903	55.9
Total net sales	<u>\$ 1,931,217</u>	<u>100.0</u>	<u>\$ 1,581,623</u>	<u>100.0</u>	<u>\$ 1,383,176</u>	<u>100.0</u>

Our sales to foreign customers have been predominately in Asia and Europe, which we attribute to the manufacturing strength in those areas for automotive, communications, computing, consumer and industrial control products. Americas sales include sales to customers in the U.S., Canada, Central America and South America.

Sales to foreign customers accounted for approximately 84% of our net sales in fiscal 2014, approximately 83% of our net sales in fiscal 2013 and approximately 82% of our net sales in fiscal 2012. Substantially all of our foreign sales are U.S. dollar denominated. Sales to customers in Asia have generally increased over time due to many of our customers transitioning their

manufacturing operations to Asia and growth in demand from the emerging Asian market as well as our acquisitions such as SMSC which had a significant concentration of sales in Asia. Our sales force in the Americas and Europe supports a significant portion of the design activity for products which are ultimately shipped to Asia.

Sales to customers in China, including Hong Kong, accounted for approximately 29% of our net sales in fiscal 2014, approximately 27% of our net sales in fiscal 2013 and approximately 24% of our net sales in fiscal 2012. Sales to customers in Taiwan accounted for approximately 13% of our net sales in each of fiscal 2014 and fiscal 2013 and approximately 15% of our net sales in fiscal 2012. We did not have sales into any other countries that exceeded 10% of our net sales during the last three fiscal years.

### *Gross Profit*

Our gross profit was \$1,128.7 million in fiscal 2014, \$838.5 million in fiscal 2013 and \$799.3 million in fiscal 2012. Gross profit as a percent of sales was 58.4% in fiscal 2014, 53.0% in fiscal 2013 and 57.8% in fiscal 2012.

The most significant factors affecting our gross profit percentage in the periods covered by this report were:

- production levels being below the range of our normal capacity, resulting in excess capacity charges of \$19.0 million in fiscal 2014, \$31.7 million in fiscal 2013 and \$6.7 million in the second half of fiscal 2012 compared to production levels being at or above the range of our normal capacity levels in the first half of fiscal 2012;
- charges of approximately \$53.6 million in fiscal 2013 related to the recognition of acquired inventory at fair value as a result of our acquisitions which increased the value of acquired inventory and reduced our gross margins;
- for each of fiscal 2013 and fiscal 2012, inventory write-downs being higher than the gross margin impact of sales of inventory that was previously written down; and
- fluctuations in the product mix of microcontrollers, analog products, memory products and technology licensing.

Other factors that impacted our gross profit percentage in the periods covered by this report include:

- continual cost reductions in wafer fabrication and assembly and test manufacturing, such as new manufacturing technologies and more efficient manufacturing techniques; and
- lower depreciation as a percentage of cost of sales.

We adjust our wafer fabrication and assembly and test capacity utilization as required to respond to actual and anticipated business and industry-related conditions. When production levels are below normal capacity, we charge cost of sales for the unabsorbed capacity. Our wafer fabrication facilities operated below normal capacity levels, which we typically consider to be 90% to 95% of the actual capacity of the installed equipment, during fiscal 2014, fiscal 2013 and the second half of fiscal 2012 in response to uncertain global economic conditions and our inventory position. As a result of decreased production in our wafer fabs, approximately \$19.0 million, \$31.7 million and \$6.7 was charged to cost of sales in fiscal 2014, fiscal 2013 and fiscal 2012, respectively. In the future, if production levels are below normal capacity, we will charge cost of sales for the unabsorbed capacity. During fiscal 2014 and the first half of fiscal 2012, we operated at the normal levels of capacity at our Thailand assembly and test facility, and we selectively increased our assembly and test capacity at such facility during such time. During fiscal 2013 and the second half of fiscal 2012, we operated below the normal capacity levels of our Thailand assembly and test facility due to adverse business conditions and these actions had a negative impact on our gross margins during such periods.

The process technologies utilized in our wafer fabs impact our gross margins. Fab 2 currently utilizes various manufacturing process technologies, but predominantly utilizes our 0.5 micron to 1.0 micron processes. Fab 4 predominantly utilizes our 0.22 micron to 0.5 micron processes. We continue to transition products to more advanced process technologies to reduce future manufacturing costs. All of our production has been on 8-inch wafers during the periods covered by this report.

Our overall inventory levels were \$262.7 million at March 31, 2014, compared to \$242.3 million at March 31, 2013 and \$217.3 million at March 31, 2012. We maintained 118 days of inventory on our balance sheet at March 31, 2014 compared to 116 days of inventory at March 31, 2013 and 138 days at March 31, 2012. We expect our inventory levels in the June 2014 quarter to decrease between 7 and 11 days from the March 2014 levels. We believe our existing level of inventory will allow us to maintain competitive lead times, provide strong delivery performance to our customers and allow us to keep our fiscal 2015 capital expenditures at relatively low levels.

We anticipate that our gross margins will fluctuate over time, driven primarily by capacity utilization levels, the overall product mix of microcontroller, analog, interface and mixed signal products, memory products and technology licensing revenue and the percentage of net sales of each of these products in a particular quarter, as well as manufacturing yields, fixed cost absorption, and competitive and economic conditions in the markets we serve.

During fiscal 2014, approximately 51% of our assembly requirements were performed in our Thailand facilities, compared to approximately 60% during fiscal 2013 and approximately 66% during fiscal 2012. The percentage of our assembly work that is performed internally fluctuates over time based on supply and demand conditions in the semiconductor industry, our internal capacity capabilities and our acquisition activities. Third-party contractors located in Asia perform the balance of our assembly operations. During fiscal 2014, approximately 86% of our test requirements were performed in our Thailand facilities compared to approximately 87% during fiscal 2013 and approximately 92% during fiscal 2012. We believe that the assembly and test operations performed at our Thailand facilities provide us with significant cost savings compared to contractor assembly and test costs, as well as increased control over these portions of the manufacturing process.

We rely on outside wafer foundries for a significant portion of our wafer fabrication requirements. During fiscal 2014, approximately 38% of our sales came from products that were produced at outside wafer foundries compared to approximately 33% during fiscal 2013 and approximately 20% during fiscal 2012. The primary reason for the increased percentage in fiscal 2014 over the previous two fiscal years was our acquisition of SMSC in the September 2012 quarter, as SMSC relied solely on outside wafer foundries for their wafer fabrication requirements.

Our use of third parties involves some reduction in our level of control over the portions of our business that we subcontract. While we review the quality, delivery and cost performance of our third-party contractors, our future operating results could suffer if any third-party contractor is unable to maintain manufacturing yields, assembly and test yields and costs at approximately their current levels.

#### *Research and Development (R&D)*

R&D expenses for fiscal 2014 were \$305.0 million, or 15.8% of sales, compared to \$254.7 million, or 16.1% of sales, for fiscal 2013 and \$182.7 million, or 13.2% of sales, for fiscal 2012. We are committed to investing in new and enhanced products, including development systems software, and in our design and manufacturing process technologies. We believe these investments are significant factors in maintaining our competitive position. R&D costs are expensed as incurred. Assets purchased to support our ongoing research and development activities are capitalized when related to products which have achieved technological feasibility or that have alternative future uses and are amortized over their expected useful lives. R&D expenses include labor, depreciation, masks, prototype wafers, and expenses for the development of process technologies, new packages, and software to support new products and design environments.

R&D expenses increased \$50.3 million, or 19.8%, for fiscal 2014 over fiscal 2013. The primary reasons for the dollar increase in R&D costs in fiscal 2014 compared to fiscal 2013 were additional costs from our acquisition of SMSC as well as higher headcount costs and bonus costs. R&D expenses increased \$72.1 million, or 39.5%, for fiscal 2013 over fiscal 2012. The primary reasons for the dollar increase in R&D costs in fiscal 2013 compared to fiscal 2012 were additional costs from our acquisition of SMSC and higher headcount costs.

R&D expenses fluctuate over time, primarily due to revenue and operating expense investment levels.

#### *Selling, General and Administrative*

Selling, general and administrative expenses for fiscal 2014 were \$267.3 million, or 13.8% of sales, compared to \$261.5 million, or 16.5% of sales, for fiscal 2013, and \$208.3 million, or 15.1% of sales, for fiscal 2012. Selling, general and administrative expenses include salary expenses related to field sales, marketing and administrative personnel, advertising and promotional expenditures and legal expenses. Selling, general and administrative expenses also include costs related to our direct sales force and field applications engineers who work in sales offices worldwide to stimulate demand by assisting customers in the selection and use of our products.

Selling, general and administrative expenses increased \$5.8 million, or 2.2%, for fiscal 2014 over fiscal 2013. The primary reasons for the dollar increase in selling, general and administrative expenses in fiscal 2014 over fiscal 2013 were higher headcount costs related to our acquisition of SMSC and higher bonus costs partially offset by lower acquisition related legal expenses, professional services and share-based compensation. Selling, general and administrative expenses increased \$53.2 million, or 25.5%, for fiscal 2013 over fiscal 2012. The primary reason for the dollar increase in selling, general and administrative expenses in fiscal 2013 over fiscal 2012 were additional costs from our acquisition of SMSC.

Selling, general and administrative expenses fluctuate over time, primarily due to revenue and operating expense investment levels.

### *Special Charges*

#### Acquisition Related Expenses

During fiscal 2014, we incurred special charges of \$3.0 million related to severance, office closing and other costs associated with our acquisition activity. During fiscal 2013, we incurred special charges of \$32.2 million comprised of a \$4.4 million net increase in the fair value of contingent consideration related to one of our acquisitions, \$16.3 million of primarily severance-related costs in addition to office closing, and other costs associated with the acquisition of SMSC and legal settlement costs of approximately \$11.5 million for certain legal matters related to SST (which we acquired in April 2010) in excess of previously accrued amounts. During fiscal 2012, special charges included a benefit of \$0.7 million comprised of a \$1.0 million favorable adjustment to contingent consideration offset by \$0.3 million of severance-related charges related to a prior year acquisition.

#### Patent Licenses

During the fourth quarter of fiscal 2012, we agreed to the terms of a patent license with an unrelated third party and signed an agreement on March 20, 2012. The patent license settled alleged infringement claims. The total payment made to the third-party in March 2012 was \$2.8 million, \$1.5 million of which was expensed in the fourth quarter of fiscal 2012 and the remaining \$1.3 million was recorded as a prepaid royalty which will be amortized over the remaining life of the patents, which expire in December 2018.

### *Other Income (Expense)*

Interest income in fiscal 2014 was \$16.5 million compared to \$15.6 million in fiscal 2013 and \$18.0 million in fiscal 2012. The primary reasons for the increase in interest income for fiscal 2014 over fiscal 2013 relates to higher yields on short-term cash investments and higher invested cash balances. The primary reasons for the decrease in interest income for fiscal 2013 over fiscal 2012 relates to lower yields on short-term cash investments and lower invested cash balances. Interest expense in fiscal 2014 was \$48.7 million compared to \$40.9 million in fiscal 2013 and \$34.3 million in fiscal 2012. The primary reasons for the increase in interest expense over these periods relates to increased borrowings under our credit facility to partially finance our acquisition of SMSC and increased expenses associated with our larger credit facility. Other income, net in fiscal 2014 was \$5.9 million compared to other expense, net of \$0.4 million in fiscal 2013 and other expense, net of \$0.4 million in fiscal 2012. The primary reasons for the change in other income (expense), net during fiscal 2014 compared to fiscal 2013 relates to realized gains of \$2.4 million from the sale of marketable equity and debt securities and a gain of \$2.4 million recognized on a strategic investment in a company we acquired during fiscal 2014 compared to a gain of \$1.3 million related to the sale of inventory previously considered discontinued during fiscal 2013 and fluctuations on our foreign currency derivatives.

### *Provision for Income Taxes*

Our provision for income taxes reflects tax on our foreign earnings and federal and state tax on U.S. earnings. We had an effective tax rate of 8.6% in fiscal 2014, 16.3% in fiscal 2013 and 11.3% in fiscal 2012. Excluding certain one-time tax events described below, our effective tax rates were lower than statutory rates in the U.S. primarily due to our mix of earnings in foreign jurisdictions with lower tax rates and the R&D tax credit. Our effective tax rate in fiscal 2014 includes \$19.4 million of benefits related to various items including a settlement with the IRS for our fiscal 2009 and fiscal 2010 tax audits and the expiration of the statute of limitations on various tax reserves. These benefits reduced our effective tax rate by 4.5 percentage points to an effective tax rate of 8.6%. During fiscal 2013, our effective tax rate was higher due to \$27.2 million of one-time foreign and domestic tax implications from our acquisition of SMSC, which offset an \$8.1 million benefit received from the reinstatement of the R&D credit and \$9.7 million of other non-recurring tax events including releases of previously established tax reserves related to audit closures and expirations of statutes of limitations and the revaluation of deferred tax assets and liabilities. These items increased our effective tax rate by 6.2% to an effective tax rate of 16.3%. During fiscal 2012, we completed a project that led to additional R&D tax credit claims in the amount of \$4.1 million which reduced our effective tax rate by 1.1% to 11.3%.

Various taxing authorities in the U.S. and other countries in which we do business are increasing their scrutiny of the tax structures employed by businesses. Companies of our size and complexity are regularly audited by the taxing authorities in the jurisdictions in which they conduct significant operations. For U.S. federal, and in general for U.S. state tax returns, our fiscal 2011 and later tax returns remain open for examination by the taxing authorities. SMSC is currently under audit for fiscal years 2011 and 2012. We recognize liabilities for anticipated tax audit issues in the U.S. and other tax jurisdictions based on our estimate of whether, and the extent to which, additional tax payments are probable. We believe that we maintain adequate tax reserves to offset any potential tax liabilities that may arise upon these and other pending audits in the U.S. and other countries in which we do business. If such amounts ultimately prove to be unnecessary, the resulting reversal of such reserves would result in tax benefits being recorded in the period the reserves are no longer deemed necessary. If such amounts ultimately prove to be less than any final assessment, a future charge to expense would be recorded in the period in which the assessment is determined.

Our Thailand manufacturing operations currently benefit from numerous tax holidays that have been granted to us by the Thailand government based on our investments in property, plant and equipment in Thailand. Our tax holiday periods in Thailand expire at various times in the future. Any expiration of our tax holidays are expected to have a minimal impact on our overall tax expense due to other tax holidays and an increase in income in other taxing jurisdictions with lower statutory rates.

## **Liquidity and Capital Resources**

We had \$2,143.5 million in cash, cash equivalents and short-term and long-term investments at March 31, 2014, an increase of \$307.5 million from the March 31, 2013 balance. The increase in cash, cash equivalents and short-term and long-term investments over this time period is primarily attributable to cash generated by operating activities being offset in part by dividend payments of \$281.2 million.

Net cash provided from operating activities was \$676.6 million for fiscal 2014, \$459.4 million for fiscal 2013 and \$412.0 million for fiscal 2012. The increase in cash flow from operations in fiscal 2014 compared to fiscal 2013 was primarily due to higher net sales and net income during fiscal 2014. The increase in cash flow from operations in fiscal 2013 compared to fiscal 2012 was primarily due to changes in our operating assets and liabilities.

Net cash used in investing activities was \$503.3 million for fiscal 2014, \$949.9 million for fiscal 2013 and \$272.0 million in fiscal 2012. The decrease in net cash used in investing activities in fiscal 2014 compared to fiscal 2013 was primarily due to our acquisition of SMSC in fiscal 2013, which used \$731.7 million of cash consideration, net of \$180.9 million of cash and cash equivalents acquired. This decrease in net cash used in investing activities offset a fiscal 2014 decrease in cash related to changes in our net purchases, sales and maturities of short-term and long-term investments. The increase in net cash used in investing activities in fiscal 2013 compared to fiscal 2012 was primarily due to our acquisition of SMSC in fiscal 2013.

Our level of capital expenditures varies from time to time as a result of actual and anticipated business conditions. Capital expenditures were \$113.1 million in fiscal 2014, \$50.8 million in fiscal 2013 and \$62.4 million in fiscal 2012. Capital expenditures are primarily for the expansion of production capacity and the addition of research and development equipment. We currently intend to spend approximately \$125 million during the next twelve months to invest in equipment and facilities to maintain, and selectively increase, our capacity.

We expect to finance our capital expenditures through our existing cash balances and cash flows from operations. We believe that the capital expenditures anticipated to be incurred over the next twelve months will provide sufficient manufacturing capacity to meet our currently anticipated needs.

Net cash used in financing activities was \$235.0 million for fiscal 2014. Net cash provided by financing activities was \$382.2 million for fiscal 2013 and net cash used in financing activities was \$208.1 million for fiscal 2012. We made payments on our borrowings under our credit agreements of \$1,103.5 million and \$761.0 million during fiscal 2014 and fiscal 2013, respectively. Cash received on borrowings under our credit agreements totaled \$1,133.5 million and \$1,381.0 million during fiscal 2014 and fiscal 2013, respectively. We paid cash dividends to our stockholders of \$281.2 million in fiscal 2014, \$273.8 million in fiscal 2013, and \$266.2 million in fiscal 2012. Proceeds from the exercise of stock options and employee purchases under our employee stock purchase plans were \$37.4 million for fiscal 2014, \$35.7 million for fiscal 2013 and \$57.5 million for fiscal 2012.

On June 27, 2013, we entered into a \$2.0 billion credit agreement with certain lenders. The credit agreement provides for a \$350.0 million term loan and a \$1.65 billion revolving credit facility, with a \$125 million foreign currency sublimit, a \$35 million letter of credit sublimit and a \$25 million swingline loan sublimit, terminating on June 27, 2018. The credit agreement also contains an increase option permitting us, subject to certain requirements, to arrange with existing lenders

and/or new lenders for them to provide up to an aggregate of \$300 million in additional commitments, which may be for revolving loans or term loans. Proceeds of loans made under the credit agreement may be used for working capital and general corporate purposes. The new credit agreement replaced another credit agreement we had in place since August 2011. At March 31, 2014, \$650.0 million of borrowings were outstanding under the credit agreement consisting of \$300.0 million of a revolving line of credit and \$350.0 million of a term loan, net of \$1.1 million of debt discount resulting from amounts paid to the lenders. See Note 15 of the notes to consolidated financial statements for more information regarding the credit agreement.

Our total cash, cash equivalents, short-term investments and long-term investments held by our foreign subsidiaries was \$2,085.7 million at March 31, 2014 and \$1,782.0 million at March 31, 2013. Under current tax laws and regulations, if accumulated earnings and profits held by our foreign subsidiaries that U.S. taxes had not previously been provided for were to be distributed to the U.S. in the form of dividends or otherwise, we would be subject to additional U.S. income taxes and foreign withholding taxes. The balance of cash, cash equivalents, short-term investments and long-term investments available for our U.S. operations as of March 31, 2014 and March 31, 2013 was approximately \$57.8 million and \$100.0 million, respectively. We utilize a variety of tax planning and financing strategies with the objective of having our worldwide cash available in the locations in which it is needed. We consider our offshore earnings to be permanently reinvested offshore. However, we could determine to repatriate some of our offshore earnings in future periods to fund stockholder dividends, share repurchases, acquisitions or other corporate activities. We expect that a significant portion of our future cash generation will be in our foreign subsidiaries.

We enter into derivative transactions from time to time in an attempt to reduce our exposure to currency rate fluctuations. Although none of the countries in which we conduct significant foreign operations have had a highly inflationary economy in the last five years, there is no assurance that inflation rates or fluctuations in foreign currency rates in countries where we conduct operations will not adversely affect our operating results in the future. At March 31, 2014, we had no foreign currency forward contracts outstanding.

On December 11, 2007, we announced that our Board of Directors had authorized the repurchase of up to 10 million shares of our common stock in the open market or in privately negotiated transactions. As of March 31, 2014, we had repurchased 7.5 million shares under this 10 million share authorization for a total of \$234.7 million. There is no expiration date associated with this program. The timing and amount of future repurchases will depend upon market conditions, interest rates, and corporate considerations.

As of March 31, 2014, we held approximately 18.8 million shares as treasury shares.

On October 28, 2002, we announced that our Board of Directors had approved and instituted a quarterly cash dividend on our common stock. The initial quarterly dividend of \$0.02 per share was paid on December 6, 2003 in the amount of \$4.1 million. To date, our cumulative dividend payments have totaled approximately \$2.23 billion. During fiscal 2014, we paid dividends in the amount of \$1.417 per share for a total dividend payment of \$281.2 million. During fiscal 2013, we paid dividends in the amount of \$1.406 per share for a total dividend payment of \$273.8 million. During fiscal 2012, we paid dividends in the amount of \$1.390 per share for a total dividend payment of \$266.2 million. On May 6, 2014, we declared a quarterly cash dividend of \$0.3555 per share, which will be paid on June 3, 2014, to stockholders of record on May 21, 2014 and the total amount of such dividend is expected to be approximately \$71.1 million. Our Board is free to change our dividend practices at any time and to increase or decrease the dividend paid, or not to pay a dividend, on our common stock on the basis of our results of operations, financial condition, cash requirements and future prospects, and other factors deemed relevant by our Board. Our current intent is to provide for ongoing quarterly cash dividends depending upon market conditions, our results of operations and potential changes in tax laws.

We believe that our existing sources of liquidity combined with cash generated from operations and borrowings under our credit agreement will be sufficient to meet our currently anticipated cash requirements for at least the next 12 months. However, the semiconductor industry is capital intensive. In order to remain competitive, we must constantly evaluate the need to make significant investments in capital equipment for both production and research and development. We may further borrow under our credit agreement or seek additional equity or debt financing from time to time to maintain or expand our wafer fabrication and product assembly and test facilities, for cash dividends or for acquisitions or other purposes. The timing and amount of any such financing requirements will depend on a number of factors, including our level of dividend payments, changes in tax laws and regulations regarding the repatriation of offshore cash, demand for our products, changes in industry conditions, product mix, competitive factors and our ability to identify suitable acquisition candidates. There can be no assurance that such financing will be available on acceptable terms, and any additional equity financing would result in incremental ownership dilution to our existing stockholders.

## Contractual Obligations

The following table summarizes our significant contractual obligations at March 31, 2014, and the effect such obligations are expected to have on our liquidity and cash flows in future periods. This table excludes amounts already recorded on our balance sheet as current liabilities at March 31, 2014 (dollars in thousands):

	Payments Due by Period				
	Total	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years
Operating lease obligations	\$ 42,264	\$ 12,415	\$ 20,048	\$ 9,402	\$ 399
Capital purchase obligations <sup>(1)</sup>	42,815	42,815	—	—	—
Other purchase obligations and commitments <sup>(2)</sup>	32,654	32,586	68	—	—
Borrowings under credit agreement outstanding as of March 31, 2014 - principal and interest <sup>(3)</sup>	695,685	10,749	21,499	663,437	—
2.125% junior convertible debentures – principal and interest <sup>(4)</sup>	1,729,372	24,438	48,875	48,875	1,607,184
Total contractual obligations <sup>(5)</sup>	<u>\$ 2,542,790</u>	<u>\$ 123,003</u>	<u>\$ 90,490</u>	<u>\$ 721,714</u>	<u>\$ 1,607,583</u>

<sup>(1)</sup> Capital purchase obligations represent commitments for construction or purchases of property, plant and equipment. These obligations were not recorded as liabilities on our balance sheet as of March 31, 2014, as we have not yet received the related goods or taken title to the property.

<sup>(2)</sup> Other purchase obligations and commitments include payments due under various types of licenses and outstanding purchase commitments with our wafer foundries of approximately \$31.6 million for delivery of wafers in fiscal 2015.

<sup>(3)</sup> For purposes of this table we have assumed that the principal of our credit agreement borrowings outstanding at March 31, 2014 will be paid on June 27, 2018, which is the maturity date of such borrowings.

<sup>(4)</sup> For purposes of this table we have assumed that the principal of our convertible debentures will be paid on December 31, 2037.

<sup>(5)</sup> Total contractual obligations do not include contractual obligations recorded on the balance sheet as current liabilities, or certain purchase obligations as discussed below. The contractual obligations also do not include amounts related to uncertain tax positions because reasonable estimates cannot be made.

Purchase orders or contracts for the purchase of raw materials and other goods and services, with the exception of commitments to our wafer foundries, are not included in the table above. We are not able to determine the aggregate amount of such purchase orders that represent contractual obligations, as purchase orders may represent authorizations to purchase rather than binding agreements. For the purpose of this table, contractual obligations for the purchase of goods or services are defined as agreements that are enforceable and legally binding on us and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Our purchase orders are based on our current manufacturing needs and are fulfilled by our vendors with short time horizons. We do not have significant agreements for the purchase of raw materials or other goods specifying minimum quantities or set prices that exceed our expected requirements for three months. We also enter into contracts for outsourced services; however, the obligations under these contracts were not significant and the contracts generally contain clauses allowing for cancellation without significant penalty.

The expected timing of payment of the obligations discussed above is estimated based on current information. Timing of payments and actual amounts paid may be different depending on the time of receipt of goods or services or changes to agreed-upon amounts for some obligations.

## Off-Balance Sheet Arrangements

As of March 31, 2014, we are not involved in any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

## Recently Issued Accounting Pronouncements

In May of 2014 the FASB issued Accounting Standard Update 2014-09-*Revenue from Contracts with Customers*, which will supersede nearly all existing revenue recognition guidance under US GAAP. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. We are carefully evaluating our existing revenue recognition policies to determine whether any contracts in the scope of the guidance will be affected by the new requirements. The effects may include identifying performance obligations in existing arrangements, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The new standard is effective beginning the first quarter of our 2018 fiscal year. Early adoption is not permitted. The standard allows for either "full retrospective" adoption, meaning the standard is applied to all of the periods presented, or "modified retrospective" adoption, meaning the standard is applied only to the most current period presented in the financial statements. We are currently evaluating the transition method that will be elected.

In the first quarter of fiscal 2014, we adopted the provisions of Accounting Standard Update 2013-02 *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which required the disclosure of amounts reclassified out of accumulated other comprehensive income (AOCI) to net income. The adoption of this provision did not have a material impact on our consolidated financial statements and related disclosures.

## Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our investments are intended to establish a high-quality portfolio that preserves principal, meets liquidity needs, avoids inappropriate concentrations, and delivers an appropriate yield in relationship to our investment guidelines and market conditions. Our investment portfolio, consisting of fixed income securities, money market funds, cash deposits, and marketable securities that we hold on an available-for-sale basis, was \$2,143.5 million as of March 31, 2014 compared to \$1,836.0 million as of March 31, 2013. The available-for-sale debt securities, like all fixed income instruments, are subject to interest rate risk and will decline in value if market interest rates increase. We have the ability to hold our fixed income investments until maturity and, therefore, we would not expect to recognize any material adverse impact in income or cash flows if market interest rates increase. The following table provides information about our available-for-sale securities that are sensitive to changes in interest rates. We have aggregated our available-for-sale securities for presentation purposes since they are all very similar in nature (dollars in thousands):

	Financial instruments maturing during the fiscal year ended March 31,					
	2015	2016	2017	2018	2019	Thereafter
Available-for-sale securities	\$ 211,363	\$ 364,464	\$ 883,305	\$ 51,350	\$ 9,995	\$ 150,227
Weighted-average yield rate	1.41%	0.78%	0.95%	1.01%	1.00%	1.22%

See Note 1 to our Consolidated Financial Statements for additional information on our investments and use of forward contracts.

## Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements listed in the index appearing under Item 15(a)(1) hereof are filed as part of this Form 10-K. See also Index to Financial Statements below.

## Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## Item 9A. CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report on Form 10-K, as required by paragraph (b) of Rule 13a-15 or Rule 15d-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), we evaluated under the supervision of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as



defined in Rules 13a-15(e) or 15d-15(e) of the Exchange Act. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Our disclosure controls and procedures are designed to provide reasonable assurance that such information is accumulated and communicated to our management. Our disclosure controls and procedures include components of our internal control over financial reporting. Management's assessment of the effectiveness of our internal control over financial reporting is expressed at the level of reasonable assurance because a control system, no matter how well designed and operated, can provide only reasonable, but not absolute, assurance that the control system's objectives will be met.

### **Management Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Management assessed our internal control over financial reporting as of March 31, 2014, the end of our fiscal year. Management based its assessment on criteria established in Internal Control – Integrated Framework (1992 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment. This assessment is supported by testing and monitoring performed by our finance organization.

Based on our assessment, management has concluded that our internal control over financial reporting was effective as of the end of the fiscal year to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles. We reviewed the results of management's assessment with the Audit Committee of our Board of Directors.

Ernst & Young LLP, an independent registered public accounting firm, who audited our consolidated financial statements included in this Form 10-K has issued an attestation report on our internal control over financial reporting as of March 31, 2014, which is included in Part II, Item 9A.

### **Changes in Internal Control over Financial Reporting**

During the three months ended March 31, 2014, there was no change in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

### *The Board of Directors and Stockholders of Microchip Technology Incorporated and subsidiaries*

We have audited Microchip Technology Incorporated and subsidiaries' internal control over financial reporting as of March 31, 2014, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Microchip Technology Incorporated and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Microchip Technology Incorporated and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of March 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the March 31, 2014 consolidated financial statements of Microchip Technology Incorporated and subsidiaries and our report dated May 30, 2014 expressed an unqualified opinion thereon.

*Ernst + Young LLP*

Phoenix, Arizona  
May 30, 2014

## **Item 9B. OTHER INFORMATION**

In fiscal 2014, each of J. Eric Bjornholt, our Chief Financial Officer, Mitch Little, our Vice President, Worldwide Sales and Applications, Steve Drehobl, our Vice President, MCU8 and Technology Development Division, and Rich Simoncic, our Vice President, Analog and Interface Products Division, entered into trading plans as contemplated by Rule 10b-5-1 under the Exchange Act and periodic sales of our common stock have occurred and are expected to occur under such plans.

The foregoing disclosure is being made on a voluntary basis and not pursuant to any specific requirement under Form 10-K, Form 8-K or otherwise.

## **PART III**

### **Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Information on the members of our Board of Directors is incorporated herein by reference to our proxy statement for our 2014 annual meeting of stockholders under the captions "The Board of Directors," and "Proposal One – Election of Directors."

Information on the composition of our audit committee and the members of our audit committee, including information on our audit committee financial experts, is incorporated by reference to our proxy statement for our 2014 annual meeting of stockholders under the caption "The Board of Directors – Committees of the Board of Directors – Audit Committee."

Information on our executive officers is provided in Item 1, Part I of this Form 10-K under the caption "Executive Officers of the Registrant" at page 10, above.

Information with respect to compliance with Section 16(a) of the Exchange Act, is incorporated herein by reference to our proxy statement for our 2014 annual meeting of stockholders under the caption "Section 16(a) Beneficial Ownership Reporting Compliance."

Information with respect to our code of ethics that applies to our directors, executive officers (including our principal executive officer and our principal financial and accounting officer) and employees is incorporated by reference to our proxy statement for our 2014 annual meeting of stockholders under the caption "Code of Ethics." A copy of our Code of Ethics is available on our website at the Investor Relations section under Mission Statement/Corporate Governance on [www.microchip.com](http://www.microchip.com).

Information regarding material changes, if any, to procedures by which security holders may recommend nominees to our Board of Directors is incorporated by reference to our proxy statement for the 2014 annual meeting of stockholders under the caption "Requirements, Including Deadlines, for Receipt of Stockholder Proposals for the 2014 Annual Meeting of Stockholders; Discretionary Authority to Vote on Stockholder Proposals."

### **Item 11. EXECUTIVE COMPENSATION**

Information with respect to executive compensation is incorporated herein by reference to the information under the caption "Executive Compensation" in our proxy statement for our 2014 annual meeting of stockholders.

Information with respect to director compensation is incorporated herein by reference to the information under the caption "The Board of Directors – Director Compensation" in our proxy statement for our 2014 annual meeting of stockholders.

Information with respect to compensation committee interlocks and insider participation in compensation decisions is incorporated herein by reference to the information under the caption "The Board of Directors – Compensation Committee Interlocks and Insider Participation" in our proxy statement for our 2014 annual meeting of stockholders.

Our Board compensation committee report on executive compensation is incorporated herein by reference to the information under the caption "Executive Compensation – Compensation Committee Report on Executive Compensation" in our proxy statement for our 2014 annual meeting of stockholders.

**Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Information with respect to securities authorized for issuance under our equity compensation plans is incorporated herein by reference to the information under the caption "Executive Compensation – Equity Compensation Plan Information" in our proxy statement for our 2014 annual meeting of stockholders.

Information with respect to security ownership of certain beneficial owners, members of our Board of Directors and management is incorporated herein by reference to the information under the caption "Security Ownership of Principal Stockholders, Directors and Executive Officers" in our proxy statement for our 2014 annual meeting of stockholders.

**Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this Item pursuant to Item 404 of Regulation S-K is incorporated by reference to the information under the caption "Certain Transactions" contained in our proxy statement for our 2014 annual meeting of stockholders.

The information required by this Item pursuant to Item 407(a) of Regulation S-K regarding the independence of our directors is incorporated by reference to the information under the caption "Meetings of the Board of Directors" contained in our proxy statement for our 2014 annual meeting of stockholders.

**Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this Item related to principal accountant fees and services as well as related pre-approval policies is incorporated by reference to the information under the caption "Independent Registered Public Accounting Firm" contained in our proxy statement for our 2014 annual meeting of stockholders.

**PART IV**

**Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) The following documents are filed as part of this Form 10-K:

	Page No.
(1) Financial Statements:	
Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets as of March 31, 2014 and 2013	F-2
Consolidated Statements of Income for each of the three years in the period ended March 31, 2014	F-3
Consolidated Statements of Comprehensive Income for each of the three years in the period ended March 31, 2014	F-4
Consolidated Statements of Cash Flows for each of the three years in the period ended March 31, 2014	F-5
Consolidated Statements of Stockholders' Equity for each of the three years in the period ended March 31, 2014	F-6
Notes to Consolidated Financial Statements	F-7
(2) Financial Statement Schedules	None
(3) The Exhibits filed with this Form 10-K or incorporated herein by reference are set forth in the Exhibit Index beginning on page 51 hereof, which Exhibit Index is incorporated herein by this reference.	

(b) See Item 15(a)(3) above.

(c) See "Index to Financial Statements" included under Item 8 to this Form 10-K.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

**MICROCHIP TECHNOLOGY INCORPORATED**

(Registrant)

Date: May 30, 2014

By: /s/ Steve Sanghi\_\_\_\_\_

Steve Sanghi

President and Chief Executive Officer

## POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that the undersigned officer and/or director of Microchip Technology Incorporated, a Delaware corporation (the "Company"), does hereby constitute and appoint STEVE SANGHI and J. ERIC BJORNHOLT, and each of them, with full power to each of them to act alone, as the true and lawful attorneys and agents of the undersigned, with full power of substitution and resubstitution to each of said attorneys to execute, file or deliver any and all instruments and to do any and all acts and things which said attorneys and agents, or any of them, deem advisable to enable the Company to comply with the Securities Exchange Act of 1934, as amended, and any requirements of the Securities and Exchange Commission in respect thereto relating to annual reports on Form 10-K, including specifically, but without limitation of the general authority hereby granted, the power and authority to sign such person's name individually and on behalf of the Company as an officer and/or director (as indicated below opposite such person's signature) to the Company's annual reports on Form 10-K or any amendments or papers supplemental thereto; and each of the undersigned does hereby fully ratify and confirm all that said attorneys and agents or any of them, shall do or cause to be done by virtue hereof. This Power of Attorney revokes any and all previous powers of attorney granted by any of the undersigned which such power would have entitled said attorneys and agents, or any of them, to sign such person's name, individually or on behalf of the Company, to any Form 10-K.

IN WITNESS WHEREOF, each of the undersigned has subscribed these presents this 30th day of May, 2014.

**Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.**

<u>Name and Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Steve Sanghi</u> Steve Sanghi	Chairman, President and Chief Executive Officer	May 30, 2014
<u>/s/ Matthew W. Chapman</u> Matthew W. Chapman	Director	May 30, 2014
<u>/s/ L.B. Day</u> L.B. Day	Director	May 30, 2014
<u>/s/ Albert J. Hugo-Martinez</u> Albert J. Hugo-Martinez	Director	May 30, 2014
<u>/s/ Esther L. Johnson</u> Esther L. Johnson	Director	May 30, 2014
<u>/s/ Wade F. Meyercord</u> Wade F. Meyercord	Director	May 30, 2014
<u>/s/ J. Eric Bjornholt</u> J. Eric Bjornholt	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	May 30, 2014

## EXHIBITS

### Incorporated by Reference

Exhibit Number	Exhibit Description	Form	File Number	Exhibit	Filing Date	Filed Herewith
2.1	Agreement and Plan of Merger dated as of May 22, 2014 by and among Microchip Technology (Barbados) II Incorporated and ISSC Technologies Corp.					X
2.2	Tender Agreement dated May 22, 2014 between Microchip Technology (Barbados) II Incorporated and Directors, Certain Officers and Certain Shareholders of ISSC Technologies Corp.					X
2.3	Guaranty Concerning Merger Agreement dated May 22, 2014 made by Microchip Technology Incorporated with respect to certain obligations of Microchip Technology (Barbados) II Incorporated					X
2.4	Guaranty Concerning Tender Agreement dated May 22, 2014 made by Microchip Technology Incorporated with respect to certain obligations of Microchip Technology (Barbados) II Incorporated					X
2.5	Agreement and Plan of Merger dated as of February 9, 2014 by and among Microchip Technology Incorporated, Orchid Acquisition Corporation and Supertex, Inc.					X
2.6	Agreement and Plan of Merger dated as of May 1, 2012 by and among Microchip Technology Incorporated, Microchip Technology Management Co. and Standard Microsystems Corporation, including Form of Voting Agreement	10-K	000-21184	2.2	5/30/2012	
3.1	Restated Certificate of Incorporation of Registrant	10-Q	000-21184	3.1	11/12/2002	
3.2	Amended and Restated By-Laws of Registrant, as amended through October 1, 2013	10-Q	000-21184	3.1	11/8/2013	
4.1	Indenture, dated as of December 7, 2007, by and between Wells Fargo Bank, National Association, as Trustee, and Microchip Technology Incorporated	8-K	000-21184	4.1	12/7/2007	
4.2	Registration Rights Agreement, dated as of December 7, 2007, by and between J.P. Morgan Securities Inc. and Microchip Technology Incorporated	8-K	000-21184	4.2	12/7/2007	
10.1	Credit Agreement, dated June 27, 2013, among Microchip Technology Incorporated, the lenders from time to time party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent	8-K	000-21184	10.1	6/28/2013	



**Incorporated by Reference**

<b>Exhibit Number</b>	<b>Exhibit Description</b>	<b>Form</b>	<b>File Number</b>	<b>Exhibit</b>	<b>Filing Date</b>	<b>Filed Herewith</b>
10.2	Form of Indemnification Agreement between Registrant and its directors and certain of its officers	S-1	33-57960	10.1	2/5/1993	
10.3	Microchip Technology Incorporated 2012 Inducement Award Plan as adopted by the Board of Directors on August 1, 2012	S-8	333-183074	4.8	8/1/2012	
10.4	*2004 Equity Incentive Plan as amended by the Board on August 17, 2012	8-K	000-21184	10.1	8/23/2012	
10.5	*Form of Notice of Grant of Restricted Stock Units (officer) for 2004 Equity Incentive Plan	S-8	333-192273	10.2	11/12/2013	
10.6	Form of Notice of Grant of Restricted Stock Units (non-officer) for 2004 Equity Incentive Plan	S-8	333-192273	10.3	11/12/2013	
10.7	*Form of Notice of Grant for 2004 Equity Incentive Plan (including Exhibit A Stock Option Agreement)	S-8	333-119939	4.5	10/25/2004	
10.8	Form of Notice of Grant (Foreign) for 2004 Equity Incentive Plan (including Exhibit A Stock Option Agreement (Foreign))	10-K	000-21184	10.4	5/23/2005	
10.9	*Form of Notice of Grant of Restricted Stock Units for 2004 Equity Incentive Plan (including Exhibit A Restricted Stock Units Agreement)	10-K	000-21184	10.6	5/31/2006	
10.10	*Restricted Stock Units Agreement (Domestic) for 2004 Equity Incentive Plan	10-Q	000-21184	10.3	11/7/2007	
10.11	Restricted Stock Units Agreement (Foreign) for 2004 Equity Incentive Plan	10-Q	000-21184	10.4	11/7/2008	
10.12	*Form of Global RSU Agreement for 2004 Equity Incentive Plan (including Notice of Grant of Restricted Stock Units)	8-K	000-21184	10.1	9/27/2010	
10.13	*Form of Notice of Grant For 1993 Stock Option Plan, with Exhibit A thereto, Form of Stock Option Agreement; and Exhibit B thereto, Form of Stock Purchase Agreement	S-8	333-872	10.6	1/23/1996	
10.14	*Microchip Technology Incorporated 2001 Employee Stock Purchase Plan as amended through March 1, 2012	10-Q	000-21184	10.1	2/6/2012	
10.15	*1997 Nonstatutory Stock Option Plan, as Amended Through March 3, 2003	10-K	000-21184	10.13	6/5/2003	
10.16	*Form of Notice of Grant For 1997 Nonstatutory Stock Option Plan, with Exhibit A thereto, Form of Stock Option Agreement	10-K	000-21184	10.17	5/27/1998	

**Incorporated by Reference**

Exhibit Number	Exhibit Description	Form	File Number	Exhibit	Filing Date	Filed Herewith
10.17	Microchip Technology Incorporated International Employee Stock Purchase Plan as amended through May 19, 2014, including Purchase Agreement					X
10.18	Microchip Technology Incorporated 2012 Inducement Award Plan	S-8	333-183074	4.8	8/3/2012	
10.19	*Executive Management Incentive Compensation Plan as amended on August 19, 2011	8-K	000-21184	10.1	8/24/2011	
10.20	*Discretionary Executive Management Incentive Compensation Plan	10-Q	000-21184	10.5	2/6/2007	
10.21	Management Incentive Compensation Plan as amended by the Board of Directors on May 17, 2013	10-K	000-21184	10.21	5/30/2013	
10.22	*Microchip Technology Incorporated Supplemental Retirement Plan	S-8	333-101696	4.1.1	4/1/2009	
10.23	*Adoption Agreement to the Microchip Technology Incorporated Supplemental Retirement Plan dated January 1, 1997	S-8	333-101696	4.1.3	4/1/2003	
10.24	*Amendment dated December 9, 1999 to the Adoption Agreement to the Microchip Technology Incorporated Supplemental Retirement Plan	S-8	333-101696	4.1.4	4/1/2004	
10.25	*February 3, 2003 Amendment to the Adoption Agreement to the Microchip Technology Incorporated Supplemental Retirement Plan	10-K	000-21184	10.28	6/5/2003	
10.26	*Amendments to Supplemental Retirement Plan	10-Q	000-21184	10.1	2/9/2006	
10.27	*Change of Control Severance Agreement	8-K	000-21184	10.1	12/18/2008	
10.28	*Change of Control Severance Agreement	8-K	000-21184	10.2	12/18/2008	
10.29	Development Agreement dated as of August 29, 1997 by and between Registrant and the City of Chandler, Arizona	10-Q	000-21184	10.1	2/13/1998	
10.30	Addendum to Development Agreement by and between Registrant and the City of Tempe, Arizona, dated May 11, 2000	10-K	000-21184	10.14	5/15/2001	
10.31	Development Agreement dated as of July 17, 1997 by and between Registrant and the City of Tempe, Arizona	10-Q	000-21184	10.2	2/13/1998	

**Incorporated by Reference**

<b>Exhibit Number</b>	<b>Exhibit Description</b>	<b>Form</b>	<b>File Number</b>	<b>Exhibit</b>	<b>Filing Date</b>	<b>Filed Herewith</b>
10.32	Amended Strategic Investment Program Contract dated as of June 8, 2009 between, Multnomah County, Oregon, City of Gresham, Oregon and Microchip Technology Incorporated	8-K	000-21184	10.1	6/11/2009	
21.1	Subsidiaries of Registrant					X
23.1	Consent of Independent Registered Public Accounting Firm					X
24.1	Power of Attorney re: Microchip Technology Incorporated, the Registrant, included on Page 50 of this Form 10-K					X
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act)					X
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act)					X
32	Certifications Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X

\*Compensation plans or arrangements in which directors or executive officers are eligible to participate.

This page intentionally left blank.

Annual Report on Form 10-K

Item 8, Item 15(a)(1) and (2), (b) and (c)

---

INDEX TO FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

EXHIBITS

---

YEAR ENDED MARCH 31, 2014

MICROCHIP TECHNOLOGY INCORPORATED  
AND SUBSIDIARIES

CHANDLER, ARIZONA

# MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES

## Index to Consolidated Financial Statements

	<u>Page Number</u>
Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets as of March 31, 2014 and 2013	F-2
Consolidated Statements of Income for each of the three years in the period ended March 31, 2014	F-3
Consolidated Statements of Comprehensive Income for each of the three years in the period ended March 31, 2014	F-4
Consolidated Statements of Cash Flows for each of the three years in the period ended March 31, 2014	F-5
Consolidated Statements of Stockholders' Equity for each of the three years in the period ended March 31, 2014	F-6
Notes to Consolidated Financial Statements	F-7

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

### *The Board of Directors and Stockholders of Microchip Technology Incorporated and subsidiaries*

We have audited the accompanying consolidated balance sheets of Microchip Technology Incorporated and subsidiaries as of March 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Microchip Technology Incorporated and subsidiaries at March 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Microchip Technology Incorporated and subsidiaries' internal control over financial reporting as of March 31, 2014, based on criteria established in Internal Control—Integrated Framework (1992 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated May 30, 2014 expressed an unqualified opinion thereon.

*Ernst & Young LLP*

Phoenix, Arizona  
May 30, 2014

**Item 1. Financial Statements****MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS**

(in thousands, except share and per share amounts)

**ASSETS**

	March 31,	
	2014	2013
Cash and cash equivalents	\$ 466,603	\$ 528,334
Short-term investments	878,182	1,050,263
Accounts receivable, net	242,405	229,955
Inventories	262,725	242,334
Prepaid expenses	31,756	37,439
Deferred tax assets	67,490	80,687
Other current assets	20,238	67,358
Total current assets	<u>1,969,399</u>	<u>2,236,370</u>
Property, plant and equipment, net	531,967	514,544
Long-term investments	798,712	257,450
Goodwill	276,097	271,348
Intangible assets, net	445,499	530,136
Other assets	45,956	41,557
Total assets	<u>\$ 4,067,630</u>	<u>\$ 3,851,405</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Accounts payable	\$ 74,050	\$ 75,551
Accrued liabilities	96,731	127,108
Short-term borrowings	17,500	—
Deferred income on shipments to distributors	147,798	138,952
Total current liabilities	<u>336,079</u>	<u>341,611</u>
Junior convertible debentures	371,873	363,385
Long-term line of credit	300,000	620,000
Long-term borrowings, net	331,385	—
Long-term income tax payable	179,966	182,723
Deferred tax liability	375,316	388,250
Other long-term liabilities	37,550	21,966
Stockholders' equity:		
Preferred stock, \$0.001 par value; authorized 5,000,000 shares; no shares issued or outstanding	—	—
Common stock, \$0.001 par value; authorized 450,000,000 shares; 218,789,994 shares issued and 200,002,736 shares outstanding at March 31, 2014; 218,789,994 shares issued and 196,472,856 shares outstanding at March 31, 2013	200	196
Additional paid-in capital	1,244,583	1,255,627
Common stock held in treasury: 18,787,258 shares at March 31, 2014; 22,317,138 shares at March 31, 2013	(577,382)	(682,220)
Accumulated other comprehensive income	1,051	6,935
Retained earnings	1,467,009	1,352,932
Total stockholders' equity	<u>2,135,461</u>	<u>1,933,470</u>
Total liabilities and stockholders' equity	<u>\$ 4,067,630</u>	<u>\$ 3,851,405</u>

See accompanying notes to consolidated financial statements



**MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

(in thousands, except per share amounts)

	Year ended March 31,		
	2014	2013	2012
Net sales	\$ 1,931,217	\$ 1,581,623	\$ 1,383,176
Cost of sales (1)	802,474	743,164	583,882
Gross profit	1,128,743	838,459	799,294
Operating expenses:			
Research and development (1)	305,043	254,723	182,650
Selling, general and administrative (1)	267,278	261,471	208,328
Amortization of acquired intangible assets	94,534	111,537	10,963
Special charges	3,024	32,175	837
	669,879	659,906	402,778
Operating income	458,864	178,553	396,516
Losses on equity method investments	(177)	(617)	(195)
Other income (expense):			
Interest income	16,485	15,560	17,992
Interest expense	(48,716)	(40,915)	(34,266)
Other income (expense), net	5,898	(404)	(352)
Income before income taxes	432,354	152,177	379,695
Income tax provision	37,073	24,788	42,990
Net income	\$ 395,281	\$ 127,389	\$ 336,705
Basic net income per common share	\$ 1.99	\$ 0.65	\$ 1.76
Diluted net income per common share	\$ 1.82	\$ 0.62	\$ 1.65
Dividends declared per common share	\$ 1.417	\$ 1.406	\$ 1.390
Basic common shares outstanding	198,291	194,595	191,283
Diluted common shares outstanding	217,630	205,776	203,519
(1) Includes share-based compensation expense as follows:			
Cost of sales	\$ 7,340	\$ 8,234	\$ 5,648
Research and development	24,554	22,178	14,719
Selling, general and administrative	21,893	27,603	17,922

See accompanying notes to consolidated financial statements

**MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(in thousands)

	Year Ended March 31,		
	2014	2013	2012
Net income	\$ 395,281	\$ 127,389	\$ 336,705
Components of other comprehensive (loss) income:			
Available-for sale securities:			
Unrealized holding (losses) gain, net of tax effect of \$497, \$557 and (\$339), respectively	(4,377)	2,686	(41)
Reclassification of realized transactions, net of tax effect of \$776, \$51 and (\$58), respectively	(1,595)	(343)	(215)
Change in minimum pension liability, net of tax effect of \$55 and \$28, respectively	88	52	—
Change in net foreign currency translation adjustment	—	1,439	—
Other comprehensive (loss) income, net of taxes	(5,884)	3,834	(256)
Total comprehensive income	\$ 389,397	\$ 131,223	\$ 336,449

See accompanying notes to consolidated financial statements

**MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

	Year ended March 31,		
	2014	2013	2012
Cash flows from operating activities:			
Net income	\$ 395,281	\$ 127,389	\$ 336,705
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	189,139	204,097	99,424
Deferred income taxes	5,321	(28,368)	21,954
Share-based compensation expense related to equity incentive plans	53,787	52,069	38,289
Excess tax benefit from share-based compensation	(1,411)	(297)	(576)
Convertible debt derivatives - revaluation and amortization	(482)	138	204
Amortization of debt discount on convertible debentures	8,970	8,197	7,512
Amortization of debt issuance costs	1,959	217	219
Losses on equity method investments	177	617	195
Losses (gains) on sale of assets	244	(256)	(411)
Loss on write-down of fixed assets	—	400	—
Impairment of intangible assets	350	—	—
Amortization of premium on available-for-sale investments	10,754	13,186	15,520
Unrealized impairment loss on available-for-sale investments	—	413	2,158
Special (income) charges	(459)	4,400	(1,000)
Gain on shares of acquired company	(2,438)	—	—
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	(12,508)	386	11,845
(Increase) decrease in inventories	(18,500)	65,867	(35,240)
Increase (decrease) in deferred income on shipments to distributors	8,846	18,867	(31,335)
Decrease in accounts payable and accrued liabilities	(11,633)	(40,914)	(61,455)
Change in other assets and liabilities	49,167	32,957	7,970
Net cash provided by operating activities	<u>676,564</u>	<u>459,365</u>	<u>411,978</u>
Cash flows from investing activities:			
Purchases of available-for-sale investments	(1,337,482)	(998,977)	(1,149,145)
Sales and maturities of available-for-sale investments	951,296	856,579	983,500
Acquisition of SMSC, net of cash acquired	—	(731,746)	—
Other business acquisitions, net of cash acquired	(11,187)	(20,556)	(38,580)
Investments in other assets	(9,069)	(4,730)	(5,818)
Proceeds from sale of assets	16,235	306	411
Capital expenditures	(113,072)	(50,818)	(62,370)
Net cash used in investing activities	<u>(503,279)</u>	<u>(949,942)</u>	<u>(272,002)</u>
Cash flows from financing activities:			
Repayments of revolving loan under previous credit facility	(650,000)	(761,000)	—
Repayments of revolving loan under new credit facility	(453,500)	—	—
Proceeds from borrowings on revolving loan under previous credit facility	30,000	1,381,000	—
Proceeds from borrowings on revolving loan under new credit facility	753,500	—	—
Proceeds from issuance of long-term borrowings	350,000	—	—
Deferred financing costs	(7,515)	—	—
Payment of cash dividends	(281,204)	(273,822)	(266,178)
Proceeds from sale of common stock	37,446	35,695	57,457
Contingent consideration payment	(14,700)	—	—
Capital lease payments	(454)	—	—
Excess tax benefit from share-based compensation	1,411	297	576
Net cash (used in) provided by financing activities	<u>(235,016)</u>	<u>382,170</u>	<u>(208,145)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	—	986	—
Net decrease in cash and cash equivalents	<u>(61,731)</u>	<u>(107,421)</u>	<u>(68,169)</u>
Cash and cash equivalents at beginning of period	528,334	635,755	703,924
Cash and cash equivalents at end of period	<u>\$ 466,603</u>	<u>\$ 528,334</u>	<u>\$ 635,755</u>

See accompanying notes to consolidated financial statements

**MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

(in thousands)

	Common Stock and Additional Paid-in- Capital		Common Stock Held in Treasury		Accumulated Other Comprehensive Income	Retained Earnings	Net Stockholders' Equity
	Shares	Amount	Shares	Amount			
Balance at March 31, 2011	218,790	\$ 1,268,318	29,248	\$ (888,075)	\$ 3,357	\$ 1,428,838	\$ 1,812,438
Net income	—	—	—	—	—	336,705	336,705
Other comprehensive loss	—	—	—	—	(256)	—	(256)
Issuances from equity incentive plans	3,000	42,596	—	—	—	—	42,596
Employee stock purchase plan	609	14,861	—	—	—	—	14,861
Treasury stock used for new issuances	(3,609)	(107,182)	(3,609)	107,182	—	—	—
Tax benefit from equity incentive plans	—	10,980	—	—	—	—	10,980
Share-based compensation	—	39,527	—	—	—	—	39,527
Cash dividend	—	—	—	—	—	(266,178)	(266,178)
Balance at March 31, 2012	218,790	1,269,100	25,639	(780,893)	3,101	1,499,365	1,990,673
Net income	—	—	—	—	—	127,389	127,389
Other comprehensive income	—	—	—	—	3,834	—	3,834
Issuances from equity incentive plans	2,773	19,935	—	—	—	—	19,935
Employee stock purchase plan	549	15,760	—	—	—	—	15,760
Treasury stock used for new issuances	(3,322)	(98,673)	(3,322)	98,673	—	—	—
Tax shortfall from equity incentive plans	—	(9,896)	—	—	—	—	(9,896)
Share-based compensation	—	52,667	—	—	—	—	52,667
Non-cash consideration - SMSC acquisition	—	6,930	—	—	—	—	6,930
Cash dividend	—	—	—	—	—	(273,822)	(273,822)
Balance at March 31, 2013	218,790	1,255,823	22,317	(682,220)	6,935	1,352,932	1,933,470
Net income	—	—	—	—	—	395,281	395,281
Other comprehensive loss	—	—	—	—	(5,884)	—	(5,884)
Issuances from equity incentive plans	2,858	17,658	—	—	—	—	17,658
Employee stock purchase plan	672	19,788	—	—	—	—	19,788
Treasury stock used for new issuances	(3,530)	(104,838)	(3,530)	104,838	—	—	—
Tax benefit from equity incentive plans	—	1,411	—	—	—	—	1,411
Share-based compensation	—	54,941	—	—	—	—	54,941
Cash dividend	—	—	—	—	—	(281,204)	(281,204)
Balance at March 31, 2014	218,790	\$ 1,244,783	18,787	\$ (577,382)	\$ 1,051	\$ 1,467,009	\$ 2,135,461

See accompanying notes to consolidated financial statements

**MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Business**

Microchip develops, manufactures and sells specialized semiconductor products used by its customers for a wide variety of embedded control applications. Microchip's product portfolio comprises 8-bit, 16-bit and 32-bit PIC<sup>®</sup> microcontrollers and 16-bit dsPIC<sup>®</sup> digital signal controllers, which feature on-board Flash (reprogrammable) memory technology. In addition, Microchip offers a broad spectrum of high-performance linear, mixed-signal, power management, thermal management, RF, safety and security and interface devices, as well as serial EEPROMs, Serial Flash memories and Parallel Flash memories. Microchip also licenses Flash-IP solutions that are incorporated in a broad range of products.

**Principles of Consolidation**

The consolidated financial statements include the accounts of Microchip Technology Incorporated and its wholly-owned subsidiaries (Microchip or the Company). The Company does not have any subsidiaries in which it does not own 100% of the outstanding stock. All of the Company's subsidiaries are included in the consolidated financial statements. All significant intercompany accounts and transactions have been eliminated in consolidation.

**Revenue Recognition**

The Company recognizes revenue when the earnings process is complete, as evidenced by an agreement with the customer, transfer of title as well as fixed or determinable pricing and when collectability is reasonably assured. The Company recognizes revenue from product sales to original equipment manufacturers (OEMs) upon shipment and records reserves for estimated customer returns.

Distributors worldwide generally have broad price protection and product return rights, so the Company defers revenue recognition until the distributor sells the product to their customer. Revenue is recognized when the distributor sells the product to their end customer, at which time the sales price becomes fixed or determinable. Revenue is not recognized upon the Company's shipment to the distributors since, due to discounts from list price as well as price protection rights, the sales price is not substantially fixed or determinable at that time. At the time of shipment to these distributors, the Company records a trade receivable for the selling price as there is a legally enforceable right to payment, relieves inventory for the carrying value of goods shipped since legal title has passed to the distributor, and records the gross margin in deferred income on shipments to distributors on its consolidated balance sheets.

Deferred income on shipments to distributors effectively represents gross margin on the sale to the distributor at the initial shipment date; however, the amount of gross margin recognized by the Company in future periods will be less than the deferred margin as a result of credits granted to distributors on specifically identified products and customers to allow the distributors to earn a competitive gross margin on the sale of the Company's products to their end customers and price protection concessions related to market pricing conditions.

The Company sells the majority of the items in its product catalog to its distributors worldwide at a uniform list price. However, distributors resell the Company's products to end customers at a very broad range of individually negotiated price points. The majority of the Company's distributors' resales require a reduction from the original list price paid. Often, under these circumstances, the Company remits back to the distributor a portion of their original purchase price after the resale transaction is completed in the form of a credit against the distributors' outstanding accounts receivable balance. The credits are on a per unit basis and are not given to the distributor until they provide information regarding the sale to their end customer. The price reductions vary significantly based on the customer, product, quantity ordered, geographic location and other factors and discounts to a price less than the Company's cost have historically been rare. The effect of granting these credits establishes the net selling price from the Company to its distributors for the product and results in the net revenue recognized by the Company when the product is sold by the distributors to their end customers. Thus, a portion of the "deferred income on shipments to distributors" balance represents the amount of distributors' original purchase price that will be credited back to the distributor in the future. The wide range and variability of negotiated price concessions granted to distributors does not allow the Company to accurately estimate the portion of the balance in the deferred income on shipments to distributors account that will be credited back to the distributors. Therefore, the Company does not reduce deferred income

on shipments to distributors or accounts receivable by anticipated future price concessions; rather, price concessions are recorded against deferred income on shipments to distributors when incurred, which is generally at the time the distributor sells the product.

At March 31, 2014, the Company had approximately \$222.8 million of deferred revenue and \$75.0 million in deferred cost of sales recognized as \$147.8 million of deferred income on shipments to distributors. At March 31, 2013, the Company had approximately \$201.8 million of deferred revenue and \$62.8 million of deferred cost of sales recognized as \$139.0 million of deferred income on shipments to distributors. The deferred income on shipments to distributors that will ultimately be recognized in the Company's income statement will be lower than the amount reflected on the balance sheet due to price credits to be granted to the distributors when the product is sold to their customers. These price credits historically have resulted in the deferred income approximating the overall gross margins that the Company recognizes in the distribution channel of its business.

The Company reduces product pricing through price protection based on market conditions, competitive considerations and other factors. Price protection is granted to distributors on the inventory they have on hand at the date the price protection is offered. When the Company reduces the price of its products, it allows the distributor to claim a credit against its outstanding accounts receivable balances based on the new price of the inventory it has on hand as of the date of the price reduction. There is no immediate revenue impact from the price protection, as it is reflected as a reduction of the deferred income on shipments to distributors' balance.

Products returned by distributors and subsequently scrapped have historically been immaterial to the Company's consolidated results of operations. The Company routinely evaluates the risk of impairment of the deferred cost of sales component of the deferred income on shipments to distributors' account. Because of the historically immaterial amounts of inventory that have been scrapped, and historically rare instances where discounts given to a distributor result in a price less than the Company's cost, the Company believes the deferred costs have a low risk of material impairment.

For license and other arrangements for SuperFlash<sup>®</sup> technology that the Company is continuing to enhance and refine or under which it is obligated to provide unspecified enhancements, non-royalty revenue is recognized over the lesser of (1) the estimated period that the Company has historically enhanced and developed refinements to the specific technology, typically one to three years (the "upgrade period"), and (2) the remaining portion of the upgrade period after the date of delivery of all specified technology and documentation, provided that the fee is fixed or determinable and collection of the fee is reasonably assured. Royalties received during the upgrade period are recognized as revenue based on an amortization calculation of the elapsed portion of the upgrade period compared to the entire estimated upgrade period. Royalties received after the upgrade period has elapsed are recognized when reported to the Company, which generally coincides with the receipt of payment. For licenses or other technology arrangements without an upgrade period, non-royalty revenue from license is recognized upon delivery of the technology if the fee is fixed or determinable and collection of the fee is reasonably assured. Royalties are recognized when reported to the Company, which generally coincides with the receipt of payment.

Shipping charges billed to customers are included in net sales, and the related shipping costs are included in cost of sales. The Company collects and remits certain sales related taxes on sales of inventory and reports such amounts under the net method in its consolidated statements of income.

### **Product Warranty**

The Company typically warrants its products against defects in materials and workmanship and non-conformance to specifications for 12 to 24 months. The majority of the Company's product warranty claims are settled through the return of the defective product and the shipment of replacement product. Warranty returns are included within the Company's allowance for returns, which is based on historical return rates. Actual future returns could differ from the allowance established. In addition, the Company accrues a liability for specific warranty costs expected to be settled other than through product return and replacement, if a loss is probable and can be reasonably estimated. Product warranty expenses during fiscal 2014, 2013, and 2012 were immaterial.

### **Advertising Costs**

The Company expenses all advertising costs as incurred. Advertising costs were immaterial for the fiscal years ended March 31, 2014, 2013 and 2012.

## **Research and Development**

Research and development costs are expensed as incurred. Assets purchased to support the Company's ongoing research and development activities are capitalized when related to products which have achieved technological feasibility or that have alternative future uses and are amortized over their estimated useful lives. Research and development expenses include expenditures for labor, share-based payments, depreciation, masks, prototype wafers, and expenses for development of process technologies, new packages, and software to support new products and design environments.

## **Foreign Currency Translation and Forward Contracts**

The Company's foreign subsidiaries are considered to be extensions of the U.S. Company and any translation gains and losses related to these subsidiaries are included in other income (expense) in the consolidated statements of income. As the U.S. dollar is utilized as the functional currency, gains and losses resulting from foreign currency transactions (transactions denominated in a currency other than the subsidiaries' functional currency) are also included in income. For a portion of fiscal 2013, certain foreign subsidiaries acquired as part of the SMSC acquisition had the local currency as the functional currency. Once these entities were integrated into the Company's legal structure and intercompany agreements were executed, the U.S. dollar became the functional currency. Gains and losses associated with currency rate changes on forward contracts are recorded currently in income. These gains and losses have been immaterial to the Company's financial statements.

## **Income Taxes**

As part of the process of preparing its consolidated financial statements, the Company is required to estimate its income taxes in each of the jurisdictions in which it operates. This process involves estimating the Company's actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the Company's consolidated balance sheet. The Company must then assess the likelihood that its deferred tax assets will be recovered from future taxable income and to the extent it believes that recovery is not likely, it must establish a valuation allowance. The Company has provided valuation allowances for certain of its deferred tax assets where it is more likely than not that some portion, or all of such assets, will not be realized.

## **Cash and Cash Equivalents**

All highly liquid investments, including marketable securities purchased with a remaining maturity of three months or less when acquired are considered to be cash equivalents.

## **Investments – Available-for-Sale and Trading Securities**

The Company classifies its investments in debt and marketable equity securities as available-for-sale or trading securities based upon management's intent with regard to the investments and the nature of the underlying securities.

The Company's available-for-sale investments consist of government agency bonds, municipal bonds, auction rate securities (ARS), corporate bonds and marketable equity securities. The Company's investments are carried at fair value with unrealized gains and losses reported in stockholders' equity unless losses are considered to be other than temporary impairments in which case the losses are recognized through the statement of income. Premiums and discounts are amortized or accreted over the life of the related available-for-sale security. Dividend and interest income are recognized when earned. The cost of securities sold is calculated using the specific identification method.

The Company includes within short-term investments its trading securities, as well as its income yielding available-for-sale securities that can be readily converted to cash and includes within long-term investments those income yielding available-for-sale securities with maturities of over one year that have unrealized losses attributable to them or those that cannot be readily liquidated. Except as discussed in Note 5, the Company intends and has the ability to hold its long-term investments with temporary impairments until such time as these assets are no longer impaired. Such recovery of unrealized losses is not expected to occur within the next year.

## **Non-Marketable Equity Investments**

The Company's non-marketable equity investments are recorded using adjusted cost basis or the equity method of accounting, depending on the circumstances of each investment. The Company's non-marketable equity investments are classified within other assets on the Company's consolidated balance sheet. The Company's non-marketable equity investments include:

**Equity Method Investments:** when the Company has the ability to exercise significant influence, but not control, over the investee, it records equity method gain or loss as "gain or loss from equity investments." Equity method adjustments include the Company's proportionate share of the investee's income or loss.

**Cost Method Investments:** when the Company does not have the ability to exercise significant influence over the investee, it records such investments at cost.

The Company reviews its investments quarterly for indicators of impairment. The impairment review requires significant judgment and includes quantitative and qualitative analysis of identified events or circumstances that impact the fair value of the investment, such as:

- the investee's revenue and trends in earnings or losses relative to pre-defined milestones and overall business prospects;
- the technological feasibility of the investee's products and technologies;
- the general market conditions in the investee's industry or geographic area, including adverse regulatory or economic changes;
- factors related to the investee's ability to remain in business, such as the investee's liquidity, debt ratios, and the rate at which the investee is using its cash; and
- the investee's receipt of additional funding at a lower valuation.

If the fair value of an investment is below the Company's carrying value, the Company determines if the investment is other-than-temporarily impaired based on a quantitative and qualitative analysis, which includes assessing the severity and duration of the impairment and the likelihood of recovery before disposal. If the investment is considered to be other-than-temporarily impaired, the Company writes down the investment to its fair value.

## **Allowance for Doubtful Accounts**

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments, which is included in bad debt expense. The Company determines the adequacy of this allowance by regularly reviewing the composition of its accounts receivable aging and evaluating individual customer receivables, considering such customer's financial condition, credit history and current economic conditions.

## **Inventories**

Inventories are valued at the lower of cost or market using the first-in, first-out method. The Company writes down its inventory for estimated obsolescence or unmarketable inventory in an amount equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by the Company, additional inventory write-downs may be required. Inventory impairment charges establish a new cost basis for inventory and charges are not subsequently reversed to income even if circumstances later suggest that increased carrying amounts are recoverable. In estimating reserves for obsolescence, the Company primarily evaluates estimates of demand over a 12-month period and provides reserves for inventory on hand in excess of the estimated 12-month demand. Estimates for projected 12-month demand are generally based on the average shipments of the prior three-month period, which are then annualized to adjust for any potential seasonality in the Company's business. The estimated 12-month demand is compared to its most recently developed sales forecast to further reconcile the 12-month demand estimate. Management reviews and adjusts the estimates as appropriate based on specific situations. For example, demand can be adjusted up for new products for which historic sales are not representative of future demand. Alternatively, demand can be adjusted down to the extent any existing products are being replaced or discontinued.

In periods where the Company's production levels are substantially below normal operating capacity, unabsorbed overhead production costs associated with the reduced production levels of the Company's manufacturing facilities are charged directly to cost of sales.



## **Property, Plant and Equipment**

Property, plant and equipment are stated at cost. Major renewals and improvements are capitalized, while maintenance and repairs are expensed when incurred. The Company's property and equipment accounting policies incorporate estimates, assumptions and judgments relative to the useful lives of its property and equipment. Depreciation is provided for assets placed in service on a straight-line basis over the estimated useful lives of the relative assets, which range from 10 to 30 years for buildings and building improvements and 3 to 8 years for machinery and equipment. The Company evaluates the carrying value of its property and equipment when events or changes in circumstances indicate that the carrying value of such assets may be impaired. Asset impairment evaluations are, by nature, highly subjective.

## **Junior Subordinated Convertible Debentures**

The Company separately accounts for the liability and equity components of its junior subordinated convertible debentures in a manner that reflects its nonconvertible debt (unsecured debt) borrowing rate when interest cost is recognized. This results in a bifurcation of a component of the debt, classification of that component in equity and the accretion of the resulting discount on the debt to be recognized as part of interest expense in its consolidated statements of income. Lastly, the Company includes the dilutive effect of the shares of its common stock issuable upon conversion of the outstanding junior subordinated convertible debentures in its diluted income per share calculation regardless of whether the market price trigger or other contingent conversion feature has been met. The Company applies the treasury stock method as it has the intent and ability to settle the principal amount of the junior subordinated convertible debentures in cash. This method results in incremental dilutive shares when the average market value of the Company's common stock for a reporting period exceeds the conversion price per share which was \$25.87 at March 31, 2014 and adjusts as dividends are recorded in the future.

## **Litigation**

The Company's estimated range of liability related to pending litigation is based on claims for which management believes a loss is probable and it can estimate the amount or range of loss. Because of the uncertainties related to both the outcome and range of any potential losses on the pending litigation, the Company is generally unable to make a reasonable estimate of the liability that could result from an unfavorable outcome. As additional information becomes available, the Company will assess the potential liability related to its pending litigation and revise its estimates, if necessary.

## **Business Combinations**

All of the Company's business combinations are accounted for at fair value under the acquisition method of accounting. Under the acquisition method of accounting, (i) acquisition-related costs, except for those costs incurred to issue debt or equity securities, will be expensed in the period incurred; (ii) non-controlling interests will be valued at fair value at the acquisition date; (iii) in-process research and development will be recorded at fair value as an intangible asset at the acquisition date and amortized once the technology reaches technological feasibility; (iv) restructuring costs associated with a business combination will be expensed subsequent to the acquisition date; and (v) changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date will be recognized through income tax expense or directly in contributed capital. The measurement of fair value of assets acquired and liabilities assumed requires significant judgment. The valuation of intangible assets and acquired investments, in particular, requires that the Company use valuation techniques such as the income approach. The income approach includes the use of a discounted cash flow model, which includes discounted cash flow scenarios and requires the following significant estimates: revenue, expenses, capital spending and other costs, and discount rates based on the respective risks of the cash flows. The valuation of non-marketable equity investments acquired also takes into account variables such as conditions reflected in the capital markets, recent financing activity by the investees, the investees' capital structure and the terms of the investees' issued interests.

## **Goodwill and Other Intangible Assets**

Goodwill is recorded when the purchase price paid for an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. The Company is required to perform an annual impairment review, and more frequently under certain circumstances. The goodwill is subjected to this test during the fourth quarter of the Company's fiscal year. The Company engages primarily in the development, manufacture and sale of semiconductor products as well as technology licensing. As a result, the Company concluded there are two reporting units, semiconductor products and technology licensing. Under the qualitative goodwill impairment assessment standard, management evaluates whether it is more likely than not that goodwill is impaired. If it is determined that it is more likely than not, the Company proceeds with the next step of the impairment test, which compares the fair value of the reporting unit to its carrying value. If the Company determines through the impairment process that goodwill has been impaired, the Company will record the impairment charge in

its results of operation. Through March 31, 2014, the Company has not had impaired goodwill. The Company's other intangible assets represent existing technologies, core and developed technology, in-process research and development, trademarks and trade names, and customer-related intangibles. Other intangible assets are amortized over their respective estimated lives, ranging from one year to ten years. In the event that facts and circumstances indicate intangibles or other long-lived assets may be impaired, the Company evaluates the recoverability and estimated useful lives of such assets. In-process research and development is capitalized until such time the related projects are completed or abandoned at which time the capitalized amounts will begin to be amortized or written off.

### **Impairment of Long-Lived Assets**

The Company assesses whether indicators of impairment of long-lived assets are present. If such indicators are present, the Company determines whether the sum of the estimated undiscounted cash flows attributable to the assets in question is less than their carrying value. If less, the Company recognizes an impairment loss based on the excess of the carrying amount of the assets over their respective fair values. Fair value is determined by discounted future cash flows, appraisals or other methods. If the assets determined to be impaired are to be held and used, the Company recognizes an impairment loss through a charge to operating results to the extent the present value of anticipated net cash flows attributable to the asset are less than the asset's carrying value. The Company would depreciate the remaining value over the remaining estimated useful life of the asset.

### **Share-Based Compensation**

The Company has equity incentive plans under which non-qualified stock options and restricted stock units (RSUs) have been granted to employees and non-employee members of the Board of Directors. In the second half of fiscal 2006, the Company adopted RSUs as its primary equity incentive compensation instrument for employees. The Company also has an employee stock purchase plan for all eligible employees.

The Company estimates the fair value of share-based payment awards on the date of grant using an option pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense ratably over the requisite service periods. The Company has estimated the fair value of each award as of the date of grant using the Black-Scholes option pricing model, which was developed for use in estimating the value of traded options that have no vesting restrictions and that are freely transferable.

Determining the appropriate fair-value model and calculating the fair value of share-based awards at the date of grant requires judgment. The fair value of RSUs is based on the fair market value of the Company's common stock on the date of grant discounted for expected future dividends. The Company uses the Black-Scholes option pricing model to estimate the fair value of employee stock options and rights to purchase shares under stock participation plans. Option pricing models, including the Black-Scholes model, also require the use of input assumptions, including expected volatility, expected life, expected dividend rate, and expected risk-free rate of return. The Company uses a blend of historical and implied volatility based on options freely traded in the open market as it believes this is more reflective of market conditions and a better indicator of expected volatility than using purely historical volatility. The expected life of the awards is based on historical and other economic data trended into the future. The risk-free interest rate assumption is based on observed interest rates appropriate for the expected terms of the Company's awards. The dividend yield assumption is based on the Company's history and expectation of future dividend payouts. The Company estimates the number of share-based awards which will be forfeited due to employee turnover. Quarterly changes in the estimated forfeiture rate would affect share-based compensation, as the impact on prior period amortization for all unvested awards is recognized in the period the forfeiture estimate is changed. If the actual forfeiture rate is higher than the estimated forfeiture rate, then an adjustment is made to increase the estimated forfeiture rate, which will result in a decrease to the expense recognized in the financial statements. If the actual forfeiture rate is lower than the estimated forfeiture rate, then an adjustment is made to decrease the estimated forfeiture rate, which will result in an increase to the expense recognized in the financial statements. If forfeiture adjustments are made, they would affect the Company's results of operations. The effect of forfeiture adjustments in the years ended March 31, 2014, 2013 and 2012 was immaterial.

The Company evaluates the assumptions used to value its awards on a quarterly basis. If factors change and the Company employs different assumptions, share-based compensation expense may differ significantly from what was recorded in the past. If there are any modifications or cancellations of the underlying unvested securities, the Company may be required to accelerate or increase any remaining unearned share-based compensation expense. Future share-based compensation expense and unearned share-based compensation will increase to the extent that the Company grants additional equity awards to employees or it assumes unvested equity awards in connection with acquisitions.

## Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of investments in debt securities and trade receivables. Investments in debt securities with original maturities of greater than six months consist primarily of AAA and AA rated financial instruments and counterparties. The Company's investments are primarily in direct obligations of the U.S. government or its agencies, corporate bonds, and municipal bonds.

Concentrations of credit risk with respect to accounts receivable are generally not significant due to the diversity of the Company's customers and geographic sales areas. The Company sells its products primarily to OEMs and distributors in the Americas, Europe and Asia. The Company performs ongoing credit evaluations of its customers' financial condition and, as deemed necessary, may require collateral, primarily letters of credit.

Distributor advances, included in deferred income on shipments to distributors in the consolidated balance sheets, totaled \$92.8 million at March 31, 2014 and \$70.1 million at March 31, 2013. On sales to distributors, the Company's payment terms generally require the distributor to settle amounts owed to the Company for an amount in excess of their ultimate cost. The Company's sales price to its distributors may be higher than the amount that the distributors will ultimately owe the Company because distributors often negotiate price reductions after purchasing the product from the Company and such reductions are often significant. It is the Company's practice to apply these negotiated price discounts to future purchases, requiring the distributor to settle receivable balances, on a current basis, generally within 30 days, for amounts originally invoiced. This practice has an adverse impact on the working capital of the Company's distributors. As such, the Company has entered into agreements with certain distributors whereby it advances cash to the distributors to reduce the distributor's working capital requirements. These advances are reconciled at least on a quarterly basis and are estimated based on the amount of ending inventory as reported by the distributor multiplied by a negotiated percentage. Such advances have no impact on revenue recognition or the Company's consolidated statements of income. The Company processes discounts taken by distributors against its deferred income on shipments to distributors' balance and trues-up the advanced amounts generally after the end of each completed fiscal quarter. The terms of these advances are set forth in binding legal agreements and are unsecured, bear no interest on unsettled balances and are due upon demand. The agreements governing these advances can be canceled by the Company at any time.

## Use of Estimates

The Company has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare its consolidated financial statements in conformity with U.S. Generally Accepted Accounting Principles. Actual results could differ from those estimates.

## Recently Issued Accounting Pronouncements

In May of 2014 the FASB issued Accounting Standard Update 2014-09-*Revenue from Contracts with Customers*, which will supersede nearly all existing revenue recognition guidance under US GAAP. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The Company is carefully evaluating its existing revenue recognition policies to determine whether any contracts in the scope of the guidance will be affected by the new requirements. The effects may include identifying performance obligations in existing arrangements, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The new standard is effective beginning the first quarter of the Company's 2018 fiscal year. Early adoption is not permitted. The standard allows for either "full retrospective" adoption, meaning the standard is applied to all of the periods presented, or "modified retrospective" adoption, meaning the standard is applied only to the most current period presented in the financial statements. The Company is currently evaluating the transition method that will be elected.

In the first quarter of fiscal 2014, the Company adopted the provisions of Accounting Standard Update 2013-02 *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which required the disclosure of amounts reclassified out of accumulated other comprehensive income (AOCI) to net income. The adoption of this provision did not have a material impact on the Company's consolidated financial statements and related disclosures.

## 2. BUSINESS ACQUISITIONS

On November 21, 2013, the Company completed an acquisition which was accounted for under the acquisition method of accounting. The Company had a prior 18.3% ownership interest in the acquired company accounted for as a cost method investment and recognized an approximate \$2.4 million gain to write that ownership interest up to fair value in fiscal 2014. The total consideration paid for the remaining 81.7% equity of the business, net of cash acquired, was \$9.0 million. The purchase price of the acquisition resulted in purchased intangible assets of \$4.1 million and goodwill of approximately \$6.4 million. The purchased intangible assets are being amortized over a weighted average period of approximately 8 years.

On August 2, 2012, the Company acquired SMSC, a publicly traded company based in Hauppauge, New York. The acquisition was accounted for under the acquisition method of accounting. The Company retained an independent third-party appraiser to assist management in its valuation. The table below represents the allocation of the purchase price, including adjustments to the purchase price allocation from the originally reported figures at March 31, 2013, to the net assets acquired based on their estimated fair values as of August 2, 2012. The purchase price allocation was finalized as of August 2, 2013. All adjustments shown in the table below were recorded during the three months ended June 30, 2013 (amounts in thousands):

<u>Assets acquired</u>	Previously Reported March 31, 2013	Adjustments	March 31, 2014
Cash and cash equivalents	\$ 180,925	\$ —	\$ 180,925
Accounts receivable, net	58,441	—	58,441
Inventories	86,244	—	86,244
Prepaid expenses	5,617	—	5,617
Deferred tax assets	15,843	—	15,843
Other current assets	17,578	—	17,578
Property, plant and equipment, net	35,608	—	35,608
Long-term investments	24,275	—	24,275
Goodwill	169,065	(3,473)	165,592
Intangible assets, net	10,214	—	10,214
Purchased intangible assets	517,800	—	517,800
Other assets	3,835	—	3,835
Total assets acquired	<u>1,125,445</u>	<u>(3,473)</u>	<u>1,121,972</u>
 <u>Liabilities assumed</u>			
Accounts payable	(28,035)	—	(28,035)
Accrued liabilities	(62,038)	(209)	(62,247)
Deferred income on shipments to distributors	(11,376)	—	(11,376)
Long-term income tax payable	(72,781)	—	(72,781)
Deferred tax liability	(21,079)	4,397	(16,682)
Other liabilities	(10,535)	(715)	(11,250)
Total liabilities assumed	<u>(205,844)</u>	<u>3,473</u>	<u>(202,371)</u>
Purchase price allocated	<u>\$ 919,601</u>	<u>\$ —</u>	<u>\$ 919,601</u>

On April 18, 2012, the Company acquired Roving Networks, a privately-held company. The acquisition was accounted for under the acquisition method of accounting. Total consideration paid was approximately \$20.6 million. The acquisition also included contingent consideration with an estimated fair value at the date of purchase of approximately \$14.7 million. During the year ended March 31, 2013, the fair value of the contingent consideration was increased to \$19.1 million with the related expense of \$4.4 million included in special charges. During the year ended March 31, 2014, the fair value of the contingent consideration was increased further to \$20.5 million with the related expense of \$1.4 million included in special charges. The contingent consideration was fully paid as of March 31, 2014. The purchase price of the acquisition resulted in purchased intangible assets of approximately \$22.8 million and goodwill of approximately \$8.7 million which was all allocated to the Company's semiconductor products segment. Purchased intangible assets included \$10.6 million of developed technology, \$10.6 million of customer-related intangibles, \$0.3 million of backlog and \$1.3 million of in-process research and development. The purchased intangible assets (other than in-process technology and backlog) are being amortized over their expected useful lives which range between four and ten years. Backlog was amortized over one year and in-process research and development

is capitalized until such time the related projects are completed or abandoned at which time the capitalized amounts will begin to be amortized or written off.

On February 9, 2012, the Company acquired Ident Technology AG, a privately-held semiconductor company. The acquisition was accounted for under the acquisition method of accounting. Total consideration paid was approximately \$39.5 million. The purchase price of the acquisition resulted in purchased intangible assets of approximately \$18.1 million, of which \$8.2 million related to in-process technology, and goodwill of approximately \$17.4 million which was all allocated to the Company's semiconductor products segment. Goodwill recognized in this transaction is non-deductible. The purchased intangible assets (other than goodwill and the in-process technology intangible asset) are being amortized over a period of 10 years.

### 3. RECLASSIFICATION OF PRIOR PERIODS

In the quarter ended December 31, 2013, the Company identified an error to the presentation on its consolidated statements of cash flows of the amortization of premium of available-for-sale investments. The Company previously included the amortization of the premium as an investing activity. This amortization is a non-cash expense that should be recorded in the adjustments to reconcile net income to net cash provided by operating activities. The Company has corrected this error in the current period, and has conformed previous periods to the current presentation. Based on the Company's evaluation of relevant quantitative and qualitative factors, it determined that the classification errors are immaterial to the prior period financial statements and the Company plans to correct the comparative presentation of the prior periods in future filings. The effect on net cash provided by operating activities and net cash used in investing activities for the previous periods covered by this report are shown below (amounts in thousands):

	Year ended March 31, 2013		
	As Reported	Adjustment	As Adjusted
Cash flows from operating activities			
Amortization of premium on available-for-sale investments	\$ —	\$ 13,186	\$ 13,186
Net cash provided by operating activities	446,179	13,186	459,365
Cash flows from investing activities			
Purchases of available-for-sale investments	(985,791)	(13,186)	(998,977)
Net cash used in investing activities	(936,756)	(13,186)	(949,942)
	Year ended March 31, 2012		
	As Reported	Adjustment	As Adjusted
Cash flows from operating activities			
Amortization of premium on available-for-sale investments	\$ —	\$ 15,520	\$ 15,520
Net cash provided by operating activities	396,458	15,520	411,978
Cash flows from investing activities			
Purchases of available-for-sale investments	(1,133,625)	(15,520)	(1,149,145)
Net cash used in investing activities	(256,482)	(15,520)	(272,002)

This correction does not affect the Company's consolidated statements of income, consolidated balance sheets, consolidated statements of comprehensive income or consolidated statements of stockholders' equity for any periods.

#### 4. SPECIAL CHARGES

##### Acquisition Related Expenses

During fiscal 2014, the Company incurred special charges of \$3.0 million related to severance, office closing and other costs associated with its acquisition activity. During fiscal 2013, the Company incurred special charges of \$32.2 million comprised of a \$4.4 million net increase in the fair value of contingent consideration related to one of its acquisitions, \$16.3 million of primarily severance-related costs in addition to office closing and other costs associated with the acquisition of SMSC and legal settlement costs of approximately \$11.5 million for certain legal matters related to SST (which the Company acquired in April 2010) in excess of previously accrued amounts. During fiscal 2012, special charges included a benefit of \$0.7 million of special income comprised of a \$1.0 million favorable adjustment to contingent consideration offset by \$0.3 million of severance-related charges related to a prior year acquisition.

##### Patent Licenses

During the fourth quarter of fiscal 2012, the Company agreed to the terms of a patent license with an unrelated third party and signed an agreement on March 20, 2012. The patent license settled alleged infringement claims. The total payment made to the third-party in March 2012 was \$2.8 million, \$1.5 million of which was expensed in the fourth quarter of fiscal 2012 and the remaining \$1.3 million was recorded as a prepaid royalty which will be amortized over the remaining life of the patents, which expires in December 2018.

#### 5. INVESTMENTS

The Company's investments are intended to establish a high-quality portfolio that preserves principal, meets liquidity needs, avoids inappropriate concentrations, and delivers an appropriate yield in relationship to the Company's investment guidelines and market conditions. The following is a summary of available-for-sale securities at March 31, 2014 (amounts in thousands):

	Available-for-sale Securities			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government agency bonds	\$ 684,451	\$ 114	\$ (3,171)	\$ 681,394
Municipal bonds	41,622	101	(14)	41,709
Auction rate securities	9,825	—	—	9,825
Corporate bonds and debt	941,524	3,247	(805)	943,966
	<u>\$ 1,677,422</u>	<u>\$ 3,462</u>	<u>\$ (3,990)</u>	<u>\$ 1,676,894</u>

The following is a summary of available-for-sale securities at March 31, 2013 (amounts in thousands):

	Available-for-sale Securities			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government agency bonds	\$ 558,116	\$ 335	\$ (298)	\$ 558,153
Municipal bonds	25,000	146	(8)	25,138
Auction rate securities	33,459	332	—	33,791
Corporate bonds and debt	680,144	5,137	(159)	685,122
Marketable equity securities	5,270	239	—	5,509
	<u>\$ 1,301,989</u>	<u>\$ 6,189</u>	<u>\$ (465)</u>	<u>\$ 1,307,713</u>

At March 31, 2014, the Company's available-for-sale debt securities are presented on the consolidated balance sheets as short-term investments of \$878.2 million and long-term investments of \$798.7 million. At March 31, 2013, the Company's available-for-sale debt securities and marketable equity securities are presented on the consolidated balance sheets as short-term investments of \$1,050.3 million and long-term investments of \$257.5 million.

At March 31, 2014, the Company evaluated its investment portfolio and noted unrealized losses of \$4.0 million on its debt securities with an aggregated fair value of \$782.7 million, which were due primarily to higher interest rates and resulting declines in market prices. Management does not believe any of the unrealized losses represent an other-than-temporary impairment based on its evaluation of available evidence as of March 31, 2014 and the Company's intent is to hold these investments until these assets are no longer impaired, except for certain auction rate securities (ARS). For those debt securities not scheduled to mature until after March 31, 2015, such recovery is not anticipated to occur in the next year and these investments have been classified as long-term investments.

The amortized cost and estimated fair value of the available-for-sale securities at March 31, 2014, by contractual maturity, excluding corporate debt of \$6.2 million, which has no contractual maturity, are shown below (amounts in thousands). Expected maturities can differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties, and the Company views its available-for-sale securities as available for current operations.

	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale				
Due in one year or less	\$ 210,129	\$ 1,234	\$ —	\$ 211,363
Due after one year and through five years	1,308,844	2,228	(1,958)	1,309,114
Due after five years and through ten years	142,434	—	(2,032)	140,402
Due after ten years	9,825	—	—	9,825
	<u>\$ 1,671,232</u>	<u>\$ 3,462</u>	<u>\$ (3,990)</u>	<u>\$ 1,670,704</u>

The amortized cost and estimated fair value of the available-for-sale securities at March 31, 2013, by maturity, excluding marketable equity securities of \$5.5 million and corporate debt of \$6.2 million, which have no contractual maturity, are shown below (amounts in thousands).

	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale				
Due in one year or less	\$ 350,349	\$ 1,933	\$ (3)	\$ 352,279
Due after one year and through five years	795,952	3,666	(212)	799,406
Due after five years and through ten years	115,901	116	(250)	115,767
Due after ten years	28,327	235	—	28,562
	<u>\$ 1,290,529</u>	<u>\$ 5,950</u>	<u>\$ (465)</u>	<u>\$ 1,296,014</u>

The Company had no material realized gains or losses from the sale of available-for-sale marketable equity securities or debt securities during the years ended March 31, 2014, 2013 or 2012.

## 6. FAIR VALUE MEASUREMENTS

Accounting rules for fair value clarify that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the Company utilizes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1- Observable inputs such as quoted prices in active markets;
- Level 2- Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3- Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

### *Marketable Debt Instruments*

Marketable debt instruments include instruments such as corporate bonds and debt, government agency bonds, bank deposits, municipal bonds, and money market fund deposits. When the Company uses observable market prices for identical securities that are traded in less active markets, the Company classifies its marketable debt instruments as Level 2. When observable market prices for identical securities are not available, the Company prices its marketable debt instruments using non-binding market consensus prices that are corroborated with observable market data; quoted market prices for similar instruments; or pricing models, such as a discounted cash flow model, with all significant inputs derived from or corroborated with observable market data. Non-binding market consensus prices are based on the proprietary valuation models of pricing providers or brokers. These valuation models incorporate a number of inputs, including non-binding and binding broker quotes; observable market prices for identical or similar securities; and the internal assumptions of pricing providers or brokers that use observable market inputs and, to a lesser degree, unobservable market inputs. The Company corroborates non-binding market consensus prices with observable market data using statistical models when observable market data exists. The discounted cash flow model uses observable market inputs, such as LIBOR-based yield curves, currency spot and forward rates, and credit ratings.

### *Assets and Liabilities Measured at Fair Value on a Recurring Basis*

Assets measured at fair value on a recurring basis at March 31, 2014 are as follows (amounts in thousands):

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance
Assets				
Money market mutual funds	\$ 192,159	\$ —	\$ —	\$ 192,159
Corporate bonds and debt	—	937,776	6,190	943,966
Government agency bonds	—	681,394	—	681,394
Deposit accounts	—	274,444	—	274,444
Municipal bonds	—	41,709	—	41,709
Auction rate securities	—	—	9,825	9,825
Total assets measured at fair value	<u>\$ 192,159</u>	<u>\$ 1,935,323</u>	<u>\$ 16,015</u>	<u>\$ 2,143,497</u>



Assets and liabilities measured at fair value on a recurring basis at March 31, 2013 are as follows (amounts in thousands):

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance
<b>Assets</b>				
Money market mutual funds	\$ 100,878	\$ —	\$ —	\$ 100,878
Marketable equity securities	5,509	—	—	5,509
Corporate bonds and debt	—	678,932	6,190	685,122
Government agency bonds	—	558,153	—	558,153
Deposit accounts	—	427,456	—	427,456
Municipal bonds	—	25,138	—	25,138
Auction rate securities	—	—	33,791	33,791
Total assets measured at fair value	<u>\$ 106,387</u>	<u>\$ 1,689,679</u>	<u>\$ 39,981</u>	<u>\$ 1,836,047</u>
<b>Liabilities</b>				
Contingent consideration	\$ —	\$ —	\$ 19,100	\$ 19,100
Total liabilities measured at fair value	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 19,100</u>	<u>\$ 19,100</u>

There were no transfers between Level 1 and Level 2 during fiscal 2014 or fiscal 2013.

At March 31, 2014, the Company's ARS for which auctions were unsuccessful are made up of securities related to the insurance industry valued at \$9.8 million with a par value of \$22.4 million. At March 31, 2013, the Company's ARS for which auctions were unsuccessful were made up of bonds related to the insurance industry valued at \$9.8 million, securities related to the energy and telecommunications sectors valued at \$5.3 million, and student loan securities valued at \$18.7 million.

The Company estimated the fair value of its ARS, which are classified as Level 3 securities, based on the following: (i) the underlying structure of each security; (ii) the present value of future principal and interest payments discounted at rates considered to reflect current market conditions; (iii) consideration of the probabilities of default, auction failure, or repurchase at par for each period; and (iv) estimates of the recovery rates in the event of default for each security. The significant unobservable inputs used in the fair value measurement of the insurance sector ARS as of March 31, 2014 were estimated risk free discount rates, liquidity risk premium, and the liquidity horizon. The risk free discount rate applied to these securities was 2% to 2.5% adjusted for the liquidity risk premium which ranged from 9.1% to 29.5%. The anticipated liquidity horizon ranged from 7 to 10 years. A significant increase in the liquidity premium or discount rate, in isolation, would lead to a significantly lower fair value measurement. A significant increase in the liquidity horizon, in isolation, would lead to a significantly lower fair value measurement. Each quarter the Company investigates material changes in the fair value measurements of its ARS.

Level 3 liabilities at March 31, 2013 include contingent consideration from the Company's Roving Networks acquisition, which was fully paid as of March 31, 2014.

The following tables present a reconciliation for all assets and liabilities measured at fair value on a recurring basis, excluding accrued interest components, using significant unobservable inputs (Level 3) for the years ended March 31, 2014 and March 31, 2013 (amounts in thousands):

Year ended March 31, 2014	Auction Rate Securities	Corporate Debt	Contingent Consideration	Total Gains (Losses)
Balance at March 31, 2013	\$ 33,791	\$ 6,190	\$ (19,100)	\$ —
Total gains (losses) (realized and unrealized):				
Included in earnings	1,101	—	(1,370)	(269)
Included in other comprehensive income	(332)	—	—	(332)
Purchases, sales, issuances, and settlements, net	(24,735)	—	20,470	—
Balance at March 31, 2014	<u>\$ 9,825</u>	<u>\$ 6,190</u>	<u>\$ —</u>	<u>\$ (601)</u>

Year ended March 31, 2013	Auction Rate Securities	Corporate Debt	Contingent Consideration	Total Gains (Losses)
Balance at March 31, 2012	\$ 10,246	\$ 4,625	\$ —	\$ —
Total gains (losses) (realized and unrealized):				
Included in earnings	(412)	—	(4,400)	(4,813)
Included in other comprehensive income	332	—	—	332
Purchases, sales, issuances, and settlements, net	(650)	1,565	—	—
Acquisition-related	24,275	—	(14,700)	—
Balance at March 31, 2013	<u>\$ 33,791</u>	<u>\$ 6,190</u>	<u>\$ (19,100)</u>	<u>\$ (4,481)</u>

Gains and losses recognized in earnings using Level 3 inputs for auction rate securities are credited or charged to Other Income (Expense) on the Consolidated Statements of Income. Gains and losses recognized in earnings using Level 3 inputs related to the revaluation of contingent consideration are credited or charged to Special Charges on the Consolidated Statements of Income.

Assets measured at fair value on a recurring basis are presented/classified on the consolidated balance sheets at March 31, 2014 as follows (amounts in thousands):

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance
Assets				
Cash and cash equivalents	\$ 192,159	\$ 274,444	\$ —	\$ 466,603
Short-term investments	—	878,182	—	878,182
Long-term investments	—	782,697	16,015	798,712
Total assets measured at fair value	<u>\$ 192,159</u>	<u>\$ 1,935,323</u>	<u>\$ 16,015</u>	<u>\$ 2,143,497</u>

Assets measured at fair value on a recurring basis are presented/classified in the consolidated balance sheets at March 31, 2013 as follows (amounts in thousands):

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance
Assets				
Cash and cash equivalents	\$ 100,878	\$ 427,456	\$ —	\$ 528,334
Short-term investments	—	1,050,263	—	1,050,263
Long-term investments	5,509	211,960	39,981	257,450
Total assets measured at fair value	<u>\$ 106,387</u>	<u>\$ 1,689,679</u>	<u>\$ 39,981</u>	<u>\$ 1,836,047</u>

*Financial Assets Not Recorded at Fair Value on a Recurring Basis*

The Company's non-marketable equity and cost method investments are not recorded at fair value on a recurring basis. These investments are monitored on a quarterly basis for impairment charges. The investments will only be recorded at fair value when an impairment charge is recognized. During the years ended March 31, 2014 and March 31, 2013, the Company recognized impairment charges of \$0.7 million and \$0.5 million, respectively, on these investments. These investments are included in other assets on the consolidated balance sheet.

**7. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The carrying amount of cash equivalents approximates fair value because their maturity is less than three months. Management believes the carrying amount of the equity and cost-method investments materially approximated fair value at March 31, 2014 based upon unobservable inputs. The fair values of these investments have been determined as Level 3 fair value measurements. The fair values of the Company's line of credit and short-term and long-term borrowings are estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements and approximate carrying value. Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of the Company's line of credit and long-term borrowings at March 31, 2014 approximated book value and are considered Level 2 in the fair value hierarchy described in Note 6. The carrying amount of accounts receivable, accounts payable and accrued liabilities approximates fair value due to the short-term maturity of the amounts. The fair value of the Company's junior subordinated convertible debentures was \$2.138 billion at March 31, 2014 and \$1.639 billion at March 31, 2013 based on observable market prices for these debentures, which are traded in less active markets and are therefore classified as a Level 2 fair value measurement.

**8. ACCOUNTS RECEIVABLE**

Accounts receivable consists of the following (amounts in thousands):

	March 31, 2014	March 31, 2013
Trade accounts receivable	\$ 243,383	\$ 230,469
Other	1,940	2,250
	<u>245,323</u>	<u>232,719</u>
Less allowance for doubtful accounts	2,918	2,764
	<u>\$ 242,405</u>	<u>\$ 229,955</u>

## 9. INVENTORIES

The components of inventories consist of the following (amounts in thousands):

	March 31, 2014	March 31, 2013
Raw materials	\$ 9,734	\$ 9,020
Work in process	179,692	181,750
Finished goods	73,299	51,564
	<u>\$ 262,725</u>	<u>\$ 242,334</u>

Inventories are valued at the lower of cost or market using the first-in, first-out method. Inventory impairment charges establish a new cost basis for inventory and charges are not subsequently reversed to income even if circumstances later suggest that increased carrying amounts are recoverable.

## 10. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following (amounts in thousands):

	March 31, 2014	March 31, 2013
Land	\$ 55,624	\$ 47,102
Building and building improvements	411,149	396,611
Machinery and equipment	1,465,255	1,377,814
Projects in process	68,991	76,158
	<u>2,001,019</u>	<u>1,897,685</u>
Less accumulated depreciation and amortization	1,469,052	1,383,141
	<u>\$ 531,967</u>	<u>\$ 514,544</u>

Depreciation expense attributed to property, plant and equipment was \$89.7 million, \$88.3 million and \$86.4 million for the fiscal years ending March 31, 2014, 2013 and 2012, respectively.

## 11. INTANGIBLE ASSETS AND GOODWILL

Intangible assets consist of the following (amounts in thousands):

	March 31, 2014		
	Gross Amount	Accumulated Amortization	Net Amount
Developed technology	\$ 402,669	\$ (117,222)	\$ 285,447
Customer-related	195,800	(109,170)	86,630
Trademarks and trade names	15,730	(7,118)	8,612
Backlog	24,610	(24,610)	—
In-process technology	64,396	—	64,396
Distribution rights	5,585	(5,171)	414
Covenants not to compete	400	(400)	—
	<u>\$ 709,190</u>	<u>\$ (263,691)</u>	<u>\$ 445,499</u>

	March 31, 2013		
	Gross Amount	Accumulated Amortization	Net Amount
Developed technology	\$ 375,006	\$ (69,107)	\$ 305,899
Customer-related	194,500	(68,522)	125,978
Trademarks and trade names	15,730	(3,941)	11,789
Backlog	24,610	(17,310)	7,300
In-process technology	78,968	—	78,968
Distribution rights	5,236	(5,101)	135
Covenants not to compete	400	(333)	67
	<u>\$ 694,450</u>	<u>\$ (164,314)</u>	<u>\$ 530,136</u>

The Company amortizes intangible assets over their expected useful lives, which range between 1 and 15 years. In fiscal 2014, the Company acquired \$12.7 million of developed technology which has a weighted average amortization period of 11 years, \$1.3 million of customer-related intangible assets which has a weighted average amortization period of 5 years, \$0.3 million of distribution rights which has a weighted average amortization period of 10 years and \$0.8 million of in-process technology which will begin amortization once the technology reaches technological feasibility. The following is an expected amortization schedule for the intangible assets for fiscal 2015 through fiscal 2019, absent any future acquisitions or impairment charges (amounts in thousands):

Year ending March 31,	Projected Amortization Expense
2015	\$132,951
2016	91,711
2017	61,997
2018	46,724
2019	38,730

Amortization expense attributed to intangible assets was \$99.4 million, \$115.8 million and \$13.0 million for fiscal years 2014, 2013 and 2012, respectively. In fiscal 2014, approximately \$4.7 million was charged to cost of sales and approximately \$94.7 million was charged to operating expenses. In fiscal 2013, approximately \$3.9 million was charged to cost of sales and approximately \$111.9 million was charged to operating expenses. In fiscal 2012, \$1.4 million was charged to cost of sales and \$11.6 million was charged to operating expenses. The Company recognized impairment charges of \$0.4 million in fiscal 2014. The Company found no indication of impairment of its intangible assets in fiscal 2013 or 2012.

Goodwill activity for fiscal years 2014 and 2013 was as follows (amounts in thousands):

	Semiconductor Products Reporting Unit	Technology Licensing Reporting Unit
Balance at March 31, 2012	\$ 74,313	\$ 19,200
Additions due to the acquisition of SMSC	169,065	—
Additions due to the acquisition of Roving Networks	8,652	—
Additions due to contingent consideration payments	118	—
Balance at March 31, 2013	<u>252,148</u>	<u>19,200</u>
Adjustments due to the acquisition of SMSC	(3,473)	—
Additions due to other acquisitions	8,111	—
Additions due to contingent consideration payments	111	—
Balance at March 31, 2014	<u>\$ 256,897</u>	<u>\$ 19,200</u>

In fiscal 2014, the Company completed several acquisitions which resulted in goodwill of approximately \$8.1 million which was allocated to the semiconductor products reporting unit. Also, during fiscal 2014, the Company made adjustments to the purchase price allocation of its SMSC acquisition of approximately \$3.5 million.

In fiscal 2013, the Company acquired SMSC and Roving Networks. The SMSC acquisition resulted in approximately \$169.1 million of goodwill which was allocated to the semiconductor products reporting unit. The Roving Networks acquisition resulted in approximately \$8.7 million of goodwill which was allocated to the semiconductor products reporting unit.

At March 31, 2014, \$256.9 million of goodwill was recorded in the Company's semiconductor products reporting unit and \$19.2 million was recorded in the Company's technology licensing reporting unit. At March 31, 2014, the Company applied a qualitative goodwill impairment screen to its two reporting units, concluding it was not more likely than not that goodwill was impaired. Through March 31, 2014, the Company has never recorded an impairment charge against its goodwill balance.

## 12. ACCRUED LIABILITIES

Accrued liabilities consist of the following (amounts in thousands):

	March 31, 2014	March 31, 2013
Acquisition related contingent consideration	\$ —	\$ 19,100
Other accrued expenses	96,731	108,008
	<u>\$ 96,731</u>	<u>\$ 127,108</u>

## 13. INCOME TAXES

The Company is subject to income taxes in the U.S. and numerous foreign jurisdictions. The Company files U.S. federal, U.S. state, and foreign income tax returns. For U.S. federal, and in general for U.S. state tax returns, the fiscal 2011 and later tax years remain open for examination by tax authorities. The U.S. Internal Revenue Service (IRS) is currently auditing Microchip and SMSC's 2011 and 2012 tax years. For foreign tax returns, the Company is generally no longer subject to income tax examinations for years prior to fiscal 2006.

Significant judgment is required in evaluating the Company's uncertain tax positions and determining its provision for income taxes. Although the Company believes that it has appropriately reserved for its uncertain tax positions, no assurance can be given that the final tax outcome of these matters will not be different than expectations. The Company will adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit, the refinement of an estimate, the closing of a statutory audit period or changes in applicable tax law. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the impact of reserve provisions and changes to the reserves that are considered appropriate, as well as related net interest.

The Company recognizes liabilities for anticipated tax audit issues in the U.S. and other domestic and international tax jurisdictions based on its estimate of whether, and the extent to which, additional tax payments are more likely than not. The Company believes that it has appropriate support for the income tax positions taken and to be taken on its tax returns and that its accruals for tax liabilities are adequate for all open years based on an assessment of many factors including past experience and interpretations of tax law applied to the facts of each matter.

The Company believes it maintains appropriate reserves to offset any potential income tax liabilities that may arise upon final resolution of matters for open tax years. If such reserve amounts ultimately prove to be unnecessary, the resulting reversal of such reserves would result in tax benefits being recorded in the period the reserves are no longer deemed necessary. If such amounts prove to be less than an ultimate assessment, a future charge to expense would be recorded in the period in which the assessment is determined. Although the timing of the resolution and/or closure of audits is highly uncertain, the Company does not believe that it is reasonably possible that the unrecognized tax benefits would materially change in the next 12 months.

The following table summarizes the activity related to the Company's gross unrecognized tax benefits from April 1, 2011 to March 31, 2014 (amounts in thousands):

	Year Ended March 31,		
	2014	2013	2012
Beginning balance	\$ 152,845	\$ 70,490	\$ 58,125
Increases related to acquisitions	341	45,624	—
Decreases related to settlements with tax authorities	(15,016)	—	—
Decreases related to statute of limitation expirations	(4,069)	(5,751)	(2,153)
Increases related to current year tax positions	14,669	42,328	11,992
Increases related to prior year tax positions	1,108	154	2,526
Ending balance	<u>\$ 149,878</u>	<u>\$ 152,845</u>	<u>\$ 70,490</u>

As of March 31, 2014, the Company had accrued approximately \$0.3 million related to the potential payment of interest on the Company's uncertain tax positions. As of March 31, 2013, the Company had accrued approximately \$3.2 million related to the potential payment of interest on the Company's uncertain tax positions. Interest was included in the provision for income taxes. The Company has accrued for approximately \$29.7 million and \$30.6 million in penalties related to its uncertain tax positions related to its international locations as of March 31, 2014 and March 31, 2013, respectively. Interest and penalties charged or (credited) to operations during the years ended March 31, 2014, 2013 and 2012 related to the Company's uncertain tax positions were \$0.2 million, \$0.8 million and \$0.9 million, respectively.

The income tax provision consists of the following (amounts in thousands):

	Year Ended March 31,		
	2014	2013	2012
Current expense:			
Federal	\$ 992	\$ 33,856	\$ 7,611
State	64	2,350	544
Foreign	30,697	16,950	21,174
Total current	<u>\$ 31,753</u>	<u>53,156</u>	<u>29,329</u>
Deferred expense (benefit):			
Federal	\$ 14,445	(16,004)	14,942
State	929	(1,111)	1,067
Foreign	(10,054)	(11,253)	(2,348)
Total deferred	<u>5,320</u>	<u>(28,368)</u>	<u>13,661</u>
	<u>\$ 37,073</u>	<u>\$ 24,788</u>	<u>\$ 42,990</u>

The tax benefit associated with the Company's equity incentive plans reduced taxes currently payable by \$1.4 million and \$11.0 million for the years ended March 31, 2014 and 2012, respectively. These amounts were credited to additional paid-in capital in each of these fiscal years. There was no tax benefit associated with the Company's equity incentive plans for the year ended March 31, 2013.

The provision for income taxes differs from the amount computed by applying the statutory federal tax rate to income before income taxes. The sources and tax effects of the differences in the total income tax provision are as follows (amounts in thousands):

	Year Ended March 31,		
	2014	2013	2012
Computed expected income tax provision	\$ 151,324	\$ 53,262	\$ 132,894
State income taxes, net of federal benefits	686	(2,054)	1,280
Research and development tax credits - current year	(4,875)	(8,263)	(3,750)
Research and development tax credits - prior years	1,600	(3,347)	(5,894)
Foreign income taxed at lower than the federal rate	(116,003)	(61,377)	(97,169)
Increases related to current and prior year tax positions	16,809	44,661	14,518
Decreases related to prior year tax positions <sup>(1)</sup>	(14,581)	(7,154)	(2,153)
Withholding taxes	6,212	7,267	6,995
Other	(4,099)	1,793	(3,731)
	<u>\$ 37,073</u>	<u>\$ 24,788</u>	<u>\$ 42,990</u>

<sup>(1)</sup> The release of prior year tax positions during fiscal 2014 increased each of the current year basic and diluted net income per common share by \$0.07. The release of prior year tax positions during fiscal 2013 increased the current year basic and diluted net income per common share by \$0.04 and \$0.03, respectively. The release of prior year tax positions during fiscal 2012 increased each of the current year basic and diluted net income per common share by \$0.01.

Pretax income from foreign operations was \$404.1 million, \$234.3 million and \$328.5 million for the years ended March 31, 2014, 2013 and 2012, respectively. Unremitted foreign earnings that are considered to be permanently invested outside the U.S., and on which no deferred taxes have been provided, amounted to approximately \$2.4 billion at March 31, 2014. The Company has the ability and intent to indefinitely reinvest its foreign earnings. Should the Company elect in the future to repatriate a portion of the foreign earnings so invested, the Company would incur income tax expense on such repatriation, net of any available deductions and foreign tax credits. This would result in additional income tax expense beyond the computed effective tax rate in such periods.

During the year ended March 31, 2014, the Company settled an IRS examination of fiscal years 2009 and 2010. In addition, the Company benefited from the expiration of the statute of limitations and other releases related to previously accrued tax reserves. The total tax benefit associated with these items resulted in a reduction of income tax provision of approximately \$14.6 million and a decrease in the effective tax rate of 3.4%.

In January 2013, the U.S. Congress retroactively reinstated the research and development tax credit from January 1, 2012. As a result, the Company recognized a one-time tax benefit of \$8.1 million in the year ended March 31, 2013 related to the reinstatement of the credit for calendar year 2012.



The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows (amounts in thousands):

	March 31,	
	2014	2013
Deferred tax assets:		
Deferred intercompany profit	\$ 9,623	\$ 13,679
Deferred income on shipments to distributors	28,596	28,776
Inventory valuation	6,072	9,148
Net operating loss carryforward	110,598	77,959
Share-based compensation	24,494	27,757
Income tax credits	124,395	112,686
Accrued expenses and other	28,227	17,241
Gross deferred tax assets	<u>332,005</u>	<u>287,246</u>
Valuation allowances	(93,811)	(88,637)
Deferred tax assets, net of valuation allowances	<u>238,194</u>	<u>198,609</u>
Deferred tax liabilities:		
Property, plant and equipment, principally due to differences in depreciation	(1,942)	(8,515)
Junior convertible debentures	(530,338)	(486,878)
Other	(13,740)	(10,779)
Deferred tax liabilities	<u>(546,020)</u>	<u>(506,172)</u>
Net deferred tax liability	<u>\$ (307,826)</u>	<u>\$ (307,563)</u>
Reported as:		
Current deferred tax assets	\$ 67,490	\$ 80,687
Non-current deferred tax liability	(375,316)	(388,250)
Net deferred tax liability	<u>\$ (307,826)</u>	<u>\$ (307,563)</u>

In addition to the deferred tax assets listed above, the Company has unrecorded tax benefits of \$29.8 million attributable to the difference between the amount of the financial statement expense and the allowable tax deduction associated with share-based compensation. As a result of net operating loss (NOL) carryforwards, the Company was not able to recognize the excess tax benefits of share-based compensation deductions because the deductions did not reduce income tax payable. Although not recognized for financial reporting purposes, this unrecorded tax benefit is available to reduce future income and is incorporated into the disclosed amounts of the Company's federal and state NOL carryforwards, discussed below. If subsequently realized, the benefit will be recorded to contributed capital.

The Company had federal, state and foreign NOL carryforwards with an estimated tax effect of \$110.6 million available at March 31, 2014. The federal and state NOL carryforwards expire at various times between 2015 and 2034. The Company believes that it is more likely than not that the benefit from certain foreign and state NOL carryforwards will not be realized. In recognition of this risk, at March 31, 2014, the Company has provided a valuation allowance of \$20.5 million. The Company also has state tax credits with an estimated tax effect of \$54.3 million available at March 31, 2014. These state tax credits expire at various times between 2015 and 2034. The Company believes that it is more likely than not that the full benefit from these state tax credits will not be realized, and therefore has provided a valuation allowance of \$51.4 million. The Company has U.S. foreign tax credits with an estimated tax effect of \$21.9 million that expire at various times between 2015 and 2024. The Company believes it is more likely than not that the benefit from these credits will not be fully realized and has provided a valuation allowance of \$21.8 million. At March 31, 2014, the Company had credits for increasing research activity in the amount of \$44.4 million that expire at various times between 2021 and 2034. In addition, the Company had \$3.7 million of alternative minimum tax credits that do not expire. At March 31, 2014, the Company had alternative minimum tax NOL carryforwards of approximately \$308.0 million that expire between 2032 and 2034.

The Company's Thailand manufacturing operations currently benefit from numerous tax holidays granted to the Company based on its investment in property, plant and equipment in Thailand. The Company's tax holiday periods in Thailand expire at various times in the future, however, the Company actively seeks to acquire new tax holidays. The Company does not expect the future expiration of any of its tax holiday periods in Thailand to have a material impact on its effective tax rate. The aggregate dollar benefits derived from these tax holidays approximated \$16.8 million, \$12.0 million and \$6.5 million in fiscal 2014, 2013 and 2012, respectively. The benefit the tax holiday had on diluted net income per share approximated \$0.08 in fiscal 2014, \$0.06 in fiscal 2013 and \$0.03 in fiscal 2012.

On September 13, 2013, the IRS and the Treasury Department released final regulations under Section 162(a) and 263(a) on the deduction and capitalization of expenditures related to tangible property. The new regulations apply to tax years beginning on or after January 1, 2014; therefore they had no material impact on fiscal 2014. The Company believes that no material impact will result from these new regulations (specifically given the Company's NOL position), but the Company is in the process of evaluating the full impact of these changes.

#### **14. 2.125% JUNIOR SUBORDINATED CONVERTIBLE DEBENTURES**

The Company's \$1.15 billion principal amount of 2.125% junior subordinated convertible debentures due December 15, 2037, are subordinated in right of payment to any future senior debt of the Company and are effectively subordinated in right of payment to the liabilities of the Company's subsidiaries. The debentures are convertible, subject to certain conditions, into shares of the Company's common stock at an initial conversion rate of 29.2783 shares of common stock per \$1,000 principal amount of debentures, representing an initial conversion price of approximately \$34.16 per share of common stock. As of March 31, 2014, the holders of the debentures have the right to convert their debentures between April 1, 2014 and June 30, 2014 because for at least 20 trading days during the 30 consecutive trading day period ending on March 31, 2014, the Company's common stock had a last reported sale price greater than 130% of the conversion price. As of March 31, 2014, a holder could realize more economic value by selling its debentures in the over the counter market than from converting its debentures. As a result of cash dividends paid since the issuance of the debentures, the conversion rate has been adjusted to 38.6588 shares of common stock per \$1,000 of principal amount of debentures, representing a conversion price of approximately \$25.87 per share of common stock. The debentures include a contingent interest mechanism that begins in December 2017. The terms of the contingent interest include a 0.25% interest rate if the debentures are trading at less than \$40 and 0.5% if the debentures are trading at greater than \$150. Based on the current trading price of the debentures the contingent interest rate in calendar year 2017 would be 0.5%.

As the debentures can be settled in cash upon conversion, for accounting purposes, the debentures were bifurcated into a liability component and an equity component, which are both initially recorded at fair value. The carrying value of the equity component at March 31, 2014 and at March 31, 2013 was \$822.4 million. The estimated fair value of the liability component of the debentures at the issuance date was \$327.6 million, resulting in a debt discount of \$822.4 million. The unamortized debt discount was \$777.2 million at March 31, 2014 and \$786.2 million at March 31, 2013. The carrying value of the debentures was \$371.9 million at March 31, 2014 and \$363.4 million at March 31, 2013. The remaining period over which the unamortized debt discount will be recognized as non-cash interest expense is 23.75 years. In the years ended March 31, 2014, 2013 and 2012 the Company recognized \$9.0 million, \$8.2 million and \$7.5 million, respectively, in non-cash interest expense related to the amortization of the debt discount. The Company recognized \$24.4 million of interest expense related to the 2.125% coupon on the debentures in each of fiscal 2014, fiscal 2013 and fiscal 2012.

#### **15. CREDIT FACILITY**

On June 27, 2013, the Company entered into a \$2.0 billion credit agreement among the Company, the lenders from time to time that are parties thereto and JPMorgan Chase Bank, N.A., as administrative agent (the Credit Agreement). The Credit Agreement provides for a \$350 million term loan and a \$1.65 billion revolving credit facility, with a \$125 million foreign currency sublimit, a \$35 million letter of credit sublimit and a \$25 million swingline loan sublimit, terminating on June 27, 2018 (the Maturity Date). The Credit Agreement also contains an increase option permitting the Company, subject to certain requirements, to arrange with existing lenders and/or new lenders for them to provide up to an aggregate of \$300 million in additional commitments, which may be for revolving loans or term loans. Proceeds of loans made under the Credit Agreement may be used for working capital and general corporate purposes. The Credit Agreement replaced another credit agreement the Company had in place since August 2011. At March 31, 2014, \$650.0 million of borrowings were outstanding under the Credit Agreement consisting of \$300 million of a revolving line of credit and \$350 million of a term loan, net of \$1.1 million of debt discount resulting from amounts paid to the lenders. The repayment schedule for the term loan portion of the Credit Agreement outstanding at March 31, 2014 is as follows (amounts in thousands):

Year Ending March 31,	Amount
2015	\$ 17,500
2016	17,500
2017	35,000
2018	35,000
2019	245,000
Total	<u>\$ 350,000</u>

The loans under the Credit Agreement bear interest, at the Company's option, at the base rate plus a spread of 0.25% to 1.25% or an adjusted LIBOR rate (based on one, two, three, or six-month interest periods) plus a spread of 1.25% to 2.25%, in each case with such spread being determined based on the consolidated leverage ratio for the preceding four fiscal quarter period. The base rate means the highest of JPMorgan Chase Bank, N.A.'s prime rate, the federal funds rate plus a margin equal to 0.50% and the adjusted LIBOR rate for a 1-month interest period plus a margin equal to 1.00%. Swingline loans accrue interest at a per annum rate based on the base rate plus the applicable margin for base rate loans. Base rate loans may only be made in U.S. Dollars. The Company is also obligated to pay other administration fees and letter of credit fees for a credit facility of this size and type.

Interest is due and payable in arrears quarterly for loans bearing interest at the base rate and at the end of an interest period (or at each three month interval in the case of loans with interest periods greater than three months) in the case of loans bearing interest at the adjusted LIBOR rate. Interest expense related to the Credit Agreement was approximately \$14.6 million in fiscal 2014. Interest expense related to the Company's prior credit agreement was approximately \$7.0 million in fiscal 2013 and approximately \$3.3 million in fiscal 2012. Principal, together with all accrued and unpaid interest, is due and payable on the Maturity Date. The weighted average interest rate on short-term borrowings outstanding at March 31, 2014 related to the credit agreement was 1.65%. The Company also pays a quarterly commitment fee on the available but unused portion of its line of credit which is calculated on the average daily available balance during the period. The Company may prepay the loans and terminate the commitments, in whole or in part, at any time without premium or penalty, subject to certain conditions including minimum amounts in the case of commitment reductions and reimbursement of certain costs in the case of prepayments of LIBOR loans.

The Company's obligations under the Credit Agreement are guaranteed by certain of its subsidiaries meeting materiality thresholds set forth in the Credit Agreement. To secure the Company's obligations under the Credit Agreement, the Company and its domestic subsidiaries will be required to pledge the equity securities of certain of their respective material subsidiaries, subject to certain exceptions and limitations.

The Credit Agreement contains customary affirmative and negative covenants, including covenants that limit or restrict the Company and its subsidiaries' ability to, among other things, incur subsidiary indebtedness, grant liens, merge or consolidate, dispose of assets, make investments, make acquisitions, enter into certain transactions with affiliates, pay dividends or make distributions, repurchase stock, enter into restrictive agreements and enter into sale and leaseback transactions, in each case subject to customary exceptions for a credit facility of this size and type. The Company is also required to maintain compliance with a consolidated leverage ratio and a consolidated interest coverage ratio. At March 31, 2014, the Company was in compliance with these covenants.

The Credit Agreement includes customary events of default that include, among other things, non-payment defaults, inaccuracy of representations and warranties, covenant defaults, cross default to material indebtedness, bankruptcy and insolvency defaults, material judgment defaults, ERISA defaults and a change of control default. The occurrence of an event of default could result in the acceleration of the obligations under the Credit Agreement. Under certain circumstances, a default interest rate will apply on all obligations during the existence of an event of default under the Credit Agreement at a per annum rate equal to 2.00% above the applicable interest rate for any overdue principal and 2.00% above the rate applicable for base rate loans for any other overdue amounts.

## **16. CONTINGENCIES**

In the ordinary course of the Company's business, it is involved in a limited number of legal actions, both as plaintiff and defendant, and could incur uninsured liability in any one or more of them. The Company also periodically receives notifications from various third parties alleging infringement of patents, intellectual property rights or other matters. With respect to pending legal actions to which the Company is a party, although the outcomes of these actions are not generally determinable, the Company believes that the ultimate resolution of these matters will not have a material adverse effect on its financial position, cash flows or results of operations. Litigation relating to the semiconductor industry is not uncommon, and the Company is, and from time to time has been, subject to such litigation. No assurances can be given with respect to the extent or outcome of any such litigation in the future.

The Company's technology license agreements generally include an indemnification clause that indemnifies the licensee against liability and damages (including legal defense costs) arising from any claims of patent, copyright, trademark or trade secret infringement by the Company's proprietary technology. The terms of these indemnification provisions approximate the terms of the outgoing technology license agreements, which are typically perpetual unless terminated by either party for breach. The possible amount of future payments the Company could be required to make based on agreements that specify indemnification limits, if such indemnifications were required on all of these agreements, is approximately \$129 million. There are some licensing agreements in place that do not specify indemnification limits. The Company had not recorded any liabilities related to these indemnification obligations as of March 31, 2014.

Contingent liabilities in the amount of \$13.0 million were recorded in connection with the Company's April 8, 2010 acquisition of Silicon Storage Technology Inc. (SST) as an adverse outcome was determined to be probable and estimable. One of the contingent liabilities associated with the SST acquisition was resolved in fiscal 2013 with legal settlement costs of approximately \$11.5 million in excess of previously accrued amounts, which were expensed as special charges in the statement of income. At March 31, 2014, \$5.7 million of the original contingent liabilities recorded were still outstanding.

## **17. STOCK REPURCHASE ACTIVITY**

On December 11, 2007, the Company announced that its Board of Directors had authorized the repurchase of up to 10.0 million shares of its common stock in the open market or in privately negotiated transactions. As of March 31, 2014, the Company had repurchased 7.5 million shares under this authorization for \$234.7 million. There is no expiration date associated with this program.

During the years ended March 31, 2014, 2013 and 2012, the Company did not purchase any of its shares of common stock.

## **18. EMPLOYEE BENEFIT PLANS**

The Company maintains a contributory profit-sharing plan for its domestic employees meeting certain eligibility and service requirements. The plan qualifies under Section 401(k) of the Internal Revenue Code of 1986, as amended, and allows employees to contribute up to 60% of their base salary, subject to maximum annual limitations prescribed by the IRS. The Company has a discretionary matching contribution program. All matches are provided on a quarterly basis and require the participant to be an active employee at the end of each quarter. For fiscal 2014, the Company contributions to the plan totaled \$3.6 million. For fiscal 2013, the Company contributions to the plan totaled \$0.8 million. For fiscal 2012, the Company contributions to the plan totaled \$1.6 million.

The Company's 2001 Employee Stock Purchase Plan (the 2001 Purchase Plan) became effective on March 1, 2002. The Board of Directors approved the 2001 Purchase Plan in May 2001 and the stockholders approved it in August 2001. Under the 2001 Purchase Plan, eligible employees of the Company may purchase shares of common stock at semi-annual intervals through periodic payroll deductions. The purchase price in general will be 85% of the lower of the fair market value of the common stock on the first day of the participant's entry date into the offering period or of the fair market value on the semi-annual purchase date. Depending upon a participant's entry date into the 2001 Purchase Plan, purchase periods under the 2001 Purchase Plan consist of overlapping periods of either 24, 18, 12 or 6 months in duration. In May 2003 and August 2003, the Company's Board and stockholders, respectively, each approved an annual automatic increase in the number of shares reserved under the 2001 Purchase Plan. The automatic increase took effect on January 1, 2005, and on each January 1 thereafter during the term of the plan, and is equal to the lesser of (i) 1,500,000, (ii) one half of one percent (0.5%) of the then outstanding shares of the Company's common stock, or (iii) such lesser amount as is approved by Board of Directors. Upon the approval of the Board of Directors, there were no shares added under the 2001 Purchase Plan on January 1, 2014 or January 1, 2013 based on the automatic increase provision. On January 1, 2012, an additional 960,269 shares were reserved under the 2001 Purchase

Plan based on the automatic increase. Since the inception of the 2001 Purchase Plan, 11,277,862 shares of common stock have been reserved for issuance and 5,641,704 shares have been issued under this purchase plan.

During fiscal 1995, a purchase plan was adopted for employees in non-U.S. locations. Such plan provided for the purchase price per share to be 100% of the lower of the fair market value of the common stock at the beginning or end of the semi-annual purchase plan period. Effective May 1, 2006, the Company's Board approved a purchase price per share equal to 85% of the lower of the fair market value of the common stock at the beginning or end of the semi-annual purchase plan period. Since the inception of this purchase plan, 1,500,285 shares of common stock have been reserved for issuance and 830,277 shares have been issued under this purchase plan.

Effective January 1, 1997, the Company adopted a non-qualified deferred compensation arrangement. This plan is unfunded and is maintained primarily for the purpose of providing deferred compensation for a select group of highly compensated employees as defined in ERISA Sections 201, 301 and 401. There are no Company matching contributions made under this plan.

In connection with the acquisition of SMSC, the Company assumed an unfunded Supplemental Executive Retirement Plan ("SERP"), which provides former SMSC senior management with retirement, disability and death benefits. An amendment to the SERP was executed on November 3, 2009, freezing the benefit level for existing participants as of February 28, 2010 and closing the SERP to new participants. As of March 31, 2014, the projected benefit obligation is \$6.3 million. Annual benefit payments and contributions under this plan are expected to be approximately \$0.8 million in fiscal 2015 and approximately \$4.5 million cumulatively in fiscal 2016 through fiscal 2024.

The Company has management incentive compensation plans which provide for bonus payments, based on a percentage of base salary, from an incentive pool created from operating profits of the Company, at the discretion of the Board of Directors. During fiscal 2014, 2013 and 2012, \$24.4 million, \$12.0 million and \$7.8 million were charged against operations for these plans, respectively.

The Company also has a plan that, at the discretion of the Board of Directors, provides a cash bonus to all employees of the Company based on the operating profits of the Company. During fiscal 2014, 2013 and 2012, \$15.2 million, \$4.3 million and \$3.2 million, respectively, were charged against operations for this plan.

## 19. EQUITY INCENTIVE PLANS

### *Share-Based Compensation Expense*

The following table presents the details of the Company's share-based compensation expense (amounts in thousands):

	Year Ended March 31,		
	2014	2013	2012
Cost of sales	\$ 7,340 <sup>(1)</sup>	\$ 8,234 <sup>(1)</sup>	\$ 5,648 <sup>(1)</sup>
Research and development	24,554	22,178	14,719
Selling, general and administrative	21,893	27,603	17,922
Pre-tax effect of share-based compensation	53,787	58,015	38,289
Income tax benefit	5,722	9,038	4,889
Net income effect of share-based compensation	<u>\$ 48,065</u>	<u>\$ 48,977</u>	<u>\$ 33,400</u>

<sup>(1)</sup> During the year ended March 31, 2014, \$7.4 million of share-based compensation expense was capitalized to inventory, and \$7.3 million of previously capitalized share-based compensation expenses in inventory was sold. During the year ended March 31, 2013, \$5.9 million of share-based compensation expense was capitalized to inventory, and \$8.2 million of previously capitalized share-based compensation expense in inventory was sold. During the year ended March 31, 2012, \$6.6 million of share-based compensation expense was capitalized to inventory, and \$5.6 million of previously capitalized share-based compensation expense in inventory was sold.

The amount of unearned share-based compensation currently estimated to be expensed in the remainder of fiscal 2015 through fiscal 2019 related to unvested share-based payment awards at March 31, 2014 is \$83.5 million. The weighted average period over which the unearned share-based compensation is expected to be recognized is approximately 2.01 years.

*SMSC Acquisition-related Equity Awards*

In connection with the acquisition of SMSC in fiscal 2013, the Company recognized \$7.8 million in share-based compensation expense due to the accelerated vesting of outstanding equity awards upon termination of certain SMSC executive officers. Also, in connection with the acquisition of SMSC, the Company assumed certain unvested stock options, stock appreciation rights (SARs) and RSUs granted by SMSC. The assumed awards were measured at the acquisition date based on the estimated fair value, which was a total of \$28.2 million. The Hull White II lattice model was used to value the assumed awards. A portion of that fair value, \$6.9 million, which represented the preacquisition vested service provided by employees to SMSC, was included in the total consideration transferred as part of the acquisition. As of the acquisition date, the remaining portion of the fair value of those awards was \$21.3 million, representing post-acquisition stock-based compensation expense that would be recognized as these employees provide service over the remaining vesting periods.

*Combined Incentive Plan Information*

RSU share activity under the 2004 Plan is set forth below:

	<u>Number of Shares</u>
Nonvested shares at April 1, 2011	5,241,306
Granted	1,627,191
Forfeited/expired	(184,926)
Vested	<u>(1,191,351)</u>
Nonvested shares at March 31, 2012	5,492,220
Granted	1,976,583
Assumed upon acquisition	523,043
Forfeited/expired	(370,196)
Vested	<u>(1,611,819)</u>
Nonvested shares at March 31, 2013	6,009,831
Granted	1,616,632
Forfeited/expired	(282,964)
Vested	<u>(1,813,465)</u>
Nonvested shares at March 31, 2014	<u><u>5,530,034</u></u>

The total intrinsic value of RSUs which vested during the years ended March 31, 2014, 2013 and 2012 was \$74.6 million, \$54.4 million and \$43.7 million, respectively. The aggregate intrinsic value of RSUs outstanding at March 31, 2014 was \$264.1 million, calculated based on the closing price of the Company's common stock of \$47.76 per share on March 31, 2014. At March 31, 2014, the weighted average remaining expense recognition period was 2.07 years.

The weighted average fair value per share of the RSUs awarded is calculated based on the fair market value of the Company's common stock on the respective grant dates discounted for the Company's expected dividend yield. The weighted average fair value per share of RSUs awarded in fiscal 2014, 2013 and 2012 was \$34.24, \$29.92 and \$30.48, respectively.

Stock option and SAR activity under the Company's stock incentive plans in the three years ended March 31, 2014 is set forth below:

	Number of Shares	Weighted Average Exercise Price per Share
Outstanding at April 1, 2011	5,496,924	\$ 25.21
Granted	—	—
Exercised	(2,129,260)	25.53
Canceled	(6,667)	25.05
Outstanding at March 31, 2012	3,360,997	25.00
Granted	—	—
Assumed upon acquisition	827,707	19.32
Exercised	(1,638,548)	22.19
Canceled	(280,353)	19.90
Outstanding at March 31, 2013	2,269,803	25.58
Granted	—	—
Exercised	(1,675,663)	25.91
Canceled	(20,529)	22.78
Outstanding at March 31, 2014	573,611	\$ 24.75

The total intrinsic value of options and SARs exercised during the years ended March 31, 2014, 2013 and 2012 was \$25.5 million, \$19.0 million and \$26.7 million, respectively. This intrinsic value represents the difference between the fair market value of the Company's common stock on the date of exercise and the exercise price of each equity award.

The aggregate intrinsic value of options and SARs outstanding at March 31, 2014 was \$13.2 million. The aggregate intrinsic value of options and SARs exercisable at March 31, 2014 was \$12.4 million. The aggregate intrinsic values were calculated based on the closing price of the Company's common stock of \$47.76 per share on March 31, 2014.

As of March 31, 2014 and 2013, the number of option and SARs shares exercisable was 543,435 and 1,922,644, respectively, and the weighted average exercise price per share was \$25.03 and \$26.77, respectively.

## 20. COMMITMENTS

The Company leases office space, transportation and other equipment under operating leases which expire at various dates through March 31, 2020. The future minimum lease commitments under these operating leases at March 31, 2014 were as follows (amounts in thousands):

Year Ending March 31,	Amount
2015	\$ 12,415
2016	11,498
2017	8,550
2018	6,076
2019	3,326
Thereafter	399
Total minimum payments	\$ 42,264

Rental expense under operating leases totaled \$21.5 million, \$20.3 million and \$15.1 million for fiscal 2014, 2013 and 2012, respectively.

Commitments for construction or purchase of property, plant and equipment totaled \$42.8 million as of March 31, 2014, all of which will be due within the next year. Other purchase obligations and commitments totaled approximately \$32.7 million as of March 31, 2014. Other purchase obligations and commitments include payments due under various types of licenses and approximately \$31.6 million of outstanding purchase commitments with the Company's wafer foundries for delivery in fiscal 2015.

## 21. GEOGRAPHIC AND SEGMENT INFORMATION

The Company's reporting segments include semiconductor products and technology licensing. The Company does not allocate operating expenses, interest income, interest expense, other income or expense, or provision for or benefit from income taxes to these segments for internal reporting purposes, as the Company does not believe that allocating these expenses is beneficial in evaluating segment performance. Additionally, the Company does not allocate assets to segments for internal reporting purposes as it does not manage its segments by such metrics.

The following table represents revenues and gross profit for each segment (amounts in thousands):

	Years ended March 31,					
	2014		2013		2012	
	Net Sales	Gross Profit	Net Sales	Gross Profit	Net Sales	Gross Profit
Semiconductor products	\$ 1,836,639	\$ 1,034,165	\$ 1,497,820	\$ 754,656	\$ 1,296,175	\$ 712,798
Technology licensing	94,578	94,578	83,803	83,803	87,001	86,496
	<u>\$ 1,931,217</u>	<u>\$ 1,128,743</u>	<u>\$ 1,581,623</u>	<u>\$ 838,459</u>	<u>\$ 1,383,176</u>	<u>\$ 799,294</u>

The Company sells its products to distributors and original equipment manufacturers (OEMs) in a broad range of market segments, performs on-going credit evaluations of its customers and, as deemed necessary, may require collateral, primarily letters of credit. The Company's operations outside the U.S. consist of product assembly and final test facilities in Thailand, and sales and support centers and design centers in certain foreign countries. Domestic operations are responsible for the design, development and wafer fabrication of products, as well as the coordination of production planning and shipping to meet worldwide customer commitments. The Company's Thailand assembly and test facility is reimbursed in relation to value added with respect to assembly and test operations and other functions performed, and certain foreign sales offices receive compensation for sales within their territory. Accordingly, for financial statement purposes, it is not meaningful to segregate sales or operating profits for the assembly and test and foreign sales office operations. Identifiable long-lived assets (consisting of property, plant and equipment net of accumulated amortization) by geographic area are as follows (amounts in thousands):

	March 31,	
	2014	2013
United States	\$ 311,926	\$ 325,326
Thailand	179,139	171,100
Various other countries	40,902	18,118
Total long-lived assets	<u>\$ 531,967</u>	<u>\$ 514,544</u>

Sales to unaffiliated customers located outside the U.S., primarily in Asia and Europe, aggregated approximately 84%, 83% and 82% of consolidated net sales for fiscal 2014, 2013 and 2012, respectively. Sales to customers in Europe represented 21%, 22% and 23% of consolidated net sales for fiscal 2014, 2013 and 2012, respectively. Sales to customers in Asia represented 60%, 58% and 56% of consolidated net sales for fiscal 2014, 2013 and 2012, respectively. Within Asia, sales into China, including Hong Kong, represented 29%, 27% and 24% of consolidated net sales for fiscal 2014, 2013 and 2012, respectively. Sales into Taiwan represented 13% of consolidated net sales in each of fiscal 2014 and 2013. Sales into Taiwan represented 15% of consolidated net sales for fiscal 2012. Sales into any other individual foreign country did not exceed 10% of the Company's net sales for any of the years presented.

No single end customer accounted for 10% or more of the Company's net sales during fiscal 2014, 2013 or 2012. Future Electronics, one of the Company's distributors, accounted for approximately 10% of the Company's net sales in fiscal 2012. These net sales are reported in the semiconductor products segment. No other distributor accounted for 10% or more of the Company's net sales in fiscal 2014 or fiscal 2013.



## 22. DERIVATIVE INSTRUMENTS

The Company has international operations and is thus subject to foreign currency rate fluctuations. To help manage the risk of changes in foreign currency rates, the Company periodically enters into derivative contracts comprised of foreign currency forward contracts to hedge its asset and liability foreign currency exposure and a portion of its foreign currency operating expenses. Approximately 99% of the Company's sales are U.S. Dollar denominated. To date, the exposure related to foreign exchange rate volatility has not been material to the Company's operating results. As of March 31, 2014, the Company had no foreign currency forward contracts outstanding. As of March 31, 2013, the Company had a foreign currency forward contract outstanding with a notional amount of \$6.0 million to economically hedge certain balance sheet exposures related to the Japanese yen. The fair value of this contract was immaterial as of March 31, 2013. The Company recognized an immaterial amount of net realized gains and losses on foreign currency forward contracts in the years ended March 31, 2014, 2013 and 2012. Gains and losses from changes in the fair value of these foreign currency forward contracts are credited or charged to Other Income (Expense). The Company does not apply hedge accounting to its foreign currency derivative instruments.

## 23. NET INCOME PER COMMON SHARE

The following table sets forth the computation of basic and diluted net income per common share (in thousands, except per share amounts):

	Year ended March 31,		
	2014	2013	2012
Net income	\$ 395,281	\$ 127,389	\$ 336,705
Weighted average common shares outstanding	198,291	194,595	191,283
Dilutive effect of stock options and RSUs	3,910	3,650	4,207
Dilutive effect of convertible debt	15,429	7,531	8,029
Weighted average common and potential common shares outstanding	217,630	205,776	203,519
Basic net income per common share	\$ 1.99	\$ 0.65	\$ 1.76
Diluted net income per common share	\$ 1.82	\$ 0.62	\$ 1.65

Diluted net income per common share for fiscal 2014, 2013, and 2012 includes 15,429,003, 7,531,111 and 8,029,255 shares, respectively, issuable upon the exchange of debentures (see Note 14). The debentures have no impact on diluted net income per common share unless the average price of the Company's common stock exceeds the conversion price because the principal amount of the debentures will be settled in cash upon conversion. Prior to conversion, the Company will include, in the diluted net income per common share calculation, the effect of the additional shares that may be issued when the Company's common stock price exceeds the conversion price using the treasury stock method. The weighted average conversion price per share used in calculating the dilutive effect of the convertible debt for fiscal 2014, 2013 and 2012 was \$26.32, \$27.36 and \$28.50, respectively.

Weighted average common shares exclude the effect of option shares which are not dilutive. There were no antidilutive option shares for fiscal 2014. For fiscal 2013 and 2012, the number of option shares that were antidilutive was 98,068 and 53,374, respectively.

## 24. QUARTERLY RESULTS (UNAUDITED)

The following table presents the Company's selected unaudited quarterly operating results for the eight quarters ended March 31, 2014. The Company believes that all adjustments of a normal recurring nature have been made to present fairly the related quarterly results (in thousands, except per share amounts):

Fiscal 2014	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Net sales	\$ 462,792	\$ 492,669	\$ 482,372	\$ 493,384	\$ 1,931,217
Gross profit	266,574	288,863	282,720	290,586	1,128,743
Operating income	98,401	117,508	116,918	126,037	458,864
Net income	78,579	99,806	105,401	111,495	395,281
Diluted net income per common share	0.37	0.46	0.48	0.50	1.82

Fiscal 2013	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Net sales	\$ 352,134	\$ 383,298	\$ 416,047	\$ 430,144	\$ 1,581,623
Gross profit	204,797	194,195	200,428	239,039	838,459
Operating income	96,333	8,094	17,413	56,713	178,553
Net income (loss)	78,710	(21,184)	10,173	59,690	127,389
Diluted net income (loss) per common share	0.39	(0.10)	0.05	0.28	0.62

Refer to Note 4, Special Charges, for an explanation of the special charges included in operating income in fiscal 2014 and fiscal 2013.

## 25. SUPPLEMENTAL FINANCIAL INFORMATION

Cash paid for income taxes amounted to \$25.7 million, \$21.4 million and \$20.1 million during fiscal 2014, 2013 and 2012, respectively. Cash paid for interest on borrowings amounted to \$34.6 million in fiscal 2014, \$28.8 million in fiscal 2013 and \$24.4 million in fiscal 2012.

A summary of additions and deductions related to the allowance for doubtful accounts for the years ended March 31, 2014, 2013 and 2012 follows (amounts in thousands):

	Balance at Beginning of Year	Charged to Costs and Expenses	Deductions <sup>(1)</sup>	Balance at End of Year
Allowance for doubtful accounts:				
2014	\$ 2,764	\$ 245	\$ (91)	\$ 2,918
2013	2,602	516	(354)	2,764
2012	2,838	7	(243)	2,602

<sup>(1)</sup> Deductions represent uncollectible accounts written off, net of recoveries.

The following table presents the changes in the components of accumulated other comprehensive income (AOCI) for the years ended March 31, 2014 and March 31, 2013:

Year ended March 31, 2014	Unrealized Holding Gains (Losses) Available-for-sale Securities	Minimum Pension Liability	Foreign Currency	Total
Balance at March 31, 2013	\$ 5,444	\$ 52	\$ 1,439	\$ 6,935
Other comprehensive (loss) income before reclassifications	(4,377)	88	—	(4,289)
Amounts reclassified from accumulated other comprehensive (loss) income	(1,595)	—	—	(1,595)
Net other comprehensive (loss) income	(5,972)	88	—	(5,884)
Balance at March 31, 2014	\$ (528)	\$ 140	\$ 1,439	\$ 1,051

Year ended March 31, 2013	Unrealized Holding Gains (Losses) Available-for-sale Securities	Minimum Pension Liability	Foreign Currency	Total
Balance at March 31, 2012	\$ 3,101	\$ —	\$ —	\$ 3,101
Other comprehensive income before reclassifications	2,686	52	1,439	4,177
Amounts reclassified from accumulated other comprehensive income	(343)	—	—	(343)
Net other comprehensive income	2,343	52	1,439	3,834
Balance at March 31, 2013	\$ 5,444	\$ 52	\$ 1,439	\$ 6,935

The table below details where reclassifications of realized transactions out of AOCI are recorded on the Consolidated Statements of Income.

Description of AOCI Component	Year ended March 31,			Related Statement of Income Line
	2014	2013	2012	
Unrealized gains on available-for-sale securities	\$ 2,371	\$ 394	\$ 157	Other income
Taxes	(776)	(51)	58	(Provision) benefit for income taxes
Reclassification of realized transactions, net of taxes	\$ 1,595	\$ 343	\$ 215	Net Income

## 26. DIVIDENDS

On October 28, 2002, the Company announced that its Board of Directors had approved and instituted a quarterly cash dividend on its common stock. The Company has continued to pay quarterly dividends and has increased the amount of such dividends on a regular basis. Cash dividends paid per share were \$1.417, \$1.406 and \$1.390 during fiscal 2014, 2013 and 2012, respectively. Total dividend payments amounted to \$281.2 million, \$273.8 million and \$266.2 million during fiscal 2014, 2013 and 2012, respectively.

## **27. SUBSEQUENT EVENTS**

### **Completion of Acquisition of Supertex Inc.**

On April 1, 2014, the Company closed its acquisition of Supertex Inc. Upon the closing of the acquisition, each share of common stock of Supertex was canceled and automatically converted into the right to receive \$33.00 in cash without interest and less any applicable withholding taxes. The amount of cash paid by the Company, net of cash and short-term investments from Supertex of approximately \$155.8 million, was approximately \$234.2 million. The Company financed the transaction using borrowings under its existing credit agreement. Supertex is a leader in high voltage analog and mixed-signal products for the medical, lighting and industrial control markets. Supertex is headquartered in Sunnyvale, California and has offices, manufacturing and research facilities in California and Hong Kong.

### **Announcement of Signing of Definitive Agreement to Acquire ISSC**

On May 22, 2014, the Company announced a definitive agreement to acquire ISSC Technologies Corporation (ISSC), a leading provider of low power Bluetooth and advanced wireless solutions for the Internet Of Things (IoT) market. ISSC is publicly traded on the GreTai Securities Market and is headquartered in Hsinchu, Taiwan with sales or research subsidiaries in Shenzhen, China and Torrance, California. Under the terms of the transaction, the Company will commence a tender offer through its indirect wholly owned Cayman Island subsidiary (the "Cayman Subsidiary") to acquire all of the outstanding shares of ISSC for approximately \$4.74 per share (\$143 New Taiwan (NT) dollars per share, based on an assumed exchange rate of NT\$30.15 per U.S. dollar) in cash, and acquire any remaining shares pursuant to a follow-on merger at approximately \$4.74 per share minus any dividends paid by ISSC prior to the close of the transaction. The transaction represents a total equity value of about \$328.5 million (approximately NT\$9.9 billion), and a total enterprise value of about \$294.3 million (approximately NT \$8.9 billion), after excluding ISSC's cash and investments on its balance sheet of approximately \$34.2 million (approximately NT\$1.0 billion). Upon completion of the tender offer through the Cayman Subsidiary, the Company will own the majority of the outstanding shares of ISSC and will consolidate ISSC's financial statements.

This page intentionally left blank.

This page intentionally left blank.



