MICROCHIP TECHNOLOGY INCORPORATED

2355 West Chandler Boulevard, Chandler, Arizona 85224-6199

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

August 15, 2016

TIME:	9:00 a.m. Mountain Standard Time
PLACE:	Microchip Technology Incorporated 2355 W. Chandler Boulevard Chandler, Arizona 85224-6199

ITEMS OF BUSINESS:

(1) The election of each of Steve Sanghi, Matthew W. Chapman, L.B. Day, Esther L. 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 re-approve Microchip's Executive Management Incentive Compensation Plan for purposes of Section 162(m) of the Internal Revenue Code.

(3) To ratify the appointment of Ernst & Young LLP as the independent registered public accounting firm of Microchip for the fiscal year ending March 31, 2017.

(4) To hold an advisory (non-binding) vote regarding the compensation of our named executives.

(5) 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 June 21, 2016 are entitled to vote at the annual meeting.

ANNUAL REPORT: Microchip's fiscal 2016 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.

/s/ 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 15, 2016

The Microchip Notice of Annual Meeting, Proxy Statement and Annual Report on Form 10-K for the fiscal year ended March 31, 2016 are available at *www.microchip.com/annual_reports*.

Chandler, Arizona
July 11, 2016

TABLE OF CONTENTS

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 15, 2016, beginning at 9:00 a.m., Mountain Standard Time. The annual meeting will be held at our Chandler facility located at 2355 W. Chandler Blvd., Chandler, AZ 85224-6199.

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 2016 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 2017 refer to the 12-month period from April 1, 2016 through March 31, 2017; references to fiscal 2016 refer to the 12-month period from April 1, 2015 through March 31, 2016; and references to fiscal 2015 refer to the 12-month period from April 1, 2014 through March 31, 2015.

We anticipate first mailing this proxy statement and accompanying form of proxy on July 11, 2016 to holders of record of Microchip's common stock on June 21, 2016 (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, June 21, 2016, 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 215,025,368 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 15, 2016, 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 Three 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.

Re-approval of Microchip's Executive Management Incentive Compensation Plan (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 to re-approve the Microchip Executive Management Incentive Compensation Plan for purposes of Section 162(m) of the Internal Revenue Code. Abstentions will have the same effect as voting against this proposal. Broker "non-votes" are not counted for purposes of approving this matter, and thus will not affect the outcome of the voting on such proposal.

Ratification of Independent Registered Public Accounting Firm (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 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, 2017. Abstentions will have the same effect as voting against this proposal.

Advisory Vote Regarding the Compensation of our Named Executives (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 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 this matter, 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 2016 Annual Report are available at *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*.

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

Our Board of Directors met eight times in fiscal 2016. Each director attended 100% of the meetings of the Board of Directors and 100% of the meetings of the committees of the Board of Directors held during the time such director served on such committees. 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, 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.

Board Oversight of Risk Management

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. As part of this process, our Compensation Committee concluded that our compensation policies and practices do not create risks that are reasonably likely to have a material adverse effect on Microchip.

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, cyber security, IT system continuity, products and employees. The Board and the Audit Committee also receive periodic reports on Microchip's efforts to manage such risks through safety measures, system improvements, 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 2016:

MEMBERSHIP ON BOARD COMMITTEES IN FISCAL 2016

Name	Audit	Compensation	Nominating and Governance
Mr. Chapman	C		●
Mr. Day		●	C
Ms. Johnson	●		●
Mr. Meyercord	●	C	●
Mr. Sanghi			
Meetings held in fiscal 2016	8	9	1

C = *Chair*
● = *Member*

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 which was amended and restated as of May 15, 2015. A copy of the Audit Committee charter is available at the About Us/Investor Relations section under Mission Statement/Corporate Governance on *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 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/Investor Relations section under Mission Statement/Corporate Governance on *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 15, 2015. The committee charter is available at the About Us/Investor Relations section under Mission Statement/Corporate Governance on *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 20.

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/Investor Relations section under Mission Statement/Corporate Governance on *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 2016 Annual Meeting of Stockholders; Discretionary Authority to Vote on Stockholder Proposals*" at page 43. 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 fiscal 2015 annual meeting of stockholders on August 14, 2015.

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/Investor Relations section under Mission Statement/ Corporate Governance on *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 2016 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, 2016 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, 2016 for filing with the SEC.

By the Audit Committee of the Board of Directors:

Matthew W. Chapman (Chairman)	Esther L. Johnson	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 August 25, 2014, non-employee directors receive an annual retainer of $65,000, paid in quarterly installments, and $3,000 for each meeting attended in person. 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.

In addition, in connection with the special cash bonus program in recognition of Microchip’s achievement of 100 consecutive quarters of profitability under which each Microchip employee received one hour of pay for each year of continuous service with a minimum of one hour of pay and a maximum of 25 hours of pay, each non-employee director received one hour of pay for each year of continuous service as a non-employee director. Under this program, the non-employee directors received from $74 to $740.

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;

- 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 day of the second month of our fiscal quarter in which the grant is made; and
- upon the date of our 2015 annual meeting, provided the individual has served as a non-employee director for at least five years 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 $100,000 (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 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 14, 2015, each of Mr. Chapman, Mr. Day, Ms. Johnson and Mr. Meyercord was granted 1,940 RSUs, and each of Mr. Chapman, Mr. Day and Mr. Meyercord was granted an additional 2,310 RSUs.

The following table details the total compensation for Microchip's non-employee directors for fiscal 2016:

DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash	Stock Awards[1]	Option Awards	Non-Equity Incentive Plan Compensation	All Other Compensation	Total
Steve Sanghi [2]	$ —	$ —	$ —	$ —	$ —	$ —
Matthew W. Chapman	77,000	167,840	—	—	—	244,840
L.B. Day	77,000	167,840	—	—	—	244,840
Esther L. Johnson	77,000	79,113	—	—	—	156,113
Wade F. Meyercord	77,000	167,840	—	—	—	244,840

(1) The stock award of 1,940 RSUs to each of the directors on August 14, 2015 had a fair value on the grant date of $40.78 per share and a market value on the grant date of $43.29 per share with an aggregate market value of each award of approximately $84,000. The stock award of 2,310 RSUs to each of Messrs. Chapman, Day and Meyercord on August 14, 2015 had a fair value on the grant date of $38.41 per share and a market value on the grant date of $43.29 per share with an aggregate market value of each award of approximately $100,000.

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

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 2016 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 2016, 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 2016, 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 2016, 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 2016.

PROPOSAL ONE

ELECTION OF DIRECTORS

The Board currently consists of five directors: Steve Sanghi, Matthew W. Chapman, L.B. Day, Esther L. Johnson and Wade F. Meyercord. 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 2017 annual meeting of stockholders and until a successor has been elected and qualified.

Vote Required; Board 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 unanimously recommends that stockholders vote FOR the nominees listed below.

Information on Nominees for Director (as of June 30, 2016)

Name	Age	Position(s) Held
Steve Sanghi	60	Chief Executive Officer and Chairman of the Board
Matthew W. Chapman	65	Director
L.B. Day	71	Director
Esther L. Johnson	64	Director
Wade F. Meyercord	75	Director

Steve Sanghi has served as Chief Executive Officer since October 1991, and Chairman of the Board since October 1993. He served as President from August 1990 to February 2016 and has served as a director since August 1990. 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. From May 2007 until April 2016, Mr. Sanghi served as a director of FIRST Organization, a not-for-profit public charity founded in 1989 to develop young people's interest in science and technology. From October 2013 through July 2014 when Hittite Microwave Corporation, a publicly held semiconductor company, was acquired, Mr. Sanghi was a member of the Board of Directors of Hittite Microwave Corporation.

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 Chief Executive Officer of Northwest Evaluation Association, a not-for-profit education services organization providing computer adaptive testing for millions of students throughout the United States and in 140 other countries. 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 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. 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. The Board of Directors also recognizes Ms. Johnson's experience in financial matters. The Board of Directors believes that Ms. Johnson's background makes her well suited to serve on the Board of Directors' audit committee and nominating and governance committee.

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

RE-APPROVAL OF EXECUTIVE MANAGEMENT INCENTIVE COMPENSATION PLAN

In May 2016, our Board of Directors approved our Executive Management Incentive Compensation Plan, as amended (the "EMICP"), subject to the approval of our stockholders at the annual meeting. Our stockholders previously approved the EMICP at our 2011 annual meeting. Under Internal Revenue Service rules, we are required to obtain stockholder re-approval of the EMICP every five years to continue to qualify payments under the EMICP as fully deductible performance-based compensation under Internal Revenue Code Section 162(m) ("Section 162(m)"). Accordingly, this proposal asks our stockholders to approve the material terms of the EMICP. If stockholder approval is not obtained, we will cease making any payments under the EMICP.

The purpose of the EMICP is to motivate our executives to achieve corporate or business unit performance objectives and to reward them when those objectives are satisfied.

Background

Section 162(m) disallows a deduction to Microchip for any compensation paid to a "covered employee" in excess of $1 million per year, subject to certain exceptions. In general, "covered employees" includes the chief executive officer and the three most highly compensated executive officers of Microchip who are employed by Microchip and are officers at the end of the tax year. Among other exceptions, the deduction limit does not apply to compensation that meets the specified requirements for "performance-based compensation." In general, those requirements include the establishment of objective performance goals for the payment of such compensation by a committee of the Board of Directors composed solely of two or more outside directors, stockholder approval of the material terms of such compensation prior to payment, and certification by the committee that the performance goals for the payment of such compensation have been achieved prior to payment.

The Board of Directors believes that it is in the best interests of Microchip and its stockholders to continue to enhance the ability of Microchip to attract and retain executives by continuing to provide annual and, if deemed appropriate, long-term incentive compensation bonus awards to certain officers that would qualify as "performance-based compensation" under Section 162(m), while at the same time obtaining the highest level of deductibility of compensation paid to covered employees.

The following paragraphs provide a summary of the principal features of the EMICP. The EMICP is attached as Appendix A to this Proxy Statement and the description below is qualified in its entirety by reference to Appendix A.

Description of the Executive Management Incentive Compensation Plan.

Eligibility. Participants in the EMICP are executive officers who are chosen solely at the discretion of the Compensation Committee. Our Chief Executive Officer and all of our other executive officers are eligible to be considered for participation in the EMICP. Because our executive officers are eligible to receive awards under the EMICP, our executive officers have an interest in this proposal. No person is automatically entitled to participate in the EMICP in any EMICP year. Microchip may also pay discretionary bonuses, or other types of compensation, outside of the EMICP.

Purpose. The purpose of the EMICP is to motivate the participants to achieve our corporate and business unit performance objectives and to reward them when those objectives are satisfied.

Administration. The EMICP is administered by the Compensation Committee, consisting of no fewer than two members of the Board.

Determination of Awards. Under the EMICP, participants are eligible to receive awards based upon the attainment and certification of certain performance criteria established by the Compensation Committee. The performance criteria the Compensation Committee may choose from include one or more of the following:

- cash flow (including operating cash flow or free cash flow) or cash flow margin
- cash position
- revenue (on an absolute basis or adjusted for currency effects)
- gross margin
- operating margin
- operating expenses or operating expenses as a percentage of revenue
- earnings (which may include, without limitation, earnings before interest and taxes, earnings before taxes and earnings before income, taxes, depreciation and amortization)
- earnings per share
- operating income (or operating income as a percentage of revenue)
- net income
- stock price
- return on equity
- total stockholder return
- growth in stockholder value relative to a specified publicly reported index (such as the S&P 500 Index)
- return on capital
- return on assets or net assets
- return on investment
- economic value added
- market share
- contract awards or backlog
- overhead or other expense reduction
- credit rating
- objective customer indicators (including, without limitation, a customer satisfaction rating)
- new product invention or innovation
- attainment of research and development milestones
- improvements in productivity
- attainment of objective operating goals
- objective employee metrics

The performance measures listed above may apply to either Microchip as a whole or, except with respect to stockholder return metrics, to a region, business unit, affiliate or business segment, and may be measured either on an absolute basis, relative to a pre-established target, to a previous period's results, to a designated comparison group or to another performance measure in each case as specified by the Compensation Committee. Financial performance measures may be determined in accordance with United States Generally Accepted Accounting Principles ("GAAP"), in accordance with accounting principles established by the International Accounting Standards Board ("IASB Principles") or may be adjusted by our Compensation Committee when established to exclude or include any items otherwise includable or excludable, respectively, under GAAP or under IASB Principles.

Our Compensation Committee shall appropriately adjust any evaluation of performance under a performance criterion to exclude (i) any extraordinary non-recurring items as described in Accounting Principles Board Opinion No. 30 and/or in management's discussion and analysis of financial conditions and results of operations appearing in Microchip's reporting with the SEC for the applicable year, and (ii) the effect of any changes in accounting principles affecting Microchip's or a business units' reported results.

Our Compensation Committee retains the discretion to reduce or eliminate any award that would otherwise be payable pursuant to the EMICP.

Payment of Awards. All awards are paid in cash as soon as is practicable following determination of the award, unless Microchip establishes a plan to permit deferral of bonus amounts, in which case awards will be paid pursuant to the timing requirements of that plan and applicable law. The Compensation Committee may also defer the payment of awards in its discretion, as necessary or desirable to preserve the deductibility of such awards under Section 162(m).

Maximum Award. The amounts that will be paid pursuant to the EMICP are not currently determinable. The maximum bonus payment that any participant may receive under the EMICP in any performance period (which can be a fiscal quarter, a fiscal year or a longer period not exceeding five fiscal years) is $2,500,000. For the amounts of the payments made under the EMICP to named executive officers in the past three fiscal years, please refer to the Summary Compensation Table located in the section "Compensation of Named Executive Officers."

Amendment and Termination. The Compensation Committee may amend, suspend or terminate the EMICP, in whole or in part, at any time, including the adoption of amendments deemed necessary or desirable to correct any defect or supply omitted data or reconcile any inconsistency in the EMICP or in any award granted thereunder.

Indemnification. Our Board of Directors and Compensation Committee are generally indemnified by Microchip for any liability arising from claims relating to the EMICP.

Federal Income Tax Consequences. Under present federal income tax law, participants will recognize ordinary income equal to the amount of the award received in the year of receipt. That income will be subject to applicable income and employment tax withholding by Microchip. If and to the extent that the EMICP payments satisfy the requirements of Section 162(m) and otherwise satisfy the requirements for deductibility under federal income tax law, we will receive a tax deduction for the amount constituting ordinary income to the participant.

Awards to be Granted to Certain Individuals and Groups. Awards under the EMICP are determined based on actual future performance, so future actual awards cannot now be determined.

Vote Required; Board Recommendation

An affirmative vote of a majority of the shares of our common stock present in person or represented by proxy and entitled to vote at our annual meeting is required to re-approve our EMICP. Abstentions will have the same effect as voting against this proposal. Broker "non-votes" are not counted for purposes of re-approving our EMICP and thus will not affect the outcome of the voting on such proposal.

The Board of Directors unanimously recommends a vote "FOR" Proposal Two, the re-approval of our Executive Management Incentive Compensation Plan.

PROPOSAL THREE

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, 2016. 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 $3,525,475 for fiscal 2016 and $2,756,220 for fiscal 2015. Our audit fees in fiscal 2016 were higher than our audit fees in fiscal 2015 due to our acquisition of Micrel and associated audit 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. There were no fees billed by Ernst & Young LLP for such services in each of the last two fiscal years.

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 either of the last two fiscal years for such services were approximately $830,885 for fiscal 2016 and $439,767 for fiscal 2015.

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 2016 or fiscal 2015.

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 2016, 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 2016 and fiscal 2015 were compatible with maintaining the independence of Ernst & Young LLP.

Vote Required; Board 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, 2017. 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 Three, the ratification of our independent registered public accounting firm, as described in this Proxy Statement.

PROPOSAL FOUR

APPROVAL OF EXECUTIVE COMPENSATION

As contemplated in the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), Section 14A of the Securities Exchange Act of 1934 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 20, 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 the fiscal 2016 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. Thus, it is expected that the next such vote will occur at our 2017 annual meeting.

Vote Required; Board 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. Broker "non-votes" are not counted for purposes of approving the compensation of our named executive officers on an advisory (non-binding) basis and thus will not affect the outcome of the voting on such proposal.

Our Board of Directors unanimously recommends voting "FOR" Proposal Four, 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 20, 2016 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 (1)	Percent of Common Stock (1)
The Vanguard Group, Inc. (2)	17,182,572	8.0
T. Rowe Price Associates, Inc.(3)	15,917,514	7.4
Wells Fargo & Co. (4)	14,822,716	6.9
Massachusetts Financial Services Company (5)	12,158,462	5.7
BlackRock, Inc. (6)	11,846,697	5.5
Steve Sanghi (7)	4,864,064	2.3
Matthew W. Chapman (8)	39,809	*
L.B. Day (9)	18,307	*
Esther L. Johnson	2,864	*
Wade F. Meyercord (10)	35,243	*
J. Eric Bjornholt (11)	16,319	*
Stephen V. Drehobl	17,539	*
Mitchell R. Little	13,245	*
Ganesh Moorthy (12)	188,012	*
All directors and executive officers as a group (10 people) (13)	5,266,877	2.5

* Represented less than 1% of the outstanding shares of common stock as of May 20, 2016. Our shares of common stock outstanding at May 20, 2016 were 214,841,694.

(1) 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 20, 2016. There are no stock purchase rights or RSUs that will vest within 60 days of May 20, 2016. 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 20, 2016 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.

(2) Address is 100 Vanguard Boulevard, Malvern, PA 19355. All information is based solely on the Schedule 13G filed by The Vanguard Group, Inc. on February 10, 2016, with the exception of the percentage of common stock held which is based on shares outstanding at May 20, 2016. Such Schedule 13G indicates that The Vanguard Group, Inc. (i) has sole power to dispose of or direct the disposition of 16,779,681 shares of common stock and shared power to dispose of or direct the disposition of 402,891 shares of common stock; and (ii) has sole power to vote or direct the vote of 382,004 shares of common stock and shared power to vote or direct the vote of 20,000 shares of common stock.

(3) Address is 100 E. Pratt Street, Baltimore, Maryland 21202. All information is based solely on the Schedule 13G filed by T. Rowe Price Associates, Inc. on February 12, 2016, with the exception of the percentage of common stock held which is based on shares outstanding at May 20, 2016. Such Schedule 13G indicates that T. Rowe Price Associates, Inc. (i) has sole power to dispose of or direct the disposition of 15,917,514 shares of common stock; and (ii) has sole power to vote or direct the vote of 5,564,140 shares of common stock.

(4) Address is 420 Montgomery Street, San Francisco, CA 94104. All information is based solely on the Schedule 13G filed by Wells Fargo & Co. on February 5, 2016, with the exception of the percentage of common stock held which is based on shares outstanding at May 20, 2016. Such Schedule 13G indicates that Wells Fargo & Co. (i) has sole power to dispose of or direct the disposition of 158,029 shares of common stock and shared power to dispose of or direct the disposition of 14,664,487 shares of common stock; and (ii) has sole power to vote or direct the vote of 158,029 shares of common stock and shared power to vote or direct the vote of 13,838,223 shares of common stock.

(5) Address is 111 Huntington Avenue, Boston, MA 02199. All information is based solely on the Schedule 13G filed by Massachusetts Financial Services Company ("MFS") on February 11, 2016, with the exception of the percentage of common stock held, which is based on shares outstanding at May 20, 2016. Such Schedule 13G indicates that MFS (i) has sole power to dispose of or direct the disposition of 12,158,462 shares of common stock; and (ii) has sole power to vote or direct the vote of 10,833,786 shares of common stock.

(6) Address is 55 East 52nd Street, New York, NY 10055. All information is based solely on the Schedule 13G filed by BlackRock, Inc. on February 10, 2016 with the exception of the percentage of common stock held which is based on shares outstanding at May 20, 2016. Such Schedule 13G indicates that BlackRock, Inc. (i) has sole power to dispose of or direct the disposition of 11,846,697 shares of common stock; and (ii) has sole power to vote or direct the vote of 10,123,203 shares of common stock.

(7) Includes 1,911,128 shares held of record by The Sanghi Trust (the "Sanghi Trust") and 2,952,936 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 Sanghi Trust. The Sanghi Trust is the sole member of the Sanghi LLC which is the sole general partner of the Family Limited Partnership.

(8) Includes 12,000 shares issuable upon exercise of options that are exercisable within 60 days of May 20, 2016.

(9) Includes 12,000 shares issuable upon exercise of options that are exercisable within 60 days of May 20, 2016.

(10) Includes 20,243 shares held of record by Wade F. Meyercord and Phyllis Meyercord as trustees, and 15,000 shares issuable upon exercise of options that are exercisable within 60 days of May 20, 2016.

(11) Includes 16,319 shares held of record by J. Eric Bjornholt and Lynn Bjornholt as trustees.

(12) Includes 188,012 shares held of record by Ganesh Moorthy and Hema Moorthy as trustees.

(13) Includes an aggregate of 39,000 shares issuable upon exercise of options that are exercisable within 60 days of May 20, 2016.

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 a broad base of 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 2016 were consistent with our "pay-for-performance" philosophy and were commensurate with our fiscal 2016 performance.

Executive Compensation Process

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 in our market. 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. To the extent 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 increases within the budgeted range for other employees. In setting salaries for executive officers, the Compensation Committee may consider 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 business units, and then discussed with and approved by our CEO. These objectives are then reviewed by our Board of Directors and are the overall financial and business objectives on which incentive compensation is based.

The Compensation Committee sets the compensation of our Chairman and CEO, 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 in our market. Mr. Sanghi 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 2016, 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 2015, our stockholders approved an advisory (non-binding) proposal concerning our executive compensation program with approximately 97.3% 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 2017.

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 many of 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 and market.

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. Since fiscal 2014, salary reviews for executive and non-executive employees have been conducted on a quarterly basis. Also, the budget for salary increases is established each quarter with any increases determined each quarter on a discretionary basis based on the performance reviews of the employees. 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 executive 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 and market, 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.

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 2.9% over the course of fiscal 2016. Effective June 8, 2015, our CEO's base salary was increased by 3.0%. In addition, in connection with his promotion to President of Microchip, Mr. Moorthy's base salary was further increased from approximately $313,914 to $400,000 effective February 3, 2016. The budget for salary increases for our U.S. employee base over the course of fiscal 2016 was 1.0%.

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 Discretionary Management Incentive Compensation Plan ("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, and other charges that many investors feel may obscure our underlying operating results. The earnings per share metric changes each quarter. Each of the other performance metrics is reviewed each quarter but is typically the same for multiple quarters. The table below sets forth the performance metrics under the EMICP for each quarter of fiscal 2016:

					Actual Results							
Performance Metric	**Target Quarterly Measure-ment for Q1 and Q2 FY16 %**	**Target Quarterly Measure-ment for Q3 FY16 %**	**Target Quarterly Measure-ment for Q4 FY16 %**	**Target % of Bonus**	**Q1 FY16 Perf. %**	**Q1 FY16 Bonus Payout %**	**Q2 FY16 Perf. %**	**Q2 FY16 Bonus Payout %**	**Q3 FY16 Perf. %**	**Q3 FY16 Bonus Payout %**	**Q4 FY16 Perf. %**	**Q4 FY16 Bonus Payout %**
Total sequential revenue growth	2.50	2.50	1.50	10.00	(2.42)	(9.68)	(2.63)	(10.52)	(1.33)	(5.32)	2.98	19.87
High performance micro-controller sequential revenue growth	6.50	6.50	3.00	4.00	(0.72)	(0.44)	2.73	1.68	(8.85)	(5.45)	14.97	19.96
Analog sequential revenue growth	3.50	3.50	2.00	4.00	(0.40)	(0.46)	(0.04)	(0.05)	4.06	4.64	(0.16)	(0.32)
Licensing sequential revenue growth	3.00	3.00	1.50	3.00	(1.53)	(1.53)	(0.38)	(0.38)	(1.98)	(1.98)	(12.09)	(24.18)
Gross margin percentage (non-GAAP)	58.00	57.00	57.00	15.00	58.29	16.09	58.36	16.35	57.92	18.46	58.39	20.21
Operating expenses as a percentage of sales (non-GAAP)	27.00	28.00	28.00	15.00	25.64	21.80	26.78	16.10	28.47	12.67	27.00	20.00
Operating income as a percentage of sales (non-GAAP)	30.00	28.00	28.00	15.00	32.65	21.63	31.58	18.95	29.46	18.64	31.39	23.48
Earnings per share (quarterly) (non-GAAP)	[1]	[1]	[1]	14.00	68.87	18.06	65.14	17.17	63.51	19.46	70.29	28.21
EMICP Total	N/A	N/A	N/A	80.00	N/A	65.46	N/A	59.30	N/A	61.13	N/A	107.23
DMICP Total	Discretion-ary	Discretion-ary	Discretion-ary	20.00	N/A	14.54	N/A	25.70	N/A	38.87	N/A	22.77

[1] The EMICP quarterly non-GAAP earnings per share (EPS) targets for the first, second, third and fourth quarters of fiscal 2016 were \$0.66, \$0.63, \$0.60 and \$0.61, respectively.

The total amount payable to each executive under the EMICP and the DMICP is based on a percentage of the executive's 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 the executive's base salary. In fiscal 2016, the quarterly payments under the EMICP for our named executive officers were targeted at an aggregate of approximately $369,804 for all such officers as a group. In fiscal 2016, the quarterly payments under the DMICP for our named executive officers were targeted at an aggregate of approximately $92,451 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 the executive's actual bonus payment during the fiscal year. For fiscal 2016, the specific total bonus percentages under both the EMICP and DMICP for each of our named executive officers were 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. Drehobl 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 2015. In connection with his promotion to President of Microchip, Mr. Moorthy's target bonus percentage was increased to 80% of his salary effective April 1, 2016.

As indicated in the above table, for the first quarter of fiscal 2016, 3.0% of the quarterly EMICP payment was based on Microchip's licensing business unit achieving total sequential revenue growth of 3.0%. Accordingly, if Microchip's licensing business unit's sequential revenue growth for the first quarter was 3.0%, then each executive would be paid the corresponding 3.0% of the EMICP target bonus amount for that quarter. If Microchip's licensing business unit's revenue growth for the first quarter was 1.5%, then each executive would be paid a corresponding 1.5% of his target bonus amount for that quarter (i.e., 1/2 of the 3.0%) and if Microchip's licensing business unit's revenue growth for the first quarter was 6.0%, then each executive would be paid a corresponding 6.0% of the target bonus amount for that 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 table.

As set forth in the above table, during fiscal 2016, consistent with our "pay-for-performance" philosophy, our CEO and other executive officers received bonuses under the EMICP for each quarter of fiscal 2016. Payments were also made under the DMICP for each quarter of fiscal 2016. Applying the award percentages to each named executive officer's participation level in the plans, for fiscal 2016, the total bonus payments under the EMICP and the DMICP for our named executive officers, other than our CEO, ranged from $69,433 to $187,388. In fiscal 2016, Mr. Sanghi earned an aggregate EMICP bonus of $937,893, and an aggregate DMICP bonus of $326,755. Please see footnote 4 to the Summary Compensation Table on page 32 of this Proxy Statement which sets forth the actual amount of the EMICP and DMICP awards for each named executive officer for fiscal 2016. 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 2016, 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. 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 2016 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 2015, the performance goal was related to achieving non-GAAP operating profit for the three months ended June 30, 2015 of more than $145 million; with an achievement of $165 million of non-GAAP operating income necessary for full vesting of the award. With respect to the awards made in July 2015, the performance goal was related to achieving non-GAAP operating expenses for the three months ended September 30, 2015 of less than $157 million; with an achievement of $147 million of non-GAAP operating expenses necessary for full vesting of the award. With respect to the awards made in October 2015, the performance goal was related to achieving non-GAAP operating expenses for the three months ended December 31, 2015 of less than $190 million, with an achievement of $170 million of non-GAAP operating expense necessary for full vesting of the award. With respect to the awards made in January 2016, the performance goal was related to achieving non-GAAP operating expenses for the three months ended March 31, 2016 of less than $180 million, with an achievement of $160 million of non-GAAP operating expenses necessary for full vesting of the award. With respect to each of the performance goals for the RSU grants, the goals exclude the impact of any acquisitions completed by Microchip during the performance period. Based on the actual results compared to the performance goals for each such period, all of the quarterly evergreen awards will vest at 100%; however, 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.

Grants of RSUs in fiscal 2016 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, 2016, 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.

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. In this regard, on September 1, 2015, the Compensation Committee approved RSU awards to key employees, including executive officers, under a leadership grant program. Under this program, Microchip conducted its succession planning process and merit based RSU grants were made to key employees based on the results of such process. Under this program, RSUs for an aggregate of approximately 811,661 shares were granted to key executive and non-executive employees of Microchip with RSUs for an aggregate of 318,623 shares granted to executives. The vesting of such RSUs was subject to a performance goal related to achieving non-GAAP operating expenses for the three months ended December 31, 2015 of less than $190 million, with an achievement of $170 million of non-GAAP operating expense necessary for full vesting of the award. The performance goal for the leadership grant was achieved and the RSUs will vest over 12 quarters with the first vesting on November 15, 2017, subject to the continued service of the officer.

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, 2016*" at page 33 for information regarding RSUs granted during fiscal 2016 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 2016, 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 plans,
- 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 determination of executive officer compensation.

Employee Stock Purchase Plans. 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 deductions 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 deductions 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 31 pursuant to SEC rules and regulations.

Life Insurance. In fiscal 2016, 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 quarter of fiscal 2016 equal to $0.375 for each dollar contributed by the employee for the first 4% of their salary contributions. For the second quarter of fiscal 2016, our Compensation Committee approved discretionary matching contributions equal to $0.40 for each dollar contributed by the employee for the first 4% of their salary contributions. For the third quarter of fiscal 2016, our Compensation Committee approved discretionary matching contributions equal to $0.50 for each dollar contributed by the employee for the first 4% of their salary contributions. For the fourth quarter of fiscal 2016, our Compensation Committee approved discretionary matching contributions equal to $0.65 for each dollar contributed by the employee for the first 4% of their salary contribution. 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 ("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. 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, second, third and fourth quarters of fiscal 2016, bonus awards were paid out at 75%, 75%, 100% and 125% of target for all employees, respectively. For each quarter, an additional award of up to 50% of target was paid out to selected employees on a discretionary basis based on performance achievements by such employees during the quarter. Under the ECBP, for fiscal 2016, our named executive officers other than our CEO received total payments ranging from $10,902 to $15,243, and our CEO received $30,832.

Special Cash Bonus for Profitability Milestone. On November 6, 2015, the Compensation Committee approved a special one-time cash bonus in recognition of Microchip's achievement of 100 consecutive quarters of profitability. Under this program, each employee received one hour of pay for each year of continuous service with a minimum of one hour of pay and a maximum of 25 hours of pay.

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 described 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 the executive's 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 Worldwide Sales, one year;
- a one-time payment of the executive's bonuses for which the executive 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, 2016, the last business day of our last completed fiscal year.

Name	**Salary**	**Bonus**	**Equity Compensation Due to Accelerated Vesting** [(1)]	**Tax Gross-up on Change of Control** [(2)]	**Continuation of Certain Benefits** [(3)]
Steve Sanghi [(4)]	$ 1,288,256	$ 2,626,060	$ 25,420,632	$ —	2 years
Ganesh Moorthy [(5)]	400,000	335,385	10,410,863	—	1 year
Mitchell R. Little [(5)]	294,567	146,830	4,993,134	—	1 year
Stephen V. Drehobl [(5)]	245,486	119,911	5,749,778	—	1 year
J. Eric Bjornholt [(5)]	221,239	79,306	3,578,705	—	1 year

(1) Value represents the gain that our named executive officers would receive, calculated as the amount of unvested RSUs multiplied by our stock price on March 31, 2016.

(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 our 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 our 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 approved our EMICP in August 2011 and are being asked to re-approve our EMICP at the annual meeting. Obtaining stockholder approval and complying with the other requirements of Section 162(m) 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 2016. 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 (*)

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

(*) 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 (1)	Bonus (2)	Stock Awards (3)	Non-Equity Incentive Plan Compensation (4)	Change in Pension Value and Non-Qualified Deferred Compensation Earnings (5)	All Other Compensation (6)	Total
Steve Sanghi, CEO, President and Chairman of the Board (7)	2016	645,619	30,832	8,812,155(8)	1,264,648	—	7,688	10,760,942
	2015	624,897	27,690	3,459,535	1,381,146	—	8,218	5,501,486
	2014	604,834	35,228	3,254,225	1,865,424	—	7,599	5,767,310
Ganesh Moorthy, President and COO (7)	2016	326,918	13,134	3,695,412(8)	187,388	—	7,355	4,230,207
	2015	302,185	13,314	1,441,457	204,094	—	7,686	1,968,736
	2014	290,137	18,186	1,317,155	271,392	—	6,432	1,903,302
Mitchell R. Little, VP, Worldwide Sales and Applications	2016	295,507	15,243	1,730,738(8)	133,146	—	7,939	2,182,573
	2015	287,167	12,482	679,590	145,980	—	8,546	1,133,765
	2014	277,947	18,885	639,218	197,166	—	8,051	1,141,267
Stephen V. Drehobl, VP, MCU8 and Technology Development Division	2016	243,275	12,507	1,993,141(8)	107,303	—	6,152	2,362,378
	2015	236,398	9,956	782,500	117,861	—	5,713	1,152,428
	2014	228,178	14,839	736,066	157,719	—	5,222	1,142,024
J. Eric Bjornholt, VP and CFO	2016	221,559	10,902	1,266,751(8)	69,433	—	4,939	1,573,584
	2015	213,597	9,284	494,243	75,535	—	5,059	797,718
	2014	205,413	12,863	464,896	100,508	—	4,282	787,962

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

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

(3) 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 2016, please refer to Note 20, "Equity Incentive Plans" to Microchip's audited financial statements for the fiscal year ended March 31, 2016 included in our Annual Report on Form 10-K filed with the SEC on May 24, 2016.

(7) On February 3, 2016, Mr. Moorthy was appointed President of Microchip. Mr. Sanghi served as President prior to Mr. Moorthy's promotion.

(8) For fiscal 2016, stock awards include RSU grants under our evergreen grant program and also include RSU grants under our leadership grant program. Under the leadership grant program, Microchip conducted its succession planning process and merit-based RSU grants were made on September 1, 2015 to key employees based on the results of such process. The vesting of such RSUs was subject to a performance goal related to achieving a specified level of non-GAAP operating expenses for the three months ended December 31, 2015. This performance goal was achieved, and, as a result, the RSU grants under the leadership grant program will vest over 12 quarters with the first vesting on November 15, 2017. For further discussion of our leadership grant program, please refer to page 25 in the "Compensation and Discussion and Analysis" section of this proxy statement.

(4) 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	2016	937,893	326,755
	2015	1,052,992	328,154
	2014	1,410,358	455,066
Ganesh Moorthy	2016	139,024	48,364
	2015	155,279	48,815
	2014	205,122	66,270
Mitchell R. Little	2016	98,754	34,392
	2015	111,296	34,684
	2014	149,067	48,098
Stephen V. Drehobl	2016	79,699	27,604
	2015	89,838	28,023
	2014	119,233	38,486
J. Eric Bjornholt	2016	51,488	17,945
	2015	57,588	17,947
	2014	75,965	24,543

(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	2016	4,619	3,069
	2015	5,804	2,414
	2014	5,921	1,677
Ganesh Moorthy	2016	5,183	2,172
	2015	5,514	2,172
	2014	5,535	897
Mitchell R. Little	2016	4,870	3,069
	2015	5,477	3,069
	2014	5,477	2,574
Stephen V. Drehobl	2016	4,633	1,519
	2015	4,408	1,305
	2014	4,414	808
J. Eric Bjornholt	2016	4,000	939
	2015	4,270	789
	2014	3,972	310

Grants of Plan-Based Awards During Fiscal 2016

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 2016. Actual payments for our bonus plans in fiscal 2016 are reflected in the Summary Compensation Table above. Equity awards in the table below were granted in fiscal 2016.

GRANTS OF PLAN-BASED AWARDS
For Fiscal Year Ended March 31, 2016

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#) (2)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards ($) (3)
Name	Grant Date	Threshold ($) (1)	Target ($)	Maximum ($) (1)				
Steve Sanghi	4/1/2015	—	—	—	657	—	—	29,237
	4/1/2015	—	—	—	20,630	—	—	893,279
	7/1/2015	—	—	—	680	—	—	28,995
	7/1/2015	—	—	—	21,368	—	—	884,208
	9/1/2015	—	—	—	148,235	—	—	5,149,684
	10/1/2015	—	—	—	752	—	—	29,005
	10/1/2015	—	—	—	23,622	—	—	884,408
	1/4/2016	—	—	—	690	—	—	29,001
	1/4/2016	—	—	—	21,675	—	—	884,340
	—	—	1,030,605(4)	—	—	—	—	—
	—	—	257,651(5)	—	—	—	—	—
	—	—	24,774(6)	—	—	—	—	—
Ganesh Moorthy	4/1/2015	—	—	—	307	—	—	13,662
	4/1/2015	—	—	—	8,638	—	—	374,025
	7/1/2015	—	—	—	318	—	—	13,560
	7/1/2015	—	—	—	8,947	—	—	370,227
	9/1/2015	—	—	—	62,067	—	—	2,156,208
	10/1/2015	—	—	—	352	—	—	13,577
	10/1/2015	—	—	—	9,891	—	—	370,319
	1/4/2016	—	—	—	323	—	—	13,576
	1/4/2016	—	—	—	9,075	—	—	370,260
	—	—	256,000(4)	—	—	—	—	—
	—	—	64,000(5)	—	—	—	—	—
	—	—	15,385(6)	—	—	—	—	—

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards: Threshold ($) (1)	Target ($)	Maximum ($) (1)	All Other Stock Awards: Number of Shares of Stock or Units (#) (2)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards ($) (3)
Mitchell R. Little	4/1/2015	—	—	—	128	—	—	5,696
	4/1/2015	—	—	—	4,052	—	—	175,452
	7/1/2015	—	—	—	133	—	—	5,671
	7/1/2015	—	—	—	4,197	—	—	173,672
	9/1/2015	—	—	—	29,115	—	—	1,011,455
	10/1/2015	—	—	—	147	—	—	5,670
	10/1/2015	—	—	—	4,640	—	—	173,722
	1/4/2016	—	—	—	135	—	—	5,674
	1/4/2016	—	—	—	4,258	—	—	173,726
	—	—	108,401(4)	—	—	—	—	—
	—	—	27,100(5)	—	—	—	—	—
	—	—	11,330(6)	—	—	—	—	—
Stephen V. Drehobl	4/1/2015	—	—	—	148	—	—	6,586
	4/1/2015	—	—	—	4,666	—	—	202,038
	7/1/2015	—	—	—	154	—	—	6,567
	7/1/2015	—	—	—	4,833	—	—	199,990
	9/1/2015	—	—	—	33,528	—	—	1,164,763
	10/1/2015	—	—	—	170	—	—	6,557
	10/1/2015	—	—	—	5,343	—	—	200,042
	1/4/2016	—	—	—	156	—	—	6,557
	1/4/2016	—	—	—	4,903	—	—	200,042
	—	—	88,375(4)	—	—	—	—	—
	—	—	22,094(5)	—	—	—	—	—
	—	—	9,442(6)	—	—	—	—	—
J. Eric Bjornholt	4/1/2015	—	—	—	105	—	—	4,673
	4/1/2015	—	—	—	2,961	—	—	128,211
	7/1/2015	—	—	—	108	—	—	4,605
	7/1/2015	—	—	—	3,068	—	—	126,954
	9/1/2015	—	—	—	21,276	—	—	739,128
	10/1/2015	—	—	—	120	—	—	4,628
	10/1/2015	—	—	—	3,391	—	—	126,959
	1/4/2016	—	—	—	110	—	—	4,623
	1/4/2016	—	—	—	3,112	—	—	126,970
	—	—	56,637(4)	—	—	—	—	—
	—	—	14,159(5)	—	—	—	—	—
	—	—	8,509(6)	—	—	—	—	—

(1) 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).

(2) Represents RSUs granted under Microchip's 2004 Equity Incentive Plan.

(3) This column shows the full grant date fair value of RSU awards to the named executives in fiscal 2016. 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 2016) targeted for estimated future payout in fiscal 2017 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 2016) targeted for estimated future payout in fiscal 2017 under Microchip's DMICP.

(6) This annual target represents the portion of the executive officer's base salary (as measured at the end of fiscal 2016) targeted for future payout in fiscal 2017 under Microchip's ECBP.

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 12.6% to 20.7% for our named executive officers in fiscal 2016. 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 2016 YEAR END					
	Option Awards			Stock Awards	
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested [18] ($)
Steve Sanghi	—	—	—	25,295[1]	1,219,219
	—	—	—	28,771[2]	1,386,762
	—	—	—	28,693[3]	1,383,003
	—	—	—	27,970[4]	1,348,154
	—	—	—	25,673[5]	1,237,439
	—	—	—	25,261[6]	1,217,580
	—	—	—	23,424[7]	1,129,037
	—	—	—	148,235[8]	7,144,927
	—	—	—	21,372[9]	1,030,130
	—	—	—	20,320[10]	979,424
	—	—	—	657[10]	31,667
	—	—	—	18,967[11]	914,209
	—	—	—	569[11]	27,426
	—	—	—	680[11]	32,776
	—	—	—	21,105[12]	1,017,261
	—	—	—	752[12]	36,246
	—	—	—	21,670[13]	1,044,494
	—	—	—	690[13]	33,258
	—	—	—	20,630[14]	994,366
	—	—	—	21,368[15]	1,029,938
	—	—	—	23,622[16]	1,138,580
	—	—	—	21,675[17]	1,044,735
Ganesh Moorthy	—	—	—	9,335[1]	449,947
	—	—	—	11,303[2]	544,805
	—	—	—	11,272[3]	543,310
	—	—	—	10,988[4]	529,622
	—	—	—	10,391[5]	500,846
	—	—	—	10,225[6]	492,845
	—	—	—	9,481[7]	456,984
	—	—	—	62,067[8]	2,991,629
	—	—	—	8,650[9]	416,930
	—	—	—	8,467[10]	408,109
	—	—	—	307[10]	14,797
	—	—	—	7,677[11]	370,031
	—	—	—	463[11]	22,317
	—	—	—	318[11]	15,328
	—	—	—	8,794[12]	423,871
	—	—	—	352[12]	16,966
	—	—	—	9,029[13]	435,198
	—	—	—	323[13]	15,569
	—	—	—	8,638[14]	416,352
	—	—	—	8,947[15]	431,245
	—	—	—	9,891[16]	476,746
	—	—	—	9,075[17]	437,415

OUTSTANDING EQUITY AWARDS AT FISCAL 2016 YEAR END					
	Option Awards			Stock Awards	
Name	**Number of Securities Underlying Unexercised Options (#) Exercisable**	**Option Exercise Price ($)**	**Option Expiration Date**	**Number of Shares or Units of Stock That Have Not Vested (#)**	**Market Value of Shares or Units of Stock That Have Not Vested [18] ($)**
Mitchell R. Little	—	—	—	4,969[1]	239,506
	—	—	—	5,652[2]	272,426
	—	—	—	5,636[3]	271,655
	—	—	—	5,494[4]	264,811
	—	—	—	5,043[5]	243,073
	—	—	—	4,962[6]	239,168
	—	—	—	4,601[7]	221,768
	—	—	—	29,115[8]	1,403,343
	—	—	—	4,198[9]	202,344
	—	—	—	3,991[10]	192,366
	—	—	—	128[10]	6,170
	—	—	—	3,726[11]	179,593
	—	—	—	112[11]	5,398
	—	—	—	133[11]	6,411
	—	—	—	4,146[12]	199,837
	—	—	—	147[12]	7,085
	—	—	—	4,257[13]	205,187
	—	—	—	135[13]	6,507
	—	—	—	4,052[14]	195,306
	—	—	—	4,197[15]	202,295
	—	—	—	4,640[16]	223,648
	—	—	—	4,258[17]	205,236
Stephen V. Drehobl	—	—	—	5,721[1]	275,752
	—	—	—	6,508[2]	313,686
	—	—	—	6,490[3]	312,818
	—	—	—	6,327[4]	304,961
	—	—	—	5,807[5]	279,897
	—	—	—	5,714[6]	275,415
	—	—	—	5,298[7]	255,364
	—	—	—	33,528[8]	1,616,050
	—	—	—	4,834[9]	232,999
	—	—	—	4,596[10]	221,527
	—	—	—	148[10]	7,134
	—	—	—	4,290[11]	206,778
	—	—	—	129[11]	6,218
	—	—	—	154[11]	7,423
	—	—	—	4,774[12]	230,107
	—	—	—	170[12]	8,194
	—	—	—	4,901[13]	236,228
	—	—	—	156[13]	7,519
	—	—	—	4,666[14]	224,901
	—	—	—	4,833[15]	232,951
	—	—	—	5,343[16]	257,533
	—	—	—	4,903[17]	236,325

OUTSTANDING EQUITY AWARDS AT FISCAL 2016 YEAR END					
	Option Awards			Stock Awards	
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested [18] ($)
J. Eric Bjornholt	—	—	—	3,162[1]	152,408
	—	—	—	3,596[2]	173,327
	—	—	—	3,928[3]	189,330
	—	—	—	3,829[4]	184,558
	—	—	—	3,668[5]	176,798
	—	—	—	3,609[6]	173,954
	—	—	—	3,346[7]	161,277
	—	—	—	21,276[8]	1,025,503
	—	—	—	3,053[9]	147,155
	—	—	—	2,903[10]	139,925
	—	—	—	105[10]	5,061
	—	—	—	2,710[11]	130,622
	—	—	—	81[11]	3,904
	—	—	—	108[11]	5,206
	—	—	—	3,015[12]	145,323
	—	—	—	120[12]	5,784
	—	—	—	3,096[13]	149,227
	—	—	—	110[13]	5,302
	—	—	—	2,961[14]	142,720
	—	—	—	3,068[15]	147,878
	—	—	—	3,391[16]	163,446
	—	—	—	3,112[17]	149,998

(1) The award vested in full on May 15, 2016.
(2) The award vests in full on August 15, 2016, subject to continued service on such date.
(3) The award vests in full on November 15, 2016, subject to continued service on such date.
(4) The award vests in full on February 15, 2017, subject to continued service on such date.
(5) The award vests in full on May 15, 2017, subject to continued service on such date.
(6) The award vests in full on August 15, 2017, subject to continued service on such date.
(7) The award vests in full on November 15, 2017, subject to continued service on such date.
(8) The award vests quarterly over a three-year period commencing on November 15, 2017, subject to continued service on such date.
(9) The award vests in full on February 15, 2018, subject to continued service on such date.
(10) The award vests in full on May 15, 2018, subject to continued service on such date.
(11) The award vests in full on August 15, 2018, subject to continued service on such date.
(12) The award vests in full on November 15, 2018, subject to continued service on such date.
(13) The award vests in full on February 15, 2019, subject to continued service on such date.
(14) The award vests in full on May 15, 2019, subject to continued service on such date.
(15) The award vests in full on August 15, 2019, subject to continued service on such date.
(16) The award vests in full on November 15, 2019, subject to continued service on such date.
(17) The award vests in full on February 15, 2020, subject to continued service on such date.
(18) Represents the number of RSUs multiplied by $48.20, the closing price of our common stock on March 31, 2016.

OPTION EXERCISES AND STOCK VESTED
For Fiscal Year Ended March 31, 2016

	Option Awards		Stock Awards	
Name	**Number of Shares Acquired on Exercise (#)**	**Value Realized on Exercise ($)**	**Number of Shares Acquired on Vesting (#)**	**Value Realized on Vesting ($)**
Steve Sanghi, CEO, President and Chairman of the Board [(1)]	—	—	24,894	1,226,154
	—	—	24,901	1,083,692
	—	—	31,022	1,425,461
	—	—	26,398	1,098,949
Ganesh Moorthy, President and COO [(1)]	—	—	9,187	452,506
	—	—	9,190	399,949
	—	—	11,449	526,082
	—	—	9,742	405,559
Mitchell R. Little, VP Worldwide Sales and Applications	—	—	4,890	240,857
	—	—	4,891	212,856
	—	—	6,094	280,019
	—	—	5,185	215,852
Stephen V. Drehobl, VP, MCU8 and Technology Development Division	—	—	5,038	248,147
	—	—	5,039	219,297
	—	—	6,278	288,474
	—	—	5,342	222,387
J. Eric Bjornholt, VP and CFO	—	—	2,815	138,653
	—	—	2,816	122,552
	—	—	3,508	161,193
	—	—	3,300	137,379

(1) On February 3, 2016, Mr. Moorthy was appointed President of Microchip. Mr. Sanghi served as President prior to Mr. Moorthy's promotion.

Non-Qualified Deferred Compensation for Fiscal Year 2016

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 (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, 2016.

NON-QUALIFIED DEFERRED COMPENSATION

Name	Executive Contributions in Last FY (1)	Company Contributions in Last FY	Aggregate Earnings in Last FY (1)	Aggregate Withdrawals/ Distributions	Aggregate Balance at Last FYE (1)
Steve Sanghi	$ —	$ —	$ —	$ —	$ —
Ganesh Moorthy	—	—	(1,178)	—	182,224
Mitchell R. Little	43,712	—	(1,995)	—	48,489
Stephen V. Drehobl	160,084	—	(20,511)	—	557,715
J. Eric Bjornholt	20,837	—	(7,098)	—	184,317

(1) The executive contribution amounts shown in the table were previously reported in the "Summary Compensation Table" as salary and/or bonus for fiscal 2016 or prior fiscal years. The earnings amounts shown in the table were not previously reported for fiscal 2016 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, 2016, 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 2001 Employee Stock Purchase Plan (the "ESPP"),
- 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"),
- Supertex 2009 Equity Plan,
- ISSC 2011 Equity Plan,
- Micrel 2003 Incentive Award Plan,
- Micrel 2012 Equity Incentive Award Plan, and
- Microchip 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 (1)	(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(2)	6,178,192(3)	$39.83	14,893,459(4)
Equity Compensation Plans Not Approved by Stockholders	1,043,058(5)	$32.44	—
Total	7,221,250	$33.00(6)	14,893,459

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

(2) Beginning January 1, 2005, the shares authorized for issuance under our 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, 1,017,492 shares of common stock were reserved under the ESPP on January 1, 2016 based on the automatic increase provision. Beginning January 1, 2007, the shares authorized for issuance under our 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, 203,498 shares of common stock were reserved under the IESPP on January 1, 2016 based on the automatic increase provision.

(3) As of March 31, 2016, includes 6,109,586 shares issuable upon the vesting of RSUs granted under our 2004 Equity Incentive Plan, and 68,606 shares issuable upon the exercise of outstanding options granted under our 2004 Equity Incentive Plan.

(4) As of March 31, 2016, includes 8,609,392 shares remaining available for future issuance under our 2004 Equity Incentive Plan. The remaining balance represents shares available for purchase under the IESPP and the ESPP.

(5) As of March 31, 2016, includes 80,677 shares subject to outstanding SARs under the 2012 Inducement Plan. Also, includes 23,859 shares subject to outstanding awards under the 2009 LTIP; 4,808 shares subject to outstanding options under the 2005 Inducement Plan; 2,040 shares subject to outstanding options under the 2004 Inducement Plan; 680 shares subject to outstanding options under the 2003 Inducement Plan; and 226 shares subject to outstanding options under the 2002 Inducement Plan. Also, includes 270,361 shares subject to outstanding options under the 2009 Equity Plan that Supertex adopted prior to our acquisition of Supertex in April 2014. Also, includes 13,192 shares subject to outstanding options under the 2011 Equity Plan that ISSC adopted prior to our acquisition of ISSC in July 2014. Also, includes 14,680 shares issuable upon the vesting of RSUs granted under the Micrel 2003 Incentive Award Plan, and 87,368 shares issuable upon the exercise of outstanding options granted under the Micrel 2003 Incentive Award Plan. Also, includes 183,476 shares issuable upon the vesting of RSUs granted under the Micrel 2012 Equity Incentive Award Plan, and 361,691 shares issuable upon the exercise of outstanding options granted under the Micrel 2012 Equity Incentive Award Plan.

(6) As of March 31, 2016, there were a total of 913,508 shares subject to outstanding options, with a weighted average exercise price of $33.00 per share and a weighted average term of 4.51 years.

Equity Compensation Plans Not Approved by Stockholders

Microchip 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 BUSINESS CONDUCT AND ETHICS

In May 2004, our Board of Directors adopted a Code of Business Conduct and Ethics for our directors, officers (including our chief executive officer and chief financial officer), and employees. A copy of the Code of Business Conduct and Ethics, as amended to date, is available on our website at the About Us/Investor Relations section under Mission Statement/ Corporate Governance on *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 2017 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 2017 annual meeting, our Secretary must receive the proposal at our principal executive offices by March 13, 2017. 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 2017 annual meeting must do so no later than April 11, 2017.
- However, if we hold our 2017 annual meeting on a date that is not within 30 days before or after the anniversary date of our 2016 annual meeting, we must receive the notice no later than the close of business on the later of the 90th day prior to our 2017 annual meeting or the 10th 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 2017 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 2016 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 11, 2016.

APPENDIX A

MICROCHIP TECHNOLOGY INCORPORATED

EXECUTIVE MANAGEMENT INCENTIVE COMPENSATION PLAN

(As amended on May 16, 2016, subject to stockholder approval)

1. Purposes of the Plan. The Plan is intended to increase shareholder value and the success of the Company by motivating key executives to: (1) perform to the best of their abilities, and (2) achieve the Company's objectives. The Plan's goals are to be achieved by providing such executives with incentive awards based on the achievement of goals relating to the performance of the Company or upon the achievement of objectively determinable individual performance goals. The Plan is intended to permit the payment of bonuses that may qualify as performance-based compensation under Code Section 162(m).

2. Definitions.

(a) "Award" means, with respect to each Participant, the award determined pursuant to Section 8(a) below for a Performance Period. Each Award is determined by a Payout Formula for a Performance Period, subject to the Committee's authority under Section 8(a) to eliminate or reduce the Award otherwise payable.

(b) "Base Salary" means as to any Performance Period, the Participant's annualized salary rate on the first day of the Performance Period. Such Base Salary shall be before both (a) deductions for taxes or benefits, and (b) deferrals of compensation pursuant to Company-sponsored plans.

(c) "Board" means the Board of Directors of the Company.

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

(e) "Committee" means the Compensation Committee of the Board, or a sub-committee of the Compensation Committee, which shall, with respect to payments hereunder intended to qualify as performance-based compensation under Section 162(m), consist solely of two or more members of the Board who are not employees of the Company and who otherwise qualify as "outside directors" within the meaning of Section 162(m).

(f) "Company" means Microchip Technology Incorporated or any of its subsidiaries (as such term is defined in Code Section 424(f)).

(g) "Determination Date" means the latest possible date that will not jeopardize a Target Award or Award's qualification as Performance-Based Compensation.

(h) "Fiscal Quarter" means a fiscal quarter of the Company.

(i) "Fiscal Year" means a fiscal year of the Company.

(j) "Maximum Award" means as to any Participant for any Performance Period, $2.5 million.

(k) "Participant" means an executive officer of the Company participating in the Plan for a Performance Period.

(l) "Payout Formula" means as to any Performance Period, the formula or payout matrix established by the Committee pursuant to Section 7 in order to determine the Awards (if any) to be paid to Participants. The formula or matrix may differ from Participant to Participant.

(m) "Performance-Based Compensation" means compensation that is intended to qualify as "performance-based compensation" within the meaning of Section 162(m).

(n) "Performance Goals" means the goal(s) (or combined goal(s)) determined by the Committee (in its discretion) to be applicable to a Participant with respect to an Award. As determined by the Committee, the performance measures for any performance period will be any one or more of the following objective performance criteria, applied to either the Company as a whole or, except with respect to stockholder return metrics, to a region, business unit, affiliate or business segment, and measured either on an absolute basis or relative to a pre-established target, to a previous period's results to a designated comparison group, and/or to another Performance Goal and, with respect to financial metrics, which may be determined in accordance with United States Generally Accepted Accounting Principles ("GAAP"), in accordance with accounting principles established by the International Accounting Standards Board ("IASB Principles") or which may be adjusted when established to exclude any items otherwise includable under GAAP or under IASB Principles: (i) cash flow (including operating cash flow or free cash flow) or cash flow margin, (ii) cash position, (iii) revenue (on an absolute basis or adjusted for currency effects), (iv) gross margin, (v) operating margin, (vi) operating expenses or operating expenses as a percentage of revenue, (vii) earnings (which may include, without limitation, earnings before interest and taxes, earnings before taxes and earnings before income, taxes, depreciation and amortization), (viii) earnings per share, (ix) operating income or operating income as a percentage of revenue, (x) net income, (xi) stock price, (xii) return on equity, (xiii) total stockholder return, (xiv) growth in stockholder value relative to a specified publicly reported index (such as the S&P 500 Index), (xv) return on capital, (xvi) return on assets or net assets, (xvii) return on investment, (xviii) economic value added, (xix) market share, (xx) contract awards or backlog, (xxi) overhead or other expense reduction, (xxii) credit rating, (xxiii) objective customer indicators (including, without limitation, a customer satisfaction rating), (xxiv) new product invention or innovation, (xxv) attainment of research and development milestones, (xxvi) improvements in productivity, (xxvii) attainment of objective operating goals, and (xxviii) objective employee metrics. The Committee shall appropriately adjust any evaluation of performance under a Performance Goal to exclude (i) any extraordinary non-recurring items as described in Accounting Principles Board Opinion No. 30 and/or in management's discussion and analysis of financial conditions and results of operations appearing in the Company's reporting with the Securities and Exchange Commission for the applicable year, and (ii) the effect of any changes in accounting principles affecting the Company's or a business unit's reported results.

(o) "Performance Period" means any Fiscal Quarter or Fiscal Year, or such other longer period but not in excess of five Fiscal Years, as determined by the Committee in its sole discretion.

(p) "Plan" means this Performance Bonus Plan.

(q) "Plan Year" means the Company's fiscal year.

(r) "Section 162(m)" means Section 162(m) of the Code, or any successor to Section 162(m), as that Section may be interpreted from time to time by the Internal Revenue Service, whether by regulation, notice or otherwise.

(s) "Target Award" means the target award payable under the Plan to a Participant for the Performance Period, expressed as a percentage of his or her Base Salary or a specific dollar amount, as determined by the Committee in accordance with Section 6.

3. Plan Administration.

(a) The Committee shall be responsible for the general administration and interpretation of the Plan and for carrying out its provisions. Subject to the requirements for qualifying compensation as Performance-Based Compensation, the Committee may delegate specific administrative tasks to Company employees or others as appropriate for proper administration of the Plan. Subject to the limitations on Committee discretion imposed under Section 162(m), the Committee shall have such powers as may be necessary to discharge its duties hereunder, including, but not by way of limitation, the following powers and duties, but subject to the terms of the Plan:

(i) discretionary authority to construe and interpret the terms of the Plan, and to determine eligibility, Awards and the amount, manner and time of payment of any Awards hereunder;

(ii) to prescribe forms and procedures for purposes of Plan participation and distribution of Awards; and

(iii) to adopt rules, regulations and bylaws and to take such actions as it deems necessary or desirable for the proper administration of the Plan.

(b) Any rule or decision by the Committee that is not inconsistent with the provisions of the Plan shall be conclusive and binding on all persons, and shall be given the maximum deference permitted by law.

4. Eligibility. The employees eligible to participate in the Plan for a given Performance Period shall be executive officers of the Company who are designated by the Committee in its sole discretion. No person shall be automatically entitled to participate in the Plan.

5. Performance Goal Determination. The Committee, in its sole discretion, shall establish the Performance Goals for each Participant for the Performance Period. Such Performance Goals shall be set forth in writing prior to the Determination Date.

6. Target Award Determination. The Committee, in its sole discretion, shall establish a Target Award for each Participant. Each Participant's Target Award shall be determined by the Committee in its sole discretion, and each Target Award shall be set forth in writing prior to the Determination Date.

7. Determination of Payout Formula or Formulae. On or prior to the Determination Date, the Committee, in its sole discretion, shall establish a Payout Formula or Formulae for purposes of determining the Award (if any) payable to each Participant. Each Payout Formula shall (a) be set forth in writing prior to the Determination Date, (b) be based on a comparison of actual performance to the Performance Goals, (c) provide for the payment of a Participant's Target Award if the Performance Goals for the Performance Period are achieved, and (d) provide for an Award greater than or less than the Participant's Target Award, depending upon the extent to which actual performance exceeds or falls below the Performance Goals. Notwithstanding the preceding, in no event shall a Participant's Award for any Performance Period exceed the Maximum Award.

8. Determination of Awards; Award Payment.

(a) Determination and Certification. After the end of each Performance Period, the Committee shall certify in writing (which may be by approval of the minutes in which the certification was made) the extent to which the Performance Goals applicable to each Participant for the Performance Period were achieved or exceeded. The Award for each Participant shall be determined by applying the Payout Formula to the level of actual performance that has been certified by the Committee. Notwithstanding any contrary provision of the Plan, the Committee, in its sole discretion, may eliminate or reduce the Award payable to any Participant below that which otherwise would be payable under the Payout Formula but shall not have the right to increase the Award above that which would otherwise be payable under the Payout Formula.

(b) Right to Receive Payment. Each Award under the Plan shall be paid solely from the general assets of the Company. Nothing in this Plan shall be construed to create a trust or to establish or evidence any Participant's claim of any right to payment of an Award other than as an unsecured general creditor with respect to any payment to which he or she may be entitled. A Participant needs to be employed by the Company through the payment date in order to be eligible to receive an Award payout hereunder.

(c) Form of Distributions. The Company shall distribute all Awards to the Participant in cash.

(d) Timing of Distributions. Subject to Section 8(e) below, the Company shall distribute amounts payable to Participants as soon as is practicable following the determination and written certification of the Award for a Performance Period.

(e) Deferral. The Committee may defer payment of Awards, or any portion thereof, to Participants as the Committee, in its discretion, determines to be necessary or desirable to preserve the deductibility of such amounts under Section 162(m). In addition, the Committee, in its sole discretion, may permit a Participant to defer receipt of the payment of cash that would otherwise be delivered to a Participant under the Plan. Any deferrals or deferral elections hereunder shall be subject to such rules and procedures as shall be determined by the Committee in its sole discretion, and must comply with the requirements of Code Section 409A.

9. Term of Plan. Subject to its re-approval at the 2016 annual meeting of the Company's stockholders, the Plan shall continue until terminated under Section 10 of the Plan.

10. Amendment and Termination of the Plan. The Committee may amend, modify, suspend or terminate the Plan, in whole or in part, at any time, including the adoption of amendments deemed necessary or desirable to correct any defect or to supply omitted data or to reconcile any inconsistency in the Plan or in any Award granted hereunder; provided, however, that no amendment, alteration, suspension or discontinuation shall be made which would (a) impair any payments to Participants made prior to such amendment, modification, suspension or termination, unless the Committee has made a determination that such amendment or modification is in the best interests of all persons to whom Awards have theretofore been granted; provided further, however, that in no event may such an amendment or modification result in an increase in the amount of compensation payable pursuant to such Award or (b) cause compensation that is, or may become, payable hereunder to fail to qualify as Performance-Based Compensation. To the extent necessary or advisable under applicable law, including Section 162(m), Plan amendments shall be subject to shareholder approval. At no time before the actual distribution of funds to Participants under the Plan shall any Participant accrue any vested interest or right whatsoever under the Plan except as otherwise stated in this Plan.

11. Forfeiture Events. All Awards will be subject to recoupment under any clawback policy that the Company is required to adopt pursuant to the listing standards of any national securities exchange or association on which the Company's securities are listed or as is otherwise required by the Dodd-Frank Wall Street Reform and Consumer Protection Act or other applicable laws. In addition, to the extent required by Section 304 of the Sarbanes-Oxley Act of 2002, an applicable Participant shall reimburse the Company the amount of any payment in settlement of an Award earned or accrued under the Plan during the 12 month period following the first public issuance or filing with the Securities and Exchange Commission (whichever first occurred) of the financial document embodying such financial reporting requirement.

12. Withholding. Distributions pursuant to this Plan shall be subject to all applicable federal and state tax and withholding requirements.

13. At-Will Employment. No statement in this Plan should be construed to grant any employee an employment contract of fixed duration or any other contractual rights, nor should this Plan be interpreted as creating an implied or an expressed contract of employment or any other contractual rights between the Company and its employees. The employment relationship between the Company and its employees is terminable at-will. This means that an employee of the Company may terminate the employment relationship at any time and for any reason or no reason.

14. Successors. All obligations of the Company under the Plan, with respect to awards granted hereunder, shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business or assets of the Company.

15. Indemnification. Each person who is or shall have been a member of the Committee, or of the Board, shall be indemnified and held harmless by the Company against and from (a) any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under the Plan or any award, and (b) from any and all amounts paid by him or her in settlement thereof, with the Company's approval, or paid by him or her in satisfaction of any judgment in any such claim, action, suit, or proceeding against him or her, provided he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's Certificate of Incorporation or Bylaws, by contract, as a matter of law, or otherwise, or under any power that the Company may have to indemnify them or hold them harmless.

16. Nonassignment. The rights of a Participant under this Plan shall not be assignable or transferable by the Participant except by will or the laws of intestacy.

17. Governing Law. The Plan shall be governed by the laws of the State of Arizona, without regard to conflicts of law provisions thereunder.

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, 2016

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	**86-0629024**
(State or Other Jurisdiction of Incorporation or Organization)	(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:

Title of Each Class	Name of Each Exchange on Which Registered
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, 2015 based upon the closing price of the common stock as reported by the NASDAQ Global Market on such date was approximately $8,528,992,176.

Number of shares of Common Stock, $0.001 par value, outstanding as of May 16, 2016: 214,815,223 shares

Documents Incorporated by Reference

Document	Part of Form 10-K
Proxy Statement for the 2016 Annual Meeting of Stockholders	III

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES

FORM 10-K

TABLE OF CONTENTS

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 12, 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, radio frequency (RF), timing, 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," "our," and "Microchip" 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*. 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 4, 2016, we completed our acquisition of Atmel Corporation (Atmel). Under the terms of the merger agreement executed on January 19, 2016, Atmel stockholders received $8.15 per share in a combination of $7.00 per share in cash and $1.15 per share in shares of Microchip common stock. We financed the purchase price of our Atmel acquisition using approximately $2.04 billion of cash, cash equivalents, short-term investments and long-term investments held by certain of our foreign subsidiaries, approximately $0.94 billion from additional borrowings under our existing line of credit agreement and approximately $489 million by issuing an aggregate of 10.1 million shares of our common stock. The acquisition price represents a total equity value of approximately $3.47 billion, and a total enterprise value of approximately $3.43 billion, after excluding Atmel's cash and investments net of debt of approximately $39.3 million. Atmel is a worldwide leader in the design and manufacture of microcontrollers, capacitive touch solutions, advanced logic, mixed-signal, nonvolatile memory and RF components. Atmel is headquartered in San Jose, California and has offices, manufacturing and research facilities in North America, Europe and Asia.

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
- make systems safer to operate
- 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 for program storage, 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, timing 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 over $15 billion in calendar year 2015. 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 over $44 billion in calendar year 2015, 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, interface, mixed signal and timing products
- wired and wireless 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 usage, 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® brand name. We believe that our PIC product family is a price/performance leader in the worldwide microcontroller market. We have shipped close to 17 billion microcontrollers to customers worldwide since their introduction in 1990. We also offer specialized microcontrollers for automotive networking, computing, lighting, power supplies, motor control, wired connectivity and wireless connectivity. With over 1,400 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 microcontroller products. Our extensive experience base has enabled us to develop microcontrollers with rich analog and digital peripherals, that have a small footprint, extreme low power consumption and are re-programmable, enabling us to be a leader in 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, they 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. We also offer a complete suite of compilers, software code configurators and simulators. 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 development tools from Microchip as well as our third-party development tool partners 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 approximately two million development tools.

Analog, Interface, Mixed Signal and Timing Products

Our analog, interface, mixed signal and timing products consist of several families with over 3,000 power management, linear, mixed-signal, high voltage, thermal management, RF, drivers, safety and security, timing, USB, ethernet, wireless and other interface products.

We market and sell our analog, interface, mixed signal and timing 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 SRAMs 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® embedded flash and Smartbits® 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 a portion of the wafer manufacturing and 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 in recent years 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)
- San Jose, California (wafer fab, wafer probe and test)
- 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 2016, we increased Fab 2's capacity to support more advanced technologies 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. During fiscal 2016, we increased Fab 4's capacity to support more advanced technologies by making process improvements, upgrading existing equipment, and adding equipment. A significant amount of additional clean room capacity 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.

As a result of our acquisition of Micrel, Incorporated (Micrel) in August 2015, we acquired a 6-inch fab in San Jose, California and are in the process of providing last time inventory for our customers as we transition those products into our Fab 2 and Fab 4 facilities. We intend to start decommissioning the San Jose Fab in late fiscal 2017.

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 acquisitions in recent years, we have become more reliant on outside wafer foundries for our wafer fabrication requirements. In fiscal 2016, approximately 39% 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 and test at our Chandler, Arizona and San Jose, California facilities. During fiscal 2016, we increased our Thailand facilities' capacity to support more technologies by making process improvements, upgrading existing equipment, and adding equipment. During fiscal 2016, approximately 53% of our assembly requirements were being performed in our Thailand facilities and approximately 81% 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 complementary metal-oxide semiconductor (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 2016, 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 $373.9 million and $235.5 million in other countries, including $182.8 million in Thailand. At the end of fiscal 2015, 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 $331.4 million and $250.2 million in other countries, including $198.0 million in Thailand. At the end of fiscal 2014, we owned identifiable long-lived assets 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.

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, wired and wireless connectivity products, analog, interface, mixed signal and timing products, Serial EEPROM memory, NOR FLASH memory, Embedded FLASH technologies, development systems, human 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 2016, our R&D expenses were $372.6 million, compared to $349.5 million in fiscal 2015 and $305.0 million in fiscal 2014. R&D expenses included share-based compensation expense of $32.0 million in fiscal 2016, $28.2 million in fiscal 2015 and $24.6 million in fiscal 2014.

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 client engagement managers (CEMs), embedded system engineers (ESEs), 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 ESE team is to provide technical assistance to customers and to conduct periodic training sessions for the balance of our sales team. ESEs 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.

For information regarding revenue, results of operations, and total assets for each of our last three fiscal years, refer to our financial statements included in this Form 10-K.

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 fiscal 2016, we derived 53% of our net sales through distributors and 47% of our net sales from customers serviced directly by us. In fiscal 2015, we derived 51% of our net sales through distributors and 49% of our net sales from customers serviced directly by us. In fiscal 2014, we derived 53% of our net sales through distributors and 47% of our net sales from customers serviced directly by us. No distributor or end customer accounted for more than 10% of our net sales in fiscal 2016, fiscal 2015 or fiscal 2014.

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 2016, fiscal 2015 and fiscal 2014 were as follows (dollars in thousands):

	Year Ended March 31,					
	2016	%	2015	%	2014	%
Americas	$ 417,579	19.2	$ 421,947	19.7	$ 365,609	18.9
Europe	474,629	21.8	452,165	21.0	411,531	21.3
Asia	1,281,126	59.0	1,272,924	59.3	1,154,077	59.8
Total Sales	$ 2,173,334	100.0	$ 2,147,036	100.0	$ 1,931,217	100.0

Sales to foreign customers accounted for approximately 84% of our net sales in each of fiscal 2016, 2015 and 2014. 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 30%, 28% and 29% of our net sales in fiscal 2016, 2015 and 2014, respectively. Sales to customers in Taiwan accounted for approximately 12%, 14% and 13% of our net sales in fiscal 2016, 2015 and 2014, respectively. We did not have sales into any other foreign countries that exceeded 10% of our net sales during fiscal 2016, fiscal 2015 or fiscal 2014.

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, the impact of our acquisitions, 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, 2016, our backlog was approximately $1,212.3 million, including approximately $360.0 million related to Atmel, compared to $765.0 million as of April 30, 2015, which excludes Atmel. 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 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
- extended voltage ranges
- reliability
- packaging alternatives
- complete development tool line

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 2016 and 2035. 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 our intention is to continue to patent 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. As with any operating company, the scope and strength of our intellectual property assets, including our pending and existing patents, trademarks, copyrights, and other intellectual property rights may be insufficient to provide meaningful protection or commercial advantage. Moreover, pursuing violations of intellectual property rights on a worldwide basis is a complex challenge involving multinational patent, trademark, copyright and trade secret laws. Further, the laws of particular foreign countries often fail to protect our intellectual property rights to the same extent as the laws of the U.S.

We have also entered into certain intellectual property licenses and cross-licenses with other companies and those licenses relate to semiconductor products and manufacturing processes. As is typical in the semiconductor industry, we and our customers from time to time receive, and may continue to receive, demand letters from third parties asserting infringement of patent and other intellectual property rights. We diligently investigate all such notices and respond as we believe appropriate. In most cases we believe that we can obtain necessary licenses on commercially reasonable terms, however, we cannot be certain that this would be the case, or that litigation or damages for any past infringement could be avoided. Litigation, which could result in substantial costs and require significant attention from management, may be necessary to enforce our intellectual property rights, or to defend against claimed infringement of the rights of others. The failure to obtain necessary licenses, or the necessity of engaging in defensive litigation, 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, 2016, we had 9,766 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, 2016:

Name	Age	Position
Steve Sanghi	60	Chief Executive Officer and Chairman of the Board
Ganesh Moorthy	56	President and Chief Operating Officer
J. Eric Bjornholt	45	Vice President, Chief Financial Officer
Stephen V. Drehobl	54	Vice President, MCU8 and Technology Development Division
Mitchell R. Little	64	Vice President, Worldwide Sales and Applications
Richard J. Simoncic	52	Vice President, Analog Power and Interface Division

Mr. Sanghi has served as Chief Executive Officer since October 1991, and Chairman of the Board since October 1993. He served as President from August 1990 to February 2016 and 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. From May 2007 until April 2016, he served as a member of the Board of Directors of FIRST (For Inspiration and Recognition of Science and Technology).

Mr. Moorthy has served as President since February 2016 and as Chief Operating Officer since June 2009. He also served as Executive Vice President from October 2006 to August 2012 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. 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 Power and Interface Division since September 1999. From October 1995 to September 1999, he served as Vice President in various roles. Since 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 realize the expected benefits of our acquisitions including our recent acquisition of Atmel;
- changes or fluctuations in customer order patterns and seasonality;
- 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 in tax regulations and policies in the U.S. and other countries in which we do business;
- our ability to ramp our factory capacity to meet customer demand;
- competitive developments including pricing pressures;
- unauthorized copying of our products resulting in pricing pressure and loss of sales;
- availability of raw materials and equipment;
- our ability to successfully transition products to more advanced process technologies to reduce manufacturing costs;
- 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 our mix of product sales;
- announcements of significant acquisitions by us or our competitors;
- 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 and duration 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 our failure to meet contractual shipment deadlines. Our operating results are also adversely affected when we operate at less than optimal capacity. For example, in fiscal 2012 and fiscal 2013 we reduced wafer starts in both Fab 2 and Fab 4, which negatively impacted our gross profit through the March 2013 quarter. We increased wafer starts modestly throughout fiscal 2014 and fiscal 2015. Although we operated at normal capacity levels during the last three quarters of fiscal 2015, the first two quarters of fiscal 2016 and the fourth quarter of fiscal 2016, there can be no assurance that such production levels will be maintained in future periods.

We may not fully realize the anticipated benefits of our completed or future acquisitions or divestitures including our recently completed acquisition of Atmel.

We have acquired, and expect in the future to acquire, additional businesses that we believe will complement or augment our existing businesses. On April 4, 2016, we acquired Atmel which is our largest and most complex acquisition ever. In addition, in August 2015, we completed our acquisition of Micrel; in July 2014, we completed our acquisition of a controlling interest in ISSC Technologies Corp. (ISSC); in April 2014, we completed our acquisition of Supertex, Inc. (Supertex); and in August 2012, we completed our acquisition of Standard Microsystems Corporation (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. In particular, as a result of our Atmel acquisition, we became involved with certain third-party claims related to the Atmel business. See "Item 3. Legal Proceedings" for information regarding such claims. Acquisitions may also result in 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 our common stock, or other mechanisms.

Further, if we decide to divest 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 achievement of our strategic objectives or cause us to incur additional expenses with respect to assets or a business that we want to dispose of, or we may dispose of assets or 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, landlords or other third parties. We may also have continuing obligations for pre-existing liabilities related to the assets or businesses. Such obligations may have a material adverse impact on our results of operations 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.

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

In February 2015, we amended our credit agreement to increase the revolving credit facility to $2.555 billion and we sold $1.725 billion of principal value of our 1.625% senior subordinated convertible debentures. As a result of such transactions, we have a substantially greater amount of debt than we had maintained in the past. In August 2015, we increased our borrowings under our credit agreement to finance the approximately $430 million cash portion of the purchase price of our Micrel acquisition which closed on August 3, 2015. In December 2015, we exercised our increase option in our credit agreement to obtain additional revolving commitments of $219 million, bringing our total revolving credit facility to $2.774 billion. At March 31, 2016, we had $1,052.0 million in outstanding borrowings under such credit agreement. In connection with the closing of our acquisition of Atmel on April 4, 2016, we increased our borrowings under our credit agreement by approximately $0.94 billion to finance a portion of the purchase price of such acquisition. 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.

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, mixed signal and timing products have remained relatively constant, while average selling prices of our memory and non-proprietary analog, interface, mixed signal and timing 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, interface, mixed signal and timing 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 and other technologies also rely on foundries and other contractors.

We rely on outside wafer foundries for a significant portion of our wafer fabrication needs. Specifically, during each of fiscal 2016 and fiscal 2015, approximately 39% of our net sales came from products that were produced at outside wafer foundries. 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 acquisitions of SMSC in August 2012, Supertex in April 2014 and ISSC in July 2014. 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 the countries in which such contractors are located 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 on terms favorable to us, or at all. 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, our use of subcontractors increases the risks of potential misappropriation of our intellectual property.

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

Our operating results are 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, changes in semiconductor industry and global economic conditions and our acquisition activity can have a more significant impact on our results than seasonality. As a result, in periods when these broad fluctuations, changes in business conditions or acquisitions occur, it is difficult to assess the impact of seasonal factors on our business. The semiconductor 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.

Our business is dependent on selling through distributors.

Sales through distributors accounted for approximately 53% of our net sales in fiscal 2016 and approximately 51% of our net sales in fiscal 2015. 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 and other technologies. The success of our licensing business depends on the continued market acceptance of these technologies and on our ability to further develop and enhance such technologies 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 and enforce 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 licensed technologies are complex, there may be delays from time to time in developing and enhancing such technologies. 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.

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, product failures, contracts and other matters. As is typical in the semiconductor industry, we receive notifications from third parties from time to time who believe that we owe them indemnification or other obligations related to claims made against us, our direct or indirect customers or our licensees. These legal proceedings and claims, even if meritless, could result in substantial costs 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, provide a cost-effective remedy, 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, economic damage 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 or unpaid receivables;
- customer imposed fines or penalties for failure to meet contractual requirements; and
- a requirement to pay damages or penalties.

Because the systems into which our products are integrated have a higher cost of goods than the products we sell, the expenses and damages we are asked to pay 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, defense, safety, security, 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 net sales.

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 2016, approximately 84% of our net sales were made to foreign customers, including 30% in China. During fiscal 2015, approximately 84% of our net sales were made to foreign customers, including 28% 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 or economic weakness in the China market may make it difficult for us to achieve our desired sales volumes in China. In particular, economic conditions in China remain uncertain and we are unable to predict whether such uncertainty will continue or worsen in future periods.

We deliver products to our European customers through our facilities in England. The UK's EU referendum on June 23, 2016 (called "Brexit" in the press) is to determine whether the UK will leave the EU. If the UK does leave the EU, we may lose our ability to import and export products tax-free throughout Europe. As a result, it may increase the costs to Microchip for the import and sale of our products to our customers, which may result in a decrease in sales to certain of our customers. In order to avoid these costs, we may have to consider alternate methods for delivering product into Europe. In implementing these changes, we may experience a disruption in operations or product shipments.

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 has experienced periods of political instability in the past. Substantially all of our finished goods inventory is maintained in Thailand. From time to time, Thailand has also experienced periods of severe flooding. There can be no assurance that any future flooding or political instability in Thailand would not have a material adverse impact on our operations. We use various foundries and other foreign contractors for a significant portion of our assembly and testing and wafer fabrication requirements.

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;
- 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;
- currency fluctuations and foreign exchange regulations;
- difficulties in staffing and managing international operations;
- employment regulations;
- disruptions in international transport or delivery;
- public health conditions;
- difficulties in collecting receivables and longer payment cycles; 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.

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 93,000 customers and our ten largest direct customers made up approximately 10% of our total revenue for fiscal 2016, 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, we may inherit 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 minimize the number of contracts which contain such provisions, manage the risks underlying such liabilities, and set caps on our liability exposure, sometimes we are not 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, product failure, 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 operations 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. While 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, 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.

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, 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. Over the past several months, the U.S. dollar has declined slightly against the Euro and other major currencies. Although our business has not been materially adversely impacted by such change in the value of the U.S. dollar, there can be no assurance as to the future impact that the strength of the dollar will have on our business or results of operations.

Interruptions in our information technology systems, or improper handling of data, 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 any such disruptions or security breaches. Additionally, any 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 attacks or disruptions. Any such attack or disruption could result in additional costs related to rebuilding of our internal systems, defending litigation, responding to regulatory actions, or paying damages. Such attacks or disruptions 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, environmental matters, 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 the 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, energy efficiency measures, and supplier practices associated with sourcing and manufacturing. 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 existing 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.

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 of 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 adverse impact on our financial position and results of operations.

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 investigation, disclosure and reporting requirements regarding the use of "conflict" minerals mined from the Democratic Republic of Congo and adjoining countries and which are necessary to the functionality or production of products. We filed a report on Form SD with the SEC regarding such matters on June 1, 2015. Other countries are considering similar regulations. If we cannot certify that we are using conflict-free minerals, customers may demand that we change the sourcing of minerals and other materials used in the manufacture of our products, even if the costs for compliant minerals and materials significantly increases and availability is limited. If we make changes to materials or suppliers, there will likely be costs associated with qualifying new suppliers and production capacity and quality could be negatively impacted. Our relationships with customers and suppliers may be adversely affected if we are unable to certify that our products are "conflict-free." We have incurred, and expect in the future to incur, 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. We may also encounter challenges to satisfy those customers who require that all of the components of our products be certified as conflict free in a materially different manner than advocated by the Conflict Free Smelter Initiative or the Dodd-Frank Wall Street Reform and Consumer Protection Act. 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), International Traffic in Arms Regulations (ITAR) 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. We are currently under IRS audit for fiscal 2011 and fiscal 2012. We are subject to certain income tax examinations in foreign jurisdictions for fiscal 2008 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 our financial guidance or our failure to meet such guidance;
- changes in analysts' estimates of our financial performance or buy/sell recommendations;
- any acquisitions we pursue or complete (including our recent acquisition of Atmel); 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.

As a result of our acquisition activity, our goodwill and intangible assets have increased significantly in recent years and we may in the future incur impairments to goodwill or long-lived assets.

When we acquire a business, a substantial portion of the purchase price of the acquisition is allocated to goodwill and other identifiable intangible assets. The amount of the purchase price which is allocated to goodwill and other intangible assets is determined by the excess of the purchase price over the net identifiable assets acquired. As of March 31, 2016, we had goodwill of $1,012.7 million and net intangible assets of $606.3 million. 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 2016 or fiscal 2015. However, if in future periods, we determine that our long-lived assets, including goodwill or intangible assets, are impaired, we will be required to write down these assets which would have a negative effect on our consolidated financial statements.

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. In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09 - *Revenue from Contracts with Customers (Topic 606)*, which will supersede nearly all existing revenue 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 currently evaluating the impact that the adoption of the standard may have on our consolidated financial statements and have not elected a transition method. Refer to Note 1 to our consolidated financial statements for additional information on the new guidance and its potential impact on us.

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, and 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 Arizona and Thailand. 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, 2016, we owned the facilities described below:

Location	Approximate Total Sq. Ft.	Uses
Chandler, Arizona	415,000	Executive and Administrative Offices; Wafer Probe; R&D Center; Sales and Marketing; and Computer and Service Functions
Tempe, Arizona	457,000	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
San Jose, California	186,000	Wafer Fabrication; Wafer Probe; Test; 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	281,000	Research and Development; Sales and 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 $1.6 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 39 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. Consequently, we could incur uninsured liability in any of those actions. We also periodically receive notifications from various third parties alleging infringement of patents or other intellectual property rights. With respect to pending legal actions to which we are a party, although the outcomes 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. However, if an unfavorable ruling were to occur in any of the legal proceedings described below or in other legal proceedings that were not deemed material to us as of the date hereof, then such legal proceedings could 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, from time to time, subject to such litigation. As a result, no assurances can be given with respect to the extent or outcome of any such litigation in the future.

As a result of our acquisition of Atmel, which closed April 4, 2016, we became involved with the following lawsuits.

In re: Continental Airbag Products Liability Litigation. On May 11, 2016, an Amended and Consolidated Class Action Complaint ("Complaint") was filed in the United States District Court for the Southern District of Florida (Miami Division) against Atmel, Continental Automotive Systems, Inc., Honda Motor Co., Ltd. and an affiliate, and Daimler AG and an affiliate.

The Complaint which includes claims arising under federal law and Florida, California, New Jersey, Michigan and Louisiana state law-alleges that class members unknowingly purchased or leased vehicles containing defective airbag control units (allegedly incorporating defective application specific integrated circuits manufactured by Atmel between 2006 and 2010), and thereby suffered financial harm, including a loss in the value of their purchased or leased vehicles. The plaintiffs are seeking unspecified compensatory and exemplary damages, statutory penalties, pre- and post-judgment interest, attorneys' fees, and injunctive and other relief. Atmel intends to contest plaintiffs' claims vigorously.

Southern District of New York Action by LFoundry Rousset ("LFR") and LFR Employees. On March 4, 2014, LFR and Jean-Yves Guerrini, individually and on behalf of a putative class of LFR employees, filed an action in the United States District Court for the Southern District of New York (the "District Court") against Atmel, its French subsidiary, Atmel Rousset S.A.S. ("Atmel Rousset"), and LFoundry GmbH ("LF"), LFR's German parent. The case purports to relate to Atmel Rousset's June 2010 sale of its wafer manufacturing facility in Rousset, France to LF, and LFR's subsequent insolvency, and later liquidation, more than three years later. The District Court dismissed the case on August 21, 2015, and plaintiffs are appealing the dismissal.

Individual Labor Actions by former LFR Employees. In the wake of LFR's insolvency and liquidation, over 500 former employees of LFR have filed individual labor actions against Atmel Rousset in a French labor court. Atmel Rousset believes that each of these actions is entirely devoid of merit, and, further, that any assertion by any of the Claimants of a co-employment relationship with Atmel Rousset is based substantially on the same specious arguments that the Paris Commercial Court summarily rejected in 2014 in related proceedings. Atmel Rousset therefore intends to defend vigorously against each of these claims.

Item 4. **MINE SAFETY DISCLOSURES**

Not applicable.

PART II

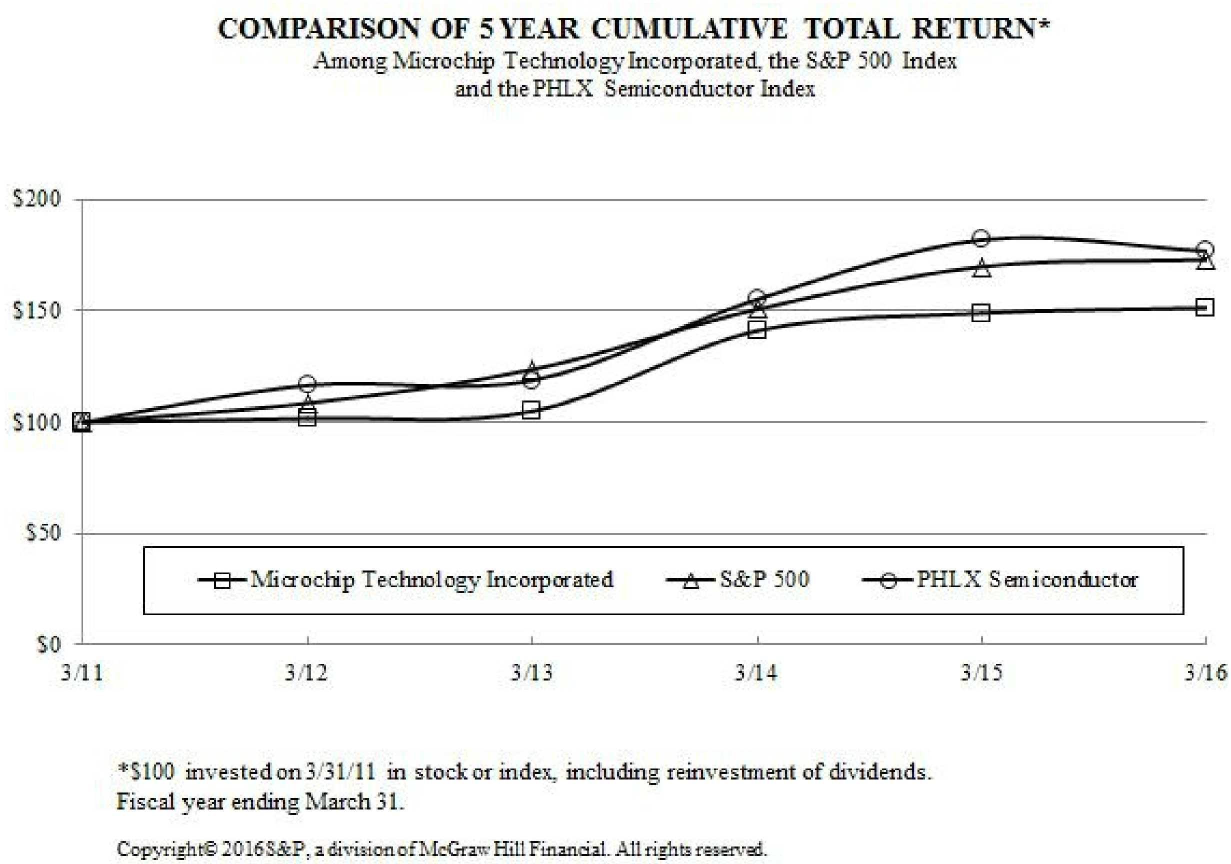
Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the NASDAQ Global Market under the symbol "MCHP." 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.

Fiscal 2016	High	Low	Fiscal 2015	High	Low
First Quarter	$50.41	$46.66	First Quarter	$49.48	$45.85
Second Quarter	$46.64	$39.57	Second Quarter	$49.83	$45.02
Third Quarter	$49.11	$42.19	Third Quarter	$46.59	$37.73
Fourth Quarter	$49.11	$39.65	Fourth Quarter	$52.41	$43.02

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 2011	March 2012	March 2013	March 2014	March 2015	March 2016
Microchip Technology Incorporated	100.00	101.77	104.93	141.11	148.94	151.51
S&P 500 Stock Index	100.00	108.54	123.69	150.73	169.92	172.95
Philadelphia Semiconductor Index	100.00	116.57	118.80	155.20	181.98	176.90

Data acquired by Research Data Group, Inc. (www.researchdatagroup.com)

On May 16, 2016, there were approximately 455 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 $291.1 million, $286.5 million and $281.2 million in fiscal 2016, fiscal 2015 and fiscal 2014, 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 2016 and fiscal 2015 (amounts in thousands, except per share amounts):

Fiscal 2016	**Dividends per Common Share**	**Aggregate Amount of Dividend Payment**	**Fiscal 2015**	**Dividends per Common Share**	**Aggregate Amount of Dividend Payment**
First Quarter	$ 0.3575	$ 72,331	First Quarter	$ 0.3555	$ 71,202
Second Quarter	0.3580	72,686	Second Quarter	0.3560	71,442
Third Quarter	0.3585	72,923	Third Quarter	0.3565	71,787
Fourth Quarter	0.3590	73,147	Fourth Quarter	0.3570	72,047

On May 4, 2016, we declared a quarterly cash dividend of $0.3595 per share, which will be paid on June 6, 2016 to stockholders of record on May 23, 2016 and the total amount of such dividend is expected to be approximately $77 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.

Refer to "Item 12 - Security Ownership Of Certain Beneficial Owners And Management And Related Stockholder Matters," at page 50 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, 2016.

Issuer Purchases of Equity Securities

In May 2015, our Board of Directors authorized the repurchase of up to 20.0 million shares of our common stock in the open market or in privately negotiated transactions. As of March 31, 2016, we had repurchased 8.6 million shares under this authorization for approximately $363.8 million. In January 2016, our Board of Directors authorized an increase in the existing share repurchase program to 15.0 million shares of common stock from the approximately 11.4 million shares remaining under the current authorization. There is no expiration date associated with this repurchase program. We did not repurchase any shares of our common stock in our fourth fiscal quarter ended March 31, 2016.

Item 6. SELECTED FINANCIAL DATA

You should read the following selected consolidated financial data for the five-year period ended March 31, 2016 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, 2016, and the balance sheet data as of March 31, 2016 and 2015, 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, 2013 and 2012 and balance sheet data as of March 31, 2014, 2013 and 2012 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,				
	2016 [1]	2015 [1]	2014	2013	2012
Net sales	$ 2,173,334	$ 2,147,036	$ 1,931,217	$ 1,581,623	$ 1,383,176
Cost of sales	967,870	917,472	802,474	743,164	583,882
Research and development	372,596	349,543	305,043	254,723	182,650
Selling, general and administrative	301,670	274,815	267,278	261,471	208,328
Amortization of acquired intangible assets	174,896	176,746	94,534	111,537	10,963
Special charges, net [2]	3,957	2,840	3,024	32,175	837
Operating income	352,345	425,620	458,864	178,553	396,516
Losses on equity method investments	(345)	(317)	(177)	(617)	(195)
Interest income	24,447	19,527	16,485	15,560	17,992
Interest expense	(104,018)	(62,034)	(48,716)	(40,915)	(34,266)
Loss on retirement of convertible debentures [3]	—	(50,631)	—	—	—
Other income (expense), net	8,864	13,742	5,898	(404)	(352)
Income from continuing operations before income taxes	281,293	345,907	432,354	152,177	379,695
Income tax (benefit) provision	(42,632)	(19,418)	37,073	24,788	42,990
Net income from continuing operations	323,925	365,325	395,281	127,389	336,705
Less: Net loss attributable to noncontrolling interests	207	3,684	—	—	—
Net income from continuing operations attributable to Microchip Technology	$ 324,132	$ 369,009	$ 395,281	$ 127,389	$ 336,705
Basic net income per common share from continuing operations attributable to Microchip Technology stockholders	$ 1.59	$ 1.84	$ 1.99	$ 0.65	$ 1.76
Diluted net income per common share from continuing operations attributable to Microchip Technology stockholders	$ 1.49	$ 1.65	$ 1.82	$ 0.62	$ 1.65
Dividends declared per common share	$ 1.433	$ 1.425	$ 1.417	$ 1.406	$ 1.390
Basic common shares outstanding	203,384	200,937	198,291	194,595	191,283
Diluted common shares outstanding	217,388	223,561	217,630	205,776	203,519

(1) Refer to Note 2 to our consolidated financial statements for an explanation of our material business combinations during fiscal 2016 and fiscal 2015.

(2) The following table presents a summary of special charges, net for the five-year period ended March 31, 2016:

	March 31,				
	2016	2015	2014	2013	2012
Acquisition related expenses	$ 11,163	$ 2,840	$ 1,654	$ 16,259	$ 340
Legal settlement	(7,206)	—	—	11,516	—
Adjustment to contingent consideration	—	—	1,370	4,400	(1,000)
Patent licenses	—	—	—	—	1,497
Totals	$ 3,957	$ 2,840	$ 3,024	$ 32,175	$ 837

Discussions of the special charges for fiscal 2016, fiscal 2015 and fiscal 2014 are contained in Note 3 to our consolidated financial statements.

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 an entity which we 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. 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 expires in December 2018.

(3) Refer to Note 15 to our consolidated financial statements for an explanation of the loss on retirement of convertible debentures of approximately $50.6 million in fiscal 2015.

Balance Sheet Data:

	March 31,				
	2016	2015	2014	2013	2012
Working capital	$ 2,714,704	$ 2,310,645	$ 1,633,320	$ 1,894,759	$ 1,767,988
Total assets	5,567,515	4,780,713	4,067,630	3,851,405	3,083,776
Long-term obligations, less current portion	2,483,037	1,826,858	1,003,258	983,385	355,050
Microchip Technology Stockholders' equity	2,150,919	2,044,654	2,135,461	1,933,470	1,990,673

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 in the June 2016 quarter will increase from 1 to 9 days from the March 2016 levels, not including the impact from inventory acquired from our Atmel acquisition, and that it will allow us to maintain competitive lead times and provide strong delivery performance to our customers;
- 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, mixed signal and timing 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 our determinations with respect to the tax consequences of the Atmel acquisition are reasonable;

- That if the UK leaves the EU, we may lose our ability to import and export products tax-free throughout Europe which may increase the costs to us for the import and sale of our products to our customers, result in a decrease in sales to certain of our customers or disrupt our operations and product shipments;
- 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 material 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 our 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 the 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 36, we discuss our Results of Operations for fiscal 2016 compared to fiscal 2015, and for fiscal 2015 compared to fiscal 2014. 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 embedded control solutions, including general purpose and specialized microcontrollers, development tools and related software, analog, interface, mixed signal and timing products, wired and wireless connectivity products, memory products and technology licensing. We provide highly cost-effective embedded control solutions that also offer the advantages of small size, high performance, extreme low power usage, 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. We license our SuperFlash technology and other technologies to wafer foundries, integrated device manufacturers and design partners throughout the world for use in the manufacture of advanced microcontroller products, gate array, RF and analog products that require embedded non-volatile memory.

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, 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 client engagement manager (CEMs), embedded system engineer (ESEs), 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 ESE team is to provide technical assistance to strategic accounts and to conduct periodic training sessions for CEMs and distributor sales teams. ESEs 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.

See "Our operating results are impacted by both seasonality and the wide fluctuation of supply and demand in the semiconductor industry," on page 15 for discussion of the impact of seasonality on our business.

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, senior and 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, 2016, we had approximately $267.2 million of deferred revenue and $83.8 million in deferred cost of sales recognized as $183.4 million of deferred income on shipments to distributors. At March 31, 2015, we had approximately $260.9 million of deferred revenue and $94.8 million in deferred cost of sales recognized as $166.1 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 $102.9 million at March 31, 2016 and $116.0 million at March 31, 2015. 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. Under the acquisition method of accounting, the aggregate amount of consideration we pay for a company is allocated to net tangible assets and intangible assets based on their estimated fair values as of the acquisition date. The excess of the purchase price over the value of the net tangible assets and intangible assets is recorded to goodwill. On an annual basis, we test goodwill for impairment and through March 31, 2016, we have never recorded an impairment charge against our goodwill balance.

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 2016 was $71.4 million, of which $63.1 million was reflected in operating expenses. Total share-based compensation included in cost of sales in fiscal 2016 was $8.3 million. Total share-based compensation included in our inventory balance was $6.2 million at March 31, 2016.

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 2016 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 production below normal operating levels in our wafer fabrication facilities, approximately $1.9 million, $0.8 million and $19.0 million was charged directly to cost of sales in fiscal 2016, fiscal 2015 and fiscal 2014, 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, 2016, the valuation allowances totaled $161.8 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, 2016, our deferred tax asset, net of valuation allowances, was $122.2 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. We 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.

Senior and Junior Subordinated Convertible Debentures

We separately account for the liability and equity components of our senior and 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 senior and junior subordinated convertible debentures in our diluted income per share calculation regardless of whether the market price triggers or other contingent conversion features have 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 senior and 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 prices per share, which were $66.05 and $24.31 for the senior and junior subordinated convertible debentures, respectively, at March 31, 2016 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,		
	2016	2015	2014
Net sales	100.0%	100.0%	100.0%
Cost of sales	44.5	42.7	41.6
Gross profit	55.5	57.3	58.4
Research and development	17.1	16.3	15.8
Selling, general and administrative	13.9	12.8	13.8
Amortization of acquired intangible assets	8.1	8.3	4.9
Special charges	0.2	0.1	0.1
Operating income	16.2%	19.8%	23.8%

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 our SuperFlash and other technologies. We sell our products to distributors and 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 $2,173.3 million in fiscal 2016 increased by $26.3 million, or 1.2%, over fiscal 2015, and our net sales of $2,147.0 million in fiscal 2015 increased by $215.8 million, or 11.2%, from fiscal 2014. The increase in net sales in fiscal 2016 over fiscal 2015 was due primarily to our acquisition of Micrel, offset in part by weaker general economic and semiconductor industry conditions. The increase in net sales in fiscal 2015 over fiscal 2014 was due primarily to our acquisitions of ISSC and Supertex, market share gains and improved general economic and semiconductor industry conditions in the end markets we serve. Average selling prices for our semiconductor products were down approximately 3% in fiscal 2016 over fiscal 2015 and were up approximately 2% in fiscal 2015 over fiscal 2014. The number of units of our semiconductor products sold was up approximately 6% in fiscal 2016 over fiscal 2015 and up approximately 11% in fiscal 2015 over fiscal 2014. 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:

- our acquisition of Micrel, which closed on August 3, 2015;
- global economic conditions in the markets we serve;
- semiconductor industry conditions;
- our acquisition of ISSC on July 17, 2014;
- our acquisition of Supertex on April 1, 2014;
- our new product offerings that have increased our served available market;
- customers' increasing needs for the flexibility offered by our programmable solutions;
- inventory holding patterns of our customers;
- increasing semiconductor content in our customers' products; and
- continued market share gains in the segments of the markets we address.

Net sales by product line for fiscal 2016, 2015 and 2014 were as follows (dollars in thousands):

	Year Ended March 31,					
	2016	%	2015	%	2014	%
Microcontrollers	$ 1,345,499	61.9	$ 1,393,607	64.9	$ 1,260,988	65.3
Analog, interface, mixed signal and timing products	595,455	27.4	501,048	23.3	428,088	22.2
Memory products	116,945	5.4	132,258	6.2	134,624	7.0
Technology licensing	89,124	4.1	89,593	4.2	94,578	4.9
Other	26,311	1.2	30,530	1.4	12,939	0.6
Total net sales	$ 2,173,334	100.0	$ 2,147,036	100.0	$ 1,931,217	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 61.9% of our net sales in fiscal 2016, approximately 64.9% of our net sales in fiscal 2015 and approximately 65.3% of our net sales in fiscal 2014.

Net sales of our microcontroller products decreased approximately 3.5% in fiscal 2016 compared to fiscal 2015, and increased approximately 10.5% in fiscal 2015 compared to fiscal 2014. The decrease in net sales in fiscal 2016 compared to fiscal 2015 resulted primarily from weaker 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 2015 compared to fiscal 2014 resulted primarily from our acquisition of ISSC in the second quarter of fiscal 2015, market share gains and improved general economic and semiconductor industry conditions in the end markets we serve.

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, Mixed Signal and Timing Products

Sales of our analog, interface, mixed signal and timing products accounted for approximately 27.4% of our net sales in fiscal 2016, approximately 23.3% of our net sales in fiscal 2015 and approximately 22.2% of our net sales in fiscal 2014.

Net sales of our analog, interface, mixed signal and timing products increased approximately 18.8% in fiscal 2016 compared to fiscal 2015 and increased approximately 17.0% in fiscal 2015 compared to fiscal 2014. The increase in net sales in fiscal 2016 compared to fiscal 2015 was driven primarily by our acquisition of Micrel in the second quarter of fiscal 2016 and market share gains achieved within the analog, interface, mixed signal and timing market. The increase in net sales in fiscal 2015 compared to fiscal 2014 was driven primarily by our acquisition of Supertex in the first quarter of fiscal 2015, improved general economic and semiconductor industry conditions and market share gains achieved within the analog, interface, mixed signal and timing market.

Analog, interface, mixed signal and timing products can be proprietary or non-proprietary in nature. Currently, we consider more than a majority of our analog, interface, mixed signal and timing 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, mixed signal and timing 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, mixed signal and timing 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, mixed signal and timing products will increase over time.

Memory Products

Sales of our memory products accounted for approximately 5.4% of our net sales in fiscal 2016, approximately 6.2% of our net sales in fiscal 2015 and approximately 7.0% of our net sales in fiscal 2014.

Net sales of our memory products decreased approximately 11.6% in fiscal 2016 compared to fiscal 2015, and decreased approximately 1.8% in fiscal 2015 compared to fiscal 2014. The decreases in memory product net sales in fiscal 2016 compared to fiscal 2015 and in fiscal 2015 compared to fiscal 2014 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 and other technologies and fees for engineering services. Technology licensing accounted for approximately 4.1% of our net sales in fiscal 2016, approximately 4.2% of our net sales in fiscal 2015 and approximately 4.9% of our net sales in fiscal 2014.

Net sales related to our technology licensing decreased approximately 0.5% in fiscal 2016 compared to fiscal 2015 and decreased approximately 5.3% in fiscal 2015 compared to fiscal 2014. Revenue from technology licensing can fluctuate over time based on the production activities of our licensees as well as general economic and semiconductor industry conditions.

Other

Revenue from wafer foundry and assembly and test subcontracting services accounted for approximately 1.2% of our net sales in fiscal 2016, approximately 1.4% of our net sales in fiscal 2015 and approximately 0.6% of our net sales in fiscal 2014.

Distribution

Distributors accounted for approximately 53% of our net sales in fiscal 2016, approximately 51% of our net sales in fiscal 2015 and approximately 53% of our net sales in fiscal 2014.

Our two largest distributors together accounted for approximately 12% of our net sales in each of fiscal 2016 and 2015, and approximately 14% of our net sales in fiscal 2014. No single distributor accounted for more than 10% of our net sales in fiscal 2016, 2015 or 2014.

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, 2016, our distributors maintained 32 days of inventory of our products compared to 37 days at March 31, 2015 and 33 days at March 31, 2014. Over the past five 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 2016, 2015 and 2014 were as follows (dollars in thousands):

	Year Ended March 31,					
	2016	%	2015	%	2014	%
Americas	$ 417,579	19.2	$ 421,947	19.7	$ 365,609	18.9
Europe	474,629	21.8	452,165	21.0	411,531	21.3
Asia	1,281,126	59.0	1,272,924	59.3	1,154,077	59.8
Total net sales	$ 2,173,334	100.0	$ 2,147,036	100.0	$ 1,931,217	100.0

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 each of fiscal 2016, 2015 and 2014. 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. 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 30%, 28% and 29% of our net sales in fiscal 2016, 2015 and 2014, respectively. Sales to customers in Taiwan accounted for approximately 12%, 14% and 13% of our net sales in fiscal 2016, 2015 and 2014, respectively. 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 $1,205.5 million in fiscal 2016, $1,229.6 million in fiscal 2015 and $1,128.7 million in fiscal 2014. Gross profit as a percentage of sales was 55.5% in fiscal 2016, 57.3% in fiscal 2015 and 58.4% in fiscal 2014.

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

- charges of approximately $44.9 million in fiscal 2016 and approximately $24.4 million in fiscal 2015 related to the recognition of acquired inventory at fair value as a result of our acquisitions which increased the value of our acquired inventory and subsequently increased our cost of sales and reduced our gross margins;
- for each of fiscal 2016 and fiscal 2015, 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, interface, mixed signal and timing 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 the third quarter of fiscal 2016, the first quarter of fiscal 2015 and all of fiscal 2014 in response to uncertain global economic conditions and our inventory position. As a result of production being below normal operating levels in our wafer fabs, approximately $1.9 million, $0.8 million and $19.0 million was charged to cost of sales in fiscal 2016, fiscal 2015 and fiscal 2014, respectively. Our wafer fabrication facilities operated at normal capacity levels during the fourth quarter of fiscal 2016. In the future, if production levels are below normal capacity, we will charge cost of sales for the unabsorbed capacity. We operated at slightly below normal capacity levels in our Thailand assembly and test facilities during the third quarter of fiscal 2016. As a result, we charged cost of sales approximately

$1.0 million during fiscal 2016. During fiscal 2015 and fiscal 2014, we operated at normal levels of capacity at our Thailand assembly and test facilities, and we selectively increased our assembly and test capacity at such facilities during such time.

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. Substantially all of our production has been on 8-inch wafers during the periods covered by this report.

Our overall inventory levels were $306.8 million at March 31, 2016, compared to $279.5 million at March 31, 2015 and $262.7 million at March 31, 2014. We maintained 110 days of inventory on our balance sheet at March 31, 2016 compared to 111 days of inventory at March 31, 2015 and 118 days at March 31, 2014. We expect our inventory levels in the June 2016 quarter to increase from 1 to 9 days from the March 2016 levels, not including the impact from inventory acquired from our Atmel acquisition. We believe our existing level of inventory will allow us to maintain competitive lead times and provide strong delivery performance to our customers.

We anticipate that our gross margins will fluctuate over time, driven primarily by capacity utilization levels, the overall product mix of microcontroller, analog, interface, mixed signal and timing 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 2016, approximately 53% of our assembly requirements were performed in our Thailand facilities, compared to approximately 57% during fiscal 2015 and approximately 51% during fiscal 2014. 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 2016, approximately 81% of our test requirements were performed in our Thailand facilities compared to approximately 88% during fiscal 2015 and approximately 86% during fiscal 2014. The primary reason for the percentage reduction in the assembly and test operations performed in our Thailand facilities in fiscal 2016 compared to the prior periods is our acquisition of Micrel, which outsourced these activities. Over time, we intend to migrate a portion of the outsourced assembly and test activities to our Thailand facilities. 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 each of fiscal 2016 and 2015, approximately 39% of our total net sales came from products that were produced at outside wafer foundries compared to approximately 38% during fiscal 2014.

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 2016 were $372.6 million, or 17.1% of sales, compared to $349.5 million, or 16.3% of sales, for fiscal 2015 and $305.0 million, or 15.8% of sales, for fiscal 2014. 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 $23.1 million, or 6.6%, for fiscal 2016 over fiscal 2015 primarily due to additional costs from our acquisition of Micrel as well as higher headcount costs. R&D expenses increased $44.5 million, or 14.6%, for fiscal 2015 over fiscal 2014. The primary reasons for the increase in R&D costs in fiscal 2015 compared to fiscal 2014 were additional costs from our acquisitions of Supertex and ISSC as well as 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 2016 were $301.7 million, or 13.9% of sales, compared to $274.8 million, or 12.8% of sales, for fiscal 2015, and $267.3 million, or 13.8% of sales, for fiscal 2014. 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 $26.9 million, or 9.8%, for fiscal 2016 over fiscal 2015 due primarily to additional costs from our acquisition of Micrel. Selling, general and administrative expenses increased $7.5 million, or 2.8%, for fiscal 2015 over fiscal 2014. The primary reasons for the increase in selling, general and administrative expenses in fiscal 2015 over fiscal 2014 were additional costs from our acquisitions of Supertex and ISSC and higher headcount costs partially offset by lower legal expenses.

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

Amortization of Acquired Intangible Assets

Amortization of acquired intangible assets in fiscal 2016 was $174.9 million compared to $176.7 million in fiscal 2015 and $94.5 million in fiscal 2014. The primary reasons for the decrease in acquired intangible asset amortization for fiscal 2016 compared to fiscal 2015 were decreased amortization from our customer-related intangible assets from our acquisition of SMSC partially offset by increased amortization from our acquisitions of Micrel and ISSC. The primary reasons for the increase in acquired intangible asset amortization for fiscal 2015 compared to fiscal 2014 were our acquisitions of Supertex and ISSC as well as increased amortization from our customer-related intangible assets from our acquisition of SMSC.

Special Charges

During fiscal 2016, we incurred special charges of $4.0 million comprised of $11.2 million related to severance, office closing and other costs associated with our acquisition activity and legal settlement costs of approximately $4.3 million partially offset by special income of $11.5 million related to an insurance settlement for reimbursement of funds we previously paid to settle a lawsuit in the second quarter of fiscal 2013. During fiscal 2015 and 2014, we incurred special charges of $2.8 million and $3.0 million, respectively, related to severance, office closing and other costs associated with our acquisition activity.

Other Income (Expense)

Interest income in fiscal 2016 was $24.4 million compared to $19.5 million in fiscal 2015 and $16.5 million in fiscal 2014. The primary reasons for the increases in interest income over these periods relates to higher yields on short-term cash investments and higher invested cash balances.

Interest expense in fiscal 2016 was $104.0 million compared to $62.0 million in fiscal 2015 and $48.7 million in fiscal 2014. The primary reasons for the increase in interest expense in fiscal 2016 compared to fiscal 2015 relates to non-cash interest expense from the amortization on the debt discount of our 1.625% senior subordinated convertible debentures and interest expense related to the 1.625% coupon on such debentures which were issued in February 2015. The increase in interest expense was partially offset by lower interest expense on our 2.125% junior subordinated convertible debentures as a result of our purchase of 50% of such outstanding debentures in the fourth quarter of fiscal 2015. The primary reasons for the increase in interest expense in fiscal 2015 compared to fiscal 2014 relates to non-cash interest expense from the amortization on the debt discount of our 1.625% senior subordinated convertible debentures which were issued in February 2015 and in increase in interest expense from our credit line borrowings.

Loss on retirement of convertible debentures in fiscal 2015 was $50.6 million. In February 2015, we acquired certain of our 2.125% junior subordinated convertible debentures with a $575.0 million aggregate principal amount for an aggregate purchase price of $1,134.6 million, based on market value. The transaction resulted in a loss on retirement of convertible debentures of approximately $50.6 million, which represented the difference between the fair value of the liability component at time of repurchase and the sum of the carrying values of the debt component and any unamortized debt issuance costs.

Other income, net in fiscal 2016 was $8.9 million compared to other income, net of $13.7 million in fiscal 2015 and other income, net of $5.9 million in fiscal 2014. The primary reason for the change in other income, net during fiscal 2016 compared to fiscal 2015 relates to lower realized gains on the sale of marketable equity and debt securities and losses resulting from derivative activity. The primary reasons for the change in other income, net during fiscal 2015 compared to fiscal 2014 relates to realized gains of $18.5 million from the sale of marketable equity and debt securities 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 benefit of 15.2% in fiscal 2016 and 5.6% in fiscal 2015 and an effective tax rate of 8.6% in fiscal 2014. Excluding certain 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 2016 includes $12.1 million of benefits related to audit closures and expirations of the statute of limitations on various tax reserves and $15.5 million of benefits related to intercompany prepaid tax amortization, which reduced our effective rate by 4.3% and 5.5%, respectively. Our effective tax rate in fiscal 2016 also includes a $2.5 million benefit received from the reinstatement of the R&D credit and a $13.5 million benefit received from current year generated R&D credits, which reduced our effective tax rate by 0.9% and 4.8%, respectively. Our effective tax rate in fiscal 2015 included $33.1 million of benefits related to audit closures and expirations of the statute of limitations on various tax reserves, which reduced our effective tax rate by 9.6%. Our effective tax rate in fiscal 2015 also included a $1.8 million benefit received from the reinstatement of the R&D credit, which reduced our effective tax rate by 0.5%. During fiscal 2014, our effective tax rate included $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% to an effective tax rate of 8.6%.

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. 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 $2,564.6 million in cash, cash equivalents and short-term and long-term investments at March 31, 2016, an increase of $222.4 million from the March 31, 2015 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 and increases in borrowings under our credit facility offset in part by our dividend payments of $291.1 million and $343.9 million of cash, net of cash acquired, used for our acquisition of Micrel.

Net cash provided from operating activities was $744.5 million for fiscal 2016, $721.2 million for fiscal 2015 and $676.6 million for fiscal 2014. The increase in cash flow from operations in fiscal 2016 compared to fiscal 2015 was primarily due to higher net sales and an increase in cash from changes in our operating assets and liabilities. The increase in cash flow from operations in fiscal 2015 compared to fiscal 2014 was primarily due to higher net sales during fiscal 2015.

Net cash provided by investing activities was $800.4 million for fiscal 2016. Net cash used in investing activities was $678.3 million for fiscal 2015 and $503.3 million in fiscal 2014. The primary reason for the increase in cash from investing activities in fiscal 2016 compared to fiscal 2015 was an increase in cash from our sales and maturities of available-for-sale investments of $1,112.6 million, offset in part by $343.9 million of cash consideration, net of $99.2 million of cash and cash equivalents acquired, used to finance our acquisition of Micrel in August 2015. The increase in net cash used in investing activities in fiscal 2015 compared to fiscal 2014 was due primarily to $252.5 million of cash consideration, net of $15.1 million of cash and cash equivalents acquired, used to finance our acquisition of ISSC in July 2014 and $375.4 million of cash consideration, net of $14.8 million of cash and cash equivalents acquired, used to finance our acquisition of Supertex in April 2014, offset in part by an increase in cash from our purchases, sales and maturities of available-for-sale investments in fiscal 2015 compared to the prior year.

Our level of capital expenditures varies from time to time as a result of actual and anticipated business conditions. Capital expenditures were $97.9 million in fiscal 2016, $149.5 million in fiscal 2015 and $113.1 million in fiscal 2014. Capital expenditures are primarily for the expansion of production capacity and the addition of research and development equipment. We currently intend to spend approximately $140 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 $59.9 million for fiscal 2016 compared to net cash provided by financing activities of $98.5 million for fiscal 2015 and net cash used in financing activities of $235.0 million for fiscal 2014. We made payments on our borrowings under our credit agreements of $1,614.5 million during fiscal 2016, $2,047.6 million during fiscal 2015 and $1,103.5 million during fiscal 2014. Cash received on borrowings under our credit agreement totaled $2,204.5 million during fiscal 2016, $1,859.6 million during fiscal 2015 and $1,133.5 million during fiscal 2014. In February 2015, we issued $1,725.0 million principal amount of 1.625% senior subordinated convertible debentures due February 15, 2025. The debentures are subordinated to our senior debt, including amounts borrowed under our amended credit facility, but are senior to our outstanding 2.125% junior subordinated convertible debentures. Also, in February 2015, we acquired certain of our 2.125% junior subordinated convertible debentures with a $575.0 million aggregate principal amount for an aggregate purchase price of $1,134.6 million, based on market value. Cash expended for the repurchase of shares of our common stock was $363.8 million in fiscal 2016. We did not repurchase any shares of our common stock during fiscal 2015 or fiscal 2014. We paid cash dividends to our stockholders of $291.1 million in fiscal 2016, $286.5 million in fiscal 2015, and $281.2 million in fiscal 2014. Proceeds from the exercise of stock options and employee purchases under our employee stock purchase plans were $28.7 million for fiscal 2016, $34.4 million for fiscal 2015 and $60.1 million for fiscal 2014.

In February 2015, we amended our $2.0 billion credit agreement with certain lenders. As a result of such amendment, the revolving credit facility portion of the agreement was increased from $1,650.0 million to $2,555.0 million and the $350.0 million term loan portion of the agreement was removed. The increase option permitting us, subject to certain requirements, to arrange with existing lenders or new lenders to provide up to an aggregate of $300.0 million in additional commitments, was also adjusted to $249.4 million. In December 2015, we exercised our increase option in our credit agreement to obtain additional revolving commitments of $219.0 million, bringing our total revolving credit facility commitments to $2,774.0 million. Proceeds of loans made under the credit agreement may be used for working capital and general corporate purposes. At March 31, 2016, $1,052.0 million of borrowings were outstanding under the credit agreement. See Note 16 of the notes to consolidated financial statements for more information regarding our credit agreement.

Our total cash, cash equivalents, short-term investments and long-term investments held by our foreign subsidiaries was $2,559.3 million at March 31, 2016 and $2,322.4 million at March 31, 2015. 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, 2016 and March 31, 2015 was approximately $5.3 million and $19.8 million, respectively. We utilize a variety of tax planning and financing strategies (including borrowings under our credit agreement) 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.

In March 2015, we entered into ten-year fixed-to-floating interest rate swap agreements on a portion of our fixed-rate 1.625% senior subordinated convertible debentures. The interest rate swap agreements are designated as fair value hedges. We paid variable interest equal to the three-month LIBOR minus 53.6 basis points and we received a fixed interest rate of 1.625%. The gross notional amount of these contracts outstanding at March 31, 2015 was $431.3 million. In February 2016, the Company terminated its interest rate swap agreements. Upon termination, the contracts were in an asset position, resulting in cash receipts of approximately $25.7 million, which included $3.7 million of accrued interest. The cash flows from the termination of these interest rate swap agreements have been reported as operating activities in the consolidated statement of cash flows.

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, 2016, we had no foreign currency forward contracts outstanding.

On August 3, 2015, we acquired Micrel for $14.00 per share and paid an aggregate of approximately $430.0 million in cash and issued an aggregate of 8.6 million shares of our common stock to Micrel shareholders. We financed the cash portion of the purchase price with borrowings under our existing credit agreement.

On April 4, 2016, we completed our acquisition Atmel. Under the terms of the merger agreement executed on January 19, 2016, Atmel stockholders received $8.15 per share in a combination of $7.00 per share in cash and $1.15 per share in shares of Microchip common stock. We financed the purchase price of our Atmel acquisition using approximately $2.04 billion of cash, cash equivalents, short-term investments and long-term investments held by certain of our foreign subsidiaries, approximately $0.94 billion from additional borrowings under our existing line of credit agreement and approximately $489 million through the issuance of an aggregate of 10.1 million shares of our common stock. The acquisition price represents a total equity value of approximately $3.47 billion, and a total enterprise value of approximately $3.43 billion, after excluding Atmel's cash and investments net of debt of approximately $39.3 million. The acquisition was structured in a manner that enabled us to utilize a substantial portion of the cash, cash equivalents, short-term investments and long-term investments held by certain of our foreign subsidiaries in a tax efficient manner. Although we believe our determinations with respect to the tax consequences of the acquisition are reasonable, we are regularly audited by the IRS and may be audited by other taxing authorities, and there can be no assurance as to the outcome of any such audit.

In May 2015, our Board of Directors authorized the repurchase of up to 20.0 million shares of our common stock in the open market or in privately negotiated transactions. As of March 31, 2016, we had repurchased 8.6 million shares under this authorization for approximately $363.8 million. In January 2016, our Board of Directors authorized an increase in the existing share repurchase program to 15.0 million shares of common stock from the approximately 11.4 million shares remaining under the current authorization. There is no expiration date associated with this repurchase program.

As of March 31, 2016, we held approximately 23.3 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 $2.81 billion. During fiscal 2016, we paid dividends in the amount of $1.433 per share for a total dividend payment of $291.1 million. During fiscal 2015, we paid dividends in the amount of $1.425 per share for a total dividend payment of $286.5 million. During fiscal 2014, we paid dividends in the amount of $1.417 per share for a total dividend payment of $281.2 million. On May 4, 2016, we declared a quarterly cash dividend of $0.3595 per share, which will be paid on June 6, 2016, to stockholders of record on May 23, 2016 and the total amount of such dividend is expected to be approximately $77 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 increase our borrowings 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, for share repurchases 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, 2016, 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, 2016 (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	$ 41,162	$ 16,370	$ 20,027	$ 4,098	$ 667
Capital purchase obligations (1)	30,158	30,158	—	—	—
Other purchase obligations and commitments (2)	57,565	54,805	2,276	242	242
Borrowings under credit agreement outstanding as of March 31, 2016 - principal and interest (3)	1,130,357	20,356	40,712	1,069,289	—
1.625% senior convertible debentures - principal and interest on 1.625% coupon (4)	1,973,778	28,031	56,063	56,063	1,833,621
2.125% junior convertible debentures – principal and interest on 2.125% coupon (5)	840,249	12,219	24,438	24,438	779,154
Total contractual obligations (6)	$ 4,073,269	$ 161,939	$ 143,516	$ 1,154,130	$ 2,613,684

(1) 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, 2016, as we have not yet received the related goods or taken title to the property.

(2) Other purchase obligations and commitments include payments due under various types of licenses and outstanding purchase commitments with our wafer foundries of approximately $52.4 million for delivery of wafers in fiscal 2017.

(3) For purposes of this table we have assumed that the principal of our credit agreement borrowings outstanding at March 31, 2016 will be paid on February 4, 2020, which is the maturity date of such borrowings.

(4) For purposes of this table we have assumed that the principal of our senior convertible debentures will be paid on February 15, 2025, which is the maturity date of such debentures.

(5) For purposes of this table we have assumed that the principal of our junior convertible debentures will be paid on December 15, 2037, which is the maturity date of such debentures.

(6) Total contractual obligations do not include contractual obligations recorded on our 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, 2016, 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

Refer to Note 1 to our consolidated financial statements regarding recently issued accounting pronouncements.

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 $2,564.6 million as of March 31, 2016 compared to $2,342.2 million as of March 31, 2015. 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. We sold a significant portion of our available-for-sale investments during the fourth quarter of fiscal 2016 to finance a portion of the purchase price of our Atmel acquisition which closed on April 4, 2016. The following table provides information about our available-for-sale securities that are sensitive to changes in interest rates as of March 31, 2016. 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,					
	2017	2018	2019	2020	2021	Thereafter
Available-for-sale securities	$ 41,078	$ 14,994	$ 413,558	$ —	$ —	$ —
Weighted-average yield rate	0.98%	0.75%	1.21%	—%	—%	—%

See Note 1 to our Consolidated Financial Statements for additional information on our investments.

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, 2016, the end of our fiscal year. Management based its assessment on criteria established in Internal Control – Integrated Framework (2013 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included an 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, 2016, which is included in Part II, Item 9A.

Changes in Internal Control over Financial Reporting

During the three months ended March 31, 2016, 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, 2016, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 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, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Microchip Technology Incorporated as of March 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended March 31, 2016 and our report dated May 24, 2016 expressed an unqualified opinion thereon.

Ernst + Young LLP

Phoenix, Arizona
May 24, 2016

Item 9B. OTHER INFORMATION

In May 2015 or earlier, 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 Power and Interface 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 2016 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 2016 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 2016 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 2016 annual meeting of stockholders under the caption "Code of Conduct and Ethics." A copy of our Code of Business Conduct and Ethics is available on our website at the Investor Relations section under Mission Statement/Corporate Governance on 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 2016 annual meeting of stockholders under the caption "Requirements, Including Deadlines, for Receipt of Stockholder Proposals for the 2016 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 2016 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 2016 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 2016 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 2016 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 2016 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 2016 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 2016 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 2016 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 2016 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:

(3) The Exhibits filed with this Form 10-K or incorporated herein by reference are set forth in the Exhibit Index beginning on page 54 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)

May 24, 2016

By: /s/ Steve Sanghi
Steve Sanghi
Chief Executive Officer and Chairman of the Board

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that the undersigned officer or director of Microchip Technology Incorporated, a Delaware corporation (the "Company"), does hereby constitute and appoint each of STEVE SANGHI and J. ERIC BJORNHOLT, 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 this annual report 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 or director (as indicated below opposite such person's signature) to the Company's annual report on Form 10-K or any amendments or supplements 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 executed the foregoing power of attorney on this 24th day of May, 2016.

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.

Name and Signature	Title	Date
/s/ Steve Sanghi Steve Sanghi	Chief Executive Officer and Chairman of the Board	May 24, 2016
/s/ Matthew W. Chapman Matthew W. Chapman	Director	May 24, 2016
/s/ L.B. Day L.B. Day	Director	May 24, 2016
/s/ Esther L. Johnson Esther L. Johnson	Director	May 24, 2016
/s/ Wade F. Meyercord Wade F. Meyercord	Director	May 24, 2016
/s/ J. Eric Bjornholt J. Eric Bjornholt	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	May 24, 2016

		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.	10-K	000-21184	2.1	5/30/2014	
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.	10-K	000-21184	2.2	5/30/2014	
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	10-K	000-21184	2.3	5/30/2014	
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	10-K	000-21184	2.4	5/30/2014	
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.	10-K	000-21184	2.5	5/30/2014	
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	
2.7	Agreement and Plan of Merger dated as of May 7, 2015, by and among, Microchip Technology Incorporated, Micrel, Incorporated, Mambo Acquisition Corp. and Mambo Acquisition LLC	8-K	000-21184	2.1	5/8/2015	
2.8	Agreement and Plan of Merger, dated as of January 19, 2016, by and among Microchip Technology, Atmel Corporation, and Hero Acquisition Corporation	8-K	000-21184	2.1	1/19/2016	
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	Indenture dated as of February 11, 2015 between Microchip Technology Incorporated and Wells Fargo Bank, N.A.	8-K	000-21184	4.1	2/11/2015	
4.3	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	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File Number	Exhibit	Filing Date	
10.1	Master Increasing Lender Supplement dated as of March 19, 2015, by and among Microchip Technology Incorporated and the Increasing Lenders thereto	10-K	000-21184	10.1	6/8/2015	
10.2	Amendment No. 1, dated December 4, 2015, to Amended and Restated Credit Agreement, dated as of June 27, 2013, as amended and restated as of February 4, 2015	8-K	000-21184	10.1	12/7/2015	
10.3	Amendment and Restatement Agreement dated as of February 4, 2015, to the Credit Agreement, dated as of June 27, 2013, by and among Microchip Technology Incorporated, the lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent	8-K	000-21184	10.1	2/4/2015	
10.4	Form of Indemnification Agreement between Registrant and its directors and certain of its officers	S-1	33-57960	10.1	2/5/1993	
10.5	Microchip Technology Incorporated 2012 Inducement Award Plan	S-8	333-183074	4.8	8/3/2012	
10.6	*2004 Equity Incentive Plan as amended and restated August 14, 2015	8-K	000-21184	10.1	8/18/2015	
10.7	*Form of Notice of Grant of Restricted Stock Units (officer) for 2004 Equity Incentive Plan	S-8	333-192273	10.2	11/12/2013	
10.8	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	
10.9	*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	
10.10	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	
10.11	*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	
10.12	*Restricted Stock Units Agreement (Domestic) for 2004 Equity Incentive Plan	10-Q	000-21184	10.3	11/7/2007	
10.13	Restricted Stock Units Agreement (Foreign) for 2004 Equity Incentive Plan	10-Q	000-21184	10.4	11/7/2008	
10.14	*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	
10.15	*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	
10.16	*Microchip Technology Incorporated 2001 Employee Stock Purchase Plan as amended through March 1, 2012	10-Q	000-21184	10.1	2/6/2012	

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File Number	Exhibit	Filing Date	Filed Herewith
10.17	*1997 Nonstatutory Stock Option Plan, as Amended Through March 3, 2003	10-K	000-21184	10.13	6/5/2003	
10.18	*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	
10.19	Microchip Technology Incorporated International Employee Stock Purchase Plan as amended through May 19, 2014, including Purchase Agreement	10-K	000-21184	10.17	5/30/2014	
10.20	*Executive Management Incentive Compensation Plan as amended on August 19, 2011	8-K	000-21184	10.1	8/24/2011	
10.21	*Discretionary Executive Management Incentive Compensation Plan	10-Q	000-21184	10.3	8/24/2006	
10.22	Management Incentive Compensation Plan as amended by the Board of Directors on May 17, 2013	10-K	000-21184	10.21	5/30/2013	
10.23	*Microchip Technology Incorporated Supplemental Retirement Plan	S-8	333-101696	4.1.1	12/6/2002	
10.24	*Adoption Agreement to the Microchip Technology Incorporated Supplemental Retirement Plan dated January 1, 1997	S-8	333-101696	4.1.3	12/6/2002	
10.25	*Amendment dated December 9, 1999 to the Adoption Agreement to the Microchip Technology Incorporated Supplemental Retirement Plan	S-8	333-101696	4.1.4	12/6/2002	
10.26	*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	
10.27	*Amendments to Supplemental Retirement Plan	10-Q	000-21184	10.1	2/9/2006	
10.28	*Amended and Restated Adoption Agreement to the Microchip Technology Incorporated Supplemental Retirement Plan dated October 8, 2008, as amended December 15, 2008					X
10.29	*Change of Control Severance Agreement	8-K	000-21184	10.1	12/18/2008	
10.30	*Change of Control Severance Agreement	8-K	000-21184	10.2	12/18/2008	
10.31	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	
10.32	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	
10.33	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	
10.34	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

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File Number	Exhibit	Filing Date	Filed Herewith
23.1	Consent of Independent Registered Public Accounting Firm					X
24.1	Power of Attorney included on Page 53 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.					

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, 2016

MICROCHIP TECHNOLOGY INCORPORATED
AND SUBSIDIARIES

CHANDLER, ARIZONA

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES

Index to Consolidated Financial Statements

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, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended March 31, 2016. 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Microchip Technology Incorporated and subsidiaries at March 31, 2016 and 2015, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2016, 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), Microchip Technology Incorporated and subsidiaries' internal control over financial reporting as of March 31, 2016, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated May 24, 2016 expressed an unqualified opinion thereon.

Ernst + Young LLP

Phoenix, Arizona
May 24, 2016

Item1. Financial Statements

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

ASSETS

	March 31, 2016	March 31, 2015
Cash and cash equivalents	$ 2,092,751	$ 607,815
Short-term investments	353,284	1,351,054
Accounts receivable, net	290,183	273,937
Inventories	306,815	279,456
Prepaid expenses	41,992	34,717
Deferred tax assets	—	71,045
Assets held for sale	—	13,989
Other current assets	11,688	32,604
Total current assets	3,096,713	2,664,617
Property, plant and equipment, net	609,396	581,572
Long-term investments	118,549	383,326
Goodwill	1,012,652	571,271
Intangible assets, net	606,349	504,417
Long-term deferred tax assets	14,831	—
Other assets	109,025	75,510
Total assets	$ 5,567,515	$ 4,780,713
LIABILITIES AND EQUITY		
Accounts payable	$ 79,312	$ 86,866
Accrued liabilities	119,265	100,978
Deferred income on shipments to distributors	183,432	166,128
Total current liabilities	382,009	353,972
Senior convertible debentures	1,234,733	1,174,036
Junior convertible debentures	196,304	190,870
Long-term line of credit	1,052,000	461,952
Long-term income tax payable	111,061	114,336
Long-term deferred tax liability	399,218	381,192
Other long-term liabilities	41,271	43,329
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; 227,416,789 shares issued and 204,081,727 shares outstanding at March 31, 2016; 218,789,994 shares issued and 202,080,306 shares outstanding at March 31, 2015	204	202
Additional paid-in capital	1,391,553	999,515
Common stock held in treasury: 23,335,062 shares at March 31, 2016; 16,709,688 shares at March 31, 2015	(820,066)	(515,679)
Accumulated other comprehensive (loss) income	(3,357)	11,076
Retained earnings	1,582,585	1,549,540
Microchip Technology stockholders' equity	2,150,919	2,044,654
Noncontrolling interests	—	16,372
Total equity	2,150,919	2,061,026
Total liabilities and equity	$ 5,567,515	$ 4,780,713

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,		
	2016	2015	2014
Net sales	$ 2,173,334	$ 2,147,036	$ 1,931,217
Cost of sales (1)	967,870	917,472	802,474
Gross profit	1,205,464	1,229,564	1,128,743
Research and development (1)	372,596	349,543	305,043
Selling, general and administrative (1)	301,670	274,815	267,278
Amortization of acquired intangible assets	174,896	176,746	94,534
Special charges, net	3,957	2,840	3,024
Operating expenses	853,119	803,944	669,879
Operating income	352,345	425,620	458,864
Losses on equity method investments	(345)	(317)	(177)
Other income (expense):			
Interest income	24,447	19,527	16,485
Interest expense	(104,018)	(62,034)	(48,716)
Loss on retirement of convertible debentures	—	(50,631)	—
Other income, net	8,864	13,742	5,898
Income before income taxes	281,293	345,907	432,354
Income tax (benefit) provision	(42,632)	(19,418)	37,073
Net income	323,925	365,325	395,281
Less: Net loss attributable to noncontrolling interests	207	3,684	—
Net income attributable to Microchip Technology	$ 324,132	$ 369,009	$ 395,281
Basic net income per common share attributable to Microchip Technology stockholders	$ 1.59	$ 1.84	$ 1.99
Diluted net income per common share attributable to Microchip Technology stockholders	$ 1.49	$ 1.65	$ 1.82
Dividends declared per common share	$ 1.433	$ 1.425	$ 1.417
Basic common shares outstanding	203,384	200,937	198,291
Diluted common shares outstanding	217,388	223,561	217,630

(1) Includes share-based compensation expense as follows:			
Cost of sales	$ 8,252	$ 9,010	$ 7,340
Research and development	32,022	28,164	24,554
Selling, general and administrative	31,146	21,422	21,893

See accompanying notes to consolidated financial statements

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Year Ended March 31,		
	2016	2015	2014
Net income	$ 323,925	$ 365,325	$ 395,281
Less: Net loss attributable to noncontrolling interests	207	3,684	—
Net income attributable to Microchip Technology	324,132	369,009	395,281
Components of other comprehensive (loss) income:			
Available-for sale securities:			
Unrealized holding (losses) gains, net of tax effect of $0, $12 and $497, respectively	(3,241)	33,759	(4,377)
Reclassification of realized transactions, net of tax effect of $0, $12 and $776, respectively	(10,948)	(18,694)	(1,595)
Change in minimum pension liability, net of tax effect of $18, ($76) and $55, respectively	31	(127)	88
Change in net foreign currency translation adjustment	—	(5,188)	—
Other comprehensive (loss) income, net of taxes	(14,158)	9,750	(5,884)
Less: Other comprehensive loss attributable to noncontrolling interests	—	866	—
Other comprehensive (loss) income attributable to Microchip Technology	(14,158)	10,616	(5,884)
Comprehensive income	309,767	375,075	389,397
Less: Comprehensive loss attributable to noncontrolling interests	207	4,550	—
Comprehensive income attributable to Microchip Technology	$ 309,974	$ 379,625	$ 389,397

See accompanying notes to consolidated financial statements

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year ended March 31,		
	2016	2015	2014
Cash flows from operating activities:			
Net income	$ 323,925	$ 365,325	$ 395,281
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	283,171	278,298	189,139
Deferred income taxes	(60,425)	(32,811)	5,321
Share-based compensation expense related to equity incentive plans	71,420	58,596	53,787
Excess tax benefit from share-based compensation	(758)	(1,216)	(1,411)
Loss on retirement of junior convertible debentures	—	50,631	—
Amortization of debt discount on convertible debentures	48,022	14,791	8,970
Amortization of debt issuance costs	3,968	2,463	1,959
Losses on equity method investments	345	317	177
(Gains) losses on sale of assets	(960)	—	244
Loss on write-down of fixed assets	—	362	—
Impairment of intangible assets	629	1,881	350
Realized gain on available-for-sale investments	(13,727)	(18,469)	—
Realized gain on equity method investment	(2,225)	—	—
Impairment of available-for-sale investment	3,995	—	—
Amortization of premium on available-for-sale investments	9,044	9,949	10,754
Special (income) charges	(819)	—	(459)
Gain on shares of acquired company	—	—	(2,438)
Changes in operating assets and liabilities, excluding impact of acquisitions:			
Increase in accounts receivable	(2,150)	(15,893)	(12,508)
Decrease (increase) in inventories	48,245	25,517	(18,500)
Increase in deferred income on shipments to distributors	16,962	18,330	8,846
Decrease in accounts payable and accrued liabilities	(20,836)	(33,992)	(11,633)
Change in other assets and liabilities	36,657	(2,897)	48,685
Net cash provided by operating activities	744,483	721,182	676,564
Cash flows from investing activities:			
Purchases of available-for-sale investments	(1,573,867)	(959,318)	(1,337,482)
Sales and maturities of available-for-sale investments	2,824,231	1,097,065	951,296
Sale of equity method investment	2,667	—	—
Acquisition of Micrel, net of cash acquired	(343,928)	—	—
Acquisition of ISSC, net of cash acquired	—	(252,469)	—
Purchase of additional controlling interest in ISSC	(18,051)	(32,095)	—
Acquisition of Supertex, net of cash acquired	—	(375,365)	—
Other business acquisitions, net of cash acquired	—	—	(11,187)
Investments in other assets	(7,056)	(6,663)	(9,069)
Proceeds from sale of assets	14,296	—	16,235
Capital expenditures	(97,895)	(149,472)	(113,072)
Net cash provided by (used in) investing activities	800,397	(678,317)	(503,279)
Cash flows from financing activities:			
Payments to retire junior convertible debentures	—	(1,134,621)	—
Proceeds from issuance of senior convertible debentures	—	1,725,000	—
Repayments of revolving loan under previous credit facility	—	—	(650,000)
Repayments of revolving loan under new credit facility	(1,614,452)	(1,697,642)	(453,500)
Proceeds from borrowings on revolving loan under previous credit facility	—	—	30,000
Proceeds from borrowings on revolving loan under new credit facility	2,204,500	1,859,594	753,500
Proceeds from issuance of long-term borrowings	—	—	350,000
Repayments of long-term borrowings	—	(350,000)	—
Deferred financing costs	(2,156)	(32,846)	(7,515)
Payment of cash dividends	(291,087)	(286,478)	(281,204)
Repurchase of common stock	(363,829)	—	—
Proceeds from sale of common stock	28,718	34,433	60,086

	Year ended March 31,		
	2016	2015	2014
Tax payments related to shares withheld for vested restricted stock units	(21,720)	(19,504)	(22,640)
Contingent consideration payment	—	—	(14,700)
Capital lease payments	(676)	(604)	(454)
Excess tax benefit from share-based compensation	758	1,216	1,411
Net cash (used in) provided by financing activities	(59,944)	98,548	(235,016)
Effect of foreign exchange rate changes on cash and cash equivalents	—	(201)	—
Net increase (decrease) in cash and cash equivalents	1,484,936	141,212	(61,731)
Cash and cash equivalents at beginning of period	607,815	466,603	528,334
Cash and cash equivalents at end of period	$ 2,092,751	$ 607,815	$ 466,603

See accompanying notes to consolidated financial statements

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(in thousands)

	Common Stock and Additional Paid-in-Capital		Common Stock Held in Treasury		Accumulated Other Comprehensive Income	Retained Earnings	Net Microchip Technology Stockholders' Equity	Noncontrolling Interests	Total Equity
	Shares	Amount	Shares	Amount					
Balance at April 1, 2013	218,790	$1,255,823	22,317	$(682,220)	$ 6,935	$ 1,352,932	$ 1,933,470	$ —	$1,933,470
Net income	—	—	—	—	—	395,281	395,281	—	395,281
Other comprehensive loss	—	—	—	—	(5,884)	—	(5,884)	—	(5,884)
Proceeds from sales of common stock through employee equity incentive plans	4,161	60,086	—	—	—	—	60,086	—	60,086
Restricted stock unit and stock appreciation right withholdings	(631)	(22,640)	—	—	—	—	(22,640)	—	(22,640)
Treasury stock used for new issuances	(3,530)	(104,838)	(3,530)	104,838	—	—	—	—	—
Tax benefit from equity incentive plans	—	1,411	—	—	—	—	1,411	—	1,411
Share-based compensation	—	54,941	—	—	—	—	54,941	—	54,941
Cash dividend	—	—	—	—	—	(281,204)	(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	—	2,135,461
Acquisition of controlling interest in ISSC	—	—	—	—	—	—	—	52,467	52,467
Net income (loss)	—	—	—	—	—	369,009	369,009	(3,684)	365,325
Other comprehensive income	—	—	—	—	10,616	—	10,616	(866)	9,750
Other	—	—	—	—	—	—	—	240	240
Purchase of additional shares from noncontrolling interest	—	345	—	—	(591)	—	(246)	(31,849)	(32,095)
Proceeds from sales of common stock through employee equity incentive plans	2,503	34,369	—	—	—	—	34,369	64	34,433
Restricted stock unit and stock appreciation right withholdings	(426)	(19,504)	—	—	—	—	(19,504)	—	(19,504)
Treasury stock used for new issuances	(2,077)	(61,703)	(2,077)	61,703	—	—	—	—	—
Tax benefit from equity incentive plans	—	1,220	—	—	—	—	1,220	—	1,220
Share-based compensation	—	56,687	—	—	—	—	56,687	—	56,687
Non-cash consideration, exchange of employee stock awards - Supertex acquisition	—	1,622	—	—	—	—	1,622	—	1,622
Convertible Debt - retirement of 2037 debentures	—	(606,926)	—	—	—	—	(606,926)	—	(606,926)
Convertible Debt - issuance of 2025 debentures	—	348,824	—	—	—	—	348,824	—	348,824
Cash dividend	—	—	—	—	—	(286,478)	(286,478)	—	(286,478)
Balance at March 31, 2015	218,790	999,717	16,710	(515,679)	11,076	1,549,540	2,044,654	16,372	2,061,026
Net income (loss)	—	—	—	—	—	324,132	324,132	(207)	323,925
Other comprehensive loss	—	—	—	—	(14,158)	—	(14,158)	—	(14,158)
Purchase of additional shares from noncontrolling interest	—	(1,611)	—	—	(275)	—	(1,886)	(16,165)	(18,051)

	Common Stock and Additional Paid-in-Capital		Common Stock Held in Treasury		Accumulated Other Comprehensive Income	Retained Earnings	Net Microchip Technology Stockholders' Equity	Noncontrolling Interests	Total Equity
	Shares	Amount	Shares	Amount					
Issuance of common stock - Micrel acquisition	8,627	369,054	—	—	—	—	369,054	—	369,054
Non-cash consideration, exchange of employee stock awards - Micrel	—	4,052	—	—	—	—	4,052	—	4,052
Purchase of treasury stock	—	—	8,627	(363,829)	—	—	(363,829)	—	(363,829)
Proceeds from sales of common stock through employee equity incentive plans	2,491	28,718	—	—	—	—	28,718	—	28,718
Restricted stock unit and stock appreciation right withholdings	(489)	(21,720)	—	—	—	—	(21,720)	—	(21,720)
Treasury stock used for new issuances	(2,002)	(59,442)	(2,002)	59,442	—	—	—	—	—
Tax benefit from equity incentive plans	—	(567)	—	—	—	—	(567)	—	(567)
Share-based compensation	—	73,556	—	—	—	—	73,556	—	73,556
Cash dividend	—	—	—	—	—	(291,087)	(291,087)	—	(291,087)
Balance at March 31, 2016	227,417	$1,391,757	23,335	$(820,066)	$ (3,357)	$ 1,582,585	$ 2,150,919	$ —	$2,150,919

See accompanying 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 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, timing, safety, security, wired connectivity and wireless connectivity devices, as well as serial EEPROMs, Serial Flash memories, Parallel Flash memories and serial SRAM 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 majority-owned subsidiaries (Microchip or the Company). The Company owned 100% of the outstanding stock in all of its subsidiaries as of March 31, 2016. As further discussed in Note 2, the Company did not hold 100% of the outstanding common stock of ISSC Technologies Corporation (ISSC) for a period through June 30, 2015. The noncontrolling interest in the Company's net income from ISSC has been excluded from net income attributable to the Company in the Company's consolidated statements of income. 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, 2016, the Company had approximately $267.2 million of deferred revenue and $83.8 million in deferred cost of sales recognized as $183.4 million of deferred income on shipments to distributors. At March 31, 2015, the Company had approximately $260.9 million of deferred revenue and $94.8 million in deferred cost of sales recognized as $166.1 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.

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.

For licenses or other technology arrangements without an upgrade period, non-royalty revenue from the 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. In certain limited circumstances, the Company enters into license and other arrangements for technologies that the Company is continuing to enhance and refine or under which it is obligated to provide unspecified enhancements. Under these arrangements, 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.

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 2016, 2015, and 2014 were immaterial.

Advertising Costs

The Company expenses all advertising costs as incurred. Advertising costs were immaterial for the fiscal years ended March 31, 2016, 2015 and 2014.

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

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 2015, certain foreign subsidiaries acquired as part of the Company's acquisition activities 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 for such entities.

Income Taxes

The Company provides for income taxes in accordance with principles contained in ASC Topic 740, *Income Taxes.* Under these principles, the Company recognizes the amount of income tax payable or refundable for the current year and deferred tax assets and liabilities for the future tax consequences of events that have been recognized in its consolidated financial statements or tax returns.

Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period when the new rate is enacted. Deferred tax assets are evaluated for future realization and reduced by a valuation allowance if it is more likely than not that a portion will not be realized. In assessing whether it is more likely than not that deferred tax assets will be realized, the Company considers all available evidence, both positive and negative, including its recent cumulative earnings experience and expectations of future available taxable income of the appropriate character by taxing jurisdiction, tax attribute carry back and carry forward periods available to them for tax reporting purposes, and prudent and feasible tax planning strategies.

The Company measures and recognizes the amount of tax benefit that should be recorded for financial statement purposes for uncertain tax positions taken or expected to be taken in a tax return. With respect to uncertain tax positions, the Company evaluates the recognized tax benefits for de-recognition, classification, interest and penalties, interim period accounting and disclosure requirements. Judgment is required in assessing the future tax consequences of events that have been recognized in its consolidated financial statements or tax returns.

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.

Available-for-Sale Investments

The Company classifies its investments in debt and marketable equity securities as available-for-sale 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 available-for-sale debt securities sold is calculated using the first-in, first-out (FIFO) basis at the individual security level for sales from multiple lots. For sales of marketable equity securities, the Company uses an average cost basis at the individual security level.

The Company includes within short-term investments 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 4, 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.

Derivative Instruments

Derivative instruments are required to be recorded at fair value as either assets or liabilities in the Company's consolidated balance sheet. The Company's accounting policies for derivative instruments depends on whether the instrument has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship.

The Company does not apply hedge accounting to foreign currency forward contracts. 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.

Interest rate derivative instruments designated as fair value hedges are designed to manage the exposure to interest rate movements and to reduce borrowing costs by converting fixed-rate debt into floating-rate debt. Under these agreements, the Company agrees to exchange, at specified intervals, the difference between the fixed and floating interest amounts calculated by reference to an agreed-upon notional principal amount. For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivatives as well as the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in earnings. The Company evaluates hedge effectiveness at inception and on an ongoing basis. If a derivative is no longer expected to be highly effective, hedge accounting is discontinued. In February 2016, the Company terminated its interest rate derivative instruments.

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 the Company's 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 40 years for buildings and building improvements and 3 to 7 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.

Senior and Junior Subordinated Convertible Debentures

The Company separately accounts for the liability and equity components of its senior and 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 senior and junior subordinated convertible debentures in its diluted income per share calculation regardless of whether the market price triggers or other contingent conversion features have been met. The Company applies the treasury stock method as it has the intent and ability to settle the principal amounts of the senior and 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 prices per share which were $66.05 and $24.31 for the senior and junior subordinated convertible debentures, respectively, at March 31, 2016 and adjust as dividends are recorded in the future.

Upon a de-recognition event, the Company estimates the fair value of the liability component and compares that to the carrying amount in order to calculate the appropriate amount of gain or loss. The remaining amounts paid or issued (in the case of non cash consideration in the form of shares of common stock) are recognized as a reduction of additional paid-in-capital. The fair value of the liability component is estimated using the current comparable borrowing rate for an otherwise identical non-convertible debt instrument.

Litigation

The Company's estimated range of liability related to pending litigation is based on claims that management believes a loss is probable and for which an amount or range of loss is estimable.

In the event that a probable loss cannot be reasonably estimated, the Company does not accrue for such losses. Management makes a determination as to when a potential loss is reasonably possible based on relevant accounting literature and then includes appropriate disclosure of the contingency. As the Company continues to monitor litigation matters, whether deemed material as of March 31, 2016 or not, its determination could change, and the Company may decide, at some future date, to establish an appropriate reserve.

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 impairment review annually, and more frequently under certain circumstances. The goodwill is subjected to this annual impairment 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, 2016, 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 employee stock purchase plans for 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 straight-line 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 purchase 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, 2016, 2015 and 2014 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 $102.9 million at March 31, 2016 and $116.0 million at March 31, 2015. 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.

Business Segments

Operating segments are components of an enterprise about which separate financial information is regularly reviewed by the chief operating decision maker(s) ("CODM") to assess the performance of the component and make decisions about the resources to be allocated to the component. The Company's Chairman and Chief Executive Officer and the Company's President and Chief Operating Officer have been identified as the CODMs as they jointly manage the Company's worldwide consolidated enterprise. Based on the Company's structure and manner in which the Company is managed and decisions are made, the Company's business is made up of two operating segments, semiconductor products and technology licensing.

In the semiconductor products segment, the Company designs, develops, manufactures and markets microcontrollers, development tools and analog, interface, mixed signal and timing products. Under the leadership of the CODMs, the Company is structured and organized around standardized roles and responsibilities based on product groups and functional activities. The Company's product groups are responsible for product research, design and development. The Company's functional activities include sales, marketing, manufacturing, information technology, human resources, legal and finance.

The Company's product groups have similar products, production processes, types of customers and methods for distribution. In addition, the tools and technologies used in the design and manufacture of the Company's products are shared among the various product groups. The Company's product group leaders, under the direction of the CODMs, define the product roadmaps and team with sales personnel to achieve design wins and revenue and other performance targets. Product group leaders also interact with manufacturing and operational personnel who are responsible for the production, prioritization and planning of the Company's manufacturing capabilities to help ensure the efficiency of the Company's operations and fulfillment of customer requirements. This centralized structure supports a global operating strategy in which the CODMs assess performance and allocate resources based on the Company's consolidated results.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09-*Revenue from Contracts with Customers (Topic 606)*, 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. In July 2015, the FASB delayed the effective date of the new standard by one year to December 15, 2017, for annual and interim reporting periods beginning after that date. In accordance with the delay, the new standard will be effective for the Company beginning no later than April 1, 2018. Early adoption is permitted, but not before the original effective date of December 15, 2016. The new standard allows for the amendment to be applied either retrospectively to each prior reporting period presented or retrospectively as a cumulative-effect adjustment as of the date of adoption. In March 2016, the FASB issued ASU 2016-08 - *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, which clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10 - *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, which clarifies the implementation guidance on identifying performance obligations. In May 2016, the FASB issued ASU 2016-12 - *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*, which addresses implementation issues that were raised by stakeholders and discussed by the Revenue Recognition Transition Resource Group. As described in the Company's significant accounting policies, the Company defers the revenue and cost of sales on shipments to distributors until the distributor sells the product to their end customer. Upon adoption of ASU 2014-09, ASU 2015-14, ASU 2016-08, ASU 2016-10 and ASU 2016-12, the Company will no longer defer revenue until sale by the distributor to the end customer, but rather, will be required to estimate the effects of returns and allowances provided to distributors and record revenue at the time of sale to the distributor. The Company is currently evaluating the impact that the adoption of the standards may have on its consolidated financial statements and additional changes may be identified. The Company has not elected a transition method.

In April 2015, the FASB issued ASU 2015-03-*Simplifying the Presentation of Debt Issuance Costs.* This standard amends existing guidance to require the presentation of debt issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability instead of as a deferred charge. ASU 2015-03 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015 and requires retrospective application. The Company does not expect this standard to have a material impact on its consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11-*Simplifying the Measurement of Inventory.* This standard requires that entities measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. ASU 2015-11 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016 and is applied prospectively. Early adoption is permitted. The Company does not expect this standard to have a material impact on its consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16-*Business Combinations (Topic 805), Simplifying the Accounting for Measurement-Period Adjustments*. This standard amends existing guidance to require acquiring entities in a business combination to recognize measurement-period adjustments in the reporting period in which the adjustment amounts are determined. The standard also requires entities to present separately on the face of the income statement (or disclose in the notes to the financial statements) the amount of the adjustment reflected in the current period earnings, by line item, that would have been recognized in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. ASU 2015-16 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. The standard is to be applied prospectively to measurement-period adjustments that occur after the effective date. The Company adopted this standard beginning in the second quarter of fiscal 2016 and the adoption of this standard did not have a material impact on its consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17-*Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes.* The new guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016, with early adoption permitted. The new guidance was adopted by the Company on a prospective basis in the third quarter for the fiscal year ended March 31, 2016. Prior period amounts in the Company's consolidated balance sheet within this Annual Report on Form 10-K were not adjusted to conform to the new accounting standard. The adoption of this accounting standard was not material to the Company's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01-*Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This standard addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. ASU 2016-01 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is not permitted. The Company is currently evaluating the impact the adoption of this standard will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. This standard requires lessees to recognize a lease liability and a right-of-use asset on the balance sheet and aligns many of the underlying principles of the new lessor model with those in Accounting Standards Codification Topic 606, Revenue from Contracts with Customers. ASU 2016-02 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. The Company is currently evaluating the impact the adoption of this standard will have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation, Improvements to Employee Share-Based payment Accounting (Topic 718).* This standard is intended to provide simplification of the accounting for share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016. The Company is currently evaluating the impact the adoption of this standard will have on its consolidated financial statements.

2. BUSINESS ACQUISITIONS

Acquisition of Micrel

On August 3, 2015, the Company acquired Micrel, a publicly traded company based in San Jose, California. The Company paid an aggregate of approximately $430.0 million in cash and issued an aggregate of 8,626,795 shares of its common stock to Micrel shareholders. The number of shares issued in the transaction was subsequently repurchased in the open market during the year ended March 31, 2016. The total consideration transferred in the acquisition, including approximately $4.1 million of non cash consideration for the exchange of certain share-based payment awards of Micrel for stock awards of the Company, and approximately $13.1 million of cash consideration for the payout of vested employee stock awards, was approximately $816.2 million. The Company financed the cash portion of the purchase price using borrowings under its existing credit agreement. As a result of the acquisition, Micrel became a wholly owned subsidiary of the Company. Micrel's business is to design, develop, manufacture and market a range of high-performance analog, power and mixed-signal integrated circuits. Micrel's products address a wide range of end markets including industrial and automotive, wireline communications, enterprise and cloud infrastructure and mobility. Micrel also manufactures custom analog and mixed-signal circuits and provides wafer foundry services for customers which produce electronic systems utilizing semiconductor manufacturing processes as well as micro-electrical mechanical system technologies. The Company's primary reason for this acquisition was to expand the Company's range of solutions, products and capabilities by extending its served available market.

The acquisition was accounted for under the acquisition method of accounting, with the Company identified as the acquirer, and the operating results of Micrel have been included in the Company's consolidated financial statements as of the closing date of the acquisition. Under the acquisition method of accounting, the aggregate amount of consideration paid by the Company was allocated to Micrel's net tangible assets and intangible assets based on their estimated fair values as of August 3, 2015. The excess of the purchase price over the value of the net tangible assets and intangible assets was recorded to goodwill. The factors contributing to the recognition of goodwill were based upon the Company's conclusion that there are strategic and synergistic benefits that are expected to be realized from the acquisition. The goodwill has been allocated to the Company's semiconductor products reporting segment. None of the goodwill related to the Micrel acquisition is deductible for tax purposes. The Company retained an independent third-party appraiser to assist management in its valuation; however, the purchase price allocation has not been finalized. This could result in adjustments to the fair values of the assets acquired and liabilities assumed, the useful lives of intangible assets, the residual amount allocated to goodwill and deferred income taxes recognized. The preliminary allocation of the purchase price is based on the best estimates of management and is subject to revision based on the final valuations and estimates of useful lives.

The table below represents the preliminary allocation of the purchase price, including adjustments to the purchase price allocation from the originally reported figures at September 30, 2015, to the net assets acquired based on their estimated fair values as of August 3, 2015, as well as the associated estimated useful lives of the acquired intangible assets at that date (amounts in thousands):

Assets acquired	Previously Reported September 30, 2015	Adjustments	March 31, 2016
Cash and cash equivalents	$ 99,196	$ —	$ 99,196
Accounts receivable, net	12,296	1,800	14,096
Inventories	78,967	(5,499)	73,468
Prepaid expenses and other current assets	10,548	104	10,652
Property, plant and equipment, net	38,566	—	38,566
Goodwill	437,060	3,932	440,992
Purchased intangible assets	274,800	(1,300)	273,500
Other assets	4,268	—	4,268
Total assets acquired	955,701	(963)	954,738
Liabilities assumed			
Accounts payable	(11,068)	—	(11,068)
Other current liabilities	(30,241)	(1,400)	(31,641)
Deferred tax liabilities	(88,796)	761	(88,035)
Long-term income tax payable	(9,239)	1,602	(7,637)
Other long-term liabilities	(127)	—	(127)
Total liabilities assumed	(139,471)	963	(138,508)
Purchase price allocated	$ 816,230	$ —	$ 816,230

Purchased Intangible Assets	Useful Life	August 3, 2015
	(in years)	(in thousands)
Core/developed technology	10	$ 175,800
In-process technology	10	21,000
Customer-related	5	71,100
Backlog	1	5,600
Total purchased intangible assets		$ 273,500

Purchased intangible assets include core and developed technology, in-process research and development, customer-related intangibles and acquisition-date backlog. The estimated fair values of the core and developed technology and in-process research and development were determined based on the present value of the expected cash flows to be generated by the respective existing technology or future technology. The core and developed technology intangible assets are being amortized commensurate with the expected cash flows used in the initial determination of fair value. In-process technology is capitalized until such time as the related projects are completed or abandoned at which time the capitalized amounts will begin to be amortized or written off.

Customer-related intangible assets consist of Micrel's contractual relationships and customer loyalty related to its distributor and end-customer relationships, and the fair values of the customer-related intangibles were determined based on Micrel's projected revenues. An analysis of expected attrition and revenue growth for existing customers was prepared from Micrel's historical customer information. Customer relationships are being amortized in a manner consistent with the estimated cash flows associated with the existing customers and anticipated retention rates. Backlog relates to the value of orders not yet shipped by Micrel at the acquisition date, and the preliminary fair values were based on the estimated profit associated with those orders. Backlog related assets are being recognized commensurate with recognition of the revenue for the orders on which the backlog intangible assets were determined. Amortization expense associated with acquired intangible assets is not deductible for tax purposes. Thus, approximately $99.7 million was established as a net deferred tax liability for the future amortization of the intangible assets offset by $11.4 million of net deferred tax assets.

The amount of Micrel net sales included in the Company's consolidated statements of income for the year ended March 31, 2016 was approximately $116.4 million. The operations of Micrel were fully integrated into the Company's operations as of November 1, 2015 and as such, cost of sales and operating expenses were no longer segregated as of that date.

The following unaudited pro-forma consolidated results of operations for the years ended March 31, 2016 and 2015 assume the Micrel acquisition occurred as of April 1, 2014. The pro-forma adjustments are mainly comprised of acquired inventory fair value costs and amortization of purchased intangible assets. The pro-forma results of operations are presented for informational purposes only and are not indicative of the results of operations that would have been achieved if the acquisition had taken place on April 1, 2014 or of results that may occur in the future (amounts in thousands except per share data):

	Year ended March 31,	
	2016	2015
Net sales	$ 2,283,517	$ 2,352,727
Net income	$ 365,654	$ 278,673
Basic earnings per share	$ 1.80	$ 1.39
Diluted earnings per share	$ 1.68	$ 1.25

Acquisition of ISSC

On July 17, 2014, the Company acquired an 83.5% interest in Taiwan-based ISSC, a leading provider of low power Bluetooth and advanced wireless solutions for the Internet of Things (IoT) market. The Company acquired the 83.5% ownership interest through a tender offer process. After the completion of the tender offer, the Company continued to acquire additional shares of ISSC, and as of June 30, 2015, the Company had completed the acquisition of 100% of the outstanding shares of ISSC.

The acquisition was accounted for under the acquisition method of accounting. The table below represents the allocation of the purchase price to the net assets acquired based on their estimated fair values as of July 17, 2014 as well as the associated estimated useful lives of the acquired intangible assets at that date. The purchase price allocation was finalized as of June 30, 2015 (amounts in thousands):

Assets acquired	June 30, 2015
Cash and cash equivalents	$ 15,120
Short-term investments	27,063
Accounts receivable, net	8,792
Inventories	16,542
Prepaid expenses and other current assets	2,501
Property, plant and equipment, net	2,637
Goodwill	154,788
Purchased intangible assets (1)	147,800
Other assets	1,370
Total assets acquired	376,613
Liabilities assumed	
Accounts payable	(9,860)
Other current liabilities	(16,535)
Long-term income tax payable	(4,791)
Deferred tax liability	(25,126)
Other long-term liabilities	(245)
Total liabilities assumed	(56,557)
Net assets acquired including noncontrolling interest	320,056
Less: noncontrolling interest	(52,467)
Net assets acquired	$ 267,589

(1) Purchased Intangible Assets	Useful Life (in years)	July 17, 2014 (in thousands)
Core/developed technology	10	$ 68,900
In-process technology	10	27,200
Customer-related	3	51,100
Backlog	1	600
		$ 147,800

Acquisition of Supertex

On April 1, 2014, the Company acquired Supertex Inc., a publicly traded company based in Sunnyvale, California. Supertex is a leader in high voltage analog and mixed signal technologies, with a strong position in the medical, lighting and industrial control markets.

The acquisition was accounted for under the acquisition method of accounting. The table below represents the allocation of the purchase price to the net assets acquired based on their estimated fair values as of April 1, 2014 as well as the associated estimated useful lives of the acquired intangible assets at that date. The purchase price allocation was finalized on March 31, 2015 (amounts in thousands):

Assets acquired	March 31, 2015
Cash and cash equivalents	$ 14,790
Short-term investments	140,984
Accounts receivable, net	7,047
Inventories	27,630
Prepaid expenses	1,493
Deferred tax assets	2,456
Other current assets	12,625
Property, plant and equipment, net	15,679
Goodwill	143,160
Purchased intangible assets (1)	89,600
Other assets	325
Total assets acquired	455,789
Liabilities assumed	
Accounts payable	(8,481)
Accrued liabilities	(19,224)
Long-term income tax payable	(3,796)
Deferred tax liability	(32,511)
Total liabilities assumed	(64,012)
Net assets acquired	$ 391,777

(1) Purchased Intangible Assets	Useful Life (in years)	April 1, 2014 (in thousands)
Core/developed technology	10	$ 68,900
In-process technology	10	1,900
Customer-related	2	17,700
Backlog	1	1,100
		$ 89,600

3. SPECIAL CHARGES

During fiscal 2016, the Company incurred special charges of $4.0 million comprised of $11.2 million related to severance, office closing and other costs associated with the Company's acquisition activity and legal settlement costs of approximately $4.3 million partially offset by special income of $11.5 million related to an insurance settlement for reimbursement of funds Microchip previously paid to settle a lawsuit in the second quarter of fiscal 2013. During fiscal 2015 and fiscal 2014, the Company incurred special charges of $2.8 million and $3.0 million, respectively, related to severance, office closing and other costs associated with its acquisition activity.

4. 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, 2016 (amounts in thousands):

	Available-for-sale Securities			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government agency bonds	$ 468,290	$ 439	$ (99)	$ 468,630
Corporate bonds and debt	1,000	—	—	1,000
Marketable equity securities	2,195	8	—	2,203
Total	$ 471,485	$ 447	$ (99)	$ 471,833

The following is a summary of available-for-sale securities at March 31, 2015 (amounts in thousands):

	Available-for-sale Securities			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government agency bonds	$ 741,780	$ 676	$ (200)	$ 742,256
Municipal bonds	41,552	155	(9)	41,698
Auction rate securities	9,825	—	—	9,825
Time deposits [1]	506	—	—	506
Corporate bonds and debt	924,818	2,376	(265)	926,929
Marketable equity securities	1,362	11,804	—	13,166
Total	$ 1,719,843	$ 15,011	$ (474)	$ 1,734,380

[1] Time deposits in various financial institutions with maturities greater than three months that will mature within one year.

At March 31, 2016, the Company's available-for-sale debt securities and marketable equity securities are presented on the consolidated balance sheets as short-term investments of $353.3 million and long-term investments of $118.5 million. At March 31, 2015, the Company's available-for-sale debt securities and marketable equity securities are presented on the consolidated balance sheets as short-term investments of $1,351.1 million and long-term investments of $383.3 million.

The Company sold available-for-sale investments for proceeds of $1,501.5 million, $273.9 million and $135.3 million during the years ended March 31, 2016, 2015 and 2014, respectively. The Company sold available-for-sale investments during the fourth quarter of fiscal 2016 to finance a portion of the purchase price of its Atmel acquisition which closed on April 4, 2016. The Company had net realized gains of $13.7 million and $18.5 million from sales of available-for-sale marketable equity and debt securities during the years ended March 31, 2016 and 2015, respectively. The Company had no material realized gains or losses from the sale of available-for-sale equity and debt securities during the year ended March 31, 2014. The Company determines the cost of available-for-sale debt securities sold on a FIFO basis at the individual security level for sales from multiple lots. For sales of marketable equity securities, the Company uses an average cost basis at the individual security level. Gains and losses recognized in earnings are credited or charged to other income (expense) on the consolidated statements of income.

At March 31, 2016, the Company's marketable equity securities consisted of an investment in Adesto Technologies Corporation, which effected its initial public offering on the NASDAQ stock exchange on October 26, 2015. This investment was previously classified as available-for-sale corporate debt as of March 31, 2015. At March 31, 2015, the Company's marketable equity securities consisted of an investment in Hua Hong Semiconductor Limited (Hua Hong), which effected its initial public offering on the Hong Kong stock exchange on October 15, 2014. The Company sold all of its remaining shares of Hua Hong in the three months ended June 30, 2015.

The following tables show all investments in an unrealized loss position for which an other-than-temporary impairment has not been recognized and the related gross unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position (amounts in thousands):

	March 31, 2016					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Government agency bonds	$ 148,562	$ (99)	$ —	$ —	$ 148,562	$ (99)
Corporate bonds and debt	—	—	1,000	—	1,000	—
Total	$ 148,562	$ (99)	$ 1,000	$ —	$ 149,562	$ (99)

	March 31, 2015					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Government agency bonds	$ 162,948	$ (142)	$ 29,942	$ (58)	$ 192,890	$ (200)
Municipal bonds	13,318	(9)	—	—	13,318	(9)
Corporate bonds and debt	163,095	(219)	19,021	(46)	182,116	(265)
Total	$ 339,361	$ (370)	$ 48,963	$ (104)	$ 388,324	$ (474)

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, 2016 and the Company's intent is to hold these investments until these assets are no longer impaired. For those debt securities not scheduled to mature until after March 31, 2017, such recovery is not anticipated to occur in the next year and these investments have been classified as long-term investments on the consolidated balance sheet.

The amortized cost and estimated fair value of the available-for-sale securities at March 31, 2016, by contractual maturity, excluding marketable equity securities of $2.2 million, which have 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	$ 41,078	$ 5	$ (5)	$ 41,078
Due after one year and through five years	428,212	434	(94)	428,552
Due after five years and through ten years	—	—	—	—
Due after ten years	—	—	—	—
Total	$ 469,290	$ 439	$ (99)	$ 469,630

The amortized cost and estimated fair value of the available-for-sale securities at March 31, 2015, by maturity, excluding marketable equity securities of $13.2 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	$ 224,531	$ 512	$ (34)	$ 225,009
Due after one year and through five years	1,395,685	2,648	(330)	1,398,003
Due after five years and through ten years	82,250	47	(110)	82,187
Due after ten years	9,825	—	—	9,825
Total	$ 1,712,291	$ 3,207	$ (474)	$ 1,715,024

5. 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 mutual funds. 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.

Derivatives

The Company's derivative assets include interest rate swaps that are classified as Level 2 as the Company uses inputs other than quoted prices that are observable for the assets. The Level 2 derivative assets are primarily valued using standard calculations and models that use readily observable market data as their basis.

Assets Measured at Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis at March 31, 2016 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				
Cash and cash equivalents:				
Money market mutual funds	$ 1,787,446	$ —	$ —	$ 1,787,446
Deposit accounts	—	305,305	—	305,305
Short-term investments:				
Marketable equity securities	2,203	—	—	2,203
Corporate bonds and debt	—	1,000	—	1,000
Government agency bonds	—	350,081	—	350,081
Long-term investments:				
Government agency bonds	—	118,549	—	118,549
Total assets measured at fair value	$ 1,789,649	$ 774,935	$ —	$ 2,564,584

Assets measured at fair value on a recurring basis at March 31, 2015 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				
Cash and cash equivalents:				
Money market mutual funds	$ 279,833	$ —	$ —	$ 279,833
Deposit accounts	—	327,982	—	327,982
Short-term investments:				
Marketable equity securities	13,166	—	—	13,166
Corporate bonds and debt	—	756,664	—	756,664
Time deposits (1)	—	506	—	506
Government agency bonds	—	549,737	—	549,737
Municipal bonds	—	30,981	—	30,981
Long-term investments:				
Corporate bonds and debt	—	164,075	6,190	170,265
Government agency bonds	—	192,519	—	192,519
Municipal bonds	—	10,717	—	10,717
Auction rate securities	—	—	9,825	9,825
Other assets				
Derivative assets	—	8,928	—	8,928
Total assets measured at fair value	$ 292,999	$ 2,042,109	$ 16,015	$ 2,351,123

(1) Time deposits in various financial institutions with maturities greater than three months that will mature within one year.

There were no transfers between Level 1 and Level 2 during fiscal 2016 or fiscal 2015.

The following table presents a reconciliation for all assets measured at fair value on a recurring basis, excluding accrued interest components, using significant unobservable inputs (Level 3) for the year ended March 31, 2016. There were no changes in the fair value of these assets measured on a recurring basis during fiscal 2015 (amounts in thousands):

Year ended March 31, 2016	Auction Rate Securities	Corporate Debt	Total Gains (Losses)
Balance at March 31, 2015	$ 9,825	$ 6,190	$ —
Total gains (losses) (realized):			
Included in earnings	2,780	(3,995)	(1,215)
Purchases, sales, issuances, and settlements, net	(12,605)	—	—
Transfers out of Level 3	—	(2,195)	—
Balance at March 31, 2016	$ —	$ —	$ (1,215)

Transfers into or out of Level 3 are made if the inputs used in the financial models measuring the fair values of the assets became unobservable or observable, respectively, in the current marketplace. During the year ended March 31, 2016, the Company transferred $2.2 million of corporate debt assets out of Level 3 as the inputs used to value these assets became observable in the current marketplace and are classified as Level 1 as of March 31, 2016. This transfer was effective on October 26, 2015.

During the fourth quarter of fiscal 2016, the Company sold its ARS for proceeds of $12.6 million. At March 31, 2015, the Company's ARS for which auctions were unsuccessful were made up of securities related to the insurance industry valued at $9.8 million with a par value of $22.4 million. During the period the Company held the ARS, the Company estimated the fair value of its ARS, which were 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 ARS were estimated risk free discount rates, liquidity risk premium, and the liquidity horizon. The risk free discount rate applied to these securities was 2.0% 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.

Gains and losses recognized in earnings are credited or charged to other income (expense) on the consolidated statements of income.

Assets Measured and Recorded at Fair Value on a Non-Recurring Basis

The Company's non-marketable equity, cost method investments, and non-financial assets, such as intangible assets, assets held for sale and property, plant and equipment, are recorded at fair value on a non-recurring basis. These assets are subject to fair value adjustments in certain circumstances, for example, when there is evidence of impairment.

The Company's non-marketable and cost method investments are monitored on a quarterly basis for impairment charges. The fair values of these investments have been determined as Level 3 fair value measurements because the valuations use unobservable inputs that require management's judgment due to the absence of quoted market prices. There were no impairment charges recognized on these investments during the years ended March 31, 2016 or March 31, 2015. During the year ended March 31, 2014, the Company recognized impairment charges of $0.7 million on these investments. These investments are included in other assets on the consolidated balance sheets.

The fair value measurements related to the Company's non-financial assets, such as intangible assets, assets held for sale and property, plant and equipment are based on available market prices at the measurement date based on transactions of similar assets and third-party independent appraisals, less costs to sell where appropriate. The Company classifies these measurements as Level 2.

6. 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, 2016 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 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 borrowings at March 31, 2016 approximated book value and are considered Level 2 in the fair value hierarchy described in Note 5. The carrying amount of accounts receivable, accounts payable and accrued liabilities approximates fair value due to the short-term maturity of the amounts and are considered Level 2 in the fair value hierarchy.

Fair Value of Subordinated Convertible Debentures

The Company measures the fair value of its senior and junior subordinated convertible debentures for disclosure purposes. These fair values are 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, and exclude the impacts of derivative activity.

The carrying amounts and fair values of the Company’s senior and junior subordinated convertible debentures as of March 31, 2016 and 2015 are as follows (amounts in thousands):

	March 31, 2016		March 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
1.625% Senior Subordinated Convertible Debentures	$ 1,234,733	$ 1,762,088	$ 1,174,036	$ 1,787,531
2.125% Junior Subordinated Convertible Debentures	$ 196,304	$ 1,143,117	$ 190,870	$ 1,124,125

7. ACCOUNTS RECEIVABLE

Accounts receivable consists of the following (amounts in thousands):

	March 31, 2016	March 31, 2015
Trade accounts receivable	$ 289,013	$ 269,844
Other	3,710	6,714
Total accounts receivable, gross	292,723	276,558
Less allowance for doubtful accounts	2,540	2,621
Total accounts receivable, net	$ 290,183	$ 273,937

8. INVENTORIES

The components of inventories consist of the following (amounts in thousands):

	March 31, 2016	March 31, 2015
Raw materials	$ 12,179	$ 13,263
Work in process	208,283	197,565
Finished goods	86,353	68,628
Total inventories	$ 306,815	$ 279,456

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.

9. ASSETS HELD FOR SALE

During the year ended March 31, 2015, the Company began to actively market real property it acquired in the Supertex acquisition. As of March 31, 2015, the Company classified the property as held for sale on its consolidated balance sheet at its fair value of approximately $14.0 million. The Company sold the property on July 22, 2015 for $14.3 million.

10. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following (amounts in thousands):

	March 31, 2016	March 31, 2015
Land	$ 63,907	$ 55,624
Building and building improvements	458,379	434,403
Machinery and equipment	1,645,617	1,576,074
Projects in process	99,370	76,315
Total property, plant and equipment, gross	2,267,273	2,142,416
Less accumulated depreciation and amortization	1,657,877	1,560,844
Total property, plant and equipment, net	$ 609,396	$ 581,572

Depreciation expense attributed to property, plant and equipment was $103.9 million, $97.3 million and $89.7 million for the fiscal years ending March 31, 2016, 2015 and 2014, respectively.

11. NONCONTROLLING INTERESTS

The following table presents the changes in the components of noncontrolling interests for the years ended March 31, 2016 and March 31, 2015 (amounts in thousands):

	Noncontrolling Interests
Balance at March 31, 2014	$ —
Additions due to acquisition of controlling interest in ISSC	52,467
Net loss attributable to noncontrolling interests	(3,684)
Other comprehensive loss attributable to noncontrolling interests	(866)
Purchase of additional interests	(31,849)
Other	304
Balance at March 31, 2015	16,372
Net loss attributable to noncontrolling interests	(207)
Purchase of additional interests	(16,165)
Balance at March 31, 2016	$ —

The following table presents the effect of changes in the Company's ownership interest in ISSC on the Company's stockholders' equity (amounts in thousands):

	Year ended March 31, 2016	Year ended March 31, 2015
Net income attributable to Microchip Technology stockholders	$ 324,132	$ 369,009
(Decrease) increase in paid-in capital for purchase of additional interests	(1,611)	345
Increase in paid-in capital for converted stock options	—	1,094
Net transfers (to) from noncontrolling interest	(1,611)	1,439
Change from net income attributable to Microchip Technology stockholders and transfers (to) from noncontrolling interest	$ 322,521	$ 370,448

The Company acquired the remaining noncontrolling interest in ISSC during the first quarter of fiscal 2016.

12. INTANGIBLE ASSETS AND GOODWILL

Intangible assets consist of the following (amounts in thousands):

	March 31, 2016		
	Gross Amount	Accumulated Amortization	Net Amount
Core and developed technology	$ 724,883	$ (255,460)	$ 469,423
Customer-related	278,542	(200,331)	78,211
Trademarks and trade names	11,700	(7,571)	4,129
In-process technology	54,308	—	54,308
Distribution rights	5,580	(5,302)	278
Total	$ 1,075,013	$ (468,664)	$ 606,349

	March 31, 2015		
	Gross Amount	Accumulated Amortization	Net Amount
Core and developed technology	$ 549,415	$ (189,149)	$ 360,266
Customer-related	262,769	(192,283)	70,486
Trademarks and trade names	13,180	(6,979)	6,201
In-process technology	67,142	—	67,142
Distribution rights	5,580	(5,258)	322
Total	$ 898,086	$ (393,669)	$ 504,417

The Company amortizes intangible assets over their expected useful lives, which range between 1 and 15 years. During the year ended March 31, 2016, as a result of the acquisition of Micrel, the Company acquired $175.8 million of core and developed technology which has a weighted average amortization period of 10 years, $71.1 million of customer-related intangible assets which have a weighted average amortization period of 5 years, $5.6 million of intangible assets related to backlog with an amortization period of 1 year and $21.0 million of in-process technology which has a weighted average amortization period of 10 years and will begin amortization once the technology reaches technological feasibility. In fiscal 2016, $33.8 million of in-process technology reached technological feasibility and was reclassified as core and developed technology and began being amortized over its estimated useful life.

The following is an expected amortization schedule for the intangible assets for fiscal 2017 through fiscal 2021, absent any future acquisitions or impairment charges (amounts in thousands):

Year ending March 31,	Projected Amortization Expense
2017	$137,321
2018	110,811
2019	94,573
2020	76,683
2021	50,974

Amortization expense attributed to intangible assets was $179.3 million, $181.0 million and $99.4 million for fiscal years 2016, 2015 and 2014, respectively. In fiscal 2016, $3.6 million was charged to cost of sales and $175.7 million was charged to operating expenses. In fiscal 2015, $3.8 million was charged to cost of sales and $177.2 million was charged to operating expenses. In fiscal 2014, $4.7 million was charged to cost of sales and $94.7 million was charged to operating expenses. The Company recognized impairment charges of $0.6 million, $1.9 million and $0.4 million in fiscal years 2016, 2015 and 2014, respectively.

Goodwill activity for fiscal years 2016 and 2015 was as follows (amounts in thousands):

	Semiconductor Products Reporting Unit	Technology Licensing Reporting Unit
Balance at March 31, 2014	$ 256,897	$ 19,200
Additions due to the acquisition of Supertex	143,160	—
Additions due to acquisition of controlling interest in ISSC	154,399	—
Adjustments due to other acquisitions	624	—
Foreign currency translation adjustments	(3,009)	—
Balance at March 31, 2015	552,071	19,200
Additions due to the acquisition of Micrel	440,992	—
Adjustments due to the acquisition of ISSC	389	—
Balance at March 31, 2016	$ 993,452	$ 19,200

At March 31, 2016, 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, 2016, the Company has never recorded an impairment charge against its goodwill balance.

13. INCOME TAXES

The income tax provision consists of the following (amounts in thousands):

	Year Ended March 31,		
	2016	2015	2014
Pretax Income:			
U.S.	$ (75,515)	$ (944)	$ 28,245
Foreign	356,808	346,851	404,109
	$ 281,293	$ 345,907	$ 432,354
Current expense (benefit):			
U.S. Federal	$ (3,966)	$ (3,185)	$ 992
State	(188)	(24)	64
Foreign	21,947	16,602	30,697
Total current	$ 17,793	$ 13,393	$ 31,753
Deferred expense (benefit):			
U.S. Federal	$ (42,207)	$ (22,641)	$ 14,445
State	(1,990)	(1,562)	929
Foreign	(16,228)	(8,608)	(10,054)
Total deferred	(60,425)	(32,811)	5,320
Total	$ (42,632)	$ (19,418)	$ 37,073

The tax benefit associated with the Company's equity incentive plans reduced taxes currently payable by $0.8 million, $1.2 million and $1.4 million for the years ended March 31, 2016, 2015 and 2014, respectively. These amounts were credited to additional paid-in capital in each of these fiscal years.

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,		
	2016	2015	2014
Computed expected income tax provision	$ 98,453	$ 121,067	$ 151,324
State income taxes, net of federal benefits	(1,246)	(20)	686
Research and development tax credits - current year	(13,542)	(9,703)	(4,875)
Research and development tax credits - prior years	(2,511)	(1,789)	1,600
Foreign income taxed at lower than the federal rate	(114,497)	(106,939)	(116,003)
Increases related to current and prior year tax positions	14,462	19,769	16,809
Decreases related to prior year tax positions (1)	(12,103)	(33,100)	(14,581)
Withholding taxes	5,970	5,218	6,212
Change in valuation allowance	(2,482)	(14,286)	—
Intercompany prepaid tax asset amortization	(15,493)	(1,089)	—
Other	357	1,454	(4,099)
Total	$ (42,632)	$ (19,418)	$ 37,073

(1) The release of prior year tax positions during fiscal 2016 increased each of the basic and diluted net income per common share by $0.06. The release of prior year tax positions during fiscal 2015 increased the basic and diluted net income per common share by $0.16 and $0.15, respectively. The release of prior year tax positions during fiscal 2014 increased each of the basic and diluted net income per common share by $0.07.

The foreign tax rate differential benefit primarily relates to the Company's operations in Thailand, Cayman and Ireland. The Company's Thailand manufacturing operations are currently subject to 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 obtain 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 $6.0 million, $12.4 million and $16.8 million in fiscal 2016, 2015 and 2014, respectively.

No U.S. income taxes have been provided on substantially all of the filing basis undistributed foreign earnings and profits of approximately $3.4 billion as of March 31, 2016 since the Company has the ability and intent to permanently reinvest these amounts. If such earnings were repatriated, additional tax expense may result, although the calculation of such additional taxes is not practicable.

During the year ended March 31, 2016, the Company effectively settled several open tax positions related to the examination of fiscal years 2012 and 2011 by the U.S. Internal Revenue Service (IRS). 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 $12.1 million and a decrease in the effective tax rate of 4.3% in fiscal 2016.

The tax effects of temporary differences that give rise to significant portions of the Company's deferred tax assets and deferred tax liabilities are as follows (amounts in thousands):

	March 31, 2016	March 31, 2015
Deferred tax assets:		
Deferred intercompany profit	$ 12,642	$ 10,865
Deferred income on shipments to distributors	34,830	34,493
Inventory valuation	12,082	9,605
Net operating loss carryforward	63,209	105,756
Capital loss carryforward	5,707	4,582
Share-based compensation	31,410	26,780
Income tax credits	100,294	115,893
Property, plant and equipment, principally due to differences in depreciation	16,262	2,236
Accrued expenses and other	7,559	671
Gross deferred tax assets	283,995	310,881
Valuation allowances	(161,834)	(116,482)
Deferred tax assets, net of valuation allowances	122,161	194,399
Deferred tax liabilities:		
Convertible debentures	(496,626)	(493,897)
Other	(9,922)	(10,649)
Deferred tax liabilities	(506,548)	(504,546)
Net deferred tax liability	$ (384,387)	$ (310,147)
Reported as:		
Current deferred tax assets	$ —	$ 71,045
Non-current deferred tax assets	14,831	—
Non-current deferred tax liability	(399,218)	(381,192)
Net deferred tax liability	$ (384,387)	$ (310,147)

In addition to the deferred tax assets listed above, the Company has unrecorded tax benefits of $47.3 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.

In assessing whether it is more likely than not that deferred tax assets will be realized, the Company considers all available evidence, both positive and negative, including its recent cumulative earnings experience and expectations of future available taxable income of the appropriate character by taxing jurisdiction, tax attribute carryback and carryforward periods available to them for tax reporting purposes, and prudent and feasible tax planning strategies.

The Company had federal, state and foreign NOL carryforwards with an estimated tax effect of $99.5 million available at March 31, 2016. The federal and state NOL carryforwards expire at various times between 2016 and 2035. 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, 2016, the Company has provided a valuation allowance of $53.2 million. The Company also has state tax credits with an estimated tax effect of $80.5 million available at March 31, 2016. These state tax credits expire at various times between 2016 and 2036. 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 $55.6 million. The Company has capital loss carryforwards with an estimated tax effect of $5.7 million available at March 31, 2016. These capital loss carryforwards begin to expire in 2020. The Company believes that it is more likely than not that the full benefit from these capital losses will not be realized, and therefore has provided a valuation allowance of $5.7 million. The Company had U.S foreign tax credits with an estimated tax effect of $25.8 million that expire at various times between 2016 and 2026. 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 $25.2 million. At March 31, 2016, the Company had credits for increasing research activity in the amount of $72.7 million that expire at various times between 2022 and 2036. At March 31, 2016, the Company had $4.3 million of alternative minimum tax credits that do not expire. In addition, the Company had $20.0 million of withholding tax credits that expire at various times between 2022 and 2024 in foreign jurisdictions. 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 $20.0 million.

During the year ended March 31, 2016, the H.R. 2029 "Protecting Americans from Tax Hikes Act of 2015" was signed into law which extended certain business tax provisions through December 31, 2019, including IRC section 954(c)(6) dealing with the application of Subpart F to certain inter-company payments among controlled foreign corporations. The expiration of section 954(c)(6) and the other expired provisions could have a material impact on the Company's consolidated results of operations subsequent to the year ended March 31, 2020.

The Company recognizes interest and penalties related to unrecognized tax benefits through income tax expense. 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 IRS is currently auditing Microchip'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 2008.

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 could 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 could 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 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, 2013 to March 31, 2016 (amounts in thousands):

	Year Ended March 31,		
	2016	2015	2014
Beginning balance	$ 170,654	$ 149,878	$ 152,845
Increases related to acquisitions	46,245	8,381	341
Decreases related to settlements with tax authorities	(7,954)	(20,197)	(15,016)
Decreases related to statute of limitation expirations	(4,591)	(9,031)	(4,069)
Increases related to current year tax positions	16,315	23,179	14,669
Increases related to prior year tax positions	—	18,444	1,108
Ending balance	$ 220,669	$ 170,654	$ 149,878

As of March 31, 2016, the Company had accrued approximately $2.4 million related to the potential payment of interest on the Company's uncertain tax positions. As of March 31, 2015, the Company had accrued approximately $0.7 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 $27.6 million in penalties related to its uncertain tax positions related to its international locations as of March 31, 2016 and March 31, 2015. Interest and penalties charged or (credited) to operations during the years ended March 31, 2016, 2015 and 2014 related to the Company's uncertain tax positions were $1.7 million, $(1.8) million and $0.2 million, respectively. The increase related to prior year tax positions for March 31, 2015 related primarily to a balance sheet reclassification from a valuation allowance to a reserve in the amount of $15.7 million.

14. 1.625% SENIOR SUBORDINATED CONVERTIBLE DEBENTURES

In February 2015, the Company issued $1,725.0 million principal amount of 1.625% senior subordinated convertible debentures due February 15, 2025. The debentures are subordinated to the Company's senior debt, including amounts borrowed under its amended credit facility, but are senior to the Company's outstanding 2.125% junior subordinated convertible debentures. The debentures are convertible, subject to certain conditions, into cash, shares of the Company's common stock or a combination thereof, at the Company's election, at an initial base conversion rate of 14.5654 shares of common stock per $1,000 principal amount of debentures, representing an initial base conversion price of approximately $68.66 per share of common stock. As a result of cash dividends paid since the issuance of the debentures, the conversion rate has been adjusted to 15.1396 shares of common stock per $1,000 of principal amount of debentures, representing a base conversion price of approximately $66.05 per share of common stock. In addition, if at the time of conversion the applicable price of the Company's common stock exceeds the base conversion price, the conversion rate will be increased by up to an additional initial base conversion rate of 7.2827 shares of common stock per $1,000 principal amount of debentures, as determined pursuant to a specified formula. As a result of cash dividends paid since the issuance of the debentures, the maximum number of additional shares that may be issued if the stock price of the Company's common stock exceeds the base conversion price has been adjusted to 7.5698 shares of common stock per $1,000 principal amount of debentures. However, in no event will the conversion rate exceed 20.3915 (adjusted to 21.1954 as a result of cash dividends paid since the issuance of the debentures) shares of common stock per $1,000 principal amount of debentures. The Company received net proceeds of approximately $1,694.7 million from the issuance of its senior subordinated convertible debentures after deduction of issuance costs of approximately $30.3 million. The $30.3 million in issuance costs was split between a debt component of $20.4 million and an equity component of $9.9 million. The $20.4 million in debt issuance costs is recorded in other assets and is being amortized using the effective interest method over the term of the debentures.

Prior to the close of business on the business day immediately preceding November 15, 2024, the debentures will be convertible at the option of the debenture holders only upon the satisfaction of specified conditions and during certain periods. Thereafter until close of business on the second scheduled trading day immediately preceding February 15, 2025, the debentures will be convertible at the option of the debenture holders at any time regardless of these conditions. Accrued and unpaid interest will be considered fully paid upon settlement of shares.

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, 2016 and March 31, 2015 was $564.9 million. The estimated fair value of the liability component of the debentures at the issuance date was $1,160.1 million resulting in a debt discount of $564.9 million. The unamortized debt discount was $490.3 million at March 31, 2016 and $559.3 million at March 31, 2015. The remaining period over which the unamortized debt discount will be recognized as non-cash interest expense is 8.87 years. In fiscal 2016, the Company recognized $42.6 million in non-cash interest expense related to the amortization of the debt discount compared to $5.7 million in fiscal 2015. The Company recognized $28.0 million of interest expense related to the 1.625% coupon on the debentures in fiscal 2016 compared to $3.8 million in fiscal 2015. The effective interest rate of the debentures is 5.9%.

15. 2.125% JUNIOR SUBORDINATED CONVERTIBLE DEBENTURES

In February 2015, the Company acquired $575.0 million in aggregate principal amount of its 2.125% junior subordinated convertible debentures for an aggregate purchase price of $1,134.6 million, based on market value. The payment was allocated between the liability ($238.3 million) and equity ($896.3 million) components of the convertible debentures, using the equivalent rate that reflected the borrowing rate for a similar non-convertible debt prior to the retirement. The transaction resulted in a loss on retirement of convertible debentures of approximately $50.6 million, which represented the difference between the fair value of the liability component at time of repurchase and the sum of the carrying values of the debt component and any unamortized debt issuance costs.

The Company's remaining $575.0 million 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 (including the Company's senior subordinated convertible debentures) 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 cash, shares of the Company's common stock or a combination thereof, at the Company's election, 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, 2016, the holders of the debentures had the right to convert their debentures between April 1, 2016 and June 30, 2016 because for at least 20 trading days during the 30 consecutive trading day period ending on March 31, 2016, the Company's common stock had a last reported sale price greater than 130% of the conversion price. As of March 31, 2016, the Company has classified the junior subordinated convertible debentures as long-term on the consolidated balance sheets as the Company has the intent and ability to refinance the obligation on a long-term basis. As of March 31, 2016, 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 41.1350 shares of common stock per $1,000 of principal amount of debentures, representing a conversion price of approximately $24.31 per share of common stock. The if-converted value of the debentures exceeded the principal amount by $565.1 million at March 31, 2016. The debentures include a contingent interest mechanism that begins in December 2017. The terms of the contingent interest include a 0.25% additional interest rate if the debentures are trading at less than $400 and a 0.5% additional interest rate if the debentures are trading at greater than $1,500. Based on the current trading price of the debentures, the contingent interest rate beginning in December 2017 would be 0.5% of the average trading price.

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 were both initially recorded at fair value. The carrying value of the equity component at March 31, 2016 and March 31, 2015 was $411.2 million. The estimated fair value of the liability component of the debentures at the issuance date was $163.8 million, resulting in a debt discount of $411.2 million. The unamortized debt discount was $378.3 million at March 31, 2016 and $383.7 million at March 31, 2015. The remaining period over which the unamortized debt discount will be recognized as non-cash interest expense is 21.75 years. In the years ended March 31, 2016, 2015 and 2014, the Company recognized $5.4 million, $9.1 million and $9.0 million, respectively, in non-cash interest expense related to the amortization of the debt discount. The Company recognized $12.2 million, $22.8 million and $24.4 million of interest expense related to the 2.125% coupon on the debentures in fiscal 2016, 2015 and 2014, respectively. The effective interest rate of the debentures is 9.1%.

16. CREDIT FACILITY

In February 2015, the Company amended its existing $2.0 billion credit agreement by increasing the revolving credit facility to $2.555 billion and removing the term loan portion of the agreement. The new credit agreement includes two tranches. One tranche consists of bank commitments through February 2020 and another tranche consists of bank commitments through June 2018, the maturity date of the original credit agreement. The increase option permitting the Company, subject to certain requirements, to arrange with existing lenders or new lenders to provide up to an aggregate of $300 million in additional commitments, was also adjusted to $249.4 million. The credit agreement provides for a $125 million foreign currency sublimit, a $25 million letter of credit sublimit and a $25 million swingline loan sublimit. The amended credit agreement was accounted for as a modification and as such any remaining unamortized deferred costs associated with the prior credit agreement was associated with the new agreement since the borrowing capacity was increased. At March 31, 2016, $1,052.0 million of revolving credit facility borrowings were outstanding under the credit agreement compared to $462.0 million at March 31, 2015.

In December 2015, the Company secured additional revolving credit commitments of $219 million from various banks in the February 2020 tranche under the increase option of the credit agreement, bringing its revolving credit facility to $2.774 billion. The remaining increase option was $30.4 million as of March 31, 2016.

In December 2015, the Company amended the Maximum Total Leverage Ratio in Section 6.11 of its existing credit agreement to allow the Total Leverage Ratio to be temporarily increased to 5.00 to 1.00 for a period of four consecutive quarters in conjunction with a Permitted Acquisition occurring during the first of the four quarters. The Total Leverage Ratio then decreases to 4.75 to 1.00 for three consecutive quarters, finally returning to the stated 4.50 to 1.00 Total Leverage Ratio of the credit agreement after a period of seven consecutive fiscal periods. The Company can elect to use this special feature, also referred to as an Adjusted Covenant Period, no more than two times during the term of the credit agreement and also can terminate an Adjusted Covenant Period earlier than the seven consecutive quarters allowed.

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 quarters (in the case of the 2018 tranche revolving loans) or the consolidated senior leverage ratio (in the case of the 2020 tranche revolving loans). 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 customary 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 $18.9 million in fiscal 2016, approximately $19.9 million in fiscal 2015 and approximately $14.6 million in fiscal 2014. Principal, together with all accrued and unpaid interest, is due and payable on the respective tranche maturity date, which is June 27, 2018 and February 4, 2020. The weighted average interest rate on short-term borrowings outstanding at March 31, 2016 related to the credit agreement was 1.94%. 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 are 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 consolidated senior and total leverage ratios and a consolidated interest coverage ratio. At March 31, 2016, 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.

17. CONTINGENCIES

In the ordinary course of the Company's business, the Company is involved in a limited number of legal actions, both as plaintiff and defendant. Consequently, the Company could incur uninsured liability in any of those actions. The Company also periodically receives notifications from various third parties alleging infringement of patents or other intellectual property rights. With respect to pending legal actions to which the Company is a party, although the outcomes of these actions are generally not determinable, the Company believes that the ultimate resolution of these matters will not harm its business and will not have a material adverse effect on its financial position, cash flows or results of operations. However, if an unfavorable ruling were to occur in any of the legal proceedings described in Note 28 or in other legal proceedings that were not deemed material to the Company as of the date hereof, then such legal proceedings could have a material adverse effect on the Company's financial position, cash flows or results of operations. Litigation relating to the semiconductor industry is not uncommon, and the Company is, from time to time, subject to such litigation. As a result, 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 $142.7 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, 2016.

18. STOCK REPURCHASE ACTIVITY

In December 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, 2015, the Company had repurchased 7.5 million shares under this authorization for $234.7 million. In May 2015, the Company's Board of Directors authorized an increase to the existing share repurchase program to 20.0 million shares of common stock from the approximately 2.5 million shares remaining under the prior authorization. During fiscal 2016, the Company repurchased 8.6 million shares under this authorization for $363.8 million. In January 2016, the Company's Board of Directors authorized an increase to the existing share repurchase program to 15.0 million shares of common stock from the approximately 11.4 million shares remaining under the prior authorization. There is no expiration date associated with this repurchase program. During the years ended March 31, 2015 and 2014, the Company did not purchase any of its shares of common stock.

19. 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 the applicable quarter. During fiscal 2016, 2015 and 2014, the Company's matching contributions to the plan totaled $4.4 million, $3.9 million and $3.6 million, respectively.

The Company's 2001 Employee Stock Purchase Plan (the 2001 Purchase Plan) became effective on March 1, 2002. 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. On January 1, 2016, an additional 1,017,492 shares were reserved under the 2001 Purchase Plan based on the automatic increase. Upon the approval of the Board of Directors, there were no shares added under the 2001 Purchase Plan on January 1, 2015 or 2014 based on the automatic increase provision. Since the inception of the 2001 Purchase Plan, 12,295,354 shares of common stock have been reserved for issuance and 6,651,710 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 of Directors 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. On May 1, 2006, the Company's Board of Directors approved an annual automatic increase in the number of shares reserved under the plan. The automatic increase took effect on January 1, 2007, and on each January 1 thereafter during the term of the plan, and is equal to one tenth of one percent (0.1%) of the then outstanding shares of the Company's common stock. On January 1, 2016, an additional 203,498 shares were reserved under the plan based on the automatic increase. Upon the approval of the Board of Directors, there were no shares added under the plan on January 1, 2015 or 2014, based on the automatic increase provision. Since the inception of this purchase plan, 1,703,783 shares of common stock have been reserved for issuance and 1,063,360 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 in August 2012, 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, 2016, the projected benefit obligation is $5.2 million. Annual benefit payments and contributions under this plan are expected to be approximately $0.7 million in fiscal 2017 and approximately $3.8 million cumulatively in fiscal 2018 through fiscal 2026.

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 2016, 2015 and 2014, $19.1 million, $24.2 million and $24.4 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 2016, 2015 and 2014, $14.2 million, $15.9 million and $15.2 million, respectively, were charged against operations for this plan.

20. 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,		
	2016	2015	2014
Cost of sales	$ 8,252 [1]	$ 9,010 [1]	$ 7,340 [1]
Research and development	32,022	28,164	24,554
Selling, general and administrative	31,146	21,422	21,893
Pre-tax effect of share-based compensation	71,420	58,596	53,787
Income tax benefit	23,012	10,640	5,722
Net income effect of share-based compensation	$ 48,408	$ 47,956	$ 48,065

[1] During the year ended March 31, 2016, $7.9 million of share-based compensation expense was capitalized to inventory, and $8.3 million of previously capitalized share-based compensation expense in inventory was sold. During the year ended March 31, 2015, $6.8 million of share-based compensation expense was capitalized to inventory, and $9.0 million of previously capitalized share-based compensation expense in inventory was sold. 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 expense in inventory was sold.

The amount of unearned share-based compensation currently estimated to be expensed in the remainder of fiscal 2017 through fiscal 2021 related to unvested share-based payment awards at March 31, 2016 is $134.5 million. The weighted average period over which the unearned share-based compensation is expected to be recognized is approximately 2.30 years.

Combined Incentive Plan Information

RSU share activity under the 2004 Plan is set forth below:

	Number of Shares
Nonvested shares at April 1, 2013	6,009,831
Granted	1,616,632
Forfeited/expired	(282,964)
Vested	(1,813,465)
Nonvested shares at March 31, 2014	5,530,034
Granted	1,446,968
Forfeited/expired	(266,415)
Vested	(1,441,671)
Nonvested shares at March 31, 2015	5,268,916
Granted	2,479,729
Assumed upon acquisition	525,442
Forfeited/expired	(360,072)
Vested	(1,606,273)
Nonvested shares at March 31, 2016	6,307,742

The total intrinsic value of RSUs which vested during the years ended March 31, 2016, 2015 and 2014 was $72.1 million, $67.6 million and $74.6 million, respectively. The aggregate intrinsic value of RSUs outstanding at March 31, 2016 was $304.0 million, calculated based on the closing price of the Company's common stock of $48.20 per share on March 31, 2016. At March 31, 2016, the weighted average remaining expense recognition period was 2.35 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 2016, 2015 and 2014 was $38.92, $42.02 and $34.24, respectively.

Stock option and stock appreciation right (SAR) activity under the Company's stock incentive plans in the three years ended March 31, 2016 is set forth below:

	Number of Shares	Weighted Average Exercise Price per Share
Outstanding at April 1, 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
Granted	27,654	46.66
Assumed upon acquisition	666,586	29.33
Exercised	(477,618)	26.42
Canceled	(105,934)	28.17
Outstanding at March 31, 2015	684,299	28.41
Granted	244	41.09
Assumed upon acquisition	604,900	35.03
Exercised	(221,987)	25.30
Canceled	(153,948)	31.52
Outstanding at March 31, 2016	913,508	$ 33.00

The total intrinsic value of options and SARs exercised during the years ended March 31, 2016, 2015 and 2014 was $4.7 million, $9.6 million and $25.5 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, 2016 was $13.9 million. The aggregate intrinsic value of options and SARS exercisable at March 31, 2016 was $8.8 million. The aggregate intrinsic values were calculated based on the closing price of the Company's common stock of $48.20 per share on March 31, 2016.

As of March 31, 2016 and 2015, the number of option and SAR shares exercisable was 553,844 and 283,133, respectively, and the weighted average exercise price per share was $32.33 and $26.90, respectively.

The weighted average fair values per share of stock options granted in the years ended March 31, 2016 and 2015 was $8.85 and $9.00, respectively. The fair values per share of stock options granted in the years ended March 31, 2016 and 2015 were estimated utilizing the following assumptions:

	Year Ended March 31,	
	2016	2015
Expected term (in years)	6.5	6.5
Volatility	29.50%	26.65%
Risk-free interest rate	1.54%	1.59%
Dividend yield	3.00%	3.00%

There were no stock options granted in the year ended March 31, 2014.

21. COMMITMENTS

The Company leases office space, a manufacturing facility, and transportation and other equipment under operating leases which expire at various dates through March 31, 2022. The future minimum lease commitments under these operating leases at March 31, 2016 were as follows (amounts in thousands):

Year Ending March 31,	Amount
2017	$ 16,370
2018	12,350
2019	7,677
2020	3,098
2021	1,000
Thereafter	667
Total minimum payments	$ 41,162

Rental expense under operating leases totaled $23.3 million, $23.8 million and $21.5 million for fiscal 2016, 2015 and 2014, respectively.

Commitments for construction or purchase of property, plant and equipment totaled $30.2 million as of March 31, 2016, all of which will be due within the next year. Other purchase obligations and commitments totaled approximately $57.6 million as of March 31, 2016. Other purchase obligations and commitments include payments due under various types of licenses and approximately $52.4 million of outstanding purchase commitments with the Company's wafer foundries for delivery in fiscal 2017.

22. 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,					
	2016		2015		2014	
	Net Sales	Gross Profit	Net Sales	Gross Profit	Net Sales	Gross Profit
Semiconductor products	$ 2,084,210	$ 1,116,340	$ 2,057,443	$ 1,139,971	$ 1,836,639	$ 1,034,165
Technology licensing	89,124	89,124	89,593	89,593	94,578	94,578
Total	$ 2,173,334	$ 1,205,464	$ 2,147,036	$ 1,229,564	$ 1,931,217	$ 1,128,743

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,	
	2016	2015
United States	$ 373,860	$ 331,372
Thailand	182,813	197,981
Various other countries	52,723	52,219
Total long-lived assets	$ 609,396	$ 581,572

Sales to unaffiliated customers located outside the U.S., primarily in Asia and Europe, aggregated approximately 84% of consolidated net sales for each of fiscal 2016, 2015 and 2014. Sales to customers in Europe represented approximately 22% of consolidated net sales for fiscal 2016 and approximately 21% of consolidated net sales for each of fiscal 2015 and 2014. Sales to customers in Asia represented approximately 59% of consolidated net sales for each of fiscal 2016 and 2015, and approximately 60% of consolidated net sales for fiscal 2014. Within Asia, sales into China, including Hong Kong, represented approximately 30%, 28% and 29% of consolidated net sales for fiscal 2016, 2015 and 2014, respectively. Sales into Taiwan represented approximately 12%, 14% and 13% of consolidated net sales for fiscal 2016, 2015 and 2014, respectively. Sales into any other individual foreign country did not exceed 10% of the Company's net sales for any of the three years presented.

No single end customer or distributor accounted for 10% or more of the Company's net sales during fiscal 2016, 2015 or 2014.

23. DERIVATIVE INSTRUMENTS

Freestanding Derivative Forward Contracts

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. Net gains due to foreign exchange rate fluctuations after the effects of hedging activity were $0.7 million during fiscal 2016, compared to net losses of

$7.7 million during fiscal 2015 and net gains of $0.4 million during fiscal 2014. As of March 31, 2016 and 2015, the Company had no foreign currency forward contracts outstanding. The Company recognized an immaterial amount of net realized gains and losses on foreign currency forward contracts in the years ended March 31, 2016, 2015 and 2014. Gains and losses from changes in the fair value of these foreign currency forward contracts and foreign currency exchange rate fluctuations are credited or charged to other income (expense). The Company does not apply hedge accounting to its foreign currency derivative instruments.

Fair Value Hedges

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivatives as well as the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in earnings. Interest rate derivative instruments designated as fair value hedges are designed to manage the exposure to interest rate movements and to reduce borrowing costs by converting fixed-rate debt into floating-rate debt. Under these agreements, the Company agrees to exchange, at specified intervals, the difference between the fixed and floating interest amounts calculated by reference to an agreed-upon notional principal amount.

In March 2015, the Company entered into ten-year fixed-to-floating interest rate swap agreements designated as fair value hedges of the changes in fair value of a portion of the Company's fixed-rate 1.625% senior subordinated convertible debentures due to changes in the LIBOR swap rate, the designated benchmark interest rate. The Company pays variable interest equal to the three-month LIBOR minus 53.6 basis points and it receives a fixed interest rate of 1.625%. The notional amount of these contracts outstanding at March 31, 2015 was $431.3 million, representing 25% of the principal amount of the senior subordinated convertible debentures.

In February 2016, the Company terminated its interest rate swap agreements. Upon termination, the contracts were in an asset position, resulting in cash receipts of approximately $25.7 million, which included $3.7 million of accrued interest. The gain from terminating the interest rate swap agreements increased the outstanding balance of the 1.625% senior convertible debentures and is being amortized as a reduction of interest expense over the remaining life of the debentures. The cash flows from the termination of these interest rate swap agreements have been reported as operating activities in the consolidated statements of cash flows.

The following table summarizes the location and fair value amounts of derivative instruments reported in the consolidated balance sheets at March 31, 2015 (amounts in thousands):

	Asset Derivatives	
Derivatives designated as hedging instruments	Balance Sheet Location	Fair Value
Interest rate contracts	Other assets	$ 8,928

The following table summarizes the location and amount of the gain or loss on the hedged item attributable to the changes in the LIBOR swap rate and the offsetting gain or loss on the related interest rate swap agreements for the years ended March 31, 2016 and 2015. The difference represents hedge ineffectiveness (amounts in thousands):

	Year ended March 31,			
	2016		2015	
Income Statement Classification	Gain (Loss) on Senior Subordinated	Gain (Loss) on Interest Rate Swap	Gain (Loss) on Senior Subordinated	Gain (Loss) on Interest Rate Swap
Other income (expense)	$ (18,060)	$ 16,345	$ (8,302)	$ 8,928

24. NET INCOME PER COMMON SHARE ATTRIBUTABLE TO MICROCHIP TECHNOLOGY STOCKHOLDERS

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,		
	2016	2015	2014
Net income attributable to Microchip Technology	$ 324,132	$ 369,009	$ 395,281
Weighted average common shares outstanding	203,384	200,937	198,291
Dilutive effect of stock options and RSUs	3,350	3,642	3,910
Dilutive effect of 2037 junior subordinated convertible debentures	10,654	18,982	15,429
Weighted average common and potential common shares outstanding	217,388	223,561	217,630
Basic net income per common share attributable to Microchip Technology stockholders	$ 1.59	$ 1.84	$ 1.99
Diluted net income per common share attributable to Microchip Technology stockholders	$ 1.49	$ 1.65	$ 1.82

The Company computed basic earnings per common share attributable to its stockholders using net income available to common stockholders and the weighted average number of common shares outstanding during the period. The Company computed diluted earnings per common share attributable to its stockholders using net income available to stockholders and the weighted average number of common shares outstanding plus potentially dilutive common shares outstanding during the period.

Potentially dilutive common shares from employee equity incentive plans are determined by applying the treasury stock method to the assumed exercise of outstanding stock options and the assumed vesting of outstanding RSUs.

Diluted net income per common share attributable to stockholders for fiscal 2016, 2015, and 2014 includes 10,654,070, 18,982,440 and 15,429,003 shares, respectively, issuable upon the exchange of the Company's 2.125% junior subordinated convertible debentures due December 15, 2037 (see Note 15). 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 2016, 2015 and 2014 was $24.73, $25.48 and $26.32, respectively.

There were no shares issuable upon the exchange of the Company's 1.625% senior subordinated convertible debentures due February 15, 2025 (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 2016 and 2015 was $67.19 and $68.25, respectively.

Weighted average common shares exclude the effect of option shares which are not dilutive. For fiscal 2016 and 2015, the number of option shares that were antidilutive was 298,015 and 19,305, respectively. There were no antidilutive option shares for fiscal 2014.

25. QUARTERLY RESULTS (UNAUDITED)

The following table presents the Company's selected unaudited quarterly operating results for the eight quarters ended March 31, 2016. 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 2016	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Net sales	$ 533,952	$ 541,391	$ 540,344	$ 557,647	$ 2,173,334
Gross profit	309,017	300,950	292,718	302,779	1,205,464
Operating income	121,319	74,948	76,132	79,946	352,345
Net income	130,460	64,899	61,211	67,355	323,925
Less: Net loss attributable to noncontrolling interests	207	—	—	—	207
Net income attributable to Microchip Technology	130,667	64,899	61,211	67,355	324,132
Diluted net income per common share attributable to Microchip Technology stockholders	0.60	0.30	0.28	0.31	1.49

Fiscal 2015	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Net sales	$ 528,876	$ 546,243	$ 528,710	$ 543,207	$ 2,147,036
Gross profit	306,519	307,454	301,959	313,632	1,229,564
Operating income	115,946	101,318	98,009	110,347	425,620
Net income	89,909	92,038	84,798	98,580	365,325
Less: Net loss attributable to noncontrolling interests	—	1,603	1,259	822	3,684
Net income attributable to Microchip Technology	89,909	93,641	86,057	99,402	369,009
Diluted net income per common share attributable to Microchip Technology stockholders	0.40	0.42	0.39	0.45	1.65

Refer to Note 3, Special Charges, for an explanation of the special charges included in operating income in fiscal 2016 and fiscal 2015. Refer to Note 15, 2.125% Junior Subordinated Convertible Debentures, for an explanation of the loss on retirement of convertible debentures of approximately $50.6 million included in net income (loss) during the fourth quarter of fiscal 2015. Refer to Note 4, Investments, for an explanation of the net realized gain from sales of available-for-sale marketable equity securities included in net income during the fourth quarter of fiscal 2015 and the first quarter of fiscal 2016.

26. SUPPLEMENTAL FINANCIAL INFORMATION

Cash paid for income taxes amounted to $25.4 million, $25.5 million and $25.7 million during fiscal 2016, 2015 and 2014, respectively. Cash paid for interest on borrowings amounted to $52.9 million in fiscal 2016, $40.2 million in fiscal 2015 and $34.6 million in fiscal 2014.

A summary of additions and deductions related to the valuation allowance for deferred tax asset accounts for the years ended March 31, 2016, 2015 and 2014 follows (amounts in thousands):

	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Additions Charged to Other Accounts	Deductions	Balance at End of Year
Valuation allowance for deferred tax assets:					
Fiscal Year 2016	$ 116,482	$ 5,535	$ 47,834	$ (8,017)	$ 161,834
Fiscal Year 2015	93,811	—	36,957	(14,286)	116,482
Fiscal Year 2014	88,637	—	5,174	—	93,811

A summary of additions and deductions related to the allowance for doubtful accounts for the years ended March 31, 2016, 2015 and 2014 follows (amounts in thousands):

	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Deductions [1]	Balance at End of Year
Allowance for doubtful accounts:				
Fiscal Year 2016	$ 2,621	$ 59	$ (140)	$ 2,540
Fiscal Year 2015	2,918	104	(401)	2,621
Fiscal Year 2014	2,764	245	(91)	2,918

[1] Deductions represent uncollectible accounts written off, net of recoveries.

The following tables present the changes in the components of accumulated other comprehensive income (AOCI) for the years ended March 31, 2016 and March 31, 2015:

Year ended March 31, 2016	Unrealized Holding Gains (Losses) Available-for-sale Securities	Minimum Pension Liability	Foreign Currency	Total
Balance at March 31, 2015	$ 14,537	$ 13	$ (3,474)	$ 11,076
Other comprehensive (loss) income before reclassifications	(3,241)	31	—	(3,210)
Amounts reclassified from accumulated other comprehensive (loss) income	(10,948)	—	—	(10,948)
Net other comprehensive (loss) income	(14,189)	31	—	(14,158)
Purchase of shares from noncontrolling interest	—	—	(275)	(275)
Balance at March 31, 2016	$ 348	$ 44	$ (3,749)	$ (3,357)

Year ended March 31, 2015	Unrealized Holding Gains (Losses) Available-for-sale Securities	Minimum Pension Liability	Foreign Currency	Total
Balance at March 31, 2014	$ (528)	$ 140	$ 1,439	$ 1,051
Other comprehensive income (loss) before reclassifications	33,759	(127)	(4,322)	29,310
Amounts reclassified from accumulated other comprehensive income (loss)	(18,694)	—	—	(18,694)
Net other comprehensive income (loss)	15,065	(127)	(4,322)	10,616
Purchase of shares from noncontrolling interest	—	—	(591)	(591)
Balance at March 31, 2015	$ 14,537	$ 13	$ (3,474)	$ 11,076

The table below details where reclassifications of realized transactions out of AOCI are recorded on the consolidated statements of income.

	Year ended March 31,			
Description of AOCI Component	2016	2015	2014	Related Statement of Income Line
Unrealized gains on available-for-sale securities	$ 10,948	$ 18,706	$ 2,371	Other income
Taxes	—	(12)	(776)	Provision for income taxes
Reclassification of realized transactions, net of taxes	$ 10,948	$ 18,694	$ 1,595	Net Income

27. 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 $1.433, $1.425 and $1.417 during fiscal 2016, 2015 and 2014, respectively. Total dividend payments amounted to $291.1 million, $286.5 million and $281.2 million during fiscal 2016, 2015 and 2014, respectively.

28. SUBSEQUENT EVENTS

Acquisition of Atmel

On April 4, 2016, the Company acquired Atmel, a publicly traded company based in San Jose, California. The Company paid an aggregate of approximately $2.98 billion in cash and issued an aggregate of 10.1 million shares of its common stock to Atmel stockholders. The total consideration transferred in the acquisition, including approximately $6.7 million of non-cash consideration for the exchange of certain share-based payment awards of Atmel for stock awards of the Company, was approximately $3.47 billion. The Company financed the cash portion of the purchase price using approximately $2.04 billion of cash, cash equivalents, short-term investments and long-term investments held by certain of its foreign subsidiaries, and approximately $0.94 billion from additional borrowings under its existing credit agreement. As a result of the acquisition, Atmel became a wholly owned subsidiary of the Company. Atmel is a worldwide leader in the design and manufacture of microcontrollers, capacitive touch solutions, advanced logic, mixed-signal, nonvolatile memory and RF components. The Company's primary reason for this acquisition was to expand the Company's range of solutions, products and capabilities by extending its served available market.

The acquisition was accounted for under the acquisition method of accounting, with the Company identified as the acquirer, and the operating results of Atmel have been included in the Company's consolidated financial statements as of the closing date of the acquisition. Under the acquisition method of accounting, the aggregate amount of consideration paid by the Company was allocated to Atmel's net tangible assets and intangible assets based on their estimated fair values as of April 4, 2016. The excess of the purchase price over the value of the net tangible assets and intangible assets was recorded to goodwill. The factors contributing to the recognition of goodwill were based upon the Company's conclusion that there are strategic and synergistic benefits that are expected to be realized from the acquisition. The goodwill has been allocated to the Company's semiconductor products reporting segment. None of the goodwill related to the Atmel acquisition is deductible for tax purposes. The Company retained an independent third-party appraiser to assist management in its valuation; however, the purchase price allocation has not been finalized. This could result in adjustments to the fair values of the assets acquired and liabilities assumed, the useful lives of intangible assets, the residual amount allocated to goodwill and deferred income taxes recognized. The preliminary allocation of the purchase price is based on the best estimates of management and is subject to revision based on the final valuations and estimates of useful lives.

The table below represents the preliminary allocation of the purchase price to the net assets acquired based on their estimated fair values, as well as the associated estimated useful lives of the acquired intangible assets (amounts in thousands). Such amounts were estimated using the most recent audited financial statements of Atmel as of December 31, 2015. The Company does not believe the allocation as of April 4, 2016 will be materially different, however, certain amounts, such as the balances of cash and cash equivalents, accounts receivable, inventories, accounts payable and other current liabilities may vary based upon changes in Atmel’s balances between December 31, 2015 and April 4, 2016, with offsetting changes to goodwill. The Company’s consolidated financial statements as of June 30, 2016 will include updated amounts reflecting the April 4, 2016 estimated fair values.

Assets acquired	April 4, 2016
Cash and cash equivalents	$ 210,252
Accounts receivable, net	195,481
Inventories	403,708
Prepaid expenses and other current assets	35,299
Property, plant and equipment, net	131,154
Goodwill	1,400,814
Purchased intangible assets	1,551,100
Long-term deferred tax assets	157,929
Other assets	45,747
Total assets acquired	4,131,484
Liabilities assumed	
Accounts payable	(59,470)
Other current liabilities	(133,012)
Long-term line of credit	(192,300)
Deferred tax liabilities	(155,553)
Long-term income tax payable	(49,965)
Other long-term liabilities	(67,577)
Total liabilities assumed	(657,877)
Purchase price allocated	$ 3,473,607

Purchased Intangible Assets	Useful Life	April 4, 2016
	(in years)	(in thousands)
Core/developed technology	10-15	$ 988,400
In-process technology	10-15	114,500
Customer-related	5	435,900
Backlog	1-2	12,300
Total purchased intangible assets		$ 1,551,100

Purchased intangible assets include core and developed technology, in-process research and development, customer-related intangibles and acquisition-date backlog. The estimated fair values of the core and developed technology and in-process research and development were determined based on the present value of the expected cash flows to be generated by the respective existing technology or future technology. The core and developed technology intangible assets are being amortized commensurate with the expected cash flows used in the initial determination of fair value. In-process technology 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.

Customer-related intangible assets consist of Atmel's contractual relationships and customer loyalty related to its distributor and end-customer relationships, and the fair values of the customer-related intangibles were determined based on Atmel's projected revenues. An analysis of expected attrition and revenue growth for existing customers was prepared from Atmel's historical customer information. Customer relationships are being amortized in a manner consistent with the estimated cash flows associated with the existing customers and anticipated retention rates. Backlog relates to the value of orders not yet shipped by Atmel at the acquisition date, and the preliminary fair values were based on the estimated profit associated with those orders. Backlog related assets are being recognized commensurate with recognition of the revenue for the orders on which the backlog intangible assets were determined. Amortization expense associated with acquired intangible assets is not deductible for tax purposes. Thus, approximately $143.2 million was established as a net deferred tax liability for the future amortization of the intangible assets.

No sales or expenses of Atmel were included in the Company’s consolidated statements of income for the year ended March 31, 2016.

The following unaudited pro-forma consolidated results of operations for the years ended March 31, 2016 and 2015 assume the Atmel acquisition occurred as of April 1, 2014. The pro-forma adjustments are mainly comprised of acquired inventory fair value costs and amortization of purchased intangible assets. The pro-forma results of operations are presented for informational purposes only and are not indicative of the results of operations that would have been achieved if the acquisition had taken place on April 1, 2014 or of results that may occur in the future (amounts in thousands except per share data):

	Year ended March 31,	
	2016	2015
Net sales	$ 3,345,790	$ 3,560,370
Net income	$ 167,705	$ 116,618
Basic earnings per share	$ 0.79	$ 0.55
Diluted earnings per share	$ 0.74	$ 0.50

As a result of the Company's acquisition of Atmel, the Company became involved with the following lawsuits.

In re: Continental Airbag Products Liability Litigation. On May 11, 2016, an Amended and Consolidated Class Action Complaint ("Complaint") was filed in the United States District Court for the Southern District of Florida (Miami Division) against Atmel, Continental Automotive Systems, Inc., Honda Motor Co., Ltd. and an affiliate, and Daimler AG and an affiliate. The Complaint which includes claims arising under federal law and Florida, California, New Jersey, Michigan and Louisiana state law-alleges that class members unknowingly purchased or leased vehicles containing defective airbag control units (allegedly incorporating defective application specific integrated circuits manufactured by Atmel between 2006 and 2010), and thereby suffered financial harm, including a loss in the value of their purchased or leased vehicles. The plaintiffs are seeking unspecified compensatory and exemplary damages, statutory penalties, pre- and post-judgment interest, attorneys' fees, and injunctive and other relief. Atmel intends to contest plaintiffs' claims vigorously.

Southern District of New York Action by LFoundry Rousset ("LFR") and LFR Employees. On March 4, 2014, LFR and Jean-Yves Guerrini, individually and on behalf of a putative class of LFR employees, filed an action in the United States District Court for the Southern District of New York (the "District Court") against Atmel, its French subsidiary, Atmel Rousset S.A.S. ("Atmel Rousset"), and LFoundry GmbH ("LF"), LFR's German parent. The case purports to relate to Atmel Rousset's June 2010 sale of its wafer manufacturing facility in Rousset, France to LF, and LFR's subsequent insolvency, and later liquidation, more than three years later. The District Court dismissed the case on August 21, 2015, and plaintiffs are appealing the dismissal.

Individual Labor Actions by former LFR Employees. In the wake of LFR's insolvency and liquidation, over 500 former employees of LFR have filed individual labor actions against Atmel Rousset in a French labor court. Atmel Rousset believes that each of these actions is entirely devoid of merit, and, further, that any assertion by any of the Claimants of a co-employment relationship with Atmel Rousset is based substantially on the same specious arguments that the Paris Commercial Court summarily rejected in 2014 in related proceedings. Atmel Rousset therefore intends to defend vigorously against each of these claims.