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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2013.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-21184



**MICROCHIP TECHNOLOGY INCORPORATED**  
(Exact Name of Registrant as Specified in Its Charter)

**Delaware**

(State or Other Jurisdiction of Incorporation or Organization)

**86-0629024**

(IRS Employer Identification No.)

**2355 W. Chandler Blvd., Chandler, AZ 85224-6199**  
**(480) 792-7200**

(Address, Including Zip Code, and Telephone Number,  
Including Area Code, of Registrant's  
Principal Executive Offices)

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 the filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(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). (Check One)

Yes  No

Shares Outstanding of Registrant's Common Stock

Class	Outstanding at October 31, 2013
Common Stock, \$0.001 par value	<b>198,368,386 shares</b>

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES

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**Item 1. Financial Statements**

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

**ASSETS**

	September 30, 2013	March 31, 2013
Cash and cash equivalents	\$ 344,202	\$ 528,334
Short-term investments	807,709	1,050,263
Accounts receivable, net	230,493	229,955
Inventories	275,124	242,334
Prepaid expenses	34,318	37,439
Deferred tax assets	70,383	80,687
Other current assets	58,677	67,358
Total current assets	1,820,906	2,236,370
Property, plant and equipment, net	518,191	514,544
Long-term investments	829,656	257,450
Goodwill	268,570	271,348
Intangible assets, net	480,679	530,136
Other assets	47,149	41,557
Total assets	\$ 3,965,151	\$ 3,851,405
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts payable	\$ 77,768	\$ 75,551
Accrued liabilities	101,701	127,108
Short-term borrowings	8,375	—
Deferred income on shipments to distributors	151,049	138,952
Total current liabilities	338,893	341,611
Junior convertible debentures	367,533	363,385
Long-term line of credit	290,000	620,000
Long-term borrowings, net	340,379	—
Long-term income tax payable	192,007	182,723
Deferred tax liability	379,761	388,250
Other long-term liabilities	38,039	21,966
Stockholders' equity:		
Preferred stock, \$0.001 par value; authorized 5,000,000 shares; no shares issued or outstanding	—	—
Common stock, \$0.001 par value; authorized 450,000,000 shares; 218,789,994 shares issued and 198,362,359 shares outstanding at September 30, 2013; 218,789,994 shares issued and 196,472,856 shares outstanding at March 31, 2013	198	196
Additional paid-in capital	1,255,419	1,255,627
Common stock held in treasury: 20,427,635 shares at September 30, 2013; 22,317,138 shares at March 31, 2013	(626,102)	(682,220)
Accumulated other comprehensive (loss) income	(2,525)	6,935
Retained earnings	1,391,549	1,352,932
Total stockholders' equity	2,018,539	1,933,470
Total liabilities and stockholders' equity	\$ 3,965,151	\$ 3,851,405

See accompanying notes to condensed consolidated financial statements

**MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
(in thousands, except per share amounts)  
(unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2013	2012	2013	2012
Net sales	\$ 492,669	\$ 383,298	\$ 955,461	\$ 735,432
Cost of sales (1)	203,806	189,103	400,024	336,440
Gross profit	288,863	194,195	555,437	398,992
Operating expenses:				
Research and development (1)	78,254	64,082	151,339	112,908
Selling, general and administrative (1)	69,368	71,767	135,078	127,359
Amortization of acquired intangible assets	23,744	27,858	51,421	31,904
Special (income) charges	(11)	22,394	1,690	22,394
	171,355	186,101	339,528	294,565
Operating income	117,508	8,094	215,909	104,427
Losses on equity method investments	(101)	(32)	(361)	(153)
Other income (expense):				
Interest income	4,010	3,744	7,935	8,076
Interest expense	(12,354)	(10,758)	(24,210)	(19,906)
Other income, net	2,143	1,071	2,269	539
Income before income taxes	111,206	2,119	201,542	92,983
Income tax provision	11,400	23,303	23,157	35,457
Net income (loss)	\$ 99,806	\$ (21,184)	\$ 178,385	\$ 57,526
Basic net income (loss) per common share	\$ 0.50	\$ (0.11)	\$ 0.90	\$ 0.30
Diluted net income (loss) per common share	\$ 0.46	\$ (0.11)	\$ 0.83	\$ 0.28
Dividends declared per common share	\$ 0.3540	\$ 0.3510	\$ 0.7075	\$ 0.7010
Basic common shares outstanding	197,825	194,060	197,388	193,756
Diluted common shares outstanding	216,475	194,060	214,371	204,627
(1) Includes share-based compensation expense as follows:				
Cost of sales	\$ 1,864	\$ 2,614	\$ 3,833	\$ 3,924
Research and development	6,931	6,358	12,621	10,390
Selling, general and administrative	6,205	11,581	11,202	16,225

See accompanying notes to condensed consolidated financial statements

**MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(in thousands)  
(unaudited)

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Net income (loss)	\$ 99,806	\$ (21,184)	\$ 178,385	\$ 57,526
Components of other comprehensive income (loss):				
Available-for-sale securities:				
Unrealized holding gain (losses), net of tax effect of (\$11), (\$61), \$497 and \$36, respectively	1,928	2,615	(8,070)	2,618
Reclassification of realized transactions, net of tax effect of \$776, \$0, \$776 and \$51, respectively	(1,340)	(29)	(1,390)	(170)
Change in net foreign currency translation adjustment	—	1,140	—	1,140
Other comprehensive income (loss), net of taxes	588	3,726	(9,460)	3,588
Total comprehensive income (loss)	\$ 100,394	\$ (17,458)	\$ 168,925	\$ 61,114

See accompanying notes to condensed consolidated financial statements

**MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)  
(unaudited)

	Six Months Ended September 30,	
	2013	2012
Cash flows from operating activities:		
Net income	\$ 178,385	\$ 57,526
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	98,462	76,456
Deferred income taxes	11,872	(9,425)
Share-based compensation expense related to equity incentive plans	27,656	24,593
Excess tax benefit from share-based compensation	—	(112)
Convertible debt derivatives - revaluation and amortization	(248)	589
Amortization of debt discount on convertible debentures	4,396	4,017
Amortization of debt issuance costs	872	109
Losses on equity method investments	361	153
Gain on sale of assets	—	(16)
Impairment of intangible assets	350	—
Unrealized impairment loss on available-for-sale investments	—	334
Special income, net	(237)	—
Changes in operating assets and liabilities:		
Increase in accounts receivable	(693)	(116)
(Increase) decrease in inventories	(32,103)	22,334
Increase in deferred income on shipments to distributors	12,097	3,037
Decrease in accounts payable and accrued liabilities	(2,006)	(27,670)
Change in other assets and liabilities	20,191	40,462
Net cash provided by operating activities	319,355	192,271
Cash flows from investing activities:		
Purchases of available-for-sale investments	(710,197)	(443,106)
Sales and maturities of available-for-sale investments	370,806	350,593
Acquisition of SMSC, net of cash acquired	—	(731,746)
Other business acquisitions, net of cash acquired	(2,174)	(20,556)
Investments in other assets	(2,951)	(2,204)
Proceeds from sale of assets	16,200	66
Capital expenditures	(55,206)	(26,212)
Net cash used in investing activities	(383,522)	(873,165)
Cash flows from financing activities:		
Repayments of revolving loan under previous credit facility	(650,000)	(80,000)
Repayments of revolving loan under new credit facility	(70,000)	—
Proceeds from borrowings on revolving loan under previous credit facility	30,000	680,000
Proceeds from borrowings on revolving loan under new credit facility	360,000	—
Proceeds from issuance of long-term borrowings	350,000	—
Deferred financing costs	(7,515)	—
Payment of cash dividends	(139,768)	(135,895)
Proceeds from sale of common stock	22,196	16,318
Contingent consideration payment	(14,700)	—
Capital lease payments	(178)	—
Excess tax benefit from share-based compensation	—	112
Net cash (used in) provided by financing activities	(119,965)	480,535
Effect of foreign exchange rate changes on cash and cash equivalents	—	1,339
Net decrease in cash and cash equivalents	(184,132)	(199,020)
Cash and cash equivalents at beginning of period	528,334	635,755
Cash and cash equivalents at end of period	\$ 344,202	\$ 436,735

See accompanying notes to condensed consolidated financial statements

**MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**(1) Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements include the accounts of Microchip Technology Incorporated and its wholly-owned subsidiaries (the Company). All intercompany balances and transactions have been eliminated in consolidation. The Company owns 100% of the outstanding stock in all of its subsidiaries.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). The information furnished herein reflects all adjustments which are, in the opinion of management, of a normal recurring nature and necessary for a fair statement of the results for the interim periods reported. Certain information and footnote disclosures normally included in audited consolidated financial statements have been condensed or omitted pursuant to such SEC rules and regulations. It is suggested that these condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2013. The results of operations for the six months ended September 30, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2014 or for any other period.

**(2) Business Acquisitions**

**Acquisition of SMSC**

On August 2, 2012, the Company acquired SMSC, a publicly traded company based in Hauppauge, New York. The acquisition was accounted for under the acquisition method of accounting. The Company retained an independent third-party appraiser to assist management in its valuation. The table below represents the allocation of the purchase price, including adjustments to the purchase price allocation from the previously reported figures at March 31, 2013, to the net assets acquired based on their estimated fair values as of August 2, 2012. The purchase price was finalized as of August 2, 2013. All adjustments shown in the table below were recorded during the three months ended June 30, 2013 (amounts in thousands):

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<u>Assets acquired</u>	Previously Reported March 31, 2013	Adjustments	September 30, 2013
Cash and cash equivalents	\$ 180,925	\$ —	\$ 180,925
Accounts receivable, net	58,441	—	58,441
Inventories	86,244	—	86,244
Prepaid expenses	5,617	—	5,617
Deferred tax assets	15,843	—	15,843
Other current assets	17,578	—	17,578
Property, plant and equipment, net	35,608	—	35,608
Long-term investments	24,275	—	24,275
Goodwill	169,065	(3,473)	165,592
Intangible assets, net	10,214	—	10,214
Purchased intangible assets	517,800	—	517,800
Other assets	3,835	—	3,835
Total assets acquired	1,125,445	(3,473)	1,121,972
<u>Liabilities assumed</u>			
Accounts payable	(28,035)	—	(28,035)
Accrued liabilities	(62,038)	(209)	(62,247)
Deferred income on shipments to distributors	(11,376)	—	(11,376)
Long-term income tax payable	(72,781)	—	(72,781)
Deferred tax liability	(21,079)	4,397	(16,682)
Other liabilities	(10,535)	(715)	(11,250)
Total liabilities assumed	(205,844)	3,473	(202,371)
Purchase price allocated	\$ 919,601	\$ —	\$ 919,601

**(3) Recently Issued Accounting Pronouncements**

In the first quarter of fiscal 2014, the Company adopted the provisions of Accounting Standard Update 2013-02 *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which required the disclosure of amounts reclassified out of accumulated other comprehensive income (AOCI) to net income. The adoption of this amendment did not have a material impact on the Company's consolidated financial statements and related disclosures (See Note 18).

**(4) Special (Income) Charges**

During the three months ended September 30, 2013, the Company incurred special charges of \$0.8 million for an additional liability related to the acquisition of Roving Networks and \$0.4 million of severance-related, office closing, and other costs associated with the acquisition of SMSC which were offset by \$1.1 million of special income related to the release of an accrued bonus for a milestone that was not met for a business that SMSC had acquired prior to the Company's acquisition of SMSC. During the six months ended September 30, 2013, the Company incurred special charges of \$1.4 million due to the increase in the fair value of contingent consideration related to one of its acquisitions, \$0.8 million for an additional liability related to the acquisition of Roving Networks and \$0.7 million of severance-related, office closing, and other costs associated with the acquisition of SMSC which were offset by \$1.1 million of special income related to the release of an accrued bonus for a milestone that was not met for a business that SMSC had acquired prior to the Company's acquisition of SMSC.

During the three and six months ended September 30, 2012, the Company incurred approximately \$10.9 million of severance related, office closing, and other costs associated with the acquisition of SMSC. Also, during the three and six months ended September 30, 2012, the Company incurred legal settlement costs of approximately \$11.5 million for certain legal matters related to Silicon Storage Technology, Inc. (which the Company acquired in April 2010) in excess of previously accrued amounts.



**(5) Segment Information**

The Company's reportable segments are 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 net sales and gross profit for each segment for the three and six months ended September 30, 2013 (amounts in thousands):

	Three Months Ended September 30, 2013		Six Months Ended September 30, 2013	
	Net Sales	Gross Profit	Net Sales	Gross Profit
Semiconductor products	\$ 467,843	\$ 264,037	\$ 908,117	\$ 508,093
Technology licensing	24,826	24,826	47,344	47,344
	<u>\$ 492,669</u>	<u>\$ 288,863</u>	<u>\$ 955,461</u>	<u>\$ 555,437</u>

The following table represents net sales and gross profit for each segment for the three and six months ended September 30, 2012 (amounts in thousands):

	Three Months Ended September 30, 2012		Six Months Ended September 30, 2012	
	Net Sales	Gross Profit	Net Sales	Gross Profit
Semiconductor products	\$ 363,177	\$ 174,074	\$ 695,029	\$ 358,589
Technology licensing	20,121	20,121	40,403	40,403
	<u>\$ 383,298</u>	<u>\$ 194,195</u>	<u>\$ 735,432</u>	<u>\$ 398,992</u>

**(6) 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 September 30, 2013 (amounts in thousands):

	Available-for-sale Securities			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government agency bonds	\$ 781,230	\$ 269	\$ (5,467)	\$ 776,032
Municipal bonds	54,286	60	(575)	53,771
Auction rate securities	9,829	—	—	9,829
Corporate bonds and debt	796,035	2,902	(1,204)	797,733
	<u>\$ 1,641,380</u>	<u>\$ 3,231</u>	<u>\$ (7,246)</u>	<u>\$ 1,637,365</u>

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The following is a summary of available-for-sale and marketable equity securities at March 31, 2013 (amounts in thousands):

	Available-for-sale Securities			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government agency bonds	\$ 558,116	\$ 335	\$ (298)	\$ 558,153
Municipal bonds	25,000	146	(8)	25,138
Auction rate securities	33,459	332	—	33,791
Corporate bonds and debt	680,144	5,137	(159)	685,122
Marketable equity securities	5,270	239	—	5,509
	<u>\$ 1,301,989</u>	<u>\$ 6,189</u>	<u>\$ (465)</u>	<u>\$ 1,307,713</u>

At September 30, 2013, the Company's available-for-sale debt securities are presented on the condensed consolidated balance sheets as short-term investments of \$807.7 million and long-term investments of \$829.7 million. At March 31, 2013, the Company's available-for-sale debt securities and marketable equity securities are presented on the condensed consolidated balance sheets as short-term investments of \$1,050.3 million and long-term investments of \$257.5 million.

At September 30, 2013, the Company evaluated its investment portfolio and noted unrealized losses of \$7.2 million on its debt securities which were due primarily to higher interest rates and resulting declines in market prices. Management does not believe any of the unrealized losses represent an other-than-temporary impairment based on its evaluation of available evidence as of September 30, 2013 and the Company's intent is to hold these investments until these assets are no longer impaired, except for certain auction rate securities (ARS). For those debt securities not scheduled to mature until after September 30, 2014, such recovery is not anticipated to occur in the next year and these investments have been classified as long-term investments.

The amortized cost and estimated fair value of the available-for-sale securities at September 30, 2013, by contractual maturity, excluding corporate debt of \$6.2 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	\$ 234,539	\$ 1,133	\$ (7)	\$ 235,665
Due after one year and through five years	1,280,074	2,098	(2,973)	1,279,199
Due after five years and through ten years	110,748	—	(4,266)	106,482
Due after ten years	9,829	—	—	9,829
	<u>\$ 1,635,190</u>	<u>\$ 3,231</u>	<u>\$ (7,246)</u>	<u>\$ 1,631,175</u>

The Company had a realized gain of \$1.0 million from the sale of available-for-sale marketable equity securities during the three and six-month periods ended September 30, 2013. The Company had net realized gains of \$1.1 million and \$1.2 million from the sale of available-for-sale debt securities during the three and six-month periods ended September 30, 2013, respectively. The Company had no material realized gains or losses from the sale of available-for-sale marketable equity securities or debt securities during the three or six-month periods ended September 30, 2012.

**(7) 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:

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Level 1-	Observable inputs such as quoted prices in active markets;
Level 2-	Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
Level 3-	Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

### *Marketable Debt Instruments*

Marketable debt instruments include instruments such as corporate bonds and debt, government agency bonds, bank deposits, municipal bonds, and money market fund deposits. When the Company uses observable market prices for identical securities that are traded in less active markets, the Company classifies its marketable debt instruments as Level 2. When observable market prices for identical securities are not available, the Company prices its marketable debt instruments using non-binding market consensus prices that are corroborated with observable market data; quoted market prices for similar instruments; or pricing models, such as a discounted cash flow model, with all significant inputs derived from or corroborated with observable market data. Non-binding market consensus prices are based on the proprietary valuation models of pricing providers or brokers. These valuation models incorporate a number of inputs, including non-binding and binding broker quotes; observable market prices for identical or similar securities; and the internal assumptions of pricing providers or brokers that use observable market inputs and, to a lesser degree, unobservable market inputs. The Company corroborates non-binding market consensus prices with observable market data using statistical models when observable market data exists. The discounted cash flow model uses observable market inputs, such as LIBOR-based yield curves, currency spot and forward rates, and credit ratings.

### *Assets and Liabilities Measured at Fair Value on a Recurring Basis*

Assets and liabilities measured at fair value on a recurring basis at September 30, 2013 are as follows (amounts in thousands):

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance
<b>Assets</b>				
Money market mutual funds	\$ 49,949	\$ —	\$ —	\$ 49,949
Corporate bonds and debt	—	791,543	6,190	797,733
Government agency bonds	—	776,032	—	776,032
Deposit accounts	—	294,253	—	294,253
Municipal bonds	—	53,771	—	53,771
Auction rate securities	—	—	9,829	9,829
Total assets measured at fair value	<u>\$ 49,949</u>	<u>\$ 1,915,599</u>	<u>\$ 16,019</u>	<u>\$ 1,981,567</u>
<b>Liabilities</b>				
Contingent consideration	\$ —	\$ —	\$ 1,022	\$ 1,022
Total liabilities measured at fair value	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,022</u>	<u>\$ 1,022</u>

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Assets measured at fair value on a recurring basis at March 31, 2013 are as follows (amounts in thousands):

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance
<b>Assets</b>				
Money market fund deposits	\$ 100,878	\$ —	\$ —	\$ 100,878
Marketable equity securities	5,509	—	—	5,509
Corporate bonds and debt	—	678,932	6,190	685,122
Government agency bonds	—	558,153	—	558,153
Deposit accounts	—	427,456	—	427,456
Municipal bonds	—	25,138	—	25,138
Auction rate securities	—	—	33,791	33,791
<b>Total assets measured at fair value</b>	<b>\$ 106,387</b>	<b>\$ 1,689,679</b>	<b>\$ 39,981</b>	<b>\$ 1,836,047</b>
<b>Liabilities</b>				
Contingent consideration	\$ —	\$ —	\$ 19,100	\$ 19,100
<b>Total liabilities measured at fair value</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 19,100</b>	<b>\$ 19,100</b>

There were no transfers between Level 1 and Level 2 during the three and six-month periods ended September 30, 2013 or the year ended March 31, 2013.

At September 30, 2013, the Company's ARS for which recent auctions were unsuccessful are made up of securities related to the insurance industry valued at \$9.8 million. At March 31, 2013, the Company's ARS for which recent auctions were unsuccessful were made up of bonds related to the insurance sector valued at \$9.8 million, securities related to the energy and telecommunications sectors valued at \$5.3 million, and student loan securities valued at \$18.7 million.

The Company estimated the fair value of its ARS, which are classified as Level 3 securities, based on the following: (i) the underlying structure of each security; (ii) the present value of future principal and interest payments discounted at rates considered to reflect current market conditions; (iii) consideration of the probabilities of default, auction failure, or repurchase at par for each period; and (iv) estimates of the recovery rates in the event of default for each security. The significant unobservable inputs used in the fair value measurement of the insurance sector ARS were estimated risk free discount rates, liquidity risk premium, and the liquidity horizon. The risk free discount rate applied to these securities was 2% to 2.5% adjusted for the liquidity risk premium which ranged from 9.1% to 29.5%. The anticipated liquidity horizon ranged from 7 to 10 years. A significant increase in the liquidity premium or discount rate, in isolation, would lead to a significantly lower fair value measurement. A significant increase in the liquidity horizon, in isolation, would lead to a significantly lower fair value measurement. Each quarter the Company investigates material changes in the fair value measurements of its ARS.

Level 3 liabilities include contingent consideration from the Company's Roving Networks acquisition, of which the majority was paid in the three months ended September 30, 2013. The Company evaluates the estimated fair value of its contingent consideration on a quarterly basis based on certain revenue and gross margin performance criteria and records fair value adjustments as necessary. The final measurement date for the contingent consideration was June 30, 2013 and there will be no further adjustments to such liability.

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The following tables present a reconciliation for all assets and liabilities measured at fair value on a recurring basis, excluding accrued interest components, using significant unobservable inputs (Level 3) for the six months ended September 30, 2013, and the year ended March 31, 2013 (amounts in thousands):

Six months ended September 30, 2013	Auction Rate Securities	Corporate Debt	Contingent Consideration	Total Gains (Losses)
Balance at March 31, 2013	\$ 33,791	\$ 6,190	\$ (19,100)	\$ —
Total gains or losses (realized and unrealized):				
Included in earnings	1,105	—	(1,392)	(287)
Included in other comprehensive income	(332)	—	—	(332)
Purchases, sales, issuances, and settlements, net	(24,735)	—	19,470	—
Balance at September 30, 2013	\$ 9,829	\$ 6,190	\$ (1,022)	\$ (619)

Year ended March 31, 2013	Auction Rate Securities	Corporate Debt	Contingent Consideration	Total Gains (Losses)
Balance at March 31, 2012	\$ 10,246	\$ 4,625	\$ —	\$ —
Total gains or losses (realized and unrealized):				
Included in earnings	(412)	—	(4,400)	\$ (4,813)
Included in other comprehensive income	332	—	—	332
Purchases, sales, issuances, and settlements, net	(650)	1,565	—	—
Acquisition-related	24,275	—	(14,700)	—
Balance at March 31, 2013	\$ 33,791	\$ 6,190	\$ (19,100)	\$ (4,481)

Assets measured at fair value on a recurring basis are presented/classified on the condensed consolidated balance sheets at September 30, 2013 as follows (amounts in thousands):

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance
<b>Assets</b>				
Cash and cash equivalents	\$ 49,949	\$ 294,253	\$ —	\$ 344,202
Short-term investments	—	807,709	—	807,709
Long-term investments	—	813,637	16,019	829,656
Total assets measured at fair value	\$ 49,949	\$ 1,915,599	\$ 16,019	\$ 1,981,567

Assets measured at fair value on a recurring basis are presented/classified in the consolidated balance sheets at March 31, 2013 as follows (amounts in thousands):

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance
<b>Assets</b>				
Cash and cash equivalents	\$ 100,878	\$ 427,456	\$ —	\$ 528,334
Short-term investments	—	1,050,263	—	1,050,263
Long-term investments	5,509	211,960	39,981	257,450
Total assets measured at fair value	\$ 106,387	\$ 1,689,679	\$ 39,981	\$ 1,836,047

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### *Financial Assets Not Recorded at Fair Value on a Recurring Basis*

The Company's non-marketable equity and cost method investments are not recorded at fair value on a recurring basis. These investments are monitored on a quarterly basis for impairment charges. The investments will only be recorded at fair value when an impairment charge is recognized. There were no impairment charges recognized on these investments in the three and six months ended September 30, 2013 and September 30, 2012. These investments are included in other assets on the condensed consolidated balance sheet.

#### **(8) 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 September 30, 2013 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, short-term and long-term borrowings are estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements and approximate carrying value. Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of the Company's line of credit and long-term borrowings at September 30, 2013 approximated book value and are considered Level 2 in the fair value hierarchy described in Note 7. The carrying amount of accounts receivable, accounts payable and accrued liabilities approximates fair value due to the short-term maturity of the amounts. The fair value of the Company's junior subordinated convertible debentures was \$1.804 billion at September 30, 2013 and \$1.639 billion at March 31, 2013 based on observable market prices for these debentures, which are traded in less active markets and are therefore classified as a Level 2 fair value measurement.

#### **(9) Accounts Receivable**

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

	September 30, 2013	March 31, 2013
Trade accounts receivable	\$ 231,208	\$ 230,469
Other	1,994	2,250
	233,202	232,719
Less allowance for doubtful accounts	2,709	2,764
	<u>\$ 230,493</u>	<u>\$ 229,955</u>

#### **(10) Inventories**

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

	September 30, 2013	March 31, 2013
Raw materials	\$ 8,690	\$ 9,020
Work in process	211,917	181,750
Finished goods	54,517	51,564
	<u>\$ 275,124</u>	<u>\$ 242,334</u>

Inventories are valued at the lower of cost or market using the first-in, first-out method. Inventory impairment charges establish a new cost basis for inventory and charges are not subsequently reversed to income even if circumstances later suggest that increased carrying amounts are recoverable.

#### **(11) Property, Plant and Equipment**

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

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	September 30, 2013	March 31, 2013
Land	\$ 55,464	\$ 47,102
Building and building improvements	395,971	396,611
Machinery and equipment	1,421,806	1,377,814
Projects in process	69,753	76,158
	1,942,994	1,897,685
Less accumulated depreciation and amortization	1,424,803	1,383,141
	\$ 518,191	\$ 514,544

Depreciation expense attributed to property, plant and equipment was \$23.0 million and \$44.4 million for the three and six months ended September 30, 2013, respectively, and \$22.4 million and \$43.1 million for the three and six months ended September 30, 2012, respectively.

**(12) Accrued Liabilities**

Accrued liabilities consist of the following (amounts in thousands):

	September 30, 2013	March 31, 2013
Acquisition related contingent consideration	\$ 1,022	\$ 19,100
Other accrued expenses	100,679	108,008
	\$ 101,701	\$ 127,108

**(13) Income Taxes**

The provision for income taxes reflects tax on foreign earnings and federal and state tax on U.S. earnings. The Company had an effective tax rate of 11.5% for the six-month period ended September 30, 2013 and 38.1% for the six-month period ended September 30, 2012. The Company's effective tax rate is lower than statutory rates in the U.S. due primarily to its mix of earnings in foreign jurisdictions with lower tax rates. The Company's effective tax rate was higher in the September 30, 2012 period due to certain tax expenses associated with the acquisition of SMSC.

At September 30, 2013, the Company had \$192.0 million of unrecognized tax benefits. Unrecognized tax benefits increased by \$9.3 million compared to March 31, 2013 primarily as a result of the ongoing accrual for uncertain tax positions and the accrual of deficiency interest on these positions.

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 2009 and later tax years remain open for examination by tax authorities. The Internal Revenue Service (IRS) is currently auditing the Company's fiscal years ended March 31, 2009 and 2010 tax years as well as SMSC's 2011 and 2012 tax years. For foreign tax returns, the Company is generally no longer subject to income tax examinations for years prior to fiscal 2005.

The Company recognizes liabilities for anticipated tax audit issues in the U.S. and other 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 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 laws applied to the facts of each matter.

The Company believes that it maintains appropriate reserves to offset any potential income tax liabilities that may arise upon final resolution of matters for open tax years. If such reserve amounts ultimately prove to be unnecessary, the resulting reversal of such reserves would result in tax benefits being recorded in the period the reserves are no longer deemed necessary. If such amounts prove to be less than an ultimate assessment, a future charge to expense would be recorded in the period in which the assessment is determined. Although the timing of the resolution and/or closure of audits is highly uncertain, the Company does not believe it is reasonably possible that its unrecognized tax benefits would materially change in the next 12 months.

**(14) 2.125% Junior Subordinated Convertible Debentures**

The Company's \$1.15 billion principal amount of 2.125% junior subordinated convertible debentures due December 15, 2037, are subordinated in right of payment to any future senior debt of the Company and are effectively subordinated in right of payment to the liabilities of the Company's subsidiaries. The debentures are convertible, subject to certain conditions, into shares of the Company's common stock at an initial conversion rate of 29.2783 shares of common stock per \$1,000 principal amount of debentures, representing an initial conversion price of approximately \$34.16 per share of common stock. As of September 30, 2013, the holders of the debentures had the right to convert their debentures between July 1, 2013 and September 30, 2013 because for at least 20 trading days during the 30 consecutive trading day period ending on September 30, 2013, the Company's common stock had a last reported sale price greater than 130% of the conversion price. As of September 30, 2013, a holder could realize more economic value by selling its debentures in the over the counter market than from converting its debentures. As a result of cash dividends paid since the issuance of the debentures, the conversion rate has been adjusted to 38.0436 shares of common stock per \$1,000 of principal amount of debentures, representing a conversion price of approximately \$26.29 per share of common stock.

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 September 30, 2013 and at March 31, 2013 was \$822.4 million. The estimated fair value of the liability component of the debentures at the issuance date was \$327.6 million, resulting in a debt discount of \$822.4 million. The unamortized debt discount was \$781.8 million at September 30, 2013 and \$786.2 million at March 31, 2013. The carrying value of the debentures was \$367.5 million at September 30, 2013 and \$363.4 million at March 31, 2013. The remaining period over which the unamortized debt discount will be recognized as non-cash interest expense is 24.25 years. In the three and six months ended September 30, 2013, the Company recognized \$2.2 million and \$4.4 million, respectively, in non-cash interest expense related to the amortization of the debt discount. In the three and six months ended September 30, 2012, the Company recognized \$2.0 million and \$4.0 million, respectively, in non-cash interest expense related to the amortization of the debt discount. The Company recognized \$6.1 million and \$12.2 million of interest expense related to the 2.125% coupon on the debentures in each of the three and six-month periods ended September 30, 2013 and September 30, 2012, respectively.

**(15) Credit Facility**

On June 27, 2013, the Company entered into a \$2.0 billion credit agreement among the Company, the lenders from time to time that are parties thereto and JPMorgan Chase Bank, N.A., as administrative agent (the "Credit Agreement"). The Credit Agreement provides for a \$350 million term loan and a \$1.65 billion revolving credit facility, with a \$125 million foreign currency sublimit, a \$35 million letter of credit sublimit and a \$25 million swingline loan sublimit, terminating on June 27, 2018 (the "Maturity Date"). The Credit Agreement also contains an increase option permitting the Company, subject to certain requirements, to arrange with existing lenders and/or new lenders for them to provide up to an aggregate of \$300 million in additional commitments, which may be for revolving loans or term loans. Proceeds of loans made under the Credit Agreement may be used for working capital and general corporate purposes. The Credit Agreement replaced another credit agreement the Company had in place since August 2011. At September 30, 2013, \$640.0 million of borrowings were outstanding under the Credit Agreement consisting of \$290.0 million of a revolving line of credit and \$350.0 million of a term loan, net of \$1.2 million of debt discount resulting from amounts paid to the lenders.

The loans under the Credit Agreement bear interest, at the Company's option, at the base rate plus a spread of 0.25% to 1.25% or an adjusted LIBOR rate (based on one, two, three, or six-month interest periods) plus a spread of 1.25% to 2.25%, in each case with such spread being determined based on the consolidated leverage ratio for the preceding four fiscal quarter period. The base rate means the highest of JPMorgan Chase Bank, N.A.'s prime rate, the federal funds rate plus a margin equal to 0.50% and the adjusted LIBOR rate for a 1-month interest period plus a margin equal to 1.00%. Swingline loans accrue interest at a per annum rate based on the base rate plus the applicable margin for base rate loans. Base rate loans may only be made in U.S. dollars. The Company is also obligated to pay other 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 \$4.0 million in the three months ended September 30, 2013 and \$7.5 million in the six months ended September 30, 2013. Interest expense related to the Company's prior credit agreement was approximately \$2.3 million and \$3.0 million in the three and six months ended September 30, 2012, respectively. Principal, together with all accrued and unpaid interest, is due and payable on the maturity date. The Company may prepay the loans and terminate the commitments, in whole or in part, at any time without



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premium or penalty, subject to certain conditions including minimum amounts in the case of commitment reductions and reimbursement of certain costs in the case of prepayments of LIBOR loans.

The Company's obligations under the Credit Agreement are guaranteed by certain of its subsidiaries meeting materiality thresholds set forth in the Credit Agreement. To secure the Company's obligations under the Credit Agreement, the Company and its domestic subsidiaries will be required to pledge the equity securities of certain of their respective material subsidiaries, subject to certain exceptions and limitations.

The Credit Agreement contains customary affirmative and negative covenants, including covenants that limit or restrict the Company and its subsidiaries' ability to, among other things, incur subsidiary indebtedness, grant liens, merge or consolidate, dispose of assets, make investments, make acquisitions, enter into certain transactions with affiliates, pay dividends or make distributions, repurchase stock, enter into restrictive agreements and enter into sale and leaseback transactions, in each case subject to customary exceptions for a credit facility of this size and type. The Company is also required to maintain compliance with a consolidated leverage ratio and a consolidated interest coverage ratio. At September 30, 2013, the Company was in compliance with these covenants.

The Credit Agreement includes customary events of default that, include among other things, non-payment defaults, inaccuracy of representations and warranties, covenant defaults, cross default to material indebtedness, bankruptcy and insolvency defaults, material judgment defaults, ERISA defaults and a change of control default. The occurrence of an event of default could result in the acceleration of the obligations under the Credit Agreement. Under certain circumstances, a default interest rate will apply on all obligations during the existence of an event of default under the Credit Agreement at a per annum rate equal to 2.00% above the applicable interest rate for any overdue principal and 2.00% above the rate applicable for base rate loans for any other overdue amounts.

### **(16) Contingencies**

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

The Company's technology license agreements generally include an indemnification clause that indemnifies the licensee against liability and damages (including legal defense costs) arising from any claims of patent, copyright, trademark or trade secret infringement by the Company's proprietary technology. The terms of these indemnification provisions approximate the terms of the outgoing technology license agreements, which are typically perpetual unless terminated by either party for breach. The possible amount of future payments the Company could be required to make based on agreements that specify indemnification limits, if such indemnifications were required on all of these agreements, is approximately \$119 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 September 30, 2013.

Contingent liabilities in the amount of \$13.0 million were recorded in connection with the Company's April 10, 2010 acquisition of Silicon Storage Technology Inc. (SST) as an adverse outcome was determined to be probable and estimable. One of the contingent liabilities associated with the SST acquisition was resolved in the second quarter of fiscal 2013 with legal settlement costs of approximately \$11.5 million for certain legal matters related to SST in excess of previously accrued amounts, for which were expensed as special charges in the statement of income. At September 30, 2013, \$5.7 million of the original contingent liabilities recorded were still outstanding.

### **(17) Derivative Instruments**

The Company has international operations and is thus subject to foreign currency rate fluctuations. To manage the risk of changes in foreign currency rates, the Company periodically enters into derivative contracts comprised of foreign currency forward contracts to hedge its asset and liability foreign currency exposure and a portion of its foreign currency operating expenses. Approximately 99% of the Company's sales are U.S. dollar denominated. To date, the exposure related to foreign exchange rate volatility has not been material to the Company's operating results. As of September 30, 2013, the Company had no foreign currency forward contracts outstanding. As of March 31, 2013, the Company had foreign currency forward

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contracts with notional amounts of \$6.0 million to economically hedge certain balance sheet exposures related to the Japanese yen. As these contracts were executed at or near the end of the respective periods, there were no unrecognized gains or losses on these contracts at March 31, 2013. The Company recognized an immaterial amount of net realized gains and losses on foreign currency forward contracts in each of the three and six months ended September 30, 2013 and 2012. Gains and losses from changes in the fair value of these foreign currency forward contracts are credited or charged to Other Income (Expense). The Company does not apply hedge accounting to its foreign currency derivative instruments.

**(18) Comprehensive Income**

The following table presents the changes in the components of accumulated other comprehensive income (AOCI) for the six months ended September 30, 2013 (amounts in thousands):

	Unrealized holding gains (losses) available-for-sale securities	Minimum pension liability	Foreign Currency	Total
Balance at March 31, 2013	\$ 5,444	\$ 52	\$ 1,439	\$ 6,935
Other comprehensive loss before reclassifications	(8,070)	—	—	(8,070)
Amounts reclassified from accumulated other comprehensive income (loss)	(1,390)	—	—	(1,390)
Net other comprehensive loss	(9,460)	—	—	(9,460)
Balance at September 30, 2013	\$ (4,016)	\$ 52	\$ 1,439	\$ (2,525)

The table below details where reclassifications of realized transactions out of AOCI are recorded on the Consolidated Statements of Income.

Description of AOCI Component	Three Months Ended September 30,		Six Months Ended September 30,		Related Statement of Income Line
	2013	2012	2013	2012	
Unrealized gains (losses) on available-for-sale securities	\$ 2,116	\$ 29	\$ 2,166	\$ 221	Other income
Taxes	(776)	—	(776)	(51)	Provision for income taxes
Reclassification of realized transactions, net of taxes	\$ 1,340	\$ 29	\$ 1,390	\$ 170	Net Income

**(19) Share-Based Compensation**

The following table presents the details of the Company's share-based compensation expense (amounts in thousands):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2013	2012	2013	2012
Cost of sales	\$ 1,864 <sup>(1)</sup>	\$ 2,614 <sup>(1)</sup>	\$ 3,833 <sup>(1)</sup>	\$ 3,924 <sup>(1)</sup>
Research and development	6,931	6,358	12,621	10,390
Selling, general and administrative	6,205	11,581	11,202	16,225
Pre-tax effect of share-based compensation	15,000	20,553	27,656	30,539
Income tax benefit	1,589	3,419	2,991	4,741
Net income effect of share-based compensation	\$ 13,411	\$ 17,134	\$ 24,665	\$ 25,798

(1) During the three and six months ended September 30, 2013, \$2.4 million and \$3.8 million, respectively, of share-based compensation expense was capitalized to inventory and \$1.9 million and \$3.8 million, respectively, of previously capitalized share-based compensation expenses in inventory was sold. During the three and six months ended September 30, 2012, \$1.8 million and \$3.5 million of share-based compensation expense was capitalized to inventory and

\$2.6 million and \$3.9 million, respectively, of previously capitalized share-based compensation expense in inventory was sold.

**(20) Net Income (Loss) Per Common Share**

The following table sets forth the computation of basic and diluted net income (loss) per common share (in thousands, except per share amounts):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2013	2012	2013	2012
Net income (loss)	\$ 99,806	\$ (21,184)	\$ 178,385	\$ 57,526
Weighted average common shares outstanding	197,825	194,060	197,388	193,756
Dilutive effect of stock options and RSUs	4,144	—	3,908	3,701
Dilutive effect of convertible debt	14,506	—	13,075	7,170
Weighted average common and potential common shares outstanding	216,475	194,060	214,371	204,627
Basic net income (loss) per common share	\$ 0.50	\$ (0.11)	\$ 0.90	\$ 0.30
Diluted net income (loss) per common share	\$ 0.46	\$ (0.11)	\$ 0.83	\$ 0.28

Diluted net income per common share for the three and six months ended September 30, 2013 includes 14,506,100 shares and 13,075,168 shares, respectively, issuable upon the exchange of debentures (see Note 14). Diluted net income per common share for the six months ended September 30, 2012 includes 7,169,730 shares issuable upon the exchange of debentures. 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 the three and six-month periods ended September 30, 2013 was \$26.42 and \$26.54, respectively. The weighted average conversion price per share used in calculating the dilutive effect of the convertible debt for the six-month period ended September 30, 2012 was \$27.65.

Weighted average common shares exclude the effect of option shares which are not dilutive. There were no antidilutive option shares for the three and six months ended September 30, 2013. For the three and six months ended September 30, 2012, the number of option shares that were antidilutive was 3,367,634 and 110,021, respectively.

**(21) Dividends**

A quarterly cash dividend of \$0.3540 per share was paid on September 4, 2013 in the aggregate amount of \$70.1 million. Through the first six months of fiscal 2014, cash dividends of \$0.7075 per share have been paid in the aggregate of \$139.8 million. A quarterly cash dividend of \$0.3545 per share was declared on October 30, 2013 and will be paid on December 5, 2013 to stockholders of record as of November 21, 2013. The Company expects the December 2013 payment of its quarterly cash dividend to be approximately \$70.4 million.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

*This report, including "Part I – Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Part II - Item 1A Risk Factors" 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," "future," "intend" and similar expressions to identify forward-looking statements. 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 under "Risk Factors," beginning at page 36 and elsewhere in this Form 10-Q. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on these forward-looking statements. We disclaim any obligation to update information contained in any forward-looking statement. 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;
- The level of orders that will be received and shipped within a quarter;
- Our expectation that our inventory levels will be relatively flat to up modestly in the December 2013 quarter compared to the September 2013 quarter and that it will allow us to maintain competitive lead times;
- 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 and interface product lines and the effect of such an increase;
- Our belief that our processes afford us both cost-effective designs in existing and derivative products and greater functionality in new product designs;
- The impact of any supply disruption we may experience;
- Our ability to effectively utilize our facilities at appropriate capacity levels and anticipated costs;
- That we adjust capacity utilization to respond to actual and anticipated business and industry-related conditions;
- That our existing facilities will provide sufficient capacity to respond to increases in demand with modest incremental capital expenditures;
- That manufacturing costs will be reduced by transition to advanced process technologies;
- Our ability to maintain manufacturing yields;
- Continuing our investments in new and enhanced products;
- The cost effectiveness of using our own assembly and test operations;
- Our anticipated level of capital expenditures;
- Continuation and amount of quarterly cash dividends;
- The sufficiency of our existing sources of liquidity to finance anticipated capital expenditures and otherwise meet our anticipated cash requirements, and the effects that our contractual obligations are expected to have on them;
- The impact of seasonality on our business;
- The accuracy of our estimates used in valuing employee equity awards;
- That the resolution of legal actions will not have a material effect on our business, and the accuracy of our assessment of the probability of loss and range of potential loss;
- The recoverability of our deferred tax assets;
- The adequacy of our tax reserves to offset any potential tax liabilities, having the appropriate support for our income tax positions and the accuracy of our estimated tax rate;
- Our belief that the expiration of any tax holidays will not have a material impact on our overall tax expense or effective tax rate;
- Our belief that the estimates used in preparing our consolidated financial statements are reasonable;

- Our belief that recently issued accounting pronouncements listed in this document will not have a significant impact on our consolidated financial statements;
- 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 claims 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;
- The accuracy of our estimates of market information that determines the value of our Auction Rate Securities (ARS), and that the lack of markets for the ARS will not have a material impact on our liquidity, cash flow, or ability to fund operations;
- That our offshore earnings are considered to be permanently reinvested offshore and that we could determine to repatriate some of our offshore earnings in future periods to fund stockholder dividends, share repurchases, acquisitions or other corporate activities;
- That a significant portion of our future cash generation will be in our foreign subsidiaries;
- 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.

We begin our Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) with a summary of Microchip's 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. We then discuss our Results of Operations for the three and six months ended September 30, 2013 compared to the three and six months ended September 30, 2012. We then provide an analysis of changes in our balance sheet and cash flows, and discuss our financial commitments in sections titled "Liquidity and Capital Resources," "Contractual Obligations" and "Off-Balance Sheet Arrangements."

### Strategy

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

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

Our manufacturing operations include wafer fabrication, wafer probe and assembly and test. The ownership of a substantial portion of our manufacturing resources is an important component of our business strategy, enabling us to maintain a high level of manufacturing control resulting in us being one of the lowest cost producers in the embedded control industry. By owning our 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 wafer fabrication and assembly and test requirements to third parties.

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

photomask and wafer fabrication facilities enable us to rapidly verify design techniques by processing test wafers quickly and efficiently.

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

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

## **Critical Accounting Policies and Estimates**

### *General*

Our discussion and analysis of Microchip's financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. We review the accounting policies we use in reporting our financial results on a regular basis. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent liabilities. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, business combinations, share-based compensation, inventories, income taxes, junior subordinated convertible debentures and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Our results may differ from these estimates due to actual outcomes being different from those on which we based our assumptions. We review these estimates and judgments on an ongoing basis. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our condensed consolidated financial statements. We also have other policies that we consider key accounting policies, such as our policy regarding revenue recognition to 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-customer, 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 condensed 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 distributor's 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 September 30, 2013, we had approximately \$225.5 million of deferred revenue and \$74.5 million in deferred cost of sales recognized as \$151.0 million of deferred income on shipments to distributors. At March 31, 2013, we had approximately \$201.8 million of deferred revenue and \$62.8 million in deferred cost of sales recognized as \$139.0 million of deferred income on shipments to distributors. The deferred income on shipments to distributors that will ultimately be recognized in our income statement will be lower than the amount reflected on the balance sheet due to additional price credits to be granted to the distributors when the product is sold to their customers. These additional price credits historically have resulted in the deferred income approximating the overall gross margins that we recognize in the distribution channel of our business.

Distributor advances, reflected as a reduction of deferred income on shipments to distributors on our condensed consolidated balance sheets, totaled \$97.9 million at September 30, 2013 and \$70.1 million at March 31, 2013. On sales to distributors, our payment terms generally require the distributor to settle amounts owed to us for an amount in excess of their ultimate cost. The sales price to our distributors may be higher than the amount that the distributors will ultimately owe us because distributors often negotiate price reductions after purchasing the product 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 condensed 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 distributor's 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 fair value of assets accrued and liabilities assumed requires significant judgment. The valuation of intangible assets and acquired investments in privately held companies, in particular, requires that we use valuation techniques such as the income approach. The income approach includes the use of a discounted cash flow model, which includes discounted cash flow scenarios and requires the following significant estimates: revenue, expenses, capital spending and other costs, and discount rates based on the respective risks of the cash flows. The valuation of non-marketable equity investments acquired also takes into account variables such as conditions reflected in the capital markets, recent financing activity by the investees, the investees' capital structure and the terms of the investees' issued interests.

### *Share-Based Compensation*

We measure fair value and recognize compensation expense for all share-based payment awards, including grants of employee stock options, RSUs, stock appreciation rights, and employee stock purchase rights, to be recognized in our financial statements based on their respective grant date fair values. Total share-based compensation during the six months ended September 30, 2013 was \$27.7 million, of which \$23.8 million was reflected in operating expenses. Total share-based compensation reflected in cost of sales during the six months ended September 30, 2013 was \$3.8 million. Total share-based compensation included in our inventory balance was \$5.3 million at September 30, 2013.

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, also 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 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 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 which 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 effect of adjusting the rate for all expense amortization after April 1, 2006 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 the second quarter of fiscal 2014 was immaterial.

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

### *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 on 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 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. Approximately \$5.0 million and \$15.4 million was charged to cost of sales in the three and six months ended September 30, 2013, respectively, as a result of decreased production in our wafer fabs compared to approximately \$4.5 million and \$8.3 million in the three and six months ended September 30, 2012, respectively.

#### *Income Taxes*

As part of the process of preparing our condensed 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 condensed 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 September 30, 2013, the valuation allowances totaled \$93.1 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 September 30, 2013, our deferred tax asset, net of valuation allowances, was \$70.4 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 audit by the U.S. Internal Revenue Service (IRS) for our fiscal years 2009 and 2010 and SMSC is currently under IRS audit for fiscal years 2011 and 2012. We recognize liabilities for anticipated tax audit issues in the U.S. and other tax jurisdictions based on our estimate of whether, and the extent to which, additional tax payments are probable. We believe that we maintain adequate tax reserves to offset any potential tax liabilities that may arise upon these and other pending audits in the U.S. and other countries in which we do business. If such amounts ultimately prove to be unnecessary, the resulting reversal of such reserves would result in tax benefits being recorded in the period the reserves are no longer deemed necessary. If such amounts ultimately prove to be less than an ultimate assessment, a future charge to expense would be recorded in the period in which the assessment is determined.

#### *Junior Subordinated Convertible Debentures*

We separately account for the liability and equity components of our junior subordinated convertible debentures in a manner that reflects our nonconvertible debt (unsecured debt) borrowing rate when interest cost is recognized. This results in a bifurcation of a component of the debt, classification of that component in equity and the accretion of the resulting discount on the debt to be recognized as part of interest expense in our condensed consolidated statements of income. Additionally, certain embedded features of the debentures qualify as derivatives and are bundled as a compound embedded derivative that is measured at fair value. Lastly, we include the dilutive effect of the shares of our common stock issuable upon conversion of the outstanding junior subordinated convertible debentures in our diluted income per share calculation regardless of whether the market price trigger or other contingent conversion feature has been met. We apply the treasury stock method as we have adopted an accounting policy to settle the principal amount of the junior subordinated convertible debentures in cash. This method results in incremental dilutive shares when the average fair value of our common stock for a reporting period exceeds the conversion price per share which was \$26.29 at September 30, 2013 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

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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 periods indicated:

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	41.4	49.3	41.9	45.7
Gross profit	58.6	50.7	58.1	54.3
Research and development	15.9	16.7	15.8	15.4
Selling, general and administrative	14.0	18.7	14.1	17.3
Amortization of acquired intangible assets	4.8	7.3	5.4	4.3
Special charges	—	5.9	0.2	3.1
Operating income	23.9%	2.1%	22.6%	14.2%

#### *Net Sales*

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

Our net sales for the quarter ended September 30, 2013 were \$492.7 million, an increase of 6.5% from the previous quarter's sales of \$462.8 million, and an increase of 28.5% from net sales of \$383.3 million in the quarter ended September 30, 2012. Our net sales for the six months ended September 30, 2013 were \$955.5 million, an increase of 29.9% from net sales of \$735.4 million in the six months ended September 30, 2012. The increase in net sales in the quarter ended September 30, 2013 over the previous quarter was due primarily to general economic and semiconductor industry conditions and market share gains. The increases in net sales in the three and six months ended September 30, 2013 compared to the three and six months ended September 30, 2012 were due primarily to our acquisition of SMSC on August 2, 2012, general economic and semiconductor industry conditions and market share gains. Average selling prices for our semiconductor products were up approximately 6% and 9% for the three and six-month periods ended September 30, 2013, over the corresponding periods of the previous fiscal year. The number of units of our semiconductor products sold was up approximately 21% and 20% for the three and six-month periods ended September 30, 2013 over the corresponding periods of the previous fiscal year. The increases in the number of units of our semiconductor products sold and our average selling prices in the three and six-month periods ended September 30, 2013 compared to the corresponding periods of the previous fiscal year were mainly due to our acquisition of SMSC during the second quarter of fiscal 2013. 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 related to the amount of net sales during the three and six-month periods ended September 30, 2013 compared to the three and six-month periods ended September 30, 2012 include:

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

Sales by product line for the three and six months ended September 30, 2013 and 2012 were as follows (dollars in thousands):

	Three Months Ended September 30, (unaudited)				Six Months Ended September 30, (unaudited)			
	2013	%	2012	%	2013	%	2012	%
Microcontrollers	\$ 321,004	65.2	\$ 253,315	66.1	\$ 621,309	65.0	\$ 493,657	67.1
Analog, interface and mixed signal products	108,460	22.0	70,069	18.3	211,675	22.2	117,253	15.9
Memory products	34,987	7.1	36,570	9.5	68,979	7.2	77,288	10.5
Technology licensing	24,826	5.0	20,121	5.3	47,344	5.0	40,403	5.5
Other	3,392	0.7	3,223	0.8	6,154	0.6	6,831	1.0
Total sales	\$ 492,669	100.0%	\$ 383,298	100.0%	\$ 955,461	100.0%	\$ 735,432	100.0%

Microcontrollers

Our microcontroller product line represents the largest component of our total net sales. Microcontrollers and associated application development systems accounted for approximately 65.2% of our total net sales for the three-month period ended September 30, 2013 and approximately 65.0% of our total net sales for the six-month period ended September 30, 2013 compared to approximately 66.1% of our total net sales for the three-month period ended September 30, 2012 and approximately 67.1% of our total net sales for the six-month period ended September 30, 2012.

Net sales of our microcontroller products increased approximately 26.7% in the three-month period ended September 30, 2013 and approximately 25.9% in the six-month period ended September 30, 2013 compared to the three and six-month periods ended September 30, 2012. These sales increases were driven primarily by our acquisition of SMSC, market share gains and general economic and semiconductor industry conditions in the end markets that we serve including the consumer, automotive, industrial control, communications and computing markets.

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 would adversely affect our operating results.

Analog, Interface and Mixed Signal Products

Sales of our analog, interface and mixed signal products accounted for approximately 22.0% of our total net sales for the three-month period ended September 30, 2013 and approximately 22.2% of our total net sales for the six-month period ended September 30, 2013 compared to approximately 18.3% of our total net sales for the three-month period ended September 30, 2012 and approximately 15.9% of our total net sales for the six-month period ended September 30, 2012.

Net sales of our analog, interface and mixed signal products increased approximately 54.8% in the three-month period ended September 30, 2013 and approximately 80.5% in the six-month period ended September 30, 2013 compared to the three and six-month periods ended September 30, 2012. These sales increases were driven primarily by our acquisition of SMSC, general economic and semiconductor industry conditions and market share gains achieved within the analog, interface and mixed signal market.

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

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a result of increased pricing pressure in the future, which would adversely affect our operating results. We anticipate the proprietary portion of our analog, interface and mixed signal products will increase over time.

### Memory Products

Sales of our memory products accounted for approximately 7.1% of our total net sales for the three-month period ended September 30, 2013 and approximately 7.2% of our total net sales for the six-month period ended September 30, 2013 compared to approximately 9.5% of our total net sales for the three-month period ended September 30, 2012 and approximately 10.5% of our total net sales for the six-month period ended September 30, 2012.

Net sales of our memory products decreased approximately 4.3% in the three-month period ended September 30, 2013 and approximately 10.8% in the six-month period ended September 30, 2013 compared to the three and six-month periods ended September 30, 2012. These sales decreases 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 technology licensed for the use of our SuperFlash technology and fees for engineering services. Technology licensing accounted for approximately 5.0% of our total net sales for each of the three and six-month periods ended September 30, 2013 compared to approximately 5.3% of our total net sales for the three-month period ended September 30, 2012 and approximately 5.5% of our total net sales for the six-month period ended September 30, 2012.

Net sales related to our technology licensing increased approximately 23.4% in the three-month period ended September 30, 2013 and approximately 17.2% in the six-month period ended September 30, 2013 compared to the three and six-month periods ended September 30, 2012. These sales increases were driven primarily by the adoption of our technology by more manufacturers of semiconductors as well as semiconductor industry and global economic conditions.

### Other

Revenue from assembly and test subcontracting services performed during the three-month period ended September 30, 2013 accounted for approximately 0.7% of our total net sales compared to approximately 0.8% of our total net sales for the three-month period ended September 30, 2012. During the six-month period ended September 30, 2013, revenue from assembly and test subcontracting services accounted for approximately 0.6% of our total net sales compared to approximately 1.0% of our total net sales for the six-month period ended September 30, 2012.

### Distribution

Distributors accounted for approximately 53.1% of our net sales in the three-month period ended September 30, 2013 and approximately 50.5% of our net sales in the three-month period ended September 30, 2012. Distributors accounted for approximately 53.7% of our net sales in the six-month period ended September 30, 2013 and approximately 54.4% of our net sales in the six-month period ended September 30, 2012. 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 Microchip for its products and brand name and use distributors as an effective supply channel.

Generally, we do not have long-term agreements with our distributors and we, or our distributors, may terminate our relationships with each other with little or no advance 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.

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At September 30, 2013, our distributors maintained 33 days of inventory of our products compared to 30 days at March 31, 2013. Over the past three fiscal years, the days of inventory maintained by our distributors have fluctuated between 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 our distributors.

### Sales by Geography

Sales by geography for the three and six months ended September 30, 2013 and 2012 were as follows (dollars in thousands):

	Three Months Ended September 30, (unaudited)				Six Months Ended September 30, (unaudited)			
	2013	%	2012	%	2013	%	2012	%
Americas	\$ 95,185	19.3	\$ 79,533	20.8	\$ 182,113	19.1	\$ 151,536	20.6
Europe	98,913	20.1	83,679	21.8	200,161	20.9	160,985	21.9
Asia	298,571	60.6	220,086	57.4	573,187	60.0	422,911	57.5
Total sales	\$ 492,669	100.0%	\$ 383,298	100.0%	\$ 955,461	100.0%	\$ 735,432	100.0%

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 total net sales in each of the three and six-month periods ended September 30, 2013 and approximately 82% of our total net sales in each of the three and six-month periods ended September 30, 2012. Substantially all of our foreign sales are U.S. Dollar denominated. Sales to customers in Asia have generally increased over time due to many of our customers transitioning their manufacturing operations to Asia and growth in demand from the emerging Asian market. Our sales force in the Americas and Europe supports a significant portion of the design activity for products which are ultimately shipped to Asia.

### Gross Profit

Our gross profit was \$288.9 million in the three months ended September 30, 2013 and \$194.2 million in the three months ended September 30, 2012. Our gross profit was \$555.4 million in the six months ended September 30, 2013 and \$399.0 million in the six months ended September 30, 2012. Gross profit as a percent of sales was 58.6% in the three months ended September 30, 2013 and 50.7% in the three months ended September 30, 2012. Gross profit as a percent of sales was 58.1% in the six months ended September 30, 2013 and 54.3% in the six months ended September 30, 2012.

The most significant factors affecting our gross profit percentage in the periods covered by this Form 10-Q were:

- charges of approximately \$22.7 million and \$24.2 million in the three and six months ended September 30, 2012, respectively, related to acquired inventory valuation adjustments as a result of our acquisition activity reducing margins below their historical levels;
- production levels being below the range of normal capacity levels, resulting in under absorption of fixed costs, in each of the three and six months ended September 30, 2013 and 2012;
- for the three and six months ended September 30, 2013, inventory write-downs being lower than the gross margin impact of sales of inventory that was previously written down;
- for the three and six months ended September 30, 2012, inventory write-downs being higher than the gross margin impact of sales of inventory that was previously written down; and
- fluctuations in our product mix of microcontrollers, analog products, memory products and technology licensing.

Other factors that impacted our gross profit percentage in the periods covered by this Form 10-Q 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.

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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. During each of the three and six-month periods ended September 30, 2013 and 2012, we operated below normal capacity levels, which we typically consider to be 90% to 95% of the actual capacity of our installed equipment, in our wafer fabrication facilities in response to weak global economic conditions and our inventory position. As a result of decreased production in our wafer fabs, approximately \$5.0 million and \$15.4 million was charged to cost of sales during the three and six months ended September 30, 2013, respectively, compared to \$4.5 million and \$8.3 million during the three and six months ended September 30, 2012, respectively. We operated at normal capacity levels in our Thailand assembly and test facility during the three and six months ended September 30, 2013. During the three and six months ended September 30, 2012, we operated below normal capacity levels in our Thailand assembly and test facility which had a negative impact on our gross margin during such periods.

The process technologies utilized in our wafer fabs impact our gross margins. Fab 2 currently utilizes various manufacturing process technologies, but predominantly utilizes our 0.5 to 1.0 micron processes. Fab 4 predominantly utilizes our 0.22 to 0.5 micron processes. We continue to transition products to more advanced process technologies to reduce future manufacturing costs. All of our production has been on 8-inch wafers during the periods covered by this Form 10-Q.

Our overall inventory levels were \$275.1 million at September 30, 2013, compared to \$242.3 million at March 31, 2013. We maintained 123 days of inventory on our balance sheet at September 30, 2013 compared to 116 days of inventory at March 31, 2013. We expect our inventory levels in the December 2013 quarter to be flat to up modestly over those levels at September 30, 2013. We believe our existing level of inventory will allow us to maintain competitive lead times and provide strong delivery performance to our customers and allow us to keep our fiscal 2014 capital expenditures at relatively low levels.

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

During the three months ended September 30, 2013, approximately 49% of our assembly requirements were performed in our Thailand facility compared to approximately 60% of our assembly requirements at September 30, 2012. The percentage of our assembly work that is performed internally fluctuates over time based on supply and demand conditions in the semiconductor industry and our internal capacity capabilities. Third-party contractors located in Asia perform the balance of our assembly operations. During the three months ended September 30, 2013, approximately 86% of our test requirements were performed in our Thailand facility compared to approximately 84% of our test requirements being performed in our Thailand facility at September 30, 2012. The primary reason for the decreased percentages of internal assembly and test production from the levels a year ago is our acquisition of SMSC as SMSC primarily outsourced these manufacturing activities. We believe that the assembly and test operations performed at our Thailand facility provide us with significant cost savings when 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. In each of the three and six-month periods ended September 30, 2013, approximately 38% of our total net sales related to wafers purchased from outside foundries. In the three and six months ended September 30, 2012, approximately 31% and 26%, respectively, of our total net sales related to wafers purchased from outside foundries. The primary reason for the increased percentage in the three and six months ended September 30, 2013 is our acquisition of SMSC, as SMSC relied solely on outside wafer foundries for their wafer fabrication requirements.

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

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

R&D expenses for the three months ended September 30, 2013 were \$78.3 million, or 15.9% of net sales, compared to \$64.1 million, or 16.7% of net sales, for the three months ended September 30, 2012. R&D expenses for the six months ended September 30, 2013 were \$151.3 million, or 15.8% of net sales, compared to \$112.9 million, or 15.4% of net sales, for the six months ended September 30, 2012. We are committed to investing in new and enhanced products, including development systems software, and in our design and manufacturing process technologies. We believe these investments are significant

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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 \$14.2 million, or 22.1%, for the three months ended September 30, 2013 over the same period last year. R&D expenses increased \$38.4 million, or 34.0%, for the six months ended September 30, 2013 over the same period last year. The primary reasons for the increases in R&D costs over these periods were additional costs from our acquisition of SMSC as well as higher headcount and bonus 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 the three months ended September 30, 2013 were \$69.4 million, or 14.1% of net sales, compared to \$71.8 million, or 18.7% of net sales, for the three months ended September 30, 2012. Selling, general and administrative expenses for the six months ended September 30, 2013 were \$135.1 million, or 14.1% of net sales, compared to \$127.4 million, or 17.3% of net sales, for the six months ended September 30, 2012. Selling, general and administrative expenses include salary expenses related to field sales, marketing and administrative personnel, advertising and promotional expenditures and legal expenses. Selling, general and administrative expenses also include costs related to our direct sales force and field applications engineers who work in sales offices worldwide to stimulate demand by assisting customers in the selection and use of our products.

Selling, general and administrative expenses decreased \$2.4 million, or 3.3%, for the three months ended September 30, 2013 over the same period last year. The primary reasons for the dollar decrease in selling, general and administrative costs in the 2013 period were that higher legal expenses, professional service expenses and share-based compensation were incurred in the three months ended September 30, 2012 related to our acquisition of SMSC and, also, that we had lower SMSC headcount costs in the three months ended September 30, 2013 over the same period last year. Selling, general and administrative expenses increased \$7.7 million, or 6.1%, for the six months ended September 30, 2013 over the same period last year. The primary reasons for the dollar increase in selling, general and administrative costs for this period were higher headcount and bonus costs partially offset by lower acquisition related legal and professional service 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 for the three and six months ended September 30, 2013 were \$23.7 million and \$51.4 million, respectively. Amortization of acquired intangible assets for the three and six months ended September 30, 2012 were \$27.9 million and \$31.9 million, respectively. The primary reason for the increases in amortization costs during the three and six months ended September 30, 2013 over the same periods last year were intangible assets acquired as a result of our acquisition of SMSC.

### *Special Charges*

During the three months ended September 30, 2013, we incurred special charges of \$0.8 million for an additional liability related to our acquisition of Roving Networks and \$0.4 million of severance related, office closing, and other costs associated with our acquisition of SMSC, which were offset by \$1.1 million of special income related to the release of an accrued bonus for a milestone that was not met for a business that SMSC had acquired prior to our acquisition of SMSC. During the six months ended September 30, 2013, we incurred special charges of \$1.4 million due to the increase in the fair value of contingent consideration related to one of our acquisitions, \$0.8 million for an additional liability related to our acquisition of Roving Networks and \$0.7 million of severance related, office closing, and other costs associated with our acquisition of SMSC, which were offset by \$1.1 million of special income related to the release of an accrued bonus for a milestone that was not met for a business that SMSC had acquired prior to our acquisition of SMSC.

During the three and six months ended September 30, 2012, we incurred approximately \$10.9 million of severance related, office closing costs, and other costs associated with the acquisition of SMSC. Also, during the three and six months

ended September 30, 2012, we incurred legal settlement costs of approximately \$11.5 million for certain legal matters related to Silicon Storage Technology, Inc. (which we acquired in April 2010) in excess of previously accrued amounts.

*Other Income (Expense)*

Interest income in the three and six months ended September 30, 2013 was \$4.0 million and \$7.9 million, respectively, compared to interest income of \$3.7 million and \$8.1 million in the three and six months ended September 30, 2012, respectively. Interest expense in the three and six months ended September 30, 2013 was \$12.4 million and \$24.2 million, respectively, compared to \$10.8 million and \$19.9 million in the three and six months ended September 30, 2012, respectively. The primary reason for the increases in interest expense in the three and six months ended September 30, 2013 relates to increased borrowings under our credit facility to partially finance our acquisition of SMSC. Other income, net in the three and six months ended September 30, 2013 was \$2.1 million and \$2.3 million, respectively, compared to other income, net of \$1.1 million and \$0.5 million in the three and six months ended September 30, 2012, respectively. The change in other income, net in the three and six months primarily relates to realized gains of \$2.1 million from the sale of marketable equity and debt securities compared to a prior year gain of \$1.3 million related to the sale of inventory previously considered discontinued and fluctuations on our foreign currency derivatives.

*Provision for Income Taxes*

Our provision for income taxes reflects tax on foreign earnings and federal and state tax on U.S. earnings. We had an effective tax rate from continuing operations of 11.5% for the six-month period ended September 30, 2013 and 38.1% for the six-month period ended September 30, 2012. Our effective tax rate is lower than statutory rates in the U.S. due primarily to our mix of earnings in foreign jurisdictions with lower tax rates. Our effective tax rate was higher in the September 30, 2012 period due to certain tax expenses associated with our acquisition of SMSC.

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 2009 and later tax returns remain open for examination by the taxing authorities. The IRS is currently auditing our fiscal 2009 and fiscal 2010 tax returns, and SMSC is 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 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 \$1,981.6 million in cash, cash equivalents and short-term and long-term investments at September 30, 2013, an increase of \$145.6 million from the March 31, 2013 balance. The increase in cash, cash equivalents and short-term and long-term investments over this time period is primarily attributable to cash generated from operating activities offset in part by dividend payments of \$139.8 million.

Net cash provided from operating activities was \$319.4 million for the six-month period ended September 30, 2013 compared to \$192.3 million for the six-month period ended September 30, 2012. The increase in cash flow from operations in the six-month period ended September 30, 2013 compared to the six-month period ended September 30, 2012 was primarily due to higher net income during the six-month period ended September 30, 2013.

During the six months ended September 30, 2013, net cash used in investing activities was \$383.5 million compared to net cash used in investing activities of \$873.2 million for the six months ended September 30, 2012. The decrease in net cash used in investing activities was due primarily to \$731.7 million of cash consideration, net of \$180.9 million of cash and cash equivalents acquired, used in our acquisition of SMSC.



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Our level of capital expenditures varies from time to time as a result of actual and anticipated business conditions. Capital expenditures in the six months ended September 30, 2013 were \$55.2 million compared to \$26.2 million in the six months ended September 30, 2012. Capital expenditures are primarily for the expansion of production capacity and the addition of research and development equipment. We currently intend to spend approximately \$90 million during the next twelve months to invest in equipment and facilities to maintain, and selectively increase capacity to meet our currently anticipated needs.

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 \$120.0 million for the six months ended September 30, 2013 compared to net cash provided by financing activities of \$480.5 million for the six months ended September 30, 2012. We made payments on our borrowings under our credit agreements of \$720.0 and \$80.0 million during the six months ended September 30, 2013 and 2012, respectively. Cash received on borrowings under our credit agreements totaled \$740.0 million and \$680.0 million during the six months ended September 30, 2013 and 2012, respectively. We paid cash dividends to our stockholders of \$139.8 million in the six months ended September 30, 2013 and \$135.9 million in the six months ended September 30, 2012. Proceeds from the exercise of stock options and employee purchases under our employee stock purchase plans were \$22.2 million for the six months ended September 30, 2013 and \$16.3 million for the six months ended September 30, 2012.

On June 27, 2013, we entered into a \$2.0 billion credit agreement with certain lenders. The credit agreement provides for a \$350.0 million term loan and a \$1.65 billion revolving credit facility, with a \$125 million foreign currency sublimit, a \$35 million letter of credit sublimit and a \$25 million swingline loan sublimit, terminating on June 27, 2018. The credit agreement also contains an increase option permitting us, subject to certain requirements, to arrange with existing lenders and/or new lenders for them to provide up to an aggregate of \$300 million in additional commitments, which may be for revolving loans or term loans. Proceeds of loans made under the credit agreement may be used for working capital and general corporate purposes. The new credit agreement replaced another credit agreement we had in place since August 2011. At September 30, 2013, \$640.0 million of borrowings were outstanding under the credit agreement consisting of \$290.0 million of a revolving line of credit and \$350.0 million of a term loan, net of \$1.2 million of debt discount resulting from amounts paid to the lenders. See Note 15 of the notes to condensed consolidated financial statements for more information regarding the credit agreement.

Our total cash, cash equivalents, short-term investments and long-term investments held by our foreign subsidiaries was \$1,963.8 million at September 30, 2013 and \$1,782.0 million at March 31, 2013. Under current tax laws and regulations, if accumulated earnings and profits held by our foreign subsidiaries that U.S. taxes had not previously been provided for were to be distributed to the U.S., in the form of dividends or otherwise, we would be subject to additional U.S. income taxes and foreign withholding taxes. Our balance of cash, cash equivalents, short-term investments and long-term investments available for our U.S. operations as of September 30, 2013 and March 31, 2013 was approximately \$18.0 million and \$100.0 million, respectively. We utilize a variety of tax planning and financing strategies with the objective of having our worldwide cash available in the locations in which it is needed. We consider our offshore earnings to be permanently reinvested offshore. However, we could determine to repatriate some of our offshore earnings in future periods to fund stockholder dividends, share repurchases, acquisitions or other corporate activities in the future. We expect that a significant portion of our future cash generation will be in our foreign subsidiaries.

We enter into derivative transactions from time to time in an attempt to reduce our exposure to currency rate fluctuations. Although none of the countries in which we conduct significant foreign operations has 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 September 30, 2013, we had no foreign currency forward contracts outstanding.

On December 11, 2007, we announced that our Board of Directors had authorized the repurchase of up to 10.0 million shares of our common stock in the open market or in privately negotiated transactions. As of September 30, 2013, we had repurchased 7.5 million shares under this 10.0 million share authorization for a total of \$234.7 million. There is no expiration date associated with this program. The timing and amount of future repurchases will depend upon market conditions, interest rates, and corporate considerations.

As of September 30, 2013, we held approximately 20.4 million shares as treasury shares.

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On October 28, 2002, we announced that our Board of Directors had approved and instituted a quarterly cash dividend on our common stock. A quarterly dividend of \$0.354 per share was paid on September 4, 2013 in the aggregate amount of \$70.1 million. A quarterly dividend of \$0.3545 per share was declared on October 30, 2013 and will be paid on December 5, 2013 to stockholders of record as of November 21, 2013. We expect the aggregate December 2013 cash dividend to be approximately \$70.4 million. Our Board is free to change our dividend practices at any time and to increase or decrease the dividend paid, or not to pay a dividend on our common stock on the basis of our results of operations, financial condition, cash requirements and future prospects, and other factors deemed relevant by our Board. Our current intent is to provide for ongoing quarterly cash dividends depending upon market conditions, our results of operations, and potential changes in tax laws.

We believe that our existing sources of liquidity combined with cash generated from operations and borrowings under our credit agreement will be sufficient to meet our currently anticipated cash requirements for at least the next 12 months. However, the semiconductor industry is capital intensive. In order to remain competitive, we must constantly evaluate the need to make significant investments in capital equipment for both production and research and development. We may further borrow under our credit agreement or seek additional equity or debt financing from time to time to maintain or expand our wafer fabrication and product assembly and test facilities, for cash dividends or for acquisitions or other purposes. The timing and amount of any such financing requirements will depend on a number of factors, including our level of dividend payments, changes in tax laws and regulations regarding the repatriation of offshore cash, demand for our products, changes in industry conditions, product mix, competitive factors and our ability to identify suitable acquisition candidates. There can be no assurance that such financing will be available on acceptable terms, and any additional equity financing would result in incremental ownership dilution to our existing stockholders.

### **Contractual Obligations**

There have not been any material changes in our contractual obligations from what we disclosed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2013.

### **Off-Balance Sheet Arrangements**

As of September 30, 2013, we are not involved in any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

### **Item 3. 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 \$1,981.6 million as of September 30, 2013 compared to \$1,836.0 million as of March 31, 2013. The available-for-sale debt securities, like all fixed income instruments, are subject to interest rate risk and will decline in value if market interest rates increase. We have the ability to hold our fixed income investments until maturity and, therefore, we would not expect to recognize any material adverse impact in income or cash flows if market interest rates increase. The following table provides information about our available-for-sale securities that are sensitive to changes in interest rates. We have aggregated our available-for-sale securities for presentation purposes since they are all very similar in nature. The amounts for fiscal 2014 refer to the remaining six months of the current fiscal year (dollars in thousands):

	Financial instruments maturing during the fiscal year ended March 31,					
	2014	2015	2016	2017	2018	Thereafter
Available-for-sale securities	\$ 132,977	\$ 252,586	\$ 591,421	\$ 528,034	\$ 9,846	\$ 116,611
Weighted-average yield rate	1.50%	1.47%	0.67%	0.93%	0.74%	1.02%

At September 30, 2013, \$9.8 million of the fair value of our investment portfolio was invested in ARS. With the continuing liquidity issues in the global credit and capital markets, our ARS have experienced multiple failed auctions and are not liquid. While we continue to earn interest on these investments based on a pre-determined formula with spreads tied to particular interest rate indices, the estimated market value for a portion of these ARS no longer approximates the original purchase value. The fair value of the failed ARS of \$9.8 million has been estimated based on market information and estimates determined by management and could change significantly based on market conditions. We evaluated the impairments in the value of these ARS, determining our intent to sell these securities prior to the recovery of our amortized cost basis, which did

not result in some of the securities being other-than-temporarily impaired nor the need to recognize impairment charges on these investments for the three and six months ended September 30, 2013 compared to impairment charges of \$0.3 million for the three and six months ended September 30, 2012. If the issuers are unable to successfully close future auctions or if their credit ratings deteriorate further, we may be required to further adjust the carrying value of the investments through an additional impairment charge to earnings.

#### **Item 4. Controls and Procedures**

##### **Evaluation of Disclosure Controls and Procedures**

As of the end of the period covered by this Quarterly Report on Form 10-Q, as required by paragraph (b) of Rule 13a-15 or Rule 15d-15 under the Securities Exchange Act of 1934, as amended, 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 Securities Exchange Act of 1934, as amended). 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 Securities Exchange Act of 1934 (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 control 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.

##### **Changes in Internal Control over Financial Reporting**

During the three months ended September 30, 2013, 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.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

In the ordinary course of our business, we are involved in a limited number of legal actions, both as plaintiff and defendant, and could incur uninsured liability in any one or more of them. We also periodically receive 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 or of which any of our property is the subject, 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.

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

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

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

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

***We are dependent on orders that are received and shipped in the same quarter and are therefore limited in our visibility of 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 our net sales more difficult to forecast. As a significant portion of our products are manufactured at foundries, foundry lead times may affect our ability to achieve 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;
- the rate at which the markets that we serve redesign and change their own products;
- changes in demand in the markets that we serve and the overall rate of growth or contraction of such markets, including but not limited to the automotive, personal computing and consumer electronics markets;
- product introductions by our competitors;
- the number, nature and success of our competitors in a given market;
- our ability to obtain adequate foundry and assembly and test capacity and supplies of raw materials and other supplies at acceptable prices;
- our ability to protect our products and processes by effective utilization of intellectual property rights;
- our ability to remain price competitive against companies that have copied our proprietary product lines, especially in countries where intellectual property rights protection is difficult to achieve and maintain;
- our ability to address the needs of our customers; and
- general market and economic conditions.

Historically, average selling prices in the semiconductor industry decrease over the life of any particular product. The overall average selling prices of our microcontroller and proprietary analog, interface and mixed signal products have remained

relatively constant, while average selling prices of our memory and non-proprietary analog, interface and mixed signal products have declined over time.

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

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

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

Our use of third parties involves some reduction in our level of control over the portions of our business that we subcontract. 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 due to their locations in foreign countries they were to experience political upheaval or infrastructure disruption. If these third parties are unable or unwilling to timely deliver products or services conforming to our quality standards, we may not be able to qualify additional manufacturing sources for our products in a timely manner or at all, or on terms favorable to us. Additionally, these subcontractors could abandon fabrication processes that are important to us, or fail to adopt advanced manufacturing technologies that we desire to control costs. In any such event, we could experience an interruption in production, an increase in manufacturing and production costs or a decline in product reliability, and our business and operating results could be adversely affected. Further, use of these subcontractors creates increased opportunities for potential misappropriation of our intellectual property.

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

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

Sales through distributors accounted for approximately 54% of our net sales for the first six months of fiscal 2014 and approximately 53% of our net sales in fiscal 2013. We do not have long-term agreements with our distributors and we and our distributors may each terminate our relationship with little or no advance notice.

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

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

Our future operating results will depend on our ability to develop and introduce new products on a timely basis that can 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;

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- 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 development of new products. In addition, our new products may not receive or maintain substantial market acceptance. We may be unable to design, develop and introduce competitive products on a timely basis, which could adversely impact our future operating results.

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

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

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

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

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

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

The semiconductor industry is characterized by seasonality and wide fluctuations of supply and demand. Since a significant portion of our revenue is from consumer markets and international sales, our business is subject to seasonally lower revenues in the third and fourth quarters of our fiscal year. However, broad fluctuations in our overall business in recent periods and changes in semiconductor industry and global economic conditions have had a more significant impact on our results than seasonality, and have made it difficult to assess the impact of seasonal factors on our business. The industry has also experienced significant economic downturns, characterized by diminished product demand and production over-capacity. We have sought to reduce our exposure to this industry cyclically by selling proprietary products that cannot be easily or quickly replaced to a geographically diverse base of customers across a broad range of market segments. However, we have experienced substantial period-to-period fluctuations in operating results and expect, in the future, to experience period-to-period fluctuations in operating results due to general industry or economic conditions.

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

We have acquired, and expect in the future to acquire, additional businesses that we believe will complement or augment our existing businesses. In this regard, on August 2, 2012, we completed our acquisition of SMSC, a publicly traded semiconductor company. 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 (including SMSC), 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 by terminated employees, shareholders of acquired companies and other third parties related to the transaction. Acquisitions may also result in one-time charges (such as acquisition-related expenses, write-offs, restructuring charges, or future impairment of goodwill), contingent liabilities, adverse tax consequences, additional stock-based compensation expense and other charges that adversely affect our operating results. Additionally, we may fund acquisitions of new businesses or strategic alliances by utilizing cash, borrowings under our credit agreement, raising debt, issuing shares of common stock, or other mechanisms.

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

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

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

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

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

We are currently, and in the future may be, involved in legal proceedings or claims regarding patent infringement, other intellectual property rights, contracts and other matters. As is typical in the semiconductor industry, we receive notifications from customers or licensees from time to time who believe that we owe them indemnification or other obligations related to infringement claims made against us, the customers or licensees by third parties. These legal proceedings and claims, even if meritless, could result in substantial cost to us and divert our resources. If we are not able to resolve a claim, settle a matter, obtain necessary licenses on commercially reasonable terms, reengineer our products or processes to avoid infringement, and/or successfully prosecute or defend our position, we could incur uninsured liability in any of them, be required to take an appropriate charge to operations, be enjoined from selling a material portion of our products or using certain processes, suffer a reduction or elimination in the value of our inventories, and our business, financial condition or results of operations could be harmed.



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

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

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

Further, we sell to customers in industries such as automotive, aerospace, and medical, where failure of the systems in which our products are integrated could cause damage to property or persons. We may be subject to claims if our products, or interactions with 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 be of sufficient scope or strength to provide meaningful protection or any commercial advantage to us. We may be subject to or may ourselves initiate interference proceedings in the U.S. Patent and Trademark Office, patent offices of a foreign country or U.S. or foreign courts, which can require significant financial and management resources. In addition, the laws of certain foreign countries do not protect our intellectual property rights to the same extent as the laws of the U.S. Infringement of our intellectual property rights by a third party could result in uncompensated lost market and revenue opportunities for us. Although we continue to vigorously and aggressively defend and protect our intellectual property on a worldwide basis, there can be no assurance that we will be successful in our endeavors.

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

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

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

We do not typically enter into long-term contracts with our customers and we cannot be certain about future order levels from our customers. When we do enter into customer contracts, the contract is generally cancelable at the convenience of the customer. Even though we had approximately 84,000 customers and our ten largest direct customers made up approximately 10% of our total revenue for the six months ended September 30, 2013, 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 acquisition of SMSC, we inherited certain customer contracts that differ from our standard terms of sale. For several of the significant markets that we sell into, such as the automotive and personal computer markets, our current or potential customers may possess significant leverage over us in negotiating the terms and conditions of supply as a result of their market size and position. For example, under certain contracts we may commit to supply specific quantities of products on scheduled delivery dates, or agree to extend our obligations for certain liabilities such as warranties or indemnification for quality issues or claims of intellectual property infringement. If we are unable to supply the customer as required under the contract, the customer may incur additional production costs, lost revenues due to subsequent delays in their own manufacturing schedule, or quality-related issues. We may be liable for the customer's costs, expenses and damages associated with their claims and we may be obligated to defend the customer against claims of intellectual property infringement and pay the associated legal fees. While we try to limit the number of contracts that we sign which contain such special provisions, manage the risks underlying such liabilities, and set caps on our liability exposure, sometimes we may not be able to do so. In order to win important designs, avoid losing business to competitors, maintain existing business, or be permitted to bid on new business, we have been, and may in the future be, forced to agree to uncapped liability for such items as intellectual property infringement or confidentiality. Such provisions expose us to risk of liability far exceeding the purchase price of the products we sell under such contracts, the lifetime revenues we receive from such products, or various forms of potential consequential damages. These significant additional risks could result in a material adverse impact on our results of operation and financial condition.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We rely on the efficient and uninterrupted operation of complex information technology systems and networks to operate our business. Any significant disruption to our systems or networks, including, but not limited to, new system implementations, computer viruses, security breaches, facility issues, natural disasters, terrorism, war, telecommunication

failures or energy blackouts could have a material adverse impact on our operations, sales and operating results. Such disruption could result in a loss of our intellectual property or the release of sensitive competitive information or supplier, customer or employee personal data. Any loss of such information could harm our competitive position, result in a loss of customer confidence, and cause us to incur significant costs to remedy the damages caused by the disruptions or security breaches. Additionally, as there has been increased legislation in the U.S., Europe and elsewhere regarding the handling of personal data, including the data of employees and customers, such a failure may result in regulatory penalties, enforcement actions, remediation obligations and litigation. There is also risk that we may be found not to comply with laws or regulations regarding the collection, consent, handling, transfer, or disposal of personal data. Fines and other sanctions may result.

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

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

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

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

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

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

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

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

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

As required by the Dodd-Frank Wall Street Reform and Consumer Protection Act, in August 2012, the SEC released new disclosure and reporting requirements regarding the use of “conflict” minerals mined from the Democratic Republic of Congo and adjoining countries in products, whether or not these products are manufactured by third parties. As we implement these new requirements, if it is determined that we are using other than conflict-free minerals, customers may demand us to change the sourcing of minerals used in the manufacture of semiconductor devices (including our products), even if the costs for acceptable minerals significantly increases and availability is limited. There will likely be additional costs associated with complying with the disclosure requirements, such as costs related to determining the source of any conflict minerals used in our products. Also, since our supply chain is complex, we may face reputational challenges if we are unable to sufficiently verify the origins for all metals used in our products through the procedures we may implement. We may also encounter challenges to satisfy those customers who require that all of the components of our products are certified as conflict free. If we are not able to meet customer requirements, customers may choose to disqualify us as a supplier and we may have to write off inventory in the event that it cannot be sold.

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

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

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

We are subject to examination of our income tax returns by the IRS and other tax authorities for fiscal 2009 and later. We are currently being audited by the IRS for fiscal 2009 and 2010, and SMSC is currently under IRS audit for fiscal 2011 and 2012. We are subject to certain income tax examinations in foreign jurisdictions for fiscal 2005 and later. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from these continuing examinations will not have an adverse effect on our future operating results.

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

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

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

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

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

We review our long-lived assets, including goodwill and other intangible assets, for impairment annually in the fourth fiscal quarter or whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. Factors that may be considered in assessing whether goodwill or intangible assets may not be recoverable include a decline in our stock price or market capitalization, reduced estimates of future cash flows and slower growth rates in our industry. Our valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and to rely heavily on projections of future operating performance. Because we operate in highly competitive environments, projections of our future operating results and cash flows may vary significantly from our actual results. No goodwill or long-lived asset impairment charges were recorded in fiscal 2012 or fiscal 2013.

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

In June 2013, we entered into a \$2.0 billion credit agreement. At September 30, 2013, we had \$640.0 million in outstanding borrowings under such credit agreement. In December 2007, we sold \$1.15 billion of principal value 2.125% junior subordinated convertible debentures. As a result of such transactions, we have a substantially greater amount of debt than we had maintained in the past. Our maintenance of substantial levels of debt could adversely affect our ability to take advantage of corporate opportunities and could adversely affect our financial condition and results of operations. We may need or desire to refinance all or a portion of our loans under our credit agreement, our debentures or any other future indebtedness and there can be no assurance that we will be able to refinance any of our indebtedness on commercially reasonable terms, if at all.

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

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

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

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

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

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

***Credit conditions have adversely impacted our holdings of auction rate securities (ARS).***

At September 30, 2013, \$9.8 million of the fair value of our investment portfolio was invested in ARS. With the continuing liquidity issues in the global credit and capital markets, our ARS have experienced multiple failed auctions and are not liquid. While we continue to earn interest on these investments based on a pre-determined formula with spreads tied to particular interest rate indices, the estimated market value for a portion of these ARS no longer approximates the original purchase value. The fair value of the failed ARS of \$9.8 million has been estimated based on market information and estimates determined by management and could change significantly based on market conditions. If the issuers are unable to successfully close future auctions or if their credit ratings deteriorate further, we may be required to further adjust the carrying value of the investments through an impairment charge to earnings.

The majority of our short and long-term investments are in highly rated government agency bonds and corporate bonds. Other than with respect to our holdings of ARS, we have not experienced any liquidity or impairment issues with such investments. However, there can be no assurance that credit market conditions will not in the future adversely affect the liquidity or value of our non-ARS investments.

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

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

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

**Item 6. Exhibits**

3.1	Amended and Restated Bylaws of Microchip Technology Incorporated as of October 1, 2013.
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

\*XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.



**SIGNATURES**

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

**MICROCHIP TECHNOLOGY INCORPORATED**

Date: November 8, 2013

By: /s/ J. Eric Bjornholt  
J. Eric Bjornholt  
Vice President and Chief Financial Officer  
(Duly Authorized Officer, and  
Principal Financial and Accounting Officer)

**AMENDED AND RESTATED BYLAWS**

**OF**

**MICROCHIP TECHNOLOGY INCORPORATED**

**Amended through October 1, 2013**

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**AMENDED AND RESTATED BYLAWS OF  
MICROCHIP TECHNOLOGY INCORPORATED  
Amended through October 1, 2013**

**ARTICLE I  
CORPORATE OFFICES**

1.1 **Registered Office.** The registered office of the corporation shall be in the City of Dover, County of Kent, State of Delaware. The name of the registered agent of the corporation at such location is The Corporation Trust Company.

1.2 **Other Offices.** The corporation may also have offices at such other places both within and without the State of Delaware as the board of directors may from time to time determine or the business of the corporation may require.

**ARTICLE II  
STOCKHOLDERS**

2.1 **Place of Meetings.** Meetings of stockholders shall be held at any place, within or outside the State of Delaware, designated by the board of directors. In the absence of any such designation, stockholders' meetings shall be held at the registered office of the corporation.

2.2 **Annual Meeting.** The annual meeting of stockholders shall be held, each year, on a date and at a time designated by the board of directors. At the meeting, directors shall be elected and any other proper business may be transacted.

2.3 **Special Meeting.** A special meeting of the stockholders may be called at any time by the board of directors or by the chairman of the board or by one or more stockholders owning in the aggregate not less than fifty percent (50%) of the entire capital stock of the corporation issued and outstanding and entitled vote.

If a special meeting is called by any person or persons other than the board of directors, the request shall be in writing, specifying the time of such meeting and the general nature of the business proposed to be transacted, and shall be delivered personally or sent by registered mail or by telegraphic or other facsimile transmission to the chairman of the board, the president, chief executive officer or the secretary of the corporation. No business may be transacted at such special

meeting otherwise than specified in such notice. The officer receiving the request shall cause notice to be promptly given to the stockholders entitled to vote, in accordance with the provisions of Sections 2.5 and 2.6, that a meeting will be held at the time requested by the person or persons who called the meeting, not less than thirty-five (35) nor more than sixty (60) days after the receipt of the request. If the notice is not given within twenty (20) days after the receipt of the request, the person or persons requesting the meeting may give the notice. Nothing contained in this paragraph of this Section 2.3 shall be construed as limiting, fixing, or affecting the time when a meeting of stockholders called by action of the board of directors may be held.

#### **2.4 *Advance Notice of Stockholder Nominees and Stockholder Business.***

(a) At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting business must be (A) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the board of directors, (B) otherwise properly brought before the meeting by or at the direction of the board of directors, or (C) otherwise properly brought before the meeting by a stockholder. For business to be properly brought before an annual meeting by a stockholder, the secretary of the corporation must have received timely notice in writing from the stockholder. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the corporation not less than ninety (90) calendar days before the date on which the corporation first mailed its proxy statement to stockholders in connection with the previous year's annual meeting of stockholders; *provided, however*, that in the event that no annual meeting was held in the previous year or the date of the annual meeting has been changed by more than thirty (30) days from the prior year, notice by the stockholder to be timely must be so received not later than the close of business on the later of ninety (90) calendar days in advance of such annual meeting or ten (10) calendar days following the date on which public announcement of the date of the meeting is first made. Such written notice to the secretary shall set forth, as to each matter the stockholder proposes to bring before the annual meeting: (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and address, as they appear on the corporation's books, of the stockholder proposing such business, (iii) the class and number of shares of stock of the corporation beneficially owned by such stockholder, (iv) any material interest of such stockholder in such business, and (v) any other information that is required to be provided by the stockholder pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "1934 Act"), in his capacity as a proponent to a stockholder proposal. Notwithstanding the foregoing, in order to include information with respect to a stockholder proposal in the proxy statement and form of proxy for a stockholder's meeting, stockholders must provide notice as required by the regulations promulgated under the 1934 Act. Notwithstanding any provision in the Bylaws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this paragraph (a). The chairman of the annual meeting shall, if the facts warrant, determine and declare at the meeting that business was not properly brought before the meeting and in accordance

with the provisions of this paragraph (a), and, if he should so determine, he shall so declare at the meeting that any such business not properly brought before the meeting shall not be transacted.

(b) Only persons who are nominated in accordance with the procedures set forth in this paragraph (b) shall be eligible for election as directors. Nominations of persons for election to the board of directors of the corporation may be made at a meeting of stockholders by or at the direction of the board of directors or by any stockholder of the corporation entitled to vote in the election of directors at the meeting who complies with the notice procedures set forth in this paragraph (b). Such nominations, other than those made by or at the direction of the board of directors, shall be made pursuant to timely notice in writing to the secretary of the corporation in accordance with the provisions of paragraph (a) of this Section 2.4. Such stockholder's notice shall set forth (i) as to each person, if any, whom the stockholder proposes to nominate for election or re-election as a director: (A) the name, age, business address and residence address of such person, (B) the principal occupation or employment of such person, (C) the class and number of shares of the corporation which are beneficially owned by such person, (D) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nominations are to be made by the stockholder, and (E) any other information relating to such person that is required to be disclosed in solicitations of proxies for elections of directors, or is otherwise required, in each case pursuant to Regulation 14A under the 1934 Act (including without limitation such person's written consent to being named in the proxy statement, if any, as a nominee and to serving as a director if elected); and (ii) as to such stockholder giving notice, the information required to be provided pursuant to paragraph (a) of this Section 2.4. At the request of the board of directors, any person nominated by a stockholder for election as a director shall furnish to the secretary of the corporation that information required to be set forth in the stockholder's notice of nomination which pertains to the nominee. No person shall be eligible for election as a director of the corporation unless nominated in accordance with the procedures set forth in this paragraph (b). The chairman of the meeting shall, if the facts warrant, determine and declare at the meeting that a nomination was not made in accordance with the procedures prescribed by these Bylaws, and if he should so determine, he shall so declare at the meeting, and the defective nomination shall be disregarded.

**2.5 Notice of Stockholders Meetings.** All notices of meetings of stockholders shall be in writing and shall be sent or otherwise given in accordance with Section 2.6 of these bylaws not less than ten (10) nor more than sixty (60) days before the date of the meeting to each stockholder entitled to vote at such meeting, except as otherwise provided herein or required by law (meaning, here and hereinafter, as required from time to time by the General Corporation Law of Delaware or the certificate of incorporation of the corporation). The notice shall specify the place, date, and hour of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called.

**2.6 Manner of Giving Notice; Affidavit of Notice.** Written notice of any meeting of stockholders, if mailed, is given when deposited in the United States mail, postage prepaid, directed

to the stockholder at his address as it appears on the records of the corporation. An affidavit of the secretary or an assistant secretary or of the transfer agent of the corporation that the notice has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

2.7 **Quorum.** At any meeting of the stockholders, the holders of a majority, present in person or by proxy, of all of the shares of the stock entitled to vote at the meeting shall constitute a quorum for all purposes, unless or except to the extent that the presence of a larger number may be required by law. Where a separate vote by a class or classes is required, a majority, present in person or by proxy, of the shares of such class or classes entitled to take action with respect to that vote on that matter shall constitute a quorum. If a quorum shall fail to attend any meeting, the chairman of the meeting may adjourn the meeting to another place, date or time.

If a notice of any adjourned special meeting of stockholders is sent to all stockholders entitled to vote thereat, stating that it will be held with those present constituting a quorum, those present at such adjourned meeting shall constitute a quorum (but in no event shall a quorum consist of less than one-third of the shares entitled to vote at the meeting), and all matters shall be determined by a majority of the votes cast at such meeting, except as otherwise required by law.

2.8 **Adjourned Meeting; Notice.** When a meeting is adjourned to another time or place, unless these bylaws otherwise require, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the corporation may transact any business that might have been transacted at the original meeting. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

2.9 **Voting.** The stockholders entitled to vote at any meeting of stockholders shall be determined in accordance with the provisions of Section 2.12 of these bylaws, subject to the provisions of Sections 217 and 218 of the General Corporation Law of Delaware (relating to voting rights of fiduciaries, pledgors and joint owners of stock and to voting trusts and other voting agreements).

Each stockholder shall have one (1) vote for every share of stock entitled to vote that is registered in his or her name on the record date for the meeting (as determined in accordance with Section 2.12 of these bylaws), except as otherwise provided herein or required by law.

All elections shall be determined by a plurality of the votes cast, and except as otherwise required by law or provided herein, all other matters shall be determined by a majority of the votes cast affirmatively or negatively; except that beginning with the annual meeting of stockholders to be held in 2014, 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 notes 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. For the purpose of this bylaw, 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.

2.10 **Waiver of Notice.** Whenever notice is required to be given under any provision of the General Corporation Law of Delaware or of the certificate of incorporation or these bylaws, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders need be specified in any written waiver of notice unless so required by the certificate of incorporation or these bylaws.

2.11 **Stockholder Action by Written Consent Without a Meeting.** Any action required or able to be taken at any annual or special meeting of stockholders may be taken without a meeting, without prior notice, and without a vote if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted and shall be delivered to the corporation at its registered office in Delaware, its principal place of business, or to an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery to the corporation's registered office shall be made by hand or by certified or registered mail, return receipt requested.

Every written consent shall bear the date of signature of each stockholder who signs the consent and no written consent shall be effective to take the corporate action referred to therein unless, within sixty (60) days after the date the earliest dated consent is delivered to the corporation, a written consent or consents signed by holders of a sufficient number of votes to take action are delivered to the corporation in the manner prescribed in the first paragraph of this section.

Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing. If the action which is consented to is such as would have required the filing of a certificate under any section of the General Corporation Law of Delaware if such action had been voted on by stockholders at a meeting thereof, then the certificate filed under such section shall state, in lieu of any statement required by such section concerning any vote of stockholders, that written notice and written consent have been given as provided in Section 228 of the General Corporation Law of Delaware.

2.12 **Record Date for Stockholder Notice; Voting; Giving Consents.** In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the board of directors

may fix a record date, which shall not be more than sixty (60) nor less than ten (10) days before the date of such meeting, nor more than sixty (60) days prior to any other action.

If the board of directors does not so fix a record date:

(i) The record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held.

(ii) The record date for determining stockholders entitled to receive payment of any dividend or other distribution or allotment of rights or to exercise any rights of change, conversion or exchange of stock or for any other purpose shall be at the close of business on the day on which the board of directors adopts the resolution relating thereto.

In order that the corporation may determine the stockholders entitled to consent to corporate action in writing without a meeting, the board of directors may fix a record date, which record date shall neither precede nor be more than ten (10) days after the date upon which such resolution is adopted by the board of directors. Any stockholder of record seeking to have the stockholders authorize or take action by written consent shall, by written notice to the secretary, request the board of directors to fix a record date. The board of directors shall promptly, but in all events within ten (10) days after the date on which such notice is received, adopt a resolution fixing the record date.

If the board of directors has not fixed a record date within such time, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting, when no prior action by the board of directors is required by law, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the corporation in the manner prescribed in the first paragraph of Section 2.11 of these bylaws. If the board of directors has not fixed a record date within such time and prior action by the board of directors is required by law, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the date on which the board of directors adopts the resolution taking such prior action.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the board of directors may fix a new record date for the adjourned meeting.

2.13 **Proxies.** Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for him by a written proxy, filed in accordance with the procedure established for the meeting or taking of action in writing, but no such proxy shall be voted or acted upon after three (3) years from its date, unless the proxy provides for a longer period. Any copy, facsimile telecommunication or other reliable reproduction of the writing or transmission created pursuant to this Section 2.13 may be substituted or used in lieu of the original writing or transmission for any and all purposes for which the original writing or transmission could be used, provided that such

copy, facsimile telecommunication or other reproduction shall be a complete reproduction of the entire original writing or transmission. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Section 212(c) of the General Corporation Law of Delaware.

2.14 **List of Stockholders Entitled to Vote.** The officer who has charge of the stock ledger of a corporation shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. Such list shall presumptively determine the identity of the stockholders entitled to vote at the meeting and the number of shares held by each of them.

2.15 **Conduct of Business.** The Board of Directors will appoint a Chairman of the meeting, and he/she shall be authorized to be the final authority on all matters of procedure at the meeting. The rules provided below will govern the conduct of the meeting of stockholders and will be strictly enforced to maintain an orderly meeting. Robert's Rules of Order will not be applicable and will not be utilized.

(i) **Method of Obtaining the Floor.** Stockholders who desire to address the meeting must raise their hands and wait to be recognized by the Chairman. Only when a stockholder is recognized as having the floor may he or she address the meeting.

(ii) **Discussion.** Persons addressing the meeting must limit their remarks to the issue then under consideration by the stockholders and to not more than five minutes in duration. A stockholder will be permitted to address the meeting on a particular issue not more than three times.

(iii) **Stockholder Proposals.** Stockholders will only be permitted to address the meeting on proposals that are included in the proxy statement and proxy relating to that meeting.

2.16 **Inspectors of Election.** The corporation may, and to the extent required by law, shall, in advance of any meeting of stockholders, appoint one or more inspectors to act at the meeting and make a written report thereof. The corporation may designate one or more persons as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is able to act at a meeting of stockholders, the person presiding at the meeting may, and to the extent required by law, shall, appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his ability. Every vote taken by ballots shall be counted by an inspector or inspectors appointed by the chairman of the meeting.

2.17 ***Inspectors of Election and Procedures for Counting Written Consents.*** Within three (3) business days after receipt of the earliest dated consent delivered to the corporation in the manner provided in Section 228(c) of the Delaware General Corporation Law or the determination by the board of directors of the corporation that the corporation should seek corporate action by written consent, as the case may be, the secretary may engage nationally recognized independent inspectors of elections for the purpose of performing a ministerial review of the validity of the consents and revocations. The cost of retaining inspectors of election shall be borne by the corporation.

Consents and revocations shall be delivered to the inspectors upon receipt by the corporation, the stockholder or stockholders soliciting consents or soliciting revocations in opposition to action by consent proposed by the corporation (the “Soliciting Stockholders”) or their proxy solicitors or other designated agents. As soon as consents and revocations are received, the inspectors shall review the consents and revocations and shall maintain a count of the number of valid and unrevoked consents. As soon as practicable after the earlier of (i) sixty (60) days after the date of the earliest dated consent delivered to the corporation in the manner provided in Section 228(c) of the Delaware General Corporation Law or (ii) a written request therefor by the corporation or the Soliciting Stockholders (whichever is soliciting consents) (which request, except in the case of corporate action by written consent taken pursuant to the solicitations of not more than ten (10) persons, may be made no earlier than after such reasonable amount of time after the commencement date of the applicable solicitation of consents as is necessary to permit the inspectors to commence and organize their count, but in no event less than five (5) days after such commencement date), notice of which request shall be given to the party opposing the solicitation of consents, if any, which request shall state that the corporation or Soliciting Stockholders, as the case may be, have a good faith belief that the requisite number of valid and unrevoked consents to authorize or take the action specified in the consents has been received in accordance with these bylaws, the inspectors shall issue a preliminary report to the corporation and the Soliciting Stockholders stating: (i) the number of valid consents; (ii) the number of valid revocations; (iii) the number of valid and unrevoked consents; (iv) the number of invalid consents; (v) the number of invalid revocations; and (vi) whether, based on their preliminary count, the requisite number of valid and unrevoked consents has been obtained to authorize or take the action specified in the consents.

Unless the corporation and the Soliciting Stockholders shall agree to a shorter or longer period, the corporation and the Soliciting Stockholders shall have 48 hours to review the consents and revocations and to advise the inspectors and the opposing party in writing as to whether they intend to challenge the preliminary report of the inspectors. If no written notice of an intention to challenge the preliminary report is received within 48 hours after the inspectors’ issuance of the preliminary report, the inspectors shall issue to the corporation and the Soliciting Stockholders their final report containing the information from the inspectors’ determination with respect to whether the requisite number of valid and unrevoked consents was obtained to authorize and take the action specified in the consents. If the corporation or the Soliciting Stockholders issue written notice of an intention to challenge the inspectors’ preliminary report within 48 hours after the issuance of that report, a challenge session shall be scheduled by the inspectors as promptly as practicable. A transcript of the challenge session shall be recorded by a certified court reporter. Following completion of the challenge session, the inspectors shall as promptly as practicable issue their final

report to the corporation and the Soliciting Stockholders, which report shall contain the information included in the preliminary report, plus all changes made to the vote totals as a result of the challenge and a certification of whether the requisite number of valid and unrevoked consents was obtained to authorize or take the action specified in the consents. A copy of the final report of the inspectors shall be included in the book in which the proceedings of meetings of stockholders are recorded.

2.18 ***Election Not To Be Subject to Arizona Control Share Acquisitions Statute.*** The corporation elects not to be subject to Title 10, Chapter 23, Article 2 of the Arizona Revised Statutes relating to “Control Share Acquisitions.”

### **ARTICLE III DIRECTORS**

3.1 ***Powers.*** Subject to the provisions of the General Corporation Law of Delaware and any limitations in the certificate of incorporation or these bylaws relating to action required to be approved by the stockholders or by the outstanding shares, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the board of directors.

3.2 ***Number of Directors.*** The number of directors of the corporation shall be six (6). This number may be changed by a duly adopted amendment to the certificate of incorporation or by an amendment to this bylaw adopted by resolution of the board of directors or by the stockholders.

No reduction of the authorized number of directors shall have the effect of removing any director before that director’s term of office expires.

3.3 ***Election, Qualification and Term of Office of Directors.*** Except as provided in Section 3.4 of these bylaws, at each annual meeting of stockholders, directors of the corporation shall be elected to hold office until the expiration of the term for which they are elected, and until their successors have been duly elected and qualified; except that if any such election shall not be so held, such election shall take place at a stockholders’ meeting called and held in accordance with the Delaware General Corporation Law.

Directors need not be stockholders unless so required by the certificate of incorporation or these bylaws, wherein other qualifications for directors may be prescribed.

Nominations for election to the board of directors of the corporation at an annual meeting of stockholders may be made by the board or on behalf of the board by a nominating committee appointed by the board, or by any stockholder of the corporation entitled to vote for the election of directors at such meeting. Such nominations, other than those made by or on behalf of the board, shall be made by notice in writing received by the secretary of the corporation not less than thirty (30) days nor more than sixty (60) days prior to the date of the annual meeting; *provided, however,* that if less than thirty-five (35) days notice of the meeting is given to stockholders, such nomination shall have been received by the secretary not later than the close of business on the seventh (7th) day

following the day on which the notice was mailed. Such notice shall set forth (i) the name and address of the stockholder who intends to make the nomination; (ii) a representation that the nominating stockholder is a holder of record of stock of the corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting and nominate the person or persons specified in the notice; (iii) the number of shares of stock held beneficially and of record by the nominating stockholder; (iv) the name, age, business address and, if known, residence address of each nominee proposed in such notice; (v) the principal occupation or employment of such nominee; (vi) the number of shares of stock of the corporation beneficially owned by each such nominee; (vii) a description of all arrangements or understandings between the nominating stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the nominating stockholder; (viii) any other information concerning the nominee that must be disclosed of nominees in proxy solicitations pursuant to Regulation 14A under the Securities Exchange Act of 1934; and (ix) the consent of such nominee to serve as a director of the corporation if so elected.

The chairman of the annual meeting may, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedure. If such determination and declaration is made, the defective nomination shall be disregarded.

3.4 **Resignation and Vacancies.** Any director may resign at any time upon written notice to the corporation. When one or more directors so resigns and the resignation is effective at a future date, only a majority of the directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each director so chosen shall hold office as provided in this section in the filling of other vacancies.

Unless otherwise provided in the certificate of incorporation or these bylaws:

(i) Vacancies and newly created directorships resulting from any increase in the authorized number of directors elected by all of the stockholders having the right to vote as a single class may be filled only by a majority of the directors then in office, even if less than a quorum, or by a sole remaining director.

(ii) Whenever the holders of any class or classes of stock or series thereof are entitled to elect one or more directors by the provisions of the certificate of incorporation, vacancies and newly created directorships of such class or classes or series may be filled only by a majority of the directors elected by such class or classes or series thereof then in office, or by a sole remaining director so elected.

If at any time, by reason of death or resignation or other cause, the corporation should have no directors in office, then any officer or any stockholder or an executor, administrator, trustee or guardian of a stockholder, or other fiduciary entrusted with like responsibility for the person or estate of a stockholder, may call a special meeting of stockholders in accordance with the provisions of the certificate of incorporation or these bylaws, or may apply to the Court of Chancery for a decree

summarily ordering an election as provided in Section 211 of the General Corporation Law of Delaware.

If, at the time of filling any vacancy or any newly created directorship, the directors then in office constitute less than a majority of the whole board (as constituted immediately prior to any such increase), then the Court of Chancery may, upon application of any stockholder or stockholders holding at least ten (10) percent of the total number of the shares at the time outstanding having the right to vote for such directors, summarily order an election to be held to fill any such vacancies or newly created directorships, or to replace the directors chosen by the directors then in office as aforesaid, which election shall be governed by the provisions of Section 211 of the General Corporation Law of Delaware as far as applicable.

3.5 **Place of Meetings; Meetings by Telephone.** The board of directors of the corporation may hold meetings, both regular and special, either within or outside the State of Delaware.

Unless otherwise restricted by the certificate of incorporation or these bylaws, members of the board of directors, or any committee designated by the board of directors, may participate in a meeting of the board of directors, or any committee, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

3.6 **Regular Meetings.** Regular meetings of the board of directors shall be held at such place or places, on such date or dates, and at such time or times as shall have been established by the board of directors and publicized among all directors. A notice of each regular meeting shall not be required.

3.7 **Special Meetings; Notice.** Special meetings of the board of directors for any purpose or purposes may be called at any time by the president or secretary of the corporation, or by any two of the directors then in office and shall be held at a place, on a date and at a time as such officer or such directors shall fix. Notice of the place, date and time of special meetings, unless waived, shall be given to each director by mailing written notice not less than two (2) days before the meeting or by sending a facsimile transmission of the same not less than two (2) hours before the time of the holding of the meeting. If the circumstances warrant, notice may also be given personally or by telephone not less than two (2) hours before the time of the holding of the meeting. Oral notice given personally or by telephone may be communicated either to the director or to a person at the office of the director who the person giving the notice has reason to believe will promptly communicate it to the director. Unless otherwise indicated in the notice thereof, any and all business may be transacted at a special meeting.

3.8 **Quorum.** At all meetings of the board of directors, a majority of the authorized number of directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the board of directors, except as may be otherwise specifically provided by statute or by the certificate of incorporation. If a quorum is not present at any meeting of the board of directors, then the directors

present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present.

A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for that meeting.

3.9 **Waiver of Notice.** Whenever notice is required to be given under any provision of the General Corporation Law of Delaware or of the certificate of incorporation or these bylaws, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the directors, or members of a committee of directors, need be specified in any written waiver of notice unless so required by the certificate of incorporation or these bylaws.

3.10 **Adjourned Meeting; Notice.** If a quorum is not present at any meeting of the board of directors, then the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present.

3.11 **Board Action by Written Consent Without a Meeting.** Unless otherwise restricted by the certificate of incorporation or these bylaws, any action required or permitted to be taken at any meeting of the board of directors, or of any committee thereof, may be taken without a meeting if all members of the board or committee, as the case may be, consent thereto in writing and the writing or writings are filed with the minutes of proceedings of the board or committee.

3.12 **Fees and Compensation of Directors.** Unless otherwise restricted by the certificate of incorporation or these bylaws, the board of directors shall have the authority to fix the compensation of directors. The directors may be paid their expenses, if any, of attendance of each meeting of the board of directors and may be paid a fixed sum for attendance at each meeting of the board of directors or a stated salary as director. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

### 3.13 **Loans**

(a) **No Loans to Directors or Executive Officers.** To the extent provided under the Sarbanes-Oxley Act of 2002 and regulations promulgated thereunder, the corporation may not, directly or indirectly, including through any subsidiary, extend or maintain credit, arrange for the extension of credit, or renew an extension of credit, in the form of a personal loan, to, or for any director or executive officer (or equivalent thereof) in contravention of the Sarbanes-Oxley Act of 2002 and regulations promulgated thereunder.



(b) **Approval of Loans to Officers.** Except as set forth in Section 3.13(a) above, the corporation may lend money to, or guarantee any obligation of, or otherwise assist any officer or other employee of the corporation or of its subsidiaries, whenever, in the judgment of the directors, such loan, guaranty or assistance may reasonably be expected to benefit the corporation. The loan, guaranty or other assistance may be with or without interest and may be unsecured, or secured in such manner as the board of directors shall approve, including, without limitation, a pledge of shares of stock of the corporation. Nothing in this section contained shall be deemed to deny, limit or restrict the powers of guaranty or warranty of the corporation at common law or under any statute.

3.14 **Removal of Directors.** Unless otherwise restricted by statute, by the certificate of incorporation or by these bylaws, any director or the entire board of directors may be removed, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors.

No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of such director's term of office.

3.15 **Conduct of Business.** At any meeting of the board of directors, business shall be transacted in such order and manner as the board may from time to time determine, and all matters shall be determined by the vote of a majority of the directors present, except as otherwise provided herein or required by law.

3.16 **Presumption of Assent.** A director of the corporation who is present at a meeting of the board of directors at which action on any corporate matter is taken shall be conclusively presumed to have assented to the action taken unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent to such action with the person acting as the secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the secretary of the corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a director who voted in favor of such action.

## **ARTICLE IV COMMITTEES**

4.1 **Committees of Directors** The board of directors may, by resolution passed by a majority of the whole board, designate one or more committees, with each committee to consist of one or more of the directors of the corporation. The board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the board of directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the board of directors or in the bylaws of the corporation, shall have and may exercise all the powers and authority of the board of directors in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be

affixed to all papers that may require it; but no such committee shall have the power or authority to (i) amend the certificate of incorporation (except that a committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the board of directors as provided in Section 151(a) of the General Corporation Law of Delaware, fix the designation and any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the corporation or fix the number of shares of any series of stock or authorize the increase or decrease of the shares of any series), (ii) adopt an agreement of merger or consolidation under Section 251 or 252 of the General Corporation Law of Delaware, (iii) recommend to the stockholders the sale, lease or exchange of all or substantially all of the corporation's property and assets, (iv) recommend to the stockholders a dissolution of the corporation or a revocation of a dissolution, or (v) amend the bylaws of the corporation; and, unless the board resolution establishing the committee, a supplemental resolution of the board of directors, the bylaws or the certificate of incorporation expressly so provide, no such committee shall have the power or authority to declare a dividend, to authorize the issuance of stock, or to adopt a certificate of ownership and merger pursuant to Section 253 of the General Corporation Law of Delaware.

4.2 **Committee Minutes.** Each committee shall keep regular minutes of its meetings and report the same to the board of directors when required.

4.3 **Meetings and Action of Committees.** Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of Article III of these bylaws, Section 3.5 (place of meetings and meetings by telephone), Section 3.6 (regular meetings), Section 3.7 (special meetings and notice), Section 3.8 (quorum), Section 3.9 (waiver of notice), Section 3.10 (adjournment and notice of adjournment), and Section 3.11 (action without a meeting), with such changes in the context of those bylaws as are necessary to substitute the committee and its members for the board of directors and its members; provided, however, that the time of regular meetings of committees may be determined either by resolution of the board of directors or by resolution of the committee, that special meetings of committees may also be called by resolutions of the board of directors, and that notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The board of directors may adopt rules for the government of any committee not inconsistent with the provisions of these bylaws.

## **ARTICLE V OFFICERS**

5.1 **Officers.** The officers of the corporation shall be a president, a secretary, and a chief financial officer. The corporation may also have, at the discretion of the board of directors, a chairman of the board, one or more vice presidents, one or more assistant secretaries, a controller, one or more assistant controllers, a treasurer, one or more assistant treasurers, and any such other officers as may be appointed in accordance with the provisions of Section 5.3 of these bylaws. Any number of offices may be held by the same person.

5.2 **Appointment of Officers.** The officers of the corporation, except such officers as may be appointed in accordance with the provisions of Section 5.3 or 5.5 of these bylaws, shall be appointed by the board of directors.

5.3 **Subordinate Officers.** The board of directors may appoint, or empower the president to appoint, such other officers and agents as the business of the corporation may require, each of whom shall hold office for such period, have such authority, and perform such duties as are provided in these bylaws or as the board of directors may from time to time determine.

5.4 **Removal and Resignation of Officers.** Any officer may be removed, either with or without cause, by an affirmative vote of the majority of the board of directors at any regular or special meeting of the board or, except in the case of an officer chosen by the board of directors, by any officer upon whom such power of removal may be conferred by the board of directors.

Any officer may resign at any time by giving written notice to the corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the acceptance of the resignation shall not be necessary to make it effective.

5.5 **Vacancies in Offices.** Any vacancy occurring in any office of the corporation shall be filled in the manner prescribed in these bylaws for regular appointments to that office.

5.6 **Chairman of the Board.** The chairman of the board, if such an officer be elected, shall, if present, preside at meetings of the board of directors and exercise and perform such other powers and duties as may from time to time be assigned to him by the board of directors or as may be prescribed by these bylaws. If there is no president, then the chairman of the board shall also be the chief executive officer of the corporation and shall have the powers and duties prescribed in Section 5.7 of these bylaws.

5.7 **President.** Subject to such supervisory powers, if any, as may be given by the board of directors to the chairman of the board, if there be such an officer, the president shall be the chief executive officer of the corporation and shall, subject to the control of the board of directors, have general supervision, direction, and control of the business and the officers of the corporation. He shall preside at all meetings of the stockholders and, in the absence or nonexistence of a chairman of the board, at all meetings of the board of directors. He shall have the general powers and duties of management usually vested in the office of president of a corporation and shall have such other powers and duties as may be prescribed by the board of directors or these bylaws.

5.8 **Vice Presidents.** In the absence or disability of the president, the vice presidents, if any, in order of their rank as fixed by the board of directors or, if not ranked, a vice president designated by the board of directors, shall perform all the duties of the president and when so acting shall have all the powers of, and be subject to all the restrictions upon, the president. The vice presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the board of directors, these bylaws, the president or the chairman of the board.

5.9 **Secretary.** The secretary shall keep or cause to be kept, at the principal executive office of the corporation or such other place as the board of directors may direct, a book of minutes of all meetings and actions of directors, committees of directors, and stockholders. The minutes shall show the time and place of each meeting, whether regular or special (and, if special, how authorized and the notice given), the names of those present at directors' meetings or committee meetings, the number of shares present or represented at stockholders' meetings, and the proceedings thereof.

The secretary shall keep, or cause to be kept, at the principal executive office of the corporation or at the office of the corporation's transfer agent or registrar, as determined by resolution of the board of directors, a share register, or a duplicate share register, showing the names of all stockholders and their addresses, the number and classes of shares held by each, the number and date of certificates evidencing such shares, and the number and date of cancellation of every certificate surrendered for cancellation.

The secretary shall give, or cause to be given, notice of all meetings of the stockholders and of the board of directors required to be given by law or by these bylaws. He shall keep the seal of the corporation, if one be adopted, in safe custody and shall have such other powers and perform such other duties as may be prescribed by the board of directors or by these bylaws.

5.10 **Chief Financial Officer.** The chief financial officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings, and shares. The books of account shall at all reasonable times be open to inspection by any director.

The chief financial officer shall deposit all money and other valuables in the name and to the credit of the corporation with such depositories as may be designated by the board of directors. He shall disburse the funds of the corporation as may be ordered by the board of directors, shall render to the president and directors, whenever they request it, an account of all of his transactions as chief financial officer and of the financial condition of the corporation, and shall have such other powers and perform such other duties as may be prescribed by the board of directors or these bylaws. The duties of the chief financial officer may be allocated by the board of directors among one or more persons, in its discretion.

5.11 **Treasurer.** The treasurer shall have such powers and discharge such duties relating to the financial aspects of the corporation's business as may be prescribed by the board of directors or the chief financial officer.

5.12 **Assistant Secretary.** The assistant secretary, or, if there is more than one, the assistant secretaries in the order determined by the stockholders or board of directors (or if there be no such determination, then in the order of their election) shall, in the absence of the secretary or in the event of his or her inability or refusal to act, perform the duties and exercise the powers of the secretary

and shall perform such other duties and have such other powers as the board of directors or the stockholders may from time to time prescribe.

5.13 **Assistant Treasurer.** The assistant treasurer, or, if there is more than one, the assistant treasurers in the order determined by the stockholders or board of directors (or if there be no such determination, then in the order of their election), shall, in the absence of the treasurer or in the event of his or her inability or refusal to act, perform the duties and exercise the powers of the treasurer and shall perform such other duties and have such other powers as the board of directors or the stockholders may from time to time prescribe.

5.14 **Authority and Duties of Officers.** In addition to the foregoing authority and duties, all officers of the corporation shall respectively have such authority and perform such duties in the management of the business of the corporation as may be designated from time to time by the board of directors or the stockholders.

5.15 **Representation of Shares of Other Corporations.** The chairman of the board, the president, any vice president, the treasurer, the secretary or assistant secretary of this corporation, or any other person authorized by the board of directors or the president or a vice president, is authorized to vote, represent, and exercise on behalf of this corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of this corporation. The authority granted herein may be exercised either by such person directly or by any other person authorized to do so by proxy or power of attorney duly executed by such person having the authority.

## **ARTICLE VI INDEMNITY**

6.1 **Indemnification of Directors and Officers.** The corporation shall, to the maximum extent and in the manner permitted by the General Corporation Law of Delaware, indemnify each of its directors and executive officers against expenses (including attorneys' fees), judgments, fines, settlements, and other amounts actually and reasonably incurred in connection with any proceeding, arising by reason of the fact that such person is or was an agent of the corporation. For purposes of this Section 6.1, a "director" or "executive officer" of the corporation includes any person (i) who is or was a director or executive officer of the corporation, (ii) who is or was serving at the request of the corporation as a director or executive officer of another corporation partnership, joint venture, trust or other enterprise, or (iii) who was a director or executive officer of a corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation.

6.2 **Indemnification of Others.** The corporation shall have the power, to the extent and in the manner permitted by the General Corporation Law of Delaware, to indemnify each of its employees and agents (other than directors and executive officers) against expenses (including attorney's fees), judgments, fines, settlements, and other amounts actually and reasonably incurred in connection with any proceeding, arising by reason of the fact that such person is or was an agent of the corporation. For purposes of this Section 6.2, an "employee" or "agent" of the corporation (other than a director or executive officer) includes any person (i) who is or was an employee or agent of

the corporation, (ii) who is or was serving at the request of the corporation as an employee or agent of another corporation, partnership, joint venture, trust or other enterprise, or (iii) who was an employee or agent of a corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation.

6.3 **Insurance.** The corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liability under the provisions of the General Corporation Law of Delaware.

## **ARTICLE VII RECORDS AND REPORTS**

7.1 **Maintenance and Inspection of Records.** The corporation shall, either at its principal executive office or at such place or places as designated by the board of directors, keep a record of its stockholders listing their names and addresses and the number and class of shares held by each stockholder, a copy of these bylaws as amended to date, accounting books, and other records.

7.2 **Inspection by Directors.** Any director shall have the right to examine the corporation's stock ledger, a list of its stockholders, and its other books and records for a purpose reasonably related to his position as a director. The Court of Chancery is hereby vested with the exclusive jurisdiction to determine whether a director is entitled to the inspection sought. The Court may summarily order the corporation to permit the director to inspect any and all books and records, the stock ledger, and the stock list and to make copies or extracts therefrom. The Court may, in its discretion, prescribe any limitations or conditions with reference to the inspection, or award such other and further relief as the Court may deem just and proper.

## **ARTICLE VIII GENERAL MATTERS**

8.1 **Checks.** From time to time, the board of directors shall determine by resolution which person or persons may sign or endorse all checks, drafts, other orders for payment of money, notes or other evidences of indebtedness that are issued in the name of or payable to the corporation, and only the persons so authorized shall sign or endorse those instruments.

8.2 **Execution of Corporate Contracts and Instruments.** The board of directors, except as otherwise provided in these bylaws, may authorize any officer or officers, or agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation; such authority may be general or confined to specific instances. Unless so authorized or ratified by

the board of directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

8.3 **Stock Certificates; Partly Paid.** The shares of a corporation shall be represented by certificates, provided that the board of directors of the corporation may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the corporation. Notwithstanding the adoption of such a resolution by the board of directors, every holder of stock represented by certificates and upon request every holder of uncertificated shares shall be entitled to have a certificate signed by, or in the name of the corporation by the chairman or vice-chairman of the board of directors, or the president or vice-president, and by the treasurer or an assistant treasurer, or the secretary or an assistant secretary of such corporation representing the number of shares registered in certificate form. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate has ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

The corporation may issue the whole or any part of its shares as partly paid and subject to call for the remainder of the consideration to be paid therefor. Upon the face or back of each stock certificate issued to represent any such partly paid shares, upon the books and records of the corporation in the case of uncertificated partly paid shares, the total amount of the consideration to be paid therefor and the amount paid thereon shall be stated. Upon the declaration of any dividend on fully paid shares, the corporation shall declare a dividend upon partly paid shares of the same class, but only upon the basis of the percentage of the consideration actually paid thereon.

8.4 **Special Designation on Certificates.** If the corporation is authorized to issue more than one class of stock or more than one series of any class, then the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate that the corporation shall issue to represent such class or series of stock; provided, however, that, except as otherwise provided in Section 202 of the General Corporation Law of Delaware, in lieu of the foregoing requirements there may be set forth on the face or back of the certificate that the corporation shall issue to represent such class or series of stock a statement that the corporation will furnish without charge to each stockholder who so requests the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

8.5 **Lost Certificates.** Except as provided in this Section 8.5, no new certificates for shares shall be issued to replace a previously issued certificate unless the latter is surrendered to the corporation and cancelled at the same time. The corporation may issue a new certificate of stock or uncertificated shares in the place of any certificate theretofore issued by it, alleged to have been lost,

stolen or destroyed, and the corporation may require the owner of the lost, stolen or destroyed certificate, or his legal representative, to give the corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate or uncertificated shares.

8.6 **Construction; Definitions.** Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the General Corporation Law of Delaware shall govern the construction of these bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term “person” includes both a corporation and a natural person.

8.7 **Dividends.** The directors of the corporation, subject to any restrictions contained in (i) the General Corporation Law of Delaware or (ii) the certificate of incorporation, may declare and pay dividends upon the shares of its capital stock. Dividends may be paid in cash, in property, or in shares of the corporation’s capital stock.

The directors of the corporation may set apart out of any of the funds of the corporation available for dividends a reserve or reserves for any proper purpose and may abolish any such reserve. Such purposes shall include but not be limited to equalizing dividends, repairing or maintaining any property of the corporation, and meeting contingencies.

8.8 **Fiscal Year.** The fiscal year of the corporation shall be fixed by resolution of the board of directors and may be changed by the board of directors.

8.9 **Seal.** The corporation may adopt a corporate seal, which may be altered at pleasure, and may use the same by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

8.10 **Transfer of Stock.** Stock of the corporation shall be transferable in the manner prescribed by law and in these bylaws. Transfers of stock shall be made on the books of the corporation only by the record holder of such stock or by his or her attorney lawfully constituted in writing and, if such stock is certificated, upon the surrender of the certificate therefore to the corporation or the transfer agent of the corporation, which shall be canceled before a new certificate shall be issued. Any transfer shall be accompanied by proper evidence of succession, assignment or authority and upon receipt of such evidence and compliance with the other applicable provisions of these bylaws and applicable law, it shall be the duty of the corporation to record the transaction in its books.

8.11 **Stock Transfer Agreements.** The corporation shall have power to enter into and perform any agreement with any number of stockholders of any one or more classes of stock of the corporation to restrict the transfer of shares of stock of the corporation of any one or more classes owned by such stockholders in any manner not prohibited by the General Corporation Law of Delaware.

8.12 **Registered Stockholders.** The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends and to vote as such owner, shall be entitled to hold liable for calls and assessments the person registered on its



books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of another person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

8.13 *Notices.* Except as otherwise specifically provided herein or required by law, all notices required to be given to any stockholder, director, officer, employee or agent shall be in writing and may in every instance be effectively given by hand delivery, by mail, postage paid, or by facsimile transmission. Any such notice shall be addressed to such stockholder, director, officer, employee or agent at his last known address as it appears on the books of the corporation. The time when such notice shall be deemed received, if hand delivered, or dispatched, if sent by mail or facsimile, transmission, shall be the time of the giving of the notice.

## **ARTICLE IX AMENDMENTS**

Any of these bylaws may be altered, amended or repealed by the affirmative vote of a majority of the board of directors or, with respect to bylaw amendments placed before the stockholders for approval and except as otherwise provided herein or required by law, by the affirmative vote of the holders of a majority of the shares of the corporation's stock entitled to vote in the election of directors, voting as one class.

**CERTIFICATE OF ADOPTION OF AMENDMENT TO AMENDED AND RESTATED BYLAWS**

**OF**

**MICROCHIP TECHNOLOGY INCORPORATED**

The undersigned hereby certifies that she is a duly appointed, qualified, and acting Secretary of Microchip Technology Incorporated and that the foregoing Amended and Restated Bylaws, as amended, comprising 22 pages, were adopted as the Bylaws of the corporation on October 1, 2013 by the Board of Directors of the corporation.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand and affixed the corporate seal this 1st day of October, 2013.

/s/ Kim van Herk

Kim van Herk

*Secretary*

## CERTIFICATION

I, Steve Sanghi, certify that:

1. I have reviewed this Form 10-Q of Microchip Technology Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2013

/s/ Steve Sanghi

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Steve Sanghi  
President and CEO

## CERTIFICATION

I, J. Eric Bjornholt, certify that:

1. I have reviewed this Form 10-Q of Microchip Technology Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2013

/s/ J. Eric Bjornholt

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J. Eric Bjornholt

Vice President and CFO

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Steve Sanghi, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Microchip Technology Incorporated on Form 10-Q for the quarterly period ended September 30, 2013 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Microchip Technology Incorporated.

By: /s/ Steve Sanghi  
Name: Steve Sanghi  
Title: President and Chief Executive Officer  
Date: November 8, 2013

I, J. Eric Bjornholt, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Microchip Technology Incorporated on Form 10-Q for the quarterly period ended September 30, 2013 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Microchip Technology Incorporated.

By: /s/ J. Eric Bjornholt  
Name: J. Eric Bjornholt  
Title: Vice President and Chief Financial Officer  
Date: November 8, 2013